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Tax Information for Older Americans

For use in preparing

1995 Returns

Contents

Important Changes for 1995

Standard deduction. For most people, the standard deduction has increased. See *The Standard Deduction,* later.

Earned income credit. You may be eligible for the credit if you earn less than:

1) $24,396 and have one qualifying child living with you,
2) $26,673 and have more than one qualifying child living with you, or
3) $9,230 and do not have a qualifying child and are at least 25 years old and under 65.

For more information see *Earned Income Credit,* later.

Important Reminders

Increase in taxable portion of social security benefits. If your 1995 income, including one-half of your social security benefits, is over $25,000 if single (over $32,000 if married filing jointly), some of your benefits may be taxable. For some people, up to 85 percent will be taxable. For more information, see *Social Security and Equivalent Railroad Retirement Benefits,* later.

Change of address. If you change your mailing address, be sure to notify the Internal Revenue Service. You can use **Form 8822,** *Change of Address.* Mail it to the Internal Revenue Service Center for your old address (addresses for the Service Centers are on the back of the form). If you move after you file your return and you are expecting a refund, also notify the post office serving your old address. This will help to forward your check to your new address.

Tax return preparers. Choose your preparer carefully. If you pay someone to prepare your return, the preparer is required, under the law, to sign the return and fill in the other blanks in the *Paid Preparer's* area of your return. Remember, however, that you are still responsible for the accuracy of every item entered on your return. If there is any underpayment, you are responsible for paying it, plus any interest and penalty that may be due.

Employment tax withholding. Your wages are subject to withholding for income tax, social security, and Medicare even if you are receiving social security benefits.

Introduction

In general, the federal income tax laws apply equally to all taxpayers regardless of age. However, certain provisions give special treatment to older Americans.

This publication provides basic tax information of special interest to older Americans. At the end of this publication is a *Sample Form 1040 Return.* This sample takes you through a Form 1040, explaining such items as the sale of a home, credit for the elderly or the disabled, and pension and annuity income. It also includes filled-in forms and schedules showing how to report these and other items.

While some items are discussed in this publication because of their interest to older Americans, they apply to taxpayers generally and are explained in detail in other publications of the Internal Revenue Service (IRS). References to these free publications are included for the convenience of readers who need more information on specific subjects. A list of publications is given at the end of this publication.

Specific tax benefits for older Americans. Specific tax benefits are available to older Americans and are listed here.

1) **Taxpayers 65 or older** benefit from a higher gross income threshold for filing a federal income tax return. File Form 1040 or 1040A to get this benefit. (You are considered 65 on the day before your 65th birthday.)

2) **Taxpayers who qualify** and who meet the age requirements may benefit from the:

   a) Credit for the elderly or the disabled,

   b) Exclusion of gain on the sale of their home, or

   c) Increased standard deduction.

Ordering publications and forms. To order free publications and forms, call 1–800–TAX–FORM (**1–800–829–3676**). If you have access to TDD equipment, you can call 1–800–829–4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can also get many forms and publications electronically. See *How To Get Forms and Publications* in your Form 1040 or 1040A tax package for details.

Large print tax forms. For easier reading and to practice preparing your return, you may order large print tax forms. Call 1–800–829–3676 and order:

- **Publication 1614** that contains Form 1040, Schedules A, B, D, E, EIC, and R, and instructions
- **Publication 1615** that contains Form 1040A, Schedules 1, 3, and EIC, and instructions.

Note. When you file your actual return, do not send the large print tax forms to IRS. Use the standard forms.

Asking tax questions. You can call the IRS with your tax questions Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or call **1–800–829–1040** (1–800–829–4059 for TDD users).

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). These programs help older, disabled, low-income, and non-English-speaking people fill in their returns. Call the telephone number listed in the forms instructions for your city or state for the location of the volunteer assistance site near you.

1995 Filing Requirements

If income tax was withheld from your pay, or if you can take the earned income credit, you should file a return even if you are not required to do so.

General Requirements

You must file a 1995 return if your gross income was at least the amount shown in *Table 1.* Instructions for Form 1040, 1040A, or 1040EZ and Publication 501, *Exemptions, Standard Deduction, and Filing Information,* contain more detailed information.

