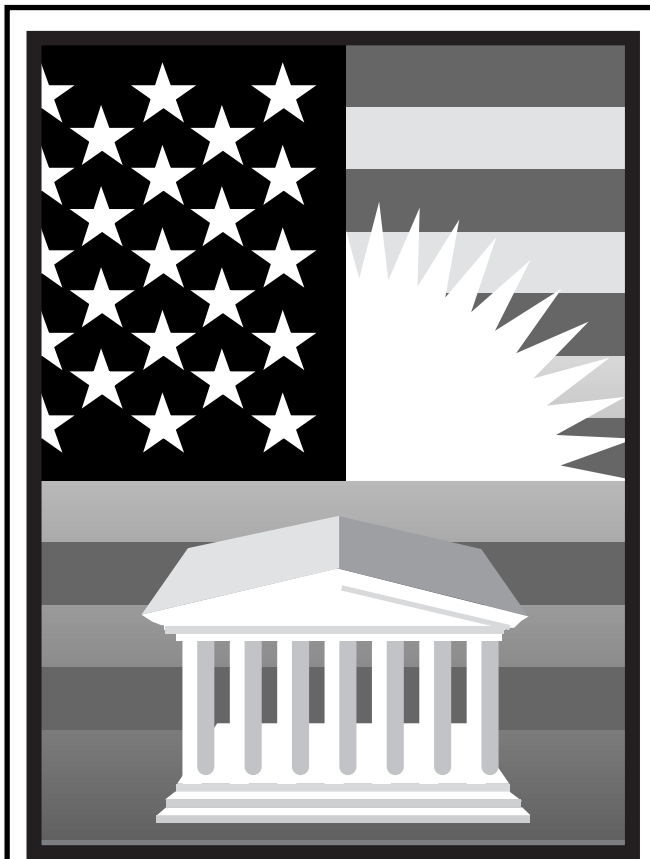




Department of the Treasury
Internal Revenue Service

Publication 553
(Rev. December 1998)
Cat. No. 15101G

Highlights of 1998 Tax Changes



**Get forms and other information faster and easier by:
COMPUTER**

- World Wide Web • www.irs.ustreas.gov
- FTP • [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)
- IRIS at FedWorld • (703) 321-8020

FAX

- From your FAX machine, dial • (703) 368-9694
- See *How To Get More Information* in this publication.

Contents

Chapter

1. Tax Changes for Individuals	2
2. Tax Changes for Businesses	7
3. IRAs and Other Retirement Plans	15
4. Gift and Estate Taxes	18
5. Excise Taxes	19
6. Exempt Organizations	19
7. Foreign Issues	20
8. Taxpayer Rights	20
9. How To Get More Information	25
Index	28

Introduction

This publication highlights many tax law changes that take effect in 1998 and 1999. Each chapter is divided into separate sections for each year.

Tax legislation. Many of the provisions of the Taxpayer Relief Act of 1997, the IRS Restructuring and Reform Act of 1998, and the Tax and Trade Relief Act of 1998 are discussed in this publication. They include the following items.

- A child tax credit for each qualifying child under age 17.
- Two credits for qualifying higher education costs.
- Repeal of the 18-month holding period for capital gains.
- Expanded protection for an innocent spouse.
- Increased taxpayer rights in dealing with the IRS.
- A new income averaging for farmers.
- New rules for business use of the home.
- Increase in the health insurance deduction for the self-employed.
- Technical corrections that affect the new Education and Roth IRAs.

See the later discussion of each topic for more information.

Adjusting your withholding or estimated tax payments for 1999. If there will be a significant change (increase or decrease) in the tax you owe for 1999, you should adjust your withholding or estimated tax payments accordingly. By adjusting your withholding or estimated tax payments now, you can get the benefit of lower taxes throughout the year. If you will owe more tax, you can avoid a penalty when you file your tax return.

See the following table for forms and publications that will help you adjust your withholding or estimated tax payments. See chapter 9 for information on ordering these forms and publications from the IRS.

To adjust your....	Get form...	And publication...
Withholding	W-4 , <i>Employee's Withholding Allowance Certificate</i>	919 , <i>Is My Withholding Correct for 1999?</i>
Estimated tax payments	1040-ES , <i>Estimated Tax for Individuals</i>	505 , <i>Tax Withholding and Estimated Tax</i>

1.

Tax Changes for Individuals

1998 Changes

Standard Deduction Amount Increased

The standard deduction for most taxpayers who do not itemize deductions on Schedule A of Form 1040, *U.S. Individual Income Tax Return*, is higher for 1998 than it was for 1997. The amount depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another taxpayer. The *1998 Standard Deduction Tables* are shown in Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

Standard Deduction of Dependents

For 1998, the standard deduction of a dependent is the greater of \$700, or the dependent's earned income **plus \$250**, but not more than the regular standard deduction amount for the dependent's filing status.

Exemption Amount Increased

The amount you can deduct for each exemption has increased from \$2,650 in 1997 to \$2,700 in 1998.

You lose all or part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which this phaseout begins depends on your filing status. For 1998, the phaseout begins at \$93,400 for married persons filing separately, \$124,500 for unmarried individuals, \$155,650 for heads of household, and \$186,800 for married persons filing jointly. If your adjusted gross income is above this amount, use the *Deduction for Exemptions Worksheet* in the Form 1040 instructions to figure the amount you can deduct for exemptions.

Limit on Itemized Deductions Increased

You lose all or part of the benefit of your itemized deductions if your adjusted gross income is above a certain amount. In 1998, this amount is increased to \$124,500 (\$62,250 if you are married filing separately). For more information, see Publication 501.

Child Tax Credit

The child tax credit is a new credit that can reduce your tax. You may be able to take a credit on your tax return of up to \$400 for each qualifying child.

Qualifying child. A qualifying child is:

- 1) Under age 17,
- 2) A citizen or resident of the United States,
- 3) Someone you can claim as a dependent, and
- 4) Your:
 - a) Son or daughter,
 - b) Stepson or stepdaughter,
 - c) Grandchild, or
 - d) Eligible foster child.

Amount of credit. For 1998, the maximum credit you can claim is \$400 for each qualifying child.

You must reduce the credit if either of the following apply.

- Your modified adjusted gross income is above a certain threshold amount.
- Your tax liability is less than the credit. However, see *Additional child tax credit*, later.

Modified adjusted gross income. For purposes of the child tax credit, modified adjusted gross income is generally the amount on line 34 of Form 1040 or line 19 of Form 1040A.

If your modified adjusted gross income is more than the amount shown in the table below, you must reduce the credit.

Filing Status	Threshold Amount
Single, head of household, or qualifying widow(er)	\$75,000
Married filing jointly	110,000
Married filing separately	55,000

Claiming the credit. You must file Form 1040 or Form 1040A to claim the child tax credit. Fill out the child tax credit worksheet that is included in the form instructions.

You must provide the name and identification number (usually a social security number) of each qualifying child on your tax return.

Additional child tax credit. You may be able to take the additional child tax credit if you have three or more qualifying children. The additional child tax credit may give you a refund even if you do not owe any tax. To claim the additional credit, you must complete the

child tax credit worksheets in the instructions for Form 1040 (or Form 1040A) and Form 8812, *Additional Child Tax Credit*.

More information. For more information on the child tax credit, see the instructions for Form 1040 or Form 1040A.

Higher Education Tax Benefits

Beginning in 1998, a number of tax benefits are available to families who are saving for or paying higher education costs or who are repaying student loans. These benefits are briefly explained here. For more detailed information, see Publication 970, *Tax Benefits for Higher Education*.



You cannot claim more than one type of tax benefit for the same expense.

Education credits. For qualified tuition and related expenses paid after December 31, 1997, for academic periods beginning after that date, you may be able to claim a **Hope credit** of up to \$1,500 for **each** eligible student. For qualified tuition and related expenses paid after June 30, 1998, for academic periods beginning after that date, you may be able to claim a **lifetime learning credit** of up to \$1,000 for **all** students. However, you cannot take the Hope credit and the lifetime learning credit for the same student in the same year.

Student loans. For payments due and paid on a qualified student loan after 1997, you may be able to deduct interest you pay for the first 60 months that interest payments are required. The deduction is an adjustment to income, so you can claim it even if you do not itemize your deductions on Schedule A (Form 1040).

Education IRA. You may be able to contribute up to \$500 each year to an education IRA to finance a child's qualified higher education expenses. Contributions to an education IRA are not deductible and can be made only until the child reaches age 18, but amounts deposited in the account grow tax free until withdrawn. Withdrawals from an education IRA to pay the child's qualified higher education expenses are also tax free.

Withdrawals from traditional or Roth IRAs. Generally, if you make withdrawals from your traditional or Roth IRA before you reach age 59½, you must pay a 10% additional tax on the early withdrawal. (A traditional IRA is an IRA that is not a Roth IRA, SIMPLE IRA, or education IRA.) However, the additional tax will not apply to withdrawals you make from your traditional or Roth IRA if the withdrawals are not more than your qualified higher education expenses. You will still owe income tax on at least part of the withdrawal, but you will not have to pay the 10% additional tax on the early withdrawal.

Education Savings Bond Program

Beginning in 1998, the new education tax benefits explained earlier may affect the tax treatment of your U.S. savings bond interest.

When figuring the amount of U.S. savings bond interest you can exclude from your income under the Education Savings Bond Program, count any contribution to a qualified state tuition program or to an education IRA as a qualified higher educational expense. But do not count any expense you use to claim the Hope credit or the lifetime learning credit. Also, do not count any expense you use to figure how much of a distribution from an education IRA you can exclude from your income.

For more information about the exclusion of interest from qualified U.S. savings bonds, including the definition of "qualified higher educational expenses," see *Education Savings Bond Program* in chapter 1 of Publication 550, *Investment Income and Expenses*.

Earned Income Credit

The following paragraphs explain the 1998 changes to the earned income credit. For more information, see Publication 596, *Earned Income Credit*.

Amount of credit. The maximum amount of credit has increased for 1998. The most you can receive is:

- \$2,271 with one qualifying child,
- \$3,756 with more than one qualifying child, or
- \$341 without a qualifying child.

Amount of earned income. The amount you can earn and still get the credit has increased for 1998. The amount you earn must be less than:

- \$26,473 with one qualifying child,
- \$30,095 with more than one qualifying child, or
- \$10,030 without a qualifying child.

Amount of investment income. The maximum amount of investment income you can have and still get the credit has increased for 1998. You can have investment income up to \$2,300. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.

Capital gain net income. For purposes of the earned income credit only, capital gain net income does not include gains from selling business assets. For the earned income credit, capital gain net income is the amount on line 13 of Form 1040 minus any amount on line 9, column (g) of Form 4797, *Sales of Business Property*. If this capital gain net income is less than zero, disregard it. Do not use it to reduce your other investment income.

This rule, announced in 1998, may also affect your 1996 and 1997 returns. If you had gains from selling business assets that caused you not to take the credit in 1996 or 1997, you can file an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return*, to take the credit for that year.

Modified AGI (adjusted gross income). Beginning in 1998, your modified AGI used to limit your credit now includes the following items.

- 1) Tax-exempt interest.
- 2) The nontaxable part of a pension, annuity, or individual retirement arrangement (IRA) distribution, except any amount that is nontaxable due to a trustee-to-trustee transfer or a rollover distribution.

Also, the amount of business losses that must be added back to AGI to figure modified AGI has increased from 50% to 75%.

Workfare payments. Beginning in 1998, earned income does not include workfare payments. These are cash payments certain families receive from a state or local agency that administers public assistance programs funded under the Federal Temporary Assistance for Needy Families program in return for either of the following activities.

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

Using Your Car for Charity

The standard mileage rate for the use of your car in giving services to a charitable organization has increased from 12 cents per mile to 14 cents per mile. For more information, see Publication 526, *Charitable Contributions*.

Employee Business Expenses

Standard mileage rate. If you use your car in your business, you can figure your deduction for business use based on either your actual costs or the optional standard mileage rate. For 1998, the optional standard mileage rate for the cost of operating your car in your business is 32½ cents a mile for all business miles.

Rate extended to leased cars. You can now use the standard mileage rate for a car you lease, as well as a car you own. Previously, you could only use actual car expenses if you did not own the car.

Rural mail carriers. Beginning in 1998, the higher standard mileage rate for rural mail carriers (U.S. Postal Service employees with rural routes) is repealed. If you are a rural mail carrier, you may be able to treat the amount of qualified reimbursement you received in 1998 as the amount of your allowable expense.



If you are a rural mail carrier who received a qualified reimbursement, you cannot use the standard mileage rate.

Business car expenses and reimbursements are covered in Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Depreciation limits on business cars. The total section 179 deduction and depreciation you can take on a car you use in your business and first place in service in 1998 cannot exceed \$3,160. Your depreciation cannot exceed \$5,000 for the second year of recovery, \$2,950 for the third year of recovery, and \$1,775 for each later tax year. Business car expenses are discussed in chapter 4 of Publication 463.

Exceptions for clean-fuel cars. There are two exceptions to the depreciation limits.

- 1) The first exception is for a car that was produced to run primarily on electricity and that you place in service in 1998. For this type of car the depreciation limit is increased as shown below.
 - a) \$9,380 for the first year of recovery.
 - b) \$15,000 for the second year of recovery.
 - c) \$8,950 for the third year of recovery.
 - d) \$5,425 for each later tax year.
- 2) The second exception is for costs you pay to retrofit parts and components to modify a car to run on clean fuel. These costs are **not subject to** the limits on depreciation for cars. Only the cost of the car excluding this modification is subject to the limit. This exception applies to modifications you place in service after August 5, 1997.

For more information on clean-fuel vehicles, see chapter 15 in Publication 535, *Business Expenses*.

Increases to section 179 deduction. The total cost of section 179 property that you can elect to deduct for 1998 is increased from \$18,000 to \$18,500. For tax years after 1998, this amount increases as shown below.

Tax Year	Maximum Deduction
1999	\$19,000
2000	20,000
2001 and 2002	24,000
After 2002	25,000

For more information on the section 179 deduction, see chapter 2 in Publication 946, *How To Depreciate Property*.

Meal expenses when subject to "hours of service" limits. Generally, you can deduct only 50% of your business-related meal expenses while traveling away from your tax home for business purposes. Beginning in 1998, you can deduct a higher percentage if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. (These limits apply to certain workers who are under certain federal regulations.) The percentage is 55% for 1998 and 1999, and it gradually increases to 80% by the year 2008.

Business meal expenses are covered in chapter 1 of Publication 463.

Sale of Your Home

Form 2119, *Sale of Your Home*, is obsolete beginning in 1998.

Report the sale of your main home on your tax return only if you have a gain and at least part of it is taxable. Report any taxable gain on Schedule D (Form 1040), *Capital Gains and Losses*. For more information, see Publication 523, *Selling Your Home*.

Exclusion of Gain From Sales of Small Business Stock

Beginning in 1998, you may have to pay tax on only one-half of your gain from the sale or exchange of qualified small business stock. This applies only to stock originally issued after August 10, 1993, and held by you for more than 5 years.

For more information, see *Gains on Qualified Small Business Stock* in chapter 4 of Publication 550.

Capital Gains

The following paragraphs explain changes to the tax treatment of net capital gain. For more information, see chapter 4 in Publication 550.

Elimination of 18-month holding period for lowest capital gains rates. Beginning in 1998, you no longer have to hold property for more than 18 months to be eligible for the lowest capital gains rates. Now, in most cases, you only have to hold property more than 1 year to be eligible for the 10% or 20% tax rate.

Sale of qualified small business stock. Beginning in 1998, only one-half of a gain from the sale or trade of qualified small business stock generally is taxable. See *Exclusion of Gain From Sales of Small Business Stock*, earlier. The part of the gain that is taxable generally is subject to the maximum capital gains rate of 28% (instead of the 10% or 20% rate).

For more information about qualified small business stock, see chapter 4 in Publication 550.

Capital gain distributions. If you have capital gain distributions, report them on Schedule D (Form 1040). Do not report them on Schedule B (Form 1040).

Bond Premium Amortization

New rules explain how to amortize the premium on bonds. For more information, see *Bond Premium Amortization* in chapter 3 of Publication 550.

Self-Employed Health Insurance Deduction

For 1998, this deduction for the self-employed is increased from 40% to 45% of the amount you paid for medical insurance for yourself and your family. For more information, see chapter 10 in Publication 535.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1998. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance), and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 1998 has increased to \$68,400. All net earnings of at least \$400 are subject to the Medicare part.

Former insurance agents. Certain payments made to former insurance agents after 1997 by an insurance company for services performed for that company are exempt from self-employment tax if all the following requirements are met.

- The amounts are received after the agent's agreement to perform services for the company has ended.
- The agent performs no services for the company after the service ends and before the end of the tax year.
- The agent enters into a covenant not to compete against the company for at least the 1-year period beginning on the date the service agreement ended.
- The amount of the payment depends primarily on policies sold by or credited to the account of the agent during the last year of the service agreement or on the extent to which those policies remain in force for some period after the service agreement ends, or both.
- The amount of the payment does not depend to any extent on the length of service or overall earnings from services performed for the company (regardless of whether eligibility for payment depends on the length of service.)

More information. For more information on self-employment tax, see Publication 533, *Self-Employment Tax*.

Exemption From Foreign Tax Credit Limit

Your foreign tax credit is subject to a limit based on your taxable income from foreign sources. You figure the limit and the credit on Form 1116, *Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual)*. Beginning in 1998, you will not be subject to this limit and will be able to claim the credit without using Form 1116 if the following requirements are met.

- 1) You are an individual.
- 2) Your only foreign source income for the tax year is passive income (dividends, interest, royalties, etc.) reported to you on a payee statement (such as a Form 1099-DIV or Form 1099-INT).
- 3) Your qualified foreign taxes for the tax year are not more than \$300 (\$600 if filing a joint return) and they are reported on a payee statement.

4) You elect this procedure for the tax year.



If you make this election, you cannot carry back or carry over any unused foreign tax to or from this tax year.

For more information on the foreign tax credit, see Publication 514, *Foreign Tax Credit for Individuals*.

Alternative Minimum Tax

There are two changes that affect the alternative minimum tax (AMT) for individuals.

Increased exemption amount. For tax years beginning after 1997, the minimum AMT exemption amount for a child under age 14 is increased to \$5,000. The child's exemption amount is also no longer dependent on the parent's alternative minimum taxable income.

New election for foreign tax credit limit. You can elect to use a simpler computation for figuring the AMT foreign tax credit limit. This computation uses regular foreign-source taxable income, instead of requiring the computation of AMT foreign-source taxable income. You can only make this election for the first tax year beginning after 1997 for which you claimed an AMT foreign tax credit. The election applies to all later tax years unless it is revoked with the consent of the IRS.

More information. See the instructions for Form 6251, *Alternative Minimum Tax—Individuals*, for more information.

Kerosene for Household Use

You can claim a credit (or refund) for the excise tax you paid on undyed kerosene you bought after June 30, 1998, and used in your home for heating, lighting, or cooking. You must file Form 1040 to take the credit. Use Form 4136, *Credit for Federal Tax Paid on Fuels*, to figure the credit.

Interest and Penalties

Interest abatement on underpayments in disaster areas. For individuals living in an area declared a disaster area by the President after 1997, the IRS will abate interest on income tax for the length of any extension period granted for filing income tax returns and paying income tax.

Some individuals who were granted an extension may have been charged interest on income tax owed for 1997. To the extent possible, the IRS will identify individuals eligible for the retroactive abatement of interest. The IRS will make appropriate adjustments to their accounts, notify them when these adjustments have been made, and, where appropriate, refund interest paid.

If you are eligible for retroactive interest abatement but are not notified by the end of 1999 that interest has been abated, call IRS Customer Service at 1-800-829-1040 to request interest abatement. If you are eligible for interest abatement, you can also file Form 843,

Claim for Refund and Request for Abatement, with the IRS Service Center where you filed your tax return.

For more information, see *Disaster Area Losses in Publication 547, Casualties, Disasters, and Thefts*.

Estimated tax penalty. You will not be subject to the estimated tax penalty unless the amount you owe with your 1998 return is \$1,000 or more (up from \$500).

For more information, see Publication 505, *Tax Withholding and Estimated Tax*.

Estimated tax penalty waived if due to new law. For estimated tax payments due on or before August 21, 1998, you will not have to pay a penalty for failure to pay estimated income tax to the extent your underpayment was created or increased by a provision of the IRS Restructuring and Reform Act of 1998.

Interest netting. For periods beginning after July 22, 1998, if you owe interest to the IRS on an underpayment for the same period of time that the IRS owes you interest on an overpayment, you will be charged interest at the overpayment interest rate on the amount of the underpayment up to the amount of the overpayment.

For periods beginning before July 22, 1998, the same rule applies if you reasonably identify and show the periods during which your underpayment and overpayment amounts are equal, and you request interest netting no later than December 31, 1999. This applies only if the applicable statute of limitations has not expired on either your underpayment or overpayment. To make this request, file Form 843.

Suspension of interest and certain penalties. For tax years ending after July 22, 1998, interest and certain penalties will be suspended if the IRS does not mail you a notice stating your liability and the basis for the liability within the 18-month period beginning on the later of:

- The date on which you timely filed the tax return, or
- The due date (without extensions) of the tax return.

For tax years beginning after 2003, the 18-month period will be reduced to 1 year.

The suspension applies to interest and penalties allocable to the period beginning the day after the close of the 18-month period and ending 21 days after the IRS mails you a notice stating your liability and the basis for the liability. Also, this suspension period applies separately to each notice received by you.



The suspension does not apply to any of the following.

- A failure-to-pay penalty.
- Any penalty, interest, addition to tax, or additional amount with respect to any tax liability shown on the return.
- A fraudulent tax return.
- A criminal penalty.

Under prior law, interest and penalties accrued on unpaid tax whether or not you realized that tax was due.

New Payee for Checks and Money Orders

If you pay your tax by check or money order, make it out to the "United States Treasury." Previously, you made it out to the "Internal Revenue Service."

1999 Changes

Child Tax Credit Increased

The maximum child tax credit for each qualifying child will increase from \$400 to \$500 in 1999.

Standard Mileage Rate

Beginning April 1, 1999, the optional standard mileage rate for operating your car for business **decreases** to 31 cents a mile for each business mile. Until then, the business standard mileage rate of 32½ cents per mile that was in effect for 1998 will continue to apply.

Estimated Tax Safe Harbor for Higher Income Individuals

For estimated tax payments for tax years beginning in 1999, the safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If your 1998 adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return for 1999), you will have to pay the smaller of 90% of your expected tax for 1999 or **105%** (up from 100%) of the tax shown on your 1998 return (provided your 1998 return covered all 12 months) to avoid an estimated tax penalty.

For more information on estimated tax, see Publication 505.

Self-Employed Health Insurance Deduction

For 1999, the health insurance deduction for the self-employed is increased from 45% to 60% of the amount you pay for medical insurance for yourself and your family. For more information, see chapter 10 in Publication 535.

Social Security and Medicare Taxes

For 1999, the employer and employee will continue to pay:

- 1) 6.2% each for social security tax (old-age, survivors, and disability insurance), and
- 2) 1.45% each for Medicare tax (hospital insurance).

Wage limits. For social security tax, the maximum amount of 1999 wages subject to the tax has increased to \$72,600. For Medicare tax, all covered 1999 wages are subject to the tax. There is no wage base limit. For

information about these taxes, see Publication 15, *Circular E, Employer's Tax Guide*.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1999. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance), and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 1999 has increased to \$72,600. All net earnings of at least \$400 are subject to the Medicare part.

Depreciation Recovery Period for Alternative Minimum Tax (AMT)

For property placed in service after 1998, use the same recovery period you use to figure your depreciation for regular tax purposes to figure any AMT adjustment.

Interest Rate on Overpayments

Beginning January 1, 1999, the rate of interest payable by the IRS on overpayments increases from the federal short-term rate (AFR) plus 2% to the AFR plus 3%.

2000 Change

Reduced Penalty Due to Installment Agreement

If you do not pay your tax when it is due, you may be subject to a failure-to-pay penalty of .5% (.005) of your unpaid taxes for each month the tax is not paid. If you file your return on time, this penalty will be reduced to .25% (.0025) for any month beginning after 1999 in which you have an installment agreement in effect with the IRS.

2.

Tax Changes for Businesses

1998 Changes

Standard Mileage Rate

If you use your car in your business, you can figure your deduction for business use based on either your actual costs or the optional standard mileage rate. For 1998, the optional standard mileage rate for the cost of operating your car in your business is 32½ cents a mile for

all business miles. The special rate for rural mail carriers is repealed. See *Rural mail carriers* in chapter 1.

Rate extended to leased cars. You can now use the standard mileage rate for a car you lease, as well as a car you own. Previously, you could only use actual car expenses if you did not own the car.

Meals Furnished to Employees

For tax years beginning after 1997, the 50% limit on deductions for meals generally does not apply to meals you furnish to employees on your business premises if all of the meals are excluded from the employees' wages because you furnished them for your convenience (for substantial business reasons other than to provide additional pay). For more information, see chapters 3 and 4 in Publication 535, *Business Expenses*.