Gross income. Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. Some social security and equivalent railroad retirement benefits you receive may be taxable in 1995. See *Social Security and Equivalent Railroad Retirement Benefits,* later.

If you are employed, gross income also includes your total salary or wages. If you own rental property, it also includes the total rent you receive before you deduct any rental expenses. If you are self-employed, it also includes the total gross profit (gross receipts minus cost of goods sold) from your trade or business.

Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

For more information on what income is taxable, see *Taxable and Nontaxable Income,* later.

Dependents. If you could be claimed as a dependent by another taxpayer, special rules apply. See Publication 929, *Tax Rules for Children and Dependents.*

Decedents

If you are the executor, administrator, or other personal representative of a person who died during the year, you may have to file a final return for the decedent.

If you are acting as the personal representative, you must also file a written notice with the IRS. **Form 56**, *Notice Concerning Fiduciary Relationship,* is available for this purpose. For more information, see Publication 559, *Survivors, Executors, and Administrators.*

When you file a return for the decedent, either as the personal representative or as the surviving spouse, you should write ''DECEASED,'' the decedent's name, and the date of death, across the top of the tax return. If no executor or administrator is appointed and a joint return is filed, the surviving spouse should sign the return and write in the signature area ''Filing as surviving spouse.'' See Publication 559 for other important information.

Note. If you are the surviving spouse, the year your spouse died is the last year you may file a joint return with that spouse. After that, if you do not remarry, you must file as a qualifying widow(er) with dependent child, head of household, or single. If you remarry before the end of the year of the decedent's death, you can file a joint return with your new spouse. The filing status of your deceased spouse is married filing a separate return.

The level of income that requires you to file changes when your filing status changes. Even if you and your deceased spouse did not have to file a return for several years, you may have to file a return for 1995.

Example. You and your spouse both turned 65 in 1992. You have no dependents. Your gross income in 1992 and 1993 was $8,000. The income levels that required a return being filed by a married couple filing a joint return were $11,300 in 1992 and $12,000 in 1993. Therefore, you and your spouse did not file a return. Your gross income in 1994 and 1995 was also $8,000. Your spouse died in 1994, but since you would have been able to file a joint return for 1994, and your gross income was less than the filing level for married couples filing a joint return ($12,300), you did not file a return. But, in 1995, you must file a return because your gross income ($8,000) is more than the filing requirement for a single person who is 65 or older ($7,200).

Taxable and Nontaxable Income

Generally, all income is taxable unless it is specifically exempted by law. Your taxable income may include compensation for services, interest, dividends, rents, royalties, income from partnerships, estate and trust income, gain from sales or exchanges of property, and business income of all kinds.

Under special provisions of the law, certain items are partially, or fully, exempt from tax. Some of these provisions are of special interest to older taxpayers. The types of income that are received most frequently by older taxpayers are discussed in this section.

Nontaxable Income

The following items are exempt from tax (nontaxable). Generally you should not report them on your return.

Sickness or injury benefits. Most payments you receive for illness or injury are nontaxable. These include the following:

Workers' compensation. Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivor(s) if the payments otherwise qualify as workers' compensation. If you return to work after qualifying for workers' compensation, payments you continue to receive while assigned to light duties are taxable.
Note. If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable.

Federal Employees' Compensation Act (FECA). Payments made under this Act for personal injury or sickness, including payments to beneficiaries in case of death are not taxable. However, you are taxed on amounts you receive under this Act as

Table 1. **1995 Filing Requirements Chart for Most Taxpayers**

To use this chart, first find your marital status at the end of 1995. Then, read across to find your filing status and age at the end of 1995. You must file a return if your **gross income** was at least the amount shown in the last column. **Gross income** means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any gain on the sale of your main home (even if you may exclude or postpone part or all of the gain).

Marital Status	**Filing Status**	**Age***	**Gross Income**
Single (including divorced and legally separated)	Single	under 65 65 or older	$6,400 $7,350
	Head of household	under 65 65 or older	$8,250 $9,200
Married with a child and living apart from your spouse during the last 6 months of 1995	Head of household	under 65 65 or older	$8,250 $9,200
Married and living with your spouse at end of 1995 (or on the date your spouse died)	Married, joint return	under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	$11,550 $12,300 $13,050
	Married, separate return	any age	$2,500
Married, not living with your spouse at the end of 1995 (or on the date your spouse died)	Married, joint or separate return	any age	$2,500
Widowed before 1995 and not remarried in 1995	Single	under 65 65 or older	$6,400 $7,350
	Head of household	under 65 65 or older	$8,250 $9,200
	Qualifying widow(er) with dependent child	under 65 65 or older	$9,050 $9,800

* If you were age 65 on January 1, 1996, you are considered to be age 65 at the end of 1995.

“continuation of pay” for up to 45 days while a claim is being decided. Also, pay for sick leave while a claim is being processed is taxable.

Compensatory damages you receive for injury or illness, whether paid in a lump sum or in periodic payments (however, punitive damages in cases not involving physical injury or sickness are taxable).

Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include them in your gross income.

Disability benefits you receive for loss of income or earning capacity as a result of injuries under a “no-fault” car insurance policy.

Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement. These benefits are not taxed even though your employer pays for the accident and health plan that provides these benefits.

Veterans' benefits. Veterans' benefits under any law, regulation, or administrative practice that was in effect on September 9, 1986, and administered by the Department of Veterans Affairs (VA), are not included in gross income. For example, disability compensation and pension payments for disabilities are exempt from tax.

Veterans' insurance proceeds and dividends paid either to the veterans or to their beneficiaries, including the proceeds of veterans' endowment policies paid before death are not taxable.

Interest on insurance dividends you leave on deposit with the VA is not taxable.

Volunteer work. Do not include in your gross income amounts you receive for supportive services or reimbursements for out-of-pocket expenses under any of the following volunteer programs:

- Retired Senior Volunteer Program (RSVP)
- Foster Grandparent Program
- Senior Companion Program
- Service Corps of Retired Executives (SCORE)
- Active Corps of Executives (ACE)

Gifts, bequests, and inheritances. Generally, property you receive as a gift, bequest, or inheritance is not included in your income. However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that also is income to you. If the gift, bequest, or inheritance is the income from the property, that income is taxable to you.

Public assistance. Do not include in your income benefit payments from a public welfare fund, such as payments due to blindness.

Payments from a state fund for victims of crime, should not be included in the victims' incomes if they are in the nature of welfare payments. Do not deduct medical expenses that are reimbursed by such a fund.

Mortgage assistance payments under section 235 of the National Housing Act are not included in the homeowner's gross income. Interest paid for the homeowner under the mortgage assistance program cannot be deducted.

Payments to reduce cost of winter energy use. Payments made by a state to qualified people to reduce their cost of winter energy use are not taxable.

Nutrition Program for the Elderly. Food benefits you receive under the Nutrition Program for the Elderly are not taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you are also eligible for food benefits.

Taxable Income

The following items are taxable. Generally you should report them on your return. For more information on what income is taxable, see Publication 525.

Compensation for Services

Generally, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this includes other forms of compensation such as fringe benefits and stock options.

You need not receive the compensation in cash for it to be taxable. Payments you receive in the form of goods or services generally must be included in gross income at their fair market value.

You must include in your income all unemployment compensation you receive. See Publication 525, *Taxable and Nontaxable Income* for more detailed information on specific types of income.

Retirement Plans, Pensions, and Annuities

This section summarizes the tax treatment of amounts you receive from individual retirement arrangements, employee pensions or annuities, and disability pensions or annuities. More detailed information can be found in Publication 590, *Individual Retirement Arrangements (IRAs)* or Publication 575, *Pension and Annuity Income (Including Simplified General Rule).*

Individual retirement arrangement (IRA) distributions. In general, include IRA distributions in your gross income in the year you receive them. Exceptions to this general rule are rollovers, timely withdrawals of contributions, and the return of nondeductible contributions. (If you made nondeductible contributions, file Form 8606.)

Premature distributions. Premature (early) distributions are amounts you withdraw from your IRA before you are age 59½.

Generally, until you reach the age of 59½, you cannot withdraw assets (money or other property) from your IRA without having to pay an additional tax. However, there are a number of exceptions to that rule.