Also, under a special rule enacted in 1998 for any tax year, you can treat *all* meals you furnish to employees on your business premises as furnished for your convenience if more than half (instead of substantially all) of these employees are furnished the meals for your convenience. For more information, see chapter 3 in Publication 535.

Meals When Subject to "Hours of Service" Limits

Beginning in 1998, you can deduct 55% of the reimbursed meals your employees consume while away from their tax home on business during or incident to any period subject to the Department of Transportation's "hours of service" limits. The percentage remains 55% for 1999, and it gradually increases to 80% by the year 2008. For more information, see chapter 16 in Publication 535.

Qualified Transportation Fringe Benefits in Place of Pay

For tax years beginning after 1997, you can exclude qualified transportation fringe benefits from an employee's wages even if you provide them in place of pay. For more information, see chapter 4 in Publication 535.

Deferred Compensation

Accrual method employers generally can deduct for a tax year accrued amounts, such as vacation pay and severance pay, they pay employees within 2½ months after the end of the tax year. For tax years ending after July 22, 1998, these amounts are not considered "paid" until the employees actually receive them.

Depreciation and Section 179 Deduction

Depreciation limits on business cars. The total section 179 deduction and depreciation you can take on a car you use in your business and first place in service in 1998 cannot exceed \$3,160. Your depreciation cannot exceed \$5,000 for the second year of re-

covery, \$2,950 for the third year of recovery, and \$1,775 for each later tax year.

Exceptions for clean-fuel cars. There are two exceptions to the depreciation limits.

- 1) The first exception is for a car that was produced to run primarily on electricity and that you place in service in 1998. For this type of car the depreciation limit is increased as shown below.
 - a) \$9,380 for the first year of recovery.
 - b) \$15,000 for the second year of recovery.
 - c) \$8,950 for the third year of recovery.
 - d) \$5,425 for each later tax year.
- 2) The second exception is for costs you pay to retrofit parts and components to modify a car to run on clean fuel. These costs are **not subject to** the limits on depreciation for cars. Only the cost of the car excluding this modification is subject to the limit. This exception applies to modifications you place in service after August 5, 1997.

For more information on clean-fuel vehicles, see chapter 15 in Publication 535.

Increases to section 179 deduction. The total cost of section 179 property that you can elect to deduct for 1998 is increased from \$18,000 to \$18,500. For tax years after 1998, this amount increases as shown below.

Tax Year	Maximum Deduction
1999	\$19,000
2000	20,000
2001 and 2002	24,000
After 2002	25,000

For more information on the section 179 deduction, see chapter 2 in Publication 946, *How To Depreciate Property*.

Depletion of Oil and Gas Property

Depletion allowance figured by partnership. For partnership tax years beginning after 1997, an electing large partnership, rather than each partner, generally must figure the depletion allowance for the partnership's oil and gas property.

Suspension of taxable income limit. For tax years beginning after 1997 and before 2000, percentage depletion on the marginal production of oil or natural gas is not limited to taxable income from the property figured without the depletion deduction.

Marginal production. This is domestic crude oil or domestic natural gas produced during any tax year from a property that is either of the following.

- A stripper well property for the calendar year in which the tax year begins. Property for which the production is 15 barrel equivalents or less is a stripper well property. To figure the barrel equivalents, divide the average daily production of domestic crude oil and domestic natural gas from

producing wells on the property for the calendar year by the number of wells.

- A property from which substantially all of the production during the calendar year is heavy oil. The term "heavy oil," in this situation, means domestic crude oil produced from any property if the crude oil had a weighted average gravity of 20 degrees API or less (corrected to 60 degrees Fahrenheit).

More information. For more information on depletion, see chapter 13 in Publication 535.

Self-Employed Health Insurance Deduction

For 1998, this deduction for the self-employed is increased from 40% to 45% of the amount you paid for medical insurance for yourself and your family. For more information, see chapter 10 in Publication 535.

General Business Credit

The following paragraphs explain the changes to the general business credit.

Research credit. The research credit was scheduled to expire for expenses paid or incurred after June 30, 1998. It has been extended for expenses paid or incurred before July 1, 1999.

Work opportunity credit. The work opportunity credit was scheduled to expire for wages paid to individuals who began working for you after June 30, 1998. It has been extended for wages paid to individuals who begin work for you before July 1, 1999.

Welfare-to-work credit. The welfare-to-work credit is a new credit employers can take for qualified wages they pay to qualified long-term family assistance recipients who begin work after December 31, 1997, and before July 1, 1999.

In the first year of employment, the credit is 35% of the first \$10,000 of qualified wages paid to that employee. In the second year, the credit is 50% of the first \$10,000 of qualified wages.

For more information about this credit, see chapter 4 in Publication 334, *Tax Guide for Small Business*, or Form 8861, *Welfare-to-Work Credit*.

Carryback and carryforward of unused credit. The years to which you can carry back and carry forward the unused credit have changed. You must carry the unused credit back to the first tax year before the year the credit arises. Carry any unused credit forward to each of the 20 years after the year the credit arises until you have taken the full amount of the credit. This change applies to credits arising in tax years beginning after 1997. For more information about the carryback and carryforward of unused credits, see the instructions for Form 3800, *General Business Credit*.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1998. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance), and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 1998 has increased to \$68,400. All net earnings of at least \$400 are subject to the Medicare part.

Former insurance agents. Certain payments made to former insurance agents after 1997 by an insurance company for services performed for that company are exempt from self-employment tax if all the following requirements are met.

- The amounts are received after the agent's agreement to perform services for the company has ended.
- The agent performs no services for the company after the service ends and before the end of the tax year.
- The agent enters into a covenant not to compete against the company for at least the 1-year period beginning on the date the service agreement ended.
- The amount of the payment depends primarily on policies sold by or credited to the account of the agent during the last year of the service agreement or on the extent to which those policies remain in force for some period after the service agreement ends, or both.
- The amount of the payment does not depend to any extent on the length of service or overall earnings from services performed for the company (regardless of whether eligibility for payment depends on the length of service).

More information. For more information on self-employment tax, see Publication 533, *Self-Employment Tax*.

Group Health Plan Requirements

For plan years beginning after 1997, you (or the plan, if a multi-employer plan) may be subject to an excise tax if your plan does not meet certain new requirements. These requirements generally do the following.

- 1) Obligate plans to pay for a minimum hospital stay for mothers and newborns if the plan otherwise provides benefits for hospital stays in connection with childbirth.
- 2) Prevent certain special limits from being placed on mental health benefits.

For more information on this excise tax, see chapter 5 in Publication 535.

Alternative Minimum Tax (AMT)

Eliminated for small corporations. For tax years beginning after 1997, the tentative minimum tax of a small corporation is zero. This means that a small corporation will not owe AMT.

For information on the corporate AMT, see the instructions for Form 4626, *Alternative Minimum Tax—Corporations*.

New election for foreign tax credit limit. You can elect to use a simpler computation for figuring the AMT foreign tax credit limit. This computation uses regular foreign-source taxable income, instead of requiring the computation of AMT foreign-source taxable income. You can only make this election for the first tax year beginning after 1997 for which you claimed an AMT foreign tax credit. The election applies to all later tax years unless it is revoked with the consent of the IRS.

Net Operating Loss (NOL) Carryback for Farmers

An NOL occurring in a tax year beginning after 1997 that is attributable to any farming business can be carried back 5 years. Previously, an NOL from a farming business could be carried back 2 years or, in the case of a Presidentially declared disaster, 3 years. For more information, see Publication 536, *Net Operating Losses*.

Closing of Partnership Tax Year

For partnership tax years beginning after 1997, the partnership's tax year closes with respect to a partner whose entire interest in the partnership is terminated, whether by death, sale or exchange, or liquidation. Previously, the partnership's tax year closed only with respect to a partner who sold, exchanged, or liquidated his or her entire interest in the partnership. For more information, see Publication 541, *Partnerships*.

Mark-to-Market Accounting Method for Dealers in Securities

Generally, dealers in securities must use the mark-to-market method of accounting for securities. Previously, a person holding nonfinancial customer paper (trade receivables) could elect to be treated as a dealer in securities.

For tax years ending after July 22, 1998, the mark-to-market accounting method cannot be used for any nonfinancial customer paper.

Nonfinancial customer paper defined. Nonfinancial customer paper is any receivable that meets all of the following requirements.

- 1) It is a note, bond, debenture, or other evidence of indebtedness.
- 2) It is from the sale of nonfinancial goods or services by a person whose principal business activity is selling or providing nonfinancial goods or services.
- 3) It is held by the person making the sale described in (2), or a related person, since the time of issue.

Change in method of accounting. If the new rule affects you, you must change your method of accounting. The change is considered to be initiated by you with the consent of the IRS. The required adjustments will be taken into account ratably over four tax years, beginning with the year of change. See Form 3115, *Application for Change in Accounting Method*.

More information. For more information, see section 475 of the Internal Revenue Code and Revenue Procedure 98-60.

Interest and Penalties

Estimated tax penalty waived if due to new law. For estimated tax payments due on or before August 21, 1998, you will not have to pay a penalty for failure to pay estimated income tax to the extent the underpayment was created or increased by a provision of the IRS Restructuring and Reform Act of 1998.

Interest abatement on underpayments in disaster areas. The IRS will abate interest for all taxpayers who meet both of the following requirements.

- 1) They were located in an area declared a disaster area by the President after 1997.
- 2) They were granted extensions to file federal income tax returns and pay income tax for tax years beginning after 1997.

For more information, see *Disaster Area Losses* in Publication 547, *Casualties, Disasters, and Thefts*.

Suspension of interest and certain penalties. For tax years ending after July 22, 1998, interest and certain penalties will be suspended if the IRS does not mail you a notice stating your liability and the basis for the liability within the 18-month period beginning on the later of:

- The date on which you timely filed the tax return, or
- The due date (without extensions) of the tax return.

For tax years beginning after 2003, the 18-month period will be reduced to 1 year.

The suspension applies to interest and penalties allocable to the period beginning the day after the close of the 18-month period and ending 21 days after the IRS mails you a notice stating your liability and the basis for the liability. Also, this suspension period applies separately to each notice received by you.



The suspension does not apply to any of the following.

- A failure-to-pay penalty.
- Any penalty, interest, addition to tax, or additional amount with respect to any tax liability shown on the return.
- A fraudulent tax return.

- A criminal penalty.

Under prior law, interest and penalties accrued on unpaid tax whether or not you realized that tax was due.

Farm Income Averaging

For tax years beginning after 1997, an individual engaged in the business of farming, as defined in the instructions for Schedule J (Form 1040), *Farm Income Averaging*, can average his or her **elected farm income (EFI)** by shifting it to the 3 prior years.

Who can use farm income averaging? If, in the year you elect to use farm income averaging, you are engaged in a farming business as an individual, a partner in a partnership, or a shareholder in an S corporation, you can use farm income averaging. You do not have to have been engaged in a farming business in any prior year.

Corporations, partnerships, S corporations, estates, and trusts cannot use farm income averaging. A beneficiary does not engage in a farming business through a trust or an estate.

Elected Farm Income (EFI)

EFI is the amount of income from your farming business that you elect to shift to the 3 prior years. You can designate as EFI any type of taxable income attributable to your farming business, up to your taxable farm income. Taxable income from farming includes all income, gains, losses, and deductions attributable to your farming business. However, it does not include gain from the sale or other disposition of land.

Gains from the sale or other disposition of farm property. Gains from the sale or other disposition of farm property, other than land, can be designated as EFI if you (or your partnership or S corporation) use the property regularly for a substantial period in a farming business. Whether the property has been regularly used for a substantial period depends on all the facts and circumstances.

Liquidation of a farming business. If you (or your partnership or S corporation) liquidate your farming business, gains on property sold within a reasonable time after operations stop can be designated as EFI. A period of one year will be treated as a reasonable time.

Shifting EFI to prior years. If your EFI includes both ordinary income and capital gains, you must add an equal portion of each type of income to each prior year. You cannot add all of the capital gains to a single prior year.

How To Figure the Tax

If you elect to average your farm income, you will figure the current year's tax on Schedule J (Form 1040). You figure the tax as follows.

- 1) Subtract the EFI from your total taxable income.
- 2) Figure the tax on the amount in step (1) using the current year's tax tables, tax rate schedules, or, if

applicable and lower, the maximum capital gain tax rates.

- 3) For each of the 3 prior years, make the following computations.
 - a) Add one-third of the EFI to the taxable income of the prior year.
 - b) Figure the tax on the amount in (a) using the tax rate schedule for that prior year, or, if applicable and lower, the maximum capital gains tax rates.
 - c) Subtract that year's actual tax from the tax in (b).
- 4) Add the amounts in step (3)(c) to the amount in step (2). The result is the tax for the current year.

Filing status. Your filing status may be different in the election year than in the prior years, or you may be married to different spouses in those years.