Exceptions. The 10% tax will not apply to the following distributions:

- Portions of any distributions treated as a return of nondeductible contributions.
- Distributions made to beneficiaries or the estate after the owner's death.
- Distributions made because of your disability.
- Distributions that are a part of a series of substantially equal payments over your life (or your life expectancy), or over the lives (or joint life expectancies) of you and your beneficiary. For this exception to apply, you must use an IRS-approved distribution method and take at least one distribution annually. Also, the payments must continue for at least 5 years, or until you reach age 59½, whichever is the longer period. This 5-year rule does not apply if the payment change is because of the death or disability of the IRA owner.
- Distributions that are properly rolled over.

For more information on premature distributions, get Publication 590.

After age 59½ and before age 70½. Generally, you can withdraw assets from your IRA after you reach age 59½ without penalty. However, if you withdraw more than $150,000 in a year, you may have to pay a 15% tax on the amount that exceeds $150,000. See *Excess Distributions* in Publication 590.

Required distributions. Even though you can, you do not have to withdraw any assets from your IRA until you reach age 70½. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70½. See *Required Distributions* in Publication 590.

Tax on excess accumulations (insufficient distributions). If distributions from your IRA(s) during the year are less than the required minimum distribution for the year, you may have to pay a 50% excise tax for that year on the excess amount remaining in your IRA.

Pensions and annuities. Generally, if you did not pay any part of the cost of your employee pension or annuity, and your employer did not withhold part of the cost of the contract from your pay while you worked, the amounts you receive each year are fully taxable.

If you paid part of the cost of your annuity, you are not taxed on the part of the annuity you receive that represents a return of your cost. The rest of the amount you receive is taxable. You use either the ***General Rule*** or the ***Simplified General Rule*** to figure the taxable and tax-free parts of your pension or annuity. These rules are explained later.

Loans. If you borrow money from an employer's qualified pension or annuity plan, a tax-sheltered annuity program, or a government plan, you may have to treat the loan as a nonperiodic distribution. This means that you may have to include all or part of the amount borrowed in your income. (The amount includible in income may be subject to a **10% tax** on early distributions, discussed later.) For more information, see *Loans Treated as Distributions* in Publication 575.

Cost. Before you can figure how much, if any, of your pension or annuity is taxable, you must determine your cost in the plan (your investment). In general, your cost is your net investment in the contract as of the annuity starting date. This includes amounts your employer contributed that were taxable when paid.

From this total cost you must subtract:

1) Any refunded premiums, rebates, dividends, or unrepaid loans that were not included in your income and that you received by the later of the annuity starting date or the date on which you received your first payment.
2) Any other tax-free amounts you received under the contract or plan by the later of the dates in (1).

If you use the General Rule, you must subtract from your cost the value of any refund to be received in your contract.

The ***annuity starting date*** is the later of the first day of the first period for which you receive a payment from the plan or the date on which the plan's obligation became fixed.

Generally, the amount of your contributions recovered tax free during the year is shown in box 5 of Form 1099–R.

Foreign employment. If you worked in a foreign country before 1963, the amount your employer paid into your retirement plan may be considered part of your cost. For details, see *Foreign employment* in Publication 575.

Amount of exclusion. If you contributed to your pension or annuity and your annuity starting date was before 1987, you could continue to take your monthly exclusion for as long as you receive your annuity.

If your annuity starting date is after 1986, the total amount of annuity you can exclude over the years as a return of the cost cannot exceed your total cost.

In either case, any unrecovered cost at your (or the last annuitant's death) is allowed as a miscellaneous itemized deduction on the final return of the decedent. This deduction is not subject to the 2%-of-adjusted-gross-income limit on miscellaneous deductions.

General Rule. You must use the General Rule to figure the taxability of your pension or annuity if your annuity starting date is after July 1, 1986, and you do not qualify for, and choose, the Simplified General Rule (explained next). You must also use the General Rule if your annuity starting date was before July 2, 1986, and you did not qualify to use the Three-Year Rule.

For more information on the General Rule, see Publication 939, *Pension General Rule (Nonsimplified Method).* That publication tells you how to figure your expected return and exclusion percentage, and contains certain actuarial tables you will need.

Simplified General Rule. If you can use the Simplified General Rule to figure the taxability of your annuity, it will probably be simpler and more beneficial than the General Rule, mentioned earlier.