Separate return for the election year and joint return for a prior year. If you are filing a separate return for the election year and you filed a joint return for any prior year, then for that prior year add one-third of the EFI to the prior year's taxable income and apply the prior year's tax rate for married filing jointly.

Joint return for the election year and separate return for a prior year. If you are filing a joint return for the election year and you filed a separate return for any prior year (or if you filed a joint return with a different spouse in a prior year), then for that prior year add one-third of your share of the EFI to the prior year's taxable income and apply the prior year's tax rate for the applicable filing status.

Separate return defined. A separate return can be a return filed by an unmarried individual, including a head of household or surviving spouse, or a married individual filing a separate return.

Effect on Other Tax Determinations

You subtract EFI from your taxable income in the election year and add one-third of it to the taxable income of the prior year to obtain the tax rate to use for income averaging. The following are examples of other tax determinations involving EFI.

- Any net operating loss (NOL) carryover and net capital loss carryover are applied to the election year **before** EFI is subtracted.
- Any NOL carryover that was only partially applied in a prior year is not refigured to offset the EFI added to that prior year.
- The determination of whether, in the aggregate, the sales and other dispositions of business property (section 1231 transactions) produce long-term capital gain or ordinary loss is made before EFI is subtracted.
- Any net capital gains shifted to a prior year that had a capital loss do not offset that loss. The gains are taxed at the prior year's maximum capital gains tax rates (or, if lower, the regular tax rate.)

Tax on Investment Income of Child Under 14

If your child's investment income is more than \$1,400, part of that income may be taxed at your tax rate instead of your child's tax rate.

If you elect to use farm income averaging, figure your child's tax on investment income using your rate after shifting EFI. You cannot use any of your child's investment income as your EFI, even if it is attributable to a farming business. For information on figuring the tax on your child's investment income, see Publication 929, *Tax Rules for Children and Dependents*.

Alternative Minimum Tax

You cannot use income averaging to determine your alternative minimum tax (AMT). When figuring your AMT, the regular tax you subtract from your "tentative minimum tax" is the tax you computed using farm income averaging. This may cause you to owe AMT or increase your AMT but, generally, it will not increase your total tax. However, if you have certain nonrefundable personal credits (such as the credit for child and dependent care expenses, the child tax credit, the Hope credit, or the lifetime learning credit), that offset regular tax without regard to the "tentative minimum tax," your total tax may increase or decrease.

Credit for prior year minimum tax liability. You can use income averaging to calculate your regular tax liability for the purpose of determining the amount of the credit for a prior year minimum tax liability.

Making, Revoking, or Changing an Election

You can make a late election to income average, or amend or revoke a previously made election, only if you make it in conjunction with another adjustment that affects the taxable income of the election year or any of the three prior taxable years. An adjustment may be caused by a variety of things. The following are examples of situations that may result in an adjustment.

- An NOL carryback.
- A disaster loss election.
- A change made as the result of an audit.
- Any other change that results in your filing an amended return.

If you do not have an adjustment in the election year or any of the three prior taxable years, you can make a late election, or amend or revoke a previously made election, only if you obtain the consent of the IRS.

1999 Changes

Social Security and Medicare Taxes

For 1999, the employer and employee will continue to pay:

- 1) 6.2% each for social security tax (old-age, survivors, and disability insurance), and
- 2) 1.45% each for Medicare tax (hospital insurance).

Wage limits. For social security tax, the maximum amount of 1999 wages subject to the tax has increased to \$72,600. For Medicare tax, all covered 1999 wages are subject to the tax. There is no wage base limit. For information about these taxes and amounts to withhold, see Publication 15, *Circular E, Employer's Tax Guide*.

Employment Tax Deposits

Under certain circumstances, the IRS can waive the penalty for a first-time depositor's inadvertent failure to timely deposit employment taxes. For deposits required to be made after January 18, 1999, this waiver is expanded to include the first deposit required to be made after a required change in frequency of a taxpayer's deposits.

Electronic Deposit of Taxes

If you were first required to deposit taxes by electronic funds transfer after June 30, 1997, the IRS will not impose the penalty for not doing so before July 1, 1999. Previously, the IRS had waived the penalty through December 31, 1998. For information about depositing taxes electronically, see Publication 15.

941 TeleFile

Beginning with the first quarter of 1998, many employers were able to file Form 941 by phone, toll free. If you receive 941 TeleFile with your Form 941 package, check page TEL-1 of the *941 TeleFile Instructions* to see if you qualify for this quick, convenient, and easy method of filing.

941 On-Line

In 1998, a limited number of employers were allowed to file Form 941 using commercially available software to create the return and then transmitting the return electronically to IRS through a third party. 941 On-Line uses Electronic Data Interchange (EDI) format. In 1999, IRS expects to make the 941 On-Line filing option available nationwide.

Standard Mileage Rate

Beginning April 1, 1999, the optional standard mileage rate for operating your car for business **decreases** to 31 cents a mile for each business mile. Until then, the business standard mileage rate of 32½ cents per mile that was in effect for 1998 will continue to apply.

Self-Employed Health Insurance Deduction

For 1999, the health insurance deduction for the self-employed is increased from 45% to 60% of the amount you pay for medical insurance for yourself and your family. For more information, see chapter 10 in Publication 535.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1999. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance), and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 1999 has increased to \$72,600. All net earnings of at least \$400 are subject to the Medicare part.

Election Under GDS To Use 150% DB Rate

For 3-, 5-, 7-, and 10-year class property you placed in service before 1999, and that you chose to depreciate using the 150% declining balance (DB) rate, you had to use an ADS (Alternative Depreciation System) recovery period. If you place similar property in service after 1998, and choose to depreciate it using the 150% DB rate, you can use the same (GDS—General Depreciation System) recovery period you would use if you chose the 200% DB rate.

For more information, see *Property Classes and Recovery Periods* in chapter 3 and Table B-1, *Table of Class Lives and Recovery Periods*, in the Appendix of Publication 946.

Depreciation Recovery Period for Alternative Minimum Tax (AMT)

For property placed in service after 1998, use the same recovery period you use to figure your depreciation for regular tax purposes to figure any AMT adjustment.

Business Use of Your Home

New rules, that take effect in 1999, make it easier to claim a deduction for the business use of your home. Under the new rules, you may qualify to claim the deduction, even if you never qualified before.

The following information explains the new rules and gives some examples. If you have a home business, this information will help you plan for your 1999 tax return, which is due April 17, 2000.



The following information does not apply to expenses for the business use of your home in 1998. Those rules can be found in Publication 587, Business Use of Your Home (Including Use by Day-Care Providers).

Principal place of business. Under the new rules for deducting expenses for the business use of your home, it is easier for your home office to qualify as your prin-

cipal place of business. Under the old rules, you had to consider the relative importance of the activities carried out at each business location when determining if your home was your principal place of business. Generally, the place where you conducted your most important activities was the place where you met with clients, customers, or patients, or delivered goods or services. Performing administrative or management duties in your home office was considered less important. For example, in 1998, an outside salesperson's home office generally would not qualify as his or her principal place of business. The place where he or she met with customers to explain available products and take orders was considered more important than the home office where he or she conducted administrative duties (setting up appointments, faxing orders, etc.).

Beginning in **1999**, your home office will qualify as your principal place of business for deducting expenses for its use if:

- 1) You use it exclusively and regularly for administrative or management activities of your trade or business, and
- 2) You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

There are many activities that are administrative or managerial in nature. Some of these activities are:

- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. Under the new rules, the following activities will **not** disqualify your home office as your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial nonadministrative or non-management business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

Other tests. The new rules for “principal place of business” will not affect the other tests you must meet to claim expenses for the business use of your home. You still must use the business part of your home both exclusively and regularly for your trade or business. If you are an employee, the business use of your home must be for the convenience of your employer. In addition, your deduction may be limited by your gross income from the business use of your home.

Exclusive use. Exclusive use means you use the business part of your home **only** for your trade or business and you do not use it for any personal purposes. However, there are exceptions to the exclusive-use test for the storage of inventory or product samples, or the use of part of the home as a day-care facility. See Publication 587 for the rules that apply to these exceptions.

Regular use. You must use the business part of your home on a regular basis to qualify to deduct expenses for its business use. You do not meet the regular-use test if your business use of the area is only occasional, even if you do not use that area for any other purpose.

Trade or business use. Trade or business use means you use the business part of your home in connection with your trade or business. If you use the business part of your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for the business use of that part of your home.

Convenience of the employer. If you are an employee, you must also qualify under the convenience-of-the-employer test. Therefore, if your employer provides suitable work space for administrative or management activities, you must consider this fact when determining whether you meet the convenience-of-the-employer test.

Deduction limit. Even if you qualify to deduct expenses for the business use of your home, your deduction may be limited. If your gross income from the business use of your home is less than your total business expenses, your deduction for some of your expenses, such as insurance, utilities, and depreciation, is limited. See Publication 587 for the rules on the deduction limit.

Examples. The following examples describe situations in which an individual's home office will qualify as his or her principal place of business for deducting expenses of its use in 1999, even if the use before 1999 did not qualify. In the following examples, assume the same administrative and managerial activities were conducted in the home office in 1998 and 1999.

Example 1. John is a self-employed plumber. Most of John's time is spent at customers' homes and offices installing and repairing plumbing. He has a small office in his home that he uses exclusively and regularly for the administrative or management details of his business, such as phoning customers, ordering supplies, and keeping his books.

John does not do his own billing. He uses a local bookkeeping service to bill his customers.

In 1998, John's home office did not qualify as his principal place of business because the administrative

or management activities, although essential, were considered less important than the work he did in his customers' homes and offices.

Under the new rules, John's home office qualifies as his principal place of business for deducting expenses for its use. He uses the home office for the administrative or management activities of his plumbing business and he has no other fixed location where he conducts these administrative or management activities. His choice to have his billing done by another company does not disqualify his home office as his principal place of business. Because he meets all of the qualifications, including principal place of business, he can deduct expenses (to the extent of the gross income limit) for the business use of his home in 1999.

Example 2. Pamela is a self-employed sales representative for several different product lines. She has an office in her home that she uses exclusively and regularly to set up appointments and write up orders and other reports for the companies whose products she sells. She occasionally writes up orders and sets up appointments from her hotel room when she is away on business overnight.

Pamela's business is selling products to customers at various locations throughout her territory. To make these sales, she regularly visits customers to explain the available products and take orders.

In 1998, her home office did not qualify as her principal place of business because the essence of her business as a salesperson required her to meet with customers at their places of business. The home office activities were of less importance.

Under the new rules, Pamela's home office qualifies as her principal place of business for deducting expenses for its use. She conducts administrative or management activities there and she has no other fixed location where she conducts administrative or management activities. The fact that she conducts some administrative or management activities in her hotel room (not a fixed location) does not disqualify her home office as her principal place of business. Because she meets all of the qualifications, including principal place of business, she can deduct expenses (to the extent of the gross income limit) for the business use of her home in 1999.

Example 3. Paul is a self-employed anesthesiologist. He spends the majority of his time administering anesthesia and postoperative care in three local hospitals. One of the hospitals provides him with a small shared office where he could conduct administrative and management activities.

Paul does not use the office the hospital provides. He uses a room in his home that he has converted to an office. He uses this room exclusively and regularly to conduct all of the following activities.

- Contact patients, surgeons, and hospitals regarding scheduling.
- Prepare for treatments and presentations.
- Maintain billing records and patient logs.
- Satisfy continuing medical education requirements.
- Read medical journals and books.

In 1998, Paul's home office did not qualify as his principal place of business. The home office activities were less important to Paul's business than the services he performed in the hospitals.

Under the new rules, Paul's home office qualifies as his principal place of business for deducting expenses for its use. He conducts administrative or management activities for his business as an anesthesiologist there and he has no other fixed location where he conducts administrative or management activities for this business. His choice to use his home office instead of one provided by the hospital does not disqualify his home office as his principal place of business. His performance of substantial nonadministrative or nonmanagement activities at fixed locations outside his home also does not disqualify his home office as his principal place of business. Because he meets all of the qualifications, including principal place of business, he can deduct expenses (to the extent of the gross income limit) for the business use of his home in 1999.

Example 4. Kathleen is employed as a teacher. She is required to teach and meet with students at the school and to grade papers and tests. The school provides her with a small office where she can work on her lesson plans, grade papers and tests, and meet with parents and students. The school does not require her to work at home.

Kathleen prefers to use the office she has set up in her home and does not use the one provided by the school. She uses this home office exclusively and regularly for the administrative duties of her teaching job.

In 1998, Kathleen's home office did not qualify as her principal place of business because the administrative activities were less important than her actual teaching duties at the school. Because her home office was not her principal place of business, it was not necessary to determine whether she maintained the office for the convenience of her employer.