Who can use it. You may be able to use the Simplified General Rule if you are a retired employee or if you are receiving a survivor annuity as the survivor of a deceased employee or retiree. If you are a survivor of a deceased retiree, you can use the Simplified General Rule if the retiree used it. You can use it to figure the taxability of your annuity only if:

- Your annuity starting date is after July 1, 1986,
- The annuity payments are for either (1) your life, or (2) your life and that of your beneficiary,
- The annuity payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity, and
- At the time the payments began, you were either under age 75 or entitled to fewer than 5 years of guaranteed payments.

How to use it. If you meet these conditions and you choose the Simplified General Rule, use the following worksheet to figure your taxable pension for 1995. In completing this worksheet, use your age at the birthday preceding your annuity starting date. (Be sure to keep a copy of the completed worksheet; it will help you figure your 1996 taxable pension.)

Worksheet for Simplified General Rule

1. Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a .... $ ________
2. Your cost in the plan (contract) at annuity starting date, plus any death benefit exclusion* .... ________
3. Age at annuity starting date: / Enter:

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120

____

4. Divide line 2 by line 3 .... ________
5. Multiply line 4 by the number of months for which this year's payments were made ..... ________

   NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.
6. Any amounts previously recovered tax free in years after 1986 .... ________
7. Subtract line 6 from line 2 .... ________
8. Enter the lesser of line 5 or line 7 .... ________
9. **Taxable pension for year.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b. .... $ ________

   NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.
10. Add lines 6 and 8 .... ________
11. Balance of cost to be recovered. Subtract line 10 from line 2 .... $ ________

***Statement for death benefit exclusion**

Cost in plan (contract) .... $ ________

Death benefit exclusion .... ________

Total (enter on line 2 above) .... $ ________

Signed: ________________________________

Date: ________________________________

KEEP FOR YOUR RECORDS

Example. Bill Kirkland, age 65, began receiving retirement benefits under a joint and survivor annuity to be paid for the joint lives of Bill and his wife, Kathy. His annuity starting date was January 1, 1995. He had contributed $24,000 to the plan and had received no distributions before the annuity starting date. Bill is to receive a retirement benefit of $1,000 a month, and Kathy is to receive a monthly survivor benefit of $500 upon Bill's death.

Bill chooses to use the Simplified General Rule computation. He fills in the worksheet as follows:

Worksheet for Simplified General Rule

1. Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a $12,000
2. Your cost in the plan (contract) at annuity starting date, plus any death benefit exclusion* 24,000
3. Age at annuity starting date:

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120

240

4. Divide line 2 by line 3 100
5. Multiply line 4 by the number of months for which this year's payments were made 1,200

   NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.
6. Any amounts previously recovered tax free in years after 1986 .... –0–
7. Subtract line 6 from line 2 24,000

8.	Enter the lesser of line 5 or line 7	1,200
9.	**Taxable pension for year**. Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b.	$10,800
	NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.	
10.	Add lines 6 and 8	1,200
11.	Balance of cost to be recovered. Subtract line 10 from line 2	$22,800

***Statement for death benefit exclusion**

Cost in plan (contract)	$
Death benefit exclusion	
Total (enter on line 2 above)	$

Signed:____________________

Date:____________________

KEEP FOR YOUR RECORDS

Bill's tax-free monthly amount is $100 (see line 4 of the worksheet). If he lives to collect more than 240 monthly payments, he will have to include the full amount of the additional payments in his gross income.

If Bill dies before collecting 240 monthly payments and Kathy begins receiving payments, she will also exclude $100 from each payment until her payments, when added to Bill's, total 240 payments. If she dies before 240 payments are made, a miscellaneous itemized deduction will be allowed for the unrecovered cost on her final income tax return. This deduction is not subject to the 2%-of-adjusted-gross-income limit.

Death benefit exclusion. If you are a beneficiary of a deceased employee or former employee, you may qualify for a death benefit exclusion of up to $5,000. This exclusion is discussed later under *Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion).* If you choose the Simplified General Rule and you qualify for the death benefit exclusion, you increase your cost in the pension or annuity plan by the allowable death benefit exclusion. Your cost is on line 2 of the worksheet.