In 1999, Kathleen would still have to meet the convenience-of-the-employer test, even if her home qualifies as her principal place of business for deducting expenses for its use. Because her employer provides her with an office and does not require her to work at home, she does not meet the convenience-of-the-employer test and cannot claim a deduction for the business use of her home in 1999.

More information. For all the rules on business use of a home, see Publication 587. It contains the following information.

- Tests you must meet to qualify for the deduction.
- What types of expenses you can deduct.
- How to figure the deduction (including depreciation of your home).
- What records you should keep.
- Where to deduct your expenses.

2000 Change

Extended Due Date for Forms 1098, 1099, or W-2 Filed Electronically

Beginning in 2000, if you file Forms 1098, 1099, or W-2 electronically (not by magnetic media), your due date for filing them with the IRS or the Social Security Administration (SSA) will be extended to March 31. (If you do not file them electronically, the due date is February 28.)

The due date for giving the recipient these forms will still be January 31.

For information about filing Forms 1098, 1099, or W-2G electronically with IRS, see Publication 1220, *Specifications for Filing Forms 1098, 1099, 5498, and W-2G Magnetically or Electronically*. For information about filing Form W-2 electronically with SSA, call 1-800-772-6270.

3.

IRAs and Other Retirement Plans

1998 Changes

Traditional IRAs

Beginning in 1998, four rules for traditional IRAs (IRAs other than Roth IRAs, SIMPLE IRAs, or Education IRAs) have changed. Generally, you can now do all of the following.

- 1) Deduct all of your allowable contributions to a traditional IRA (if you are not covered by an employer plan and you file a joint return) even if your spouse is covered by a plan.
- 2) Have a higher modified adjusted gross income and still claim a deduction for contributions to your IRA.
- 3) Make penalty-free early withdrawals from your IRA for qualified:
 - a) Higher education expenses, or
 - b) Acquisition costs of a first home.
- 4) Invest IRA funds in certain platinum coins and gold, silver, palladium, or platinum bullion.

For more information on traditional IRAs, see chapter 1 of Publication 590, *Individual Retirement Arrangements (IRAs)*.

Education IRAs

Beginning in 1998, you may be able to make non-deductible contributions of up to \$500 annually to an education IRA for a child under age 18. Earnings in the IRA accumulate free of income tax. Withdrawals from the IRA are tax free up to the amount of the child's qualified higher education expenses for the year. Chapter 3 of Publication 590 has detailed information on education IRAs.

Although created by 1997 legislation, 1998 was the first year that education IRAs could be established. The following changes are the result of technical corrections legislation in 1998.

No double benefit allowed. Qualified higher education expenses used as the basis for tax-free withdrawals from an education IRA cannot also be used in figuring any deduction or credit (such as the Hope credit or lifetime learning credit). They also cannot be used in figuring an exclusion for U.S. savings bond interest used to pay the expenses. For more information, see Publication 970, *Tax Benefits for Higher Education*.

Election to include education IRA withdrawal in income. You can elect to waive the tax-free treatment of a withdrawal from an education IRA and include it in your income. If you do, the 10% additional tax will not apply to the withdrawal and you may be able to claim a credit or deduction for your expenses.

When assets must be withdrawn. The document creating and governing an education IRA must provide that the balance in the account must be distributed within 30 days after the beneficiary reaches age 30 or dies, whichever happens first. If there is no actual distribution within 30 days, the balance in the account is deemed distributed as of the close of the 30-day period. If the distribution is the result of the beneficiary reaching age 30, the distribution is made to the beneficiary. If the distribution is required because of the beneficiary's death, the remaining assets must generally be distributed within the 30-day period.

Exception for transfer to family member. If an education IRA is transferred to a surviving spouse or other family member as the result of the death of the designated beneficiary, the spouse or other family member can treat the education IRA as his or her own.

Rollovers and beneficiary changes. If a distribution from an education IRA is, within 60 days, contributed to another education IRA for the benefit of the same beneficiary or a member of his or her family, it is not a taxable distribution. This rule does not apply if the beneficiary of the new IRA is age 30 or older on the date of the rollover contribution to the new IRA.

Similarly, if the designated beneficiary of an education IRA is changed, it is not a taxable distribution if the new beneficiary is under age 30 on the date of the change.

Excess contributions. The rules for determining when the 6% excise tax applies to excess contributions has been expanded. Before the change, the 6% tax applied only to contributions over \$500. Now, if the maximum

contribution allowed is less than \$500 (because the contributor's income is above certain levels), the 6% tax applies to contributions that are more than that lower contribution limit.

Excess contributions for the current year now include excess contributions from the preceding year that have not been withdrawn (returned) or used to offset any unused contribution limit for the current year. These contributions are subject to the 6% tax, along with any excess amounts contributed during the current year.

Exception. The 6% tax does not apply if the excess contributions (and any earnings on them) are withdrawn before the due date of the beneficiary's tax return (including extensions). If the beneficiary is not required to file a return for the year, the excess contributions (and the earnings) must be withdrawn by April 15 of the year following the year the contributions were made.

Roth IRAs

Beginning in 1998, you may be able to establish and contribute to a new nondeductible tax-free individual retirement arrangement (a plan) called the Roth IRA. Unlike certain contributions to a traditional IRA, you cannot claim a deduction for any contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions are tax free. Chapter 2 of Publication 590 has detailed information on Roth IRAs.

Although created by 1997 legislation, 1998 was the first year that Roth IRAs could be established. The following changes are the result of technical corrections legislation in 1998.

Income limits reduced for married persons filing separately. The amount of modified adjusted gross income (MAGI) you can have and still contribute to a Roth IRA has been reduced from \$15,000 to \$10,000 if you are married filing a separate return. You cannot contribute to a Roth IRA if your MAGI is \$10,000 or more.

Modified adjusted gross income (MAGI). To figure MAGI for Roth IRA purposes, do not reduce adjusted gross income (AGI) by any deduction for contributions to traditional IRAs.

Excess contributions withdrawn before the return due date. If you make an excess contribution to a Roth IRA but you withdraw the excess amount and the earnings on it before the due date of your return (including extensions), that withdrawal is not a qualified distribution. The withdrawn earnings are taxable and may be subject to the 10% additional tax on early withdrawals.

Converting a traditional IRA to a Roth IRA. If you withdrew an amount from a traditional IRA in 1998 and converted it to a Roth IRA, any amount you must include in income as a result of the withdrawal is generally included ratably over a 4-year period, beginning with 1998. You can elect to include the total amount in 1998 rather than ratably over the 4-year period. If you make the election, you cannot change it after the due date (including extensions) for your 1998 tax return.

Withdrawals during the 4-year period. If you include the taxable part of a 1998 conversion ratably over the 4-year period and before 2001 you withdraw from the Roth IRA any amount that is allocable to the taxable part of the conversion, you will generally have to include in income:

- 1) The amount includible for that year because of the 4-year rule, and
- 2) The part of the withdrawal made during the year that is allocable to the taxable part of the conversion.

Death of IRA owner during the 4-year period. If a Roth IRA owner who is including amounts ratably over the 4-year period dies before including all of the amounts in income, all remaining amounts must generally be included in the owner's gross income for the year of death. However, if the owner's surviving spouse receives the entire interest in all the owner's Roth IRAs, that spouse can elect to continue to ratably include the amounts in income over the remaining years of the 4-year period.

Additional tax on withdrawals of conversion contributions. If, within the 5-year period starting with the year of a conversion contribution, you withdraw any part of a Roth IRA that is from the taxable part of a converted amount, the 10% additional tax on early withdrawals generally applies to that part.

Ordering rules for certain withdrawals. If you make a withdrawal from your Roth IRA that is not a qualified distribution, part of the withdrawal may be taxable. For purposes of determining the correct tax treatment of withdrawals (other than the withdrawal of excess contributions and the earnings on them), there is a rule that sets the order in which you withdraw contributions (including conversion contributions) and earnings from your Roth IRA. The order of withdrawals is as follows.

- 1) Regular contributions.
- 2) Conversion contributions (taxable portion first), on a first-in first-out basis.
- 3) Earnings on contributions.

Rollover contributions from other Roth IRAs are disregarded for this purpose.

Recharacterizing your contribution before the due date of your return. Because of the limits and restrictions on various contributions to Roth and traditional IRAs, you may need to make adjustments to your IRAs before you file your return for the year. You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution.

To recharacterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the year during which the contribution was made, you can elect to treat the contribution as having been ori-

ginally made to the second IRA instead of to the first IRA.

SEP or SIMPLE retirement accounts. Neither a simplified employee pension (SEP) nor a SIMPLE retirement account can be designated as a Roth IRA. When figuring the Roth IRA contribution limit, you do not reduce it by any employer contributions on your behalf to a SEP or a SIMPLE retirement account.

Other Retirement Plans

Section 401(k) Plans

Beginning in 1998, matching contributions to a qualified cash or deferred arrangement (section 401(k) plan) on behalf of a self-employed individual will no longer be treated as elective contributions subject to the limit on elective deferrals. They will receive the same treatment as the matching contributions of employees.

For more information about employee and employer contributions to a 401(k) plan, see *Keogh Plans* in Publication 560, *Retirement Plans for Small Business (SEP, SIMPLE, and Keogh Plans)*.

New Recovery Method for Joint and Survivor Annuity Payments

For annuity starting dates beginning in 1998, a new method is used to figure the tax-free portion of an annuity that is payable over the lives of more than one annuitant. Under this new recovery method, the number of anticipated monthly payments used to recover the tax-free investment in the contract (or basis) is determined by **combining the ages** of the annuitants.

Publication 575, *Pension and Annuity Income*, explains how to figure the tax treatment of payments based on the lives of more than one annuitant. The number of payments used for the combined ages is shown below.

Combined Ages of Annuitants	Number of Payments
Not more than 110	410
More than 110, but not more than 120	360
More than 120, but not more than 130	310
More than 130, but not more than 140	260
More than 140	210

Section 403(b) Plans

The following provisions affect tax-sheltered annuity programs for employees of public schools and certain tax-exempt organizations (section 403(b) plans).

Includible compensation. Beginning in 1998, for purposes of figuring your exclusion allowance, your includible compensation includes the following amounts.

- 1) Elective deferrals (your employer's contributions made on your behalf under a salary reduction agreement).
- 2) Amounts contributed or deferred by your employer under a section 125 cafeteria plan.

- 3) Amounts contributed or deferred under a section 457 plan (state or local government or tax-exempt organization plan).

For more information on includible compensation, see Publication 571, *Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations*.

Contributions of employed ministers. Beginning in 1998, contributions made to a church plan on behalf of a minister employed by an employer other than the church are excluded from the minister's gross income if they would have been excluded had the minister been an employee of the church.

For purposes of this rule, a minister who is an employee of a church also includes the following persons.

- 1) A self-employed minister.
- 2) A minister employed by an organization other than a tax-exempt organization that shares a common religious bond with the minister.

For more information on the exclusion of contributions to church plans, see Publication 571.

1999 Change

Hardship Distributions

Beginning in 1999, hardship distributions from 401(k) plans and 403(b) plans are not eligible rollover distributions. They cannot be rolled over into a traditional IRA. For more information on traditional IRAs, see Publication 590.

2000 Change

Distributions Due to an IRS Levy

Beginning in the year 2000, the 10% additional tax on early withdrawals from IRAs or qualified employer plans will not apply to distributions that result from an IRS levy against the IRA or plan. For more information on the early withdrawal tax, see Publication 590 or Publication 575.

4.

Gift and Estate Taxes

1998 Changes

Unified Credit Increases

The unified credit for gift and estate taxes increases to \$202,050 for gifts made in 1998 and for the estates of decedents dying in 1998. Previously, this amount was \$192,800.

The following table lists the unified credit for years after 1998.

Year	Unified Credit
1999	\$211,300
2000 and 2001	220,550
2002 and 2003	229,800
2004	287,300
2005	326,300
After 2005	345,800

Estate Tax Return Filing Requirement Increases

Generally, an estate tax return must be filed for the estate of a U.S. citizen or resident dying in 1998 if the gross estate is more than \$625,000. Previously, this amount was \$600,000.

The following table lists the filing requirement for estates of decedents dying after 1998.

Year of Death	Filing Requirement
1999	\$650,000
2000 and 2001	675,000
2002 and 2003	700,000
2004	850,000
2005	950,000
After 2005	1,000,000

New Deduction From Gross Estate

For estates of decedents dying after 1997, the executor can elect to deduct the adjusted value of a qualified family-owned business interest, up to a limited amount, from the gross estate. For more information, see section 2057 of the Internal Revenue Code and the instructions for Schedule T, Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*.

Suit for Refund

Effective July 23, 1998, an executor no longer needs to wait until all the installment payments have been made before filing a suit for refund with a federal district court or the U.S. Court of Federal Claims if the following conditions are met.