The payer of the annuity cannot add the death benefit exclusion to the cost for figuring the nontaxable and taxable part of payments reported on Form 1099–R. Therefore, the Form 1099–R taxable amount will be larger than the amount you will figure for yourself. Report on your return the smaller amount that you figure. You must attach a signed statement to your income tax return stating that you are entitled to the death benefit exclusion in making the Simplified General Rule computation. Or you may use the statement at the bottom of the worksheet. You must attach this statement to your return every year until you fully recover the cost in the pension or annuity plan.

Example. Diane Greene, age 48, began receiving a $1,500 monthly annuity in 1995 upon the death of her husband. She received 10 payments in 1995. Her husband had contributed $25,000 to his qualified retirement plan. Diane is entitled to a $5,000 death benefit exclusion for the annuity payments. She adds that amount to her husband's contributions to the plan, making her total cost in the plan $30,000.

Diane chooses to use the Simplified General Rule. She fills out the worksheet as follows:

Worksheet for Simplified General Rule

1.	Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a	$15,000
2.	Your cost in the plan (contract) at annuity starting date, plus death benefit exclusion*	30,000
3.	Age at annuity starting date: / Enter: 55 and under — 300 56–60 — 260 61–65 — 240 66–70 — 170 71 and over — 120	300
4.	Divide line 2 by line 3	100
5.	Multiply line 4 by the number of months for which this year's payments were made	1,000
	NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.	
6.	Any amounts previously recovered tax free in years after 1986	–0–
7.	Subtract line 6 from line 2	30,000
8.	Enter the lesser of line 5 or line 7	1,000
9.	**Taxable pension for year**. Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b.	$14,000
	NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.	
10.	Add lines 6 and 8	1,000
11.	Balance of cost to be recovered. Subtract line 10 from line 2	$29,000

***Statement for death benefit exclusion**

Cost in plan (contract)	$25,000
Death benefit exclusion	5,000
Total (enter on line 2 above)	$30,000

Signed: Diane Greene

Date: *January 18, 1996*

KEEP FOR YOUR RECORDS

In completing Form 1099–R, the payer of the annuity chooses to report the taxable part of the annuity payments using the Simplified General Rule. However, since the payer does not adjust the investment in the contract by the death benefit exclusion, the payer figures the tax-free part of each monthly payment to be $83.33, as follows:

$$\frac{\text{Total investment: \$25,000}}{\text{Expected payments: } 300} = \text{\$83.33 (Monthly return of investment)}$$

However, Diane figures a $100 monthly tax-free amount (see line 4 of the worksheet). Because of this difference in the computations, the Form 1099–R Diane receives from the payer shows a greater taxable amount than what she figures for herself. She reports on line 16b of Form 1040 only the smaller taxable amount based on her own computation. She attaches to her Form 1040 a signed copy of the worksheet, which shows that she is entitled to the death benefit exclusion.

Changing the method. If your **annuity starting date is after July 1, 1986,** you can change the way you figure your pension cost recovery exclusion. You can change from the General Rule to the Simplified General Rule, or the other way around. Make the change by filing amended returns for all your tax years beginning with the year in which your annuity starting date occurred. You must use the same method for all years. Generally, you can make the change only within 3 years from the due date of your return for the year in which you received your first annuity payment. You can make the change later if the date of the change is within 2 years after you paid the tax for that year.

If your annuity starting date was before July 2, 1986, you cannot choose the Simplified General Rule at any time.

Survivors. If you receive a survivor annuity because of the death of a retiree who had reported the annuity under the Three-Year Rule, include the total received in income. (The retiree's cost has already been recovered tax free.)

If the retiree was reporting the annuity payments under the General Rule, you should apply the same exclusion percentage the retiree used to your initial payment called for in the contract. The resulting tax-free amount will then remain fixed. Any increases in the survivor annuity are fully taxable.

If the retiree had chosen to report the annuity under the Simplified General Rule, the monthly tax-free amount remains fixed. Continue to use the same monthly tax-free amount for your survivor payments.

Under some circumstances, if you are a beneficiary of a deceased employee or former employee, you may qualify for a death benefit exclusion of up to $5,000. Add it to the cost or unrecovered cost of the annuity at the annuity starting date. See *Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion),* later.