- The estate consists largely of an interest in a closely-held business.
- The estate elected to make tax payments through the installment method.

However, all of the following must be true before a suit can be filed.

- All installment payments due on or before the date the suit is filed have been made.
- No accelerated installment payments have been made.
- No Tax Court case is pending with respect to any estate tax liability.
- The time for petitioning the Tax Court has passed if a notice of deficiency was issued to the estate regarding its liability for estate tax.
- No proceeding is pending for a declaratory judgment by the Tax Court on whether the estate is eligible to pay tax in installments.

In addition, the executor must **not**:

- Include any previously litigated issues in the current suit for refund, and
- Discontinue making timely installment payments while the court considers the suit for refund.



The IRS is not permitted to collect any amount disallowed by the Court. Any amounts paid in excess of the amount determined by the Court will be refunded.

5.

Excise Taxes

1998 Changes

Vaccines

For sales or deliveries after October 21, 1998, any vaccine against rotavirus gastroenteritis is subject to the tax on vaccines. Previously, it was not subject to tax. For more information on taxation of vaccines, see Publication 510, *Excise Taxes for 1999*.

Credits and Refunds

Kerosene. After June 30, 1998, the taxation and dyeing requirement rules of diesel fuel generally apply to kerosene. The tax on undyed kerosene is 24.4 cents a gallon.

You can take an income tax credit for the excise tax on undyed kerosene if you meet certain conditions. Use Form 4136, *Credit for Federal Tax Paid on Fuels*, to figure the credit. For more information, see Form 4136.

Simplified fuel tax refunds. Beginning October 1, 1998, you can claim a quarterly refund of the excise tax you paid on fuels used for nontaxable purposes if the amount is \$750 or more. For more information on this and other changes to fuel taxes, see Publication 378, *Fuel Tax Credits and Refunds*.

1999 Changes

Air Transportation Taxes

For transportation beginning in 1999, the taxes on transportation of persons by air are as follows.

Transportation Beginning:	Tax Percentage	Domestic-Segment Tax
Before October 1, 1999	8%	\$2.00
After September 30, 1999	7.5%	\$2.25

For 1999, the tax on the use of international air travel facilities will be \$12.20 for both arrivals and departures. In the case of air transportation between the continental United States and Alaska or between Alaska and Hawaii, the use-of-international-facilities tax on departures will be \$6.10.

Luxury Tax

For 1999, the luxury tax on a passenger vehicle is reduced from 7% to 6% of the amount of the sales price that exceeds the base amount. The base amount for 1999 is \$36,000.

The base amount is increased for electric vehicles and clean-fuel vehicles. See Publication 510 for information on these amounts.

6.

Exempt Organizations

1998 Changes

Expanded Coverage for High-Risk Medical Care Pools

Beginning in 1998, a tax-exempt, state-sponsored organization that was established to provide medical care coverage to high-risk individuals may also cover spouses and certain dependent children of high-risk individuals. For more information, see Publication 557, *Tax-Exempt Status for Your Organization*.

Qualified Sponsorship Activities

Generally, an exempt organization that regularly carries on a trade or business not substantially related to its exempt purpose is subject to tax on its income from the unrelated trade or business. Beginning in 1998, soliciting and receiving qualified sponsorship payments is not an unrelated trade or business and the payments are not subject to unrelated business income tax.

Qualified sponsorship payment. This is any payment made by a person engaged in a trade or business for which the person will receive no substantial benefit other than the use or acknowledgment of the business name, logo, or product lines in connection with the organization's activities. For more information, see Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*.

7.

Foreign Issues

1998 Changes

Foreign Earned Income Exclusion

For 1998, the maximum foreign earned income exclusion increased to \$72,000.

See Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, to see if you meet the requirements to exclude your foreign earned income.

Exemption From Foreign Tax Credit Limit

Your foreign tax credit is subject to a limit based on your taxable income from foreign sources. You figure the limit and the credit on Form 1116, *Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual)*. Beginning in 1998, you will not be subject to this limit and will be able to claim the credit without using Form 1116 if you meet the following requirements.

- 1) You are an individual.
- 2) Your only foreign source income for the tax year is passive income (dividends, interest, royalties, etc.) reported to you on a payee statement (such as Form 1099-DIV or Form 1099-INT).
- 3) Your qualified foreign taxes for the tax year are not more than \$300 (\$600 if filing a joint return) and they are reported on a payee statement.
- 4) You elect this procedure for the tax year.



If you make this election, you cannot carry back or carry over any unused foreign tax to or from this tax year.

For more information on the foreign tax credit, see Publication 514, *Foreign Tax Credit for Individuals*.

1999 Change

Foreign Earned Income Exclusion

For 1999, the maximum foreign earned income exclusion will increase to \$74,000.

8.

Taxpayer Rights

This chapter covers the following items.

- 1) Many of the 1998 and 1999 law changes that increase your basic rights when dealing the IRS.
- 2) Your most important rights as a taxpayer.
- 3) The examination, appeal, collection, and refund processes.

1998 Changes

Innocent Spouse Relief

Generally, both you and your spouse are responsible, jointly and individually, for paying the full amount of any tax, interest, or penalties due on your joint return. In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint tax return for items of the other spouse that were incorrectly reported on the joint return. Recent legislation changed the innocent spouse relief rules and provided two new ways to obtain relief from joint liability. You can ask for relief no matter how small the liability.

There are three types of relief available.

- 1) Innocent spouse relief, which applies to all joint filers.
- 2) Separation of liability, which applies to joint filers who are divorced, widowed, legally separated, or have not lived together for the past 12 months.
- 3) Equitable relief, which applies to all joint filers and married couples filing separate returns in community property states.

Innocent spouse relief and separation of liability apply only to items incorrectly reported on the return. If a spouse does not qualify for innocent spouse relief or separation of liability, the IRS may grant equitable relief.

Each of these types of relief is different and they each have different requirements. You must file Form 8857, *Request for Innocent Spouse Relief (And Separation of Liability and Equitable Relief)*, to request any of these types of relief. Publication 971, *Innocent Spouse Relief*, explains the types of relief and who may qualify for them.

The rules discussed here apply to liabilities arising after July 22, 1998, and liabilities arising on or before July 22, 1998, that were unpaid as of that date.

Confidentiality Protection

Under new law, the confidentiality protection that you have with an attorney has been expanded to apply to certain communications you have with federally authorized practitioners in general. Federally authorized practitioners can be attorneys, certified public accountants, enrolled agents, or enrolled actuaries allowed to practice before the IRS. This new provision is effective for communications made after July 21, 1998.



You cannot use this confidentiality protection in any administrative or court proceeding with an agency other than the IRS.

Confidential communications are those that:

- Advise you on tax matters within the scope of the practitioner's authority to practice before the IRS,
- Would be confidential between you and an attorney, and
- Relate to noncriminal tax matters before the IRS or noncriminal tax proceedings brought in federal court by or against the United States.

Confidential communications **are not** those that:

- Take place between a federally authorized practitioner and a corporate director, shareholder, officer, employee, agent, or representative, and
- Promote the corporation's participation in a tax shelter. A tax shelter is any entity, plan, or arrangement, a significant purpose of which is the evasion of income tax.

Under prior law, confidentiality protection generally existed only for certain communications between an attorney and his or her client.

Suspension of Statute of Limitations

You generally have until the later of 3 years from the time your tax return was filed, or 2 years from the time you paid the tax, to claim a refund. Under new law, this statute of limitations can be suspended during periods when you cannot manage your financial affairs because of a physical or mental impairment that is medically determinable and it either:

- Has lasted or can be expected to last continuously for at least 12 months, or
- Can be expected to result in death.



The period for filing a claim for refund will not be suspended for any time that someone else, such as your spouse or a guardian, was authorized to act for you in financial matters.

To claim that you were physically or mentally disabled and could not manage your financial affairs, you or the person signing the claim for credit or refund must submit the following statements with the claim.

- 1) A written statement signed by a physician, qualified to make the determination, that sets forth all of the following.
 - a) Your name and a brief description of your physical or mental impairment.
 - b) The physician's medical opinion that the physical or mental impairment prevented you from managing your financial affairs.
 - c) The physician's medical opinion that the physical or mental impairment resulted in or can be expected to result in death, or that it has lasted (or can be expected to last) for a continuous period of not less than 12 months.
 - d) To the best of the physician's knowledge, the specific time period during which you were prevented by such physical or mental impairment from managing your financial affairs.
- 2) A written statement by you, or the person signing the claim for credit or refund, that no person, including your spouse, was authorized to act on your behalf in financial matters during the period described in (1)(d). However, if a person was authorized to act on your behalf in financial matters during any part of the period described in (1)(d), include the period of time (beginning and ending dates) the person was so authorized.



The statute of limitations will not be suspended on any claim for refund that (without regard to this new provision) was barred as of July 22, 1998.

Waiver of Rights

Effective July 22, 1998, the U.S. Government cannot ask you to waive the right to sue the United States or a U.S. Government officer or employee for any action taken in connection with the tax laws. However, the right to sue can be waived in any of the following situations.

- You knowingly and voluntarily waive that right.
- The request to waive that right is made in writing to your attorney or other federally authorized tax practitioner.
- The request is made in person and your attorney or other representative is present.

In addition, you can be asked to waive your right to sue for either of the following.

- Attorney fees or costs.

- Claims that were brought in the same administrative or judicial proceeding with other claims that are being settled.

Under prior law, there were no restrictions on when the U.S. Government could request that you waive your right to sue in connection with the federal tax laws.

Installment Agreement

If you cannot pay the full amount of your tax when it is due, you can ask to make monthly installment payments. Previously, the IRS did not have to agree to accept the payment of taxes in installments. Beginning July 22, 1998, the IRS must enter into an installment agreement for the payment of income tax if you meet all the following conditions on the date you offer to enter into the agreement.

- 1) Your total income tax owed is not more than \$10,000.
- 2) In the last 5 years, you (and your spouse if the liability relates to a joint return) have:
 - a) Filed all required income tax returns,
 - b) Paid all taxes shown on the returns you filed, and
 - c) Not entered into an installment agreement to pay any income tax.
- 3) You show (and the IRS agrees) that you cannot pay your income tax in full when due.
- 4) You agree to pay the tax in full in 3 years or less.
- 5) You agree to comply with the tax laws while your agreement is in effect.

Tax Court Proceedings

Burden of proof. Generally, for court proceedings resulting from examinations started after July 22, 1998, the IRS will have the burden of proving any factual issue if you have introduced credible evidence relating to the issue. However, you also must have done all of the following.

- Complied with all substantiation requirements of the Internal Revenue Code.
- Maintained all records required by the Internal Revenue Code.
- Cooperated with all reasonable requests by the IRS for information regarding the preparation and related tax treatment of any item reported on your tax return.
- Had a net worth of \$7 million or less at the time your tax liability is contested in any court proceeding if your tax return is for a corporation, partnership, or trust.

Use of statistical information. The IRS has the burden of proof in court proceedings that are based on any reconstruction of an individual's income solely

through the use of statistical information on unrelated taxpayers.

Penalties. The IRS has the burden of proof in court proceedings with respect to the liability of any individual taxpayer for any penalty, addition to tax, or additional amount imposed by the tax laws.

Refund or credit of overpayments before final decision. Beginning July 22, 1998, any court with proper jurisdiction, including the Tax Court, can order the IRS to refund any part of a tax deficiency that the IRS collects from you during a period when the IRS is not permitted to assess, levy, or engage in any court proceeding to collect that tax deficiency. In addition, the court can order a refund of any part of a tax deficiency that is not at issue in your appeal to the court. The court can order these refunds before its decision on the case is final.

Generally, the IRS is not permitted to take action on a tax deficiency during the following periods.

- 1) The 90-day (or 150-day if outside of the United States) period that the taxpayer has to petition a notice of deficiency to the Tax Court.
- 2) The period that the case is under appeal.

Under prior law, no authority existed for ordering the IRS to refund any amount collected during an impermissible period, or to refund any amount that was not at issue in your appeal, before the final decision of the Tax Court.

Small case procedures. For proceedings beginning after July 22, 1998, small tax case procedures are available for disputes that involve \$50,000 or less. Under prior law, small tax case procedures were limited to disputes involving \$10,000 or less.

Small tax case procedures can be used, at your request and with the Tax Court's concurrence, for income, estate, gift, certain employment, and certain excise taxes. The proceedings are conducted as informally as possible. Neither briefs nor oral arguments are required. Most taxpayers represent themselves, although they may be represented by anyone admitted to practice before the Tax Court.



For more information about small tax case procedures and other Tax Court matters, you can write to the Court at the following address.

Office of the Clerk of the Court
United States Tax Court
400 Second Street, N.W.
Washington, DC 20217

More information. For more information on these changes, see Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund*. (A new revision of this publication should be available by the end of February.)

1999 Changes

Notice of IRS Contact of Third Parties

New law provides that **before** contacting other persons, such as your neighbors, banks, employers, or employees, the IRS must notify you that in examining or collecting your tax liability the IRS may contact third parties. The new law also requires the IRS to provide notice of specific contacts by providing you with a record of persons contacted on both a periodic basis and upon your request. This is effective for contacts made after January 18, 1999.



This provision does not apply in the following circumstances.

- 1) Pending criminal investigation.
- 2) When providing notice would jeopardize collection of any tax liability.
- 3) Where providing notice may result in reprisal against any person.
- 4) When you authorized the contact.

Award of Administrative Costs

New law expands the rules for awarding reasonable administrative costs and certain fees incurred after January 18, 1999.

Qualified offer rule. You can receive reasonable costs and fees as a prevailing party in a civil action or proceeding when all of the following occur.

- 1) You make a **qualified offer** to the IRS to settle the case.
- 2) The IRS rejects that offer.
- 3) The tax liability (not including interest) later determined by the Court is not more than the amount of the qualified offer.

Note. The Court can consider the IRS not to be the prevailing party in a civil action or proceeding based on the fact that the IRS has lost in other courts of appeal on substantially similar issues.

Qualified offer. This is a written offer made by you during the qualified offer period. It must specify both of the following.

- The amount of your liability (not including interest).
- That it is a qualified offer when made.

It must also remain open until the earliest of the following dates.

- The date the offer is rejected.
- The date the trial begins.

- 90 days from the date of the offer.

Qualified offer period. This is the period beginning with the date that the 30-day letter is mailed by the IRS to you and ending on the date that is 30 days before the date the case is first set for trial.

Time for awarding costs. Administrative costs can be awarded for costs incurred after the earliest of the following dates.

- The date of the notice of deficiency.
- The date the first letter of proposed deficiency is sent that allows you an opportunity to request administrative review in the IRS Office of Appeals.
- The date you receive the IRS Office of Appeals' decision.

Attorney fees. The basic rate of an award for attorney fees has been raised from \$110 to \$125 per hour and it can be higher in certain circumstances. Those circumstances now include the difficulty level of the issues in the case and the availability of tax expertise locally. The basic rate is subject to adjustment each year.



Attorney fees now include the fees you paid for the services of anyone who is authorized to practice before the Tax Court or before the IRS. In addition, attorney fees can be awarded in civil actions taken for unauthorized inspection or disclosure of your tax return or return information.

Fees can be awarded in excess of the actual amount charged if all of the following apply.

- The fees are charged at less than the \$125 basic rate.
- You are represented for no fee, or for a nominal fee, as a pro bono service.
- The award is paid to your representative or to the representative's employer.

Explanation of Claim for Refund Disallowance

Beginning January 19, 1999, the IRS must explain to you the specific reasons why a claim for refund is disallowed or partially disallowed. This puts into law an existing practice of the IRS.

Claims for refund can be disallowed based on a preliminary review or on examination by a revenue agent. This means that you must receive one of the following.

- 1) A form explaining that the claim is disallowed for one of the following reasons.
 - a) The claim was filed late.
 - b) It was based solely on the unconstitutionality of the revenue acts.
 - c) It was waived as part of a settlement.

- d) It covered a tax year or issues which were part of a closing agreement or an offer in compromise.
 - e) It was related to a return closed by a final court order.
- 2) A revenue agent's report explaining the reasons that the claim is disallowed.

Deadline for Filing Tax Court Petition

Beginning in 1999, each notice that the IRS mails to you must specify the last date on which you can timely file a petition with the Tax Court. You must file a petition with the Tax Court within 90 days (150 days if the address is outside of the United States) after the date that the notice of deficiency is mailed by the IRS. Under the new law, the IRS must specify the 90th day (or 150th day) by which you can timely petition the Tax Court.

For more information, see *Tax Court* under *Appeal Rights* in Publication 556. (A new revision of this publication should be available by the end of February.)

Declaration of Taxpayer Rights

I. Protection of Your Rights

IRS employees will explain and protect your rights as a taxpayer throughout your contact with us.

II. Privacy and Confidentiality

The IRS will not disclose to anyone the information you give us, except as authorized by law. You have the right to know why we are asking you for information, how we will use it, and what happens if you do not provide requested information.

III. Professional and Courteous Service

If you believe that an IRS employee has not treated you in a professional, fair, and courteous manner, you should tell that employee's supervisor. If the supervisor's response is not satisfactory, you should write to your IRS District Director or Service Center Director.

IV. Representation

You may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent. If you are in an interview and ask to consult such a person, then we must stop and reschedule the interview in most cases.

You can have someone accompany you at an interview. You may make sound recordings of any meetings with our examination, appeal, or collection personnel, provided you tell us in writing 10 days before the meeting.

V. Payment of Only the Correct Amount of Tax

You are responsible for paying only the correct amount of tax due under the law—no more, no less. If you cannot pay all of your tax when it is due, you may be able to make monthly installment payments.

VI. Help With Unresolved Tax Problems

The National Taxpayer Advocate's Problem Resolution Program can help you if you have tried unsuccessfully to resolve a problem with the IRS. Your local Taxpayer Advocate can offer you special help if you have a significant hardship as a result of a tax problem. For more information, call toll-free 1-877-777-4778 (1-800-829-4059 for TTY/TDD users) or write to the Taxpayer Advocate at the IRS office that last contacted you.

VII. Appeals and Judicial Review

If you disagree with us about the amount of your tax liability or certain collection actions, you have the right to ask the Appeals Office to review your case. You may also ask a court to review your case.

VIII. Relief From Certain Penalties and Interest

The IRS will waive penalties when allowed by law if you can show you acted reasonably and in good faith or relied on the incorrect advice of an IRS employee. We will waive interest that is the result of certain errors or delays caused by an IRS employee.

Examinations, Appeals, Collections, and Refunds

Examinations (Audits)

We accept most taxpayer's returns as filed. If we inquire about your return or select it for examination, it does not suggest that you are dishonest. The inquiry or examination may or may not result in more tax. We may close your case without change; or, you may receive a refund.

The process of selecting a return for examination usually begins in one of two ways. First, we use computer programs to identify returns that may have incorrect amounts. These programs may be based on information returns, such as Forms 1099 and W-2, on studies of past examinations, or on certain issues identified by compliance projects. Second, we use information from outside sources that indicates that a return may have incorrect amounts. These sources may include newspapers, public records, and individuals. If we determine that the information is accurate and reliable, we may use it to select a return for examination.

Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund*, explains the rules and procedures that we follow in examinations. The follow-

ing sections give an overview of how we conduct examinations.

By Mail

We handle many examinations and inquiries by mail. We will send you a letter with either a request for more information or a reason why we believe a change to your return may be needed. You can respond by mail or you can request a personal interview with an examiner. If you mail us the requested information or provide an explanation, we may or may not agree with you, and we will explain the reasons for any changes. Please do not hesitate to write to us about anything you do not understand.

By Interview

If we notify you that we will conduct your examination through a personal interview, or you request such an interview, you have the right to ask that the examination take place at a reasonable time and place that is convenient for both you and the IRS. If our examiner proposes any changes to your return, he or she will explain the reasons for the changes. If you do not agree with these changes, you can meet with the examiner's supervisor.

Repeat Examinations

If we examined your return for the same items in either of the 2 previous years and proposed no change to your tax liability, please contact us as soon as possible so we can see if we should discontinue the examination.

Appeals

If you do not agree with the examiner's proposed changes, you can appeal them to the Appeals Office of IRS. Most differences can be settled without expensive and time-consuming court trials. Your appeal rights are explained in detail in both Publication 5, *Appeal Rights and Preparation of Protests for Unagreed Cases*, and Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund*.

If you do not wish to use the Appeals Office or disagree with its findings, you may be able to take your case to the U.S. Tax Court, U.S. Court of Federal Claims, or the U.S. District Court where you live. If you take your case to court, the IRS will have the burden of proving certain facts if you kept adequate records to show your tax liability, cooperated with the IRS, and meet certain other conditions. If the court agrees with you on most issues in your case, and finds that our position was largely unjustified, you may be able to recover some of your administrative and litigation costs. You will not be eligible to recover these costs unless you tried to resolve your case administratively, including going through the appeals system, and you gave us the information necessary to resolve the case.

Collections

Publication 594, *The IRS Collection Process*, explains your rights and responsibilities regarding payment of federal taxes. It describes:

- What to do when you owe taxes. It describes what

to do if you get a tax bill and what to do if you think your bill is wrong. It also covers making installment payments, delaying collection action, and submitting an offer in compromise.

- IRS collection actions. It covers liens, releasing a lien, levies, releasing a levy, seizures and sales, and release of property.

Publication 1660, *Collection Appeal Rights for Liens, Levies, Seizures and Installment Agreement Terminations*, explains your collection appeal rights.

Innocent Spouse Relief

Generally, both you and your spouse are responsible, jointly and individually, for paying the full amount of any tax, interest, or penalties due on your joint return. However, you may not have to pay the tax, interest, and penalties related to your spouse (or former spouse).

New tax law changes make it easier to qualify for innocent spouse relief and add two other ways for you to get relief. For more information, see Publication 971, *Innocent Spouse Relief*, and Form 8857, *Request for Innocent Spouse Relief (And Separation of Liability and Equitable Relief)*.

Refunds

You may file a claim for refund if you think you paid too much tax. You must generally file the claim within 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later. The law generally provides for interest on your refund if it is not paid within 45 days of the date you filed your return or claim for refund. Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund*, has more information on refunds.

9.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Personal computer. With your personal computer and modem, you can access the IRS on the Internet at www.irs.ustreas.gov. While visiting our Web Site, you can select:

- *Frequently Asked Tax Questions* to find answers to questions you may have.
- *Fill-in Forms* to complete tax forms on-line.
- *Forms and Publications* to download forms and publications or search publications by topic or keyword.
- *Comments & Help* to e-mail us with comments about the site or with tax questions.
- *Digital Dispatch* and *IRS Local News Net* to receive our electronic newsletters on hot tax issues and news.

You can also reach us with your computer using any of the following.

- Telnet at iris.irs.ustreas.gov
- File Transfer Protocol at ftp.irs.ustreas.gov
- Direct dial (by modem) **703-321-8020**



TaxFax Service. Using the phone attached to your fax machine, you can receive forms, instructions, and tax information by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services.

To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.

- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



Walk-in. You can pick up certain forms, instructions, and publications at many post offices, libraries, and IRS offices. Some libraries and IRS offices have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response 7 to 15 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) for \$25.00 by calling 1-877-233-6767 or for \$18.00 on the Internet at www.irs.ustreas.gov/cdorders. The first release is available in mid-December and the final release is available in late January.



Tax Items available on Internet and by FAX. *Tax Items*, short explanations of one tax topic, are available on the Internet or by FAX. Printed copies are **not** available from IRS distribution centers. They are an alternative to ordering the complete publication on that topic or downloading it from the Internet. For example, if you only need information about the

support test for a dependent, you may be able to find your answer quickly in *Tax Item 2187* instead of reading Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

On the Internet. You can find *Tax Items* on the IRS home page at www.irs.ustreas.gov. Using the Internet number in *Table 1*, you can download and print any *Item* or simply read it on your computer.

By FAX. To order an *Item* by FAX, call **703-368-9694** from the telephone on your FAX machine. Do not use your desk telephone. Follow the recorded instructions and enter the FAX number from *Table 1* for the *Item* you choose.

Table 1. Titles and Numbers of *Tax Items*

Title	Internet Number	FAX Number
<i>Penalties</i>	2186	24731
<i>Support Test and Worksheet for Dependency Exemption*</i>	2187	24732
<i>Request for IRS To Figure Taxable Part of Annuity</i>	2188	24733
<i>Worksheets To Figure Taxable Social Security and Equivalent Railroad Retirement Benefits</i>	2189	24734
<i>Deduction or Credit for Amounts You Repaid</i>	2190	24735
<i>Unemployment Compensation</i>	2191	24736

***Caution.** This *Item* does not cover children of divorced or separated parents or multiple support agreements. Instead, see Publication 504, *Divorced or Separated Individuals*.

Your comments. Please let us know what you think of the *Items* you read. You can write to us at the following address:

Internal Revenue Service
 Tax Forms and Publications Division OP:FS:FP
 1111 Constitution Ave., N.W.
 Washington, D.C. 20224

Draft worksheets on Internet. A new publication, available only on the Internet, may help you plan for next year's filing season. It is Publication 918, *Drafts of Worksheets in IRS Publications*. It contains early release drafts of selected worksheets from IRS taxpayer information publications. These worksheets were selected because tax form instructions require them to be used in certain circumstances.

You can find Publication 918 on the IRS home page at www.irs.ustreas.gov. Click on *Tax Info for Business* and then on *Tax Professionals' Corner*. From there, Publication 918 is under *Early Release DRAFTS of Forms*.

Help with unresolved tax issues. Most problems can be solved with one contact by calling, writing, or visiting an IRS office. But if you have tried unsuccessfully to resolve a problem with the IRS, you should contact the National Taxpayer Advocate's Problem Resolution Program (PRP). Someone at PRP will assign you a personal advocate who is in the best position to try to resolve your problem. The Taxpayer Advocate can also offer you special help if you have a significant hardship as a result of a tax problem.

You should contact the Taxpayer Advocate if:

- You have tried unsuccessfully to resolve your problem with the IRS and have not been contacted by the date promised, or
- You are on your second attempt to resolve a problem.

You may contact a Taxpayer Advocate by calling a new assistance number, **1-877-777-4778**. Persons who have access to TTY/TDD equipment can call **1-800-829-4059** and ask for the Taxpayer Advocate. If you prefer, you can write to the Taxpayer Advocate at the office that last contacted you.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review. Taxpayer Advocates are working to put service first. For more information about PRP, get Publication 1548, *The Problem Resolution Program of the Internal Revenue Service*.

Index

A			
Administrative court costs	23		
Air transportation taxes	19		
Alternative minimum tax:			
Depreciation	7, 13		
Exemption amount	6		
Farm income averaging	12		
Foreign tax credit	6, 10		
Small corporations	10		
Amortization, bond premium	5		
Annuity, new recovery method	17		
Assistance (See More information)			
<hr/>			
B			
Bond premium amortization	5		
Burden of proof	22		
Business expenses:			
Meals	4		
Meals furnished to employees	8		
Standard mileage rate	4		
Use of home	13		
Business use of your home	13		
<hr/>			
C			
Capital gains:			
Distributions	5		
Holding period	5		
Small business stock	5		
Charitable contributions, mileage	4		
Child tax credit	2, 7		
Claim for refund	23		
Clean-fuel cars	4, 8		
Compensation, deferred	8		
Confidentiality protection	21		
Credits:			
Business	9		
Child tax	2, 7		
Foreign tax	5, 20		
Higher education	3		
Hope	3		
Kerosene	6		
Lifetime learning	3		
<hr/>			
D			
Dealers in securities, change in accounting method	10		
Dependents:			
Child tax credit	2, 7		
Deductible student loan interest	3		
Higher education tax credits	3		
Standard deduction	2		
Depletion	8		
Depreciation:			
Cars	4, 8		
Clean-fuel cars	4, 8		
<hr/>			
	GDS election	13	
	Disaster area, interest abatement	6, 10	
<hr/>			
E			
Earned income credit	3		
Education IRAs	16		
Education:			
Credits	3		
IRA	3		
Savings bond program	3		
Student loan	3		
Electronic deposit of taxes	12		
Employee business expenses	4		
Employer-provided meals	8		
Employment tax deposits	12		
Estates	18		
Estimated tax:			
Adjusting	1		
Penalties	6, 10		
Safe harbor	7		
Excise taxes:			
Air transportation	19		
Kerosene	19		
Luxury tax	19		
Vaccines	19		
Exemption amount	2		
Expenses (See Business expenses)			
<hr/>			
F			
Farming:			
Income averaging	11		
Net operating loss carryback	10		
Foreign earned income exclusion	20		
Foreign tax credit	5, 20		
Forms (See More information)			
Free tax services	25		
Fuel taxes	19		
<hr/>			
G			
General business credit:			
Carryback/carryforward	9		
Research credit	9		
Welfare-to-work credit	9		
Work opportunity credit	9		
Gifts	18		
<hr/>			
H			
Health insurance, self-employed	5, 7, 9, 13		
Help (See More information)			
High-risk pools	19		
Home:			
Business use of	13		
Sale of	5		
<hr/>			
	Hope credit	3	
<hr/>			
I			
Information returns, extended due date	15		
Innocent spouse relief	20		
Installment agreement	22		
Interest:			
Abatement, disaster area	6, 10		
Netting	6		
Rate on overpayments	7		
Student loan	3		
Suspension of	6, 10		
IRAs:			
Education	3, 16		
Roth	16		
Traditional	15		
Withdrawals	3		
Itemized deductions	2		
<hr/>			
J			
Joint liability, relief from	20		
<hr/>			
K			
Kerosene	6, 19		
<hr/>			
L			
Leased cars, mileage rate	4, 8		
Lifetime learning credit	3		
Luxury tax	19		
<hr/>			
M			
Mark-to-market accounting method	10		
Meals:			
"Hours of service" limits	4, 8		
Furnished to employees	8		
Mileage:			
Business expenses	4, 7, 12		
Charitable contributions	4		
Rural mail carriers	4, 7		
More information	25		
<hr/>			
N			
Net operating loss carryback	10		
<hr/>			
P			
Partnership tax year	10		
Penalties:			
Electronic deposit of taxes	12		
Employment tax deposits	12		
Estimated tax	6		
Installment agreement	7		
Suspension of	6, 10		
Problem Resolution Program	27		
Publications (See More information)			

<hr/>		
R		
Refund:		
Child tax credit	.....	2
Excise tax on kerosene	. 6, 19	
Explanation of disallowance		23
Fuel tax	.....	19
Interest, disaster area	.....	6
Statute of limitations	....	21, 25
Suit for	.....	18
Tax Court	.....	22
Research credit	.....	9
Retirement plans:		
Roth IRA	.....	16
Section 401(k)	.....	17
Section 403(b)	.....	17
Traditional IRA	.....	15
Roth IRA	.....	16
Rural mail carriers	.....	4
<hr/>		
S		
Sale of your home	.....	5
Savings bonds	.....	3
Section 179 deduction	.....	4, 8
Section 401(k) plans	.....	17
<hr/>		
Section 403(b) plans	.....	17
Self-employed, health		
insurance deduction	5, 7, 9, 13	
Self-employment tax:		
Former insurance agents	. 5, 9	
Tax rates, maximum		
net earnings	..... 5, 7, 9, 13	
Small business stock	.....	5
Social security wage limit	.. 7, 12	
Sponsorship activities, exempt		
organization	.....	20
Standard deduction	.....	2
Standard deduction of depen-		
dents	.....	2
Standard mileage rate	.....	4, 7
Statute of limitations, suspen-		
sion of	.....	21
Stock, qualified small business		5
Student loan interest	.....	3
<hr/>		
T		
Tax Court:		
Burden of proof	.....	22
Deadline for filing a petition		24
Refund of overpayment	....	22
<hr/>		
Small case procedures	.....	22
Tax help (See More information)		
Taxpayer Advocate	.....	27
Taxpayer rights:		
Claim for refund	.....	23
Confidentiality	.....	21
Third party contacts	.....	23
Waiver of	.....	21
Third party contacts	.....	23
Traditional IRAs	.....	15
TTY/TDD information	.....	25
<hr/>		
U		
U.S. savings bonds	.....	3
<hr/>		
V		
Vaccines	.....	19
<hr/>		
W		
Waiver of rights	.....	21
Welfare-to-work credit	.....	9
Work opportunity credit	.....	9
<hr/>		

Tax Publications for Individual Taxpayers

See *How To Get More Information* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1999
- 553 Highlights of 1998 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Educational Expenses
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 530 Tax Information for First-Time Homeowners
- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 575 Pension and Annuity Income
- 584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 Understanding the Collection Process
- 596 Earned Income Credit
- 721 Tax Guide to U.S. Civil Service Retirement Benefits

- 901 U.S. Tax Treaties
- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 Is My Withholding Correct for 1999?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 970 Tax Benefits for Higher Education
- 971 Innocent Spouse Relief
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch E Supplemental Income and Loss	11344	3903 Moving Expenses	12490
Sch EIC Earned Income Credit	11339	4562 Depreciation and Amortization	12906
Sch F Profit or Loss From Farming	11346	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch H Household Employment Taxes	12187	4952 Investment Interest Expense Deduction	13177
Sch J Farm Income Averaging	25513	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs	13329
Sch R Credit for the Elderly or the Disabled	11359	6251 Alternative Minimum Tax—Individuals	13600
Sch SE Self-Employment Tax	11358	8283 Noncash Charitable Contributions	62294
1040A U.S. Individual Income Tax Return	11327	8582 Passive Activity Loss Limitations	63704
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8606 Nondeductible IRAs	63966
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8812 Additional Child Tax Credit	10644
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8822 Change of Address	12081
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8829 Expenses for Business Use of Your Home	13232
1040-ES Estimated Tax for Individuals	11340	8863 Education Credits	25379
1040X Amended U.S. Individual Income Tax Return	11360		

Tax Publications for Business Taxpayers

See *How To Get More Information* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1999
- 553 Highlights of 1998 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Employer's Guides

- 15 Employer's Tax Guide (Circular E)
- 15-A Employer's Supplemental Tax Guide
- 51 Agricultural Employer's Tax Guide (Circular A)
- 80 Federal Tax Guide For Employers in the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands (Circular SS)
- 179 Guía Contributiva Federal Para Patronos Puertorriqueños (Circular PR)
- 926 Household Employer's Tax Guide

Specialized Publications

- 378 Fuel Tax Credits and Refunds

- 463 Travel, Entertainment, Gift, and Car Expenses
- 505 Tax Withholding and Estimated Tax
- 510 Excise Taxes for 1999
- 515 Withholding of Tax on Nonresident Aliens and Foreign Corporations
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 527 Residential Rental Property
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 535 Business Expenses
- 536 Net Operating Losses
- 537 Installment Sales
- 538 Accounting Periods and Methods
- 541 Partnerships
- 542 Corporations
- 544 Sales and Other Dispositions of Assets
- 551 Basis of Assets
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 560 Retirement Plans for Small Business (SEP, SIMPLE, and Keogh Plans)
- 561 Determining the Value of Donated Property
- 583 Starting a Business and Keeping Records
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 594 Understanding the Collection Process

- 597 Information on the United States-Canada Income Tax Treaty
- 598 Tax on Unrelated Business Income of Exempt Organizations
- 686 Certification for Reduced Tax Rates in Tax Treaty Countries
- 901 U.S. Tax Treaties
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 925 Passive Activity and At-Risk Rules
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 953 International Tax Information for Businesses
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. Items with an asterisk are available by fax. For these orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
W-2 Wage and Tax Statement	10134	1120S U.S. Income Tax Return for an S Corporation	11510
W-4 Employee's Withholding Allowance Certificate*	10220	Sch D Capital Gains and Losses and Built-In Gains	11516
940 Employer's Annual Federal Unemployment (FUTA) Tax Return*	11234	Sch K-1 Shareholder's Share of Income, Credits, Deductions, etc.	11520
940EZ Employer's Annual Federal Unemployment (FUTA) Tax Return*	10983	2106 Employee Business Expenses*	11700
941 Employer's Quarterly Federal Tax Return	17001	2106-EZ Unreimbursed Employee Business Expenses*	20604
1040 U.S. Individual Income Tax Return*	11320	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts*	11744
Sch A & B Itemized Deductions & Interest and Ordinary Dividends*	11330	2441 Child and Dependent Care Expenses*	11862
Sch C Profit or Loss From Business*	11334	2848 Power of Attorney and Declaration of Representative*	11980
Sch C-EZ Net Profit From Business*	14374	3800 General Business Credit	12392
Sch D Capital Gains and Losses*	11338	3903 Moving Expenses*	12490
Sch E Supplemental Income and Loss*	11344	4562 Depreciation and Amortization*	12906
Sch F Profit or Loss From Farming*	11346	4797 Sales of Business Property*	13086
Sch H Household Employment Taxes*	12187	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*	13141
Sch J Farm Income Averaging*	25513	5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs*	13329
Sch R Credit for the Elderly or the Disabled*	11359	6252 Installment Sale Income*	13601
Sch SE Self-Employment Tax*	11358	8283 Noncash Charitable Contributions*	62299
1040-ES Estimated Tax for Individuals*	11340	8300 Report of Cash Payments Over \$10,000 Received in a Trade or Business*	62133
1040X Amended U.S. Individual Income Tax Return*	11360	8582 Passive Activity Loss Limitations*	63704
1065 U.S. Partnership Return of Income	11390	8606 Nondeductible IRAs*	63966
Sch D Capital Gains and Losses	11393	8822 Change of Address*	12081
Sch K-1 Partner's Share of Income, Credits, Deductions, etc.	11394	8829 Expenses for Business Use of Your Home*	13232
1120 U.S. Corporation Income Tax Return	11450		
1120-A U.S. Corporation Short-Form Income Tax Return	11456		