Reporting your annuity. If you file Form 1040, report your total annuity on line 16a, and the taxable part on line 16b. If your pension or annuity is fully taxable, enter it on line 16b. Do not make an entry on line 16a. For example, if you received monthly payments totaling $1,200 during 1995 from a pension plan that was completely financed by your employer, and you had paid no tax on the payments that your employer made to the plan, the entire $1,200 is taxable. You include $1,200 on line 16b, Form 1040.

If you file Form 1040A, report your total annuity on line 11a, and the taxable part on line 11b. If your pension or annuity is fully taxable, enter it on line 11b. Do not make an entry on line 11a.

Withholding. The payer of your pension, profit-sharing, stock bonus, annuity, or deferred compensation plan will withhold income tax on the taxable part of amounts paid to you. You can choose not to have tax withheld except for amounts paid to you that are eligible rollover distributions. See *Withholding Tax and Estimated Tax* and *Rollovers* in Publication 575 for more information.

For payments other than eligible rollover distributions, you can tell the payer how to withhold by filing a Form W–4P, *Withholding Certificate for Pension or Annuity Payments.*

Outside United States. To choose not to have tax withheld a U.S. citizen or resident alien, must give the payer a home address in the United States or its possessions. Without that address, the payer must withhold tax. For example, the payer has to withhold tax if you provide a U.S. address for a nominee, trustee, or agent to whom the benefits are to be delivered, but do not provide your own home address in the United States or in a U.S. possession.

Form W–4P may also be used to have tax withheld from periodic payments at the rate that applies to your filing status and number of withholding allowances. If you do not fill out Form W–4P, tax should be withheld from periodic payments as if you were married and claiming three withholding allowances.

Form 1099–R. For 1995, you will receive a Form 1099–R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.,* for your pension or annuity, whether or not any tax was withheld.

Form 1099–R shows your pension or annuity for the year and any income tax withheld. Report the tax withheld on line 55, Form 1040, or on line 29a, Form 1040A. You cannot use Form 1040EZ if you receive pension or annuity payments.

Tax on early distributions. Most distributions you receive from your qualified retirement plan or deferred annuity contract before you reach age $59\frac{1}{2}$ are subject to an additional tax of 10%. The tax applies to the part of the distribution that you must include in gross income.

For this purpose, a qualified retirement plan means:

1) A qualified employee retirement plan,
2) A qualified annuity plan,
3) A tax-sheltered annuity plan for employees of public schools or tax-exempt organizations, or

4) An individual retirement arrangement (IRA).

Exceptions to tax. The 10% early distribution tax does not apply to distributions that are:

1) Made to a beneficiary or to the estate of the plan participant or annuity holder on or after his or her death,
2) Made because you are totally and permanently disabled,
3) Made as part of a series of substantially equal periodic (at least annual) payments over your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your beneficiary (if from an employee plan, payments must begin after separation from service),
4) Made to you after you separated from service with your employer if the separation occurred during or after the calendar year in which you reach age 55,
5) Paid to you to the extent you have deductible medical expenses (whether or not you itemize deductions for the tax year),
6) Paid to alternate payees under qualified domestic relations orders (QDROs),
7) Made to you if, as of March 1, 1986, you separated from service and began receiving benefits from the qualified plan under a written election designating a specific schedule of benefit payments,
8) Made to correct excess deferrals, excess contributions, or excess aggregate contributions,
9) Allocable to investment in a deferred annuity contract before August 14, 1982,
10) From an annuity contract under a qualified personal injury settlement,
11) Made under an immediate annuity contract, or
12) Made under a deferred annuity contract purchased by your employer upon the termination of a qualified employee retirement plan or qualified annuity that is held by your employer until you separate from the service of the employer.

Only exceptions (1) through (3) apply to distributions from individual retirement plans (IRAs). Exceptions (4) through (8) apply only to distributions from qualified employee plans. Exceptions (9) through (12) apply only to deferred annuity contracts not purchased by qualified employer plans.

Form 5329. Use Form 5329, *Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts,* to report the additional tax you owe on the taxable part of the early distribution. You may also have to file Form 5329 if you meet one of the exceptions listed earlier. However, you do not have to file Form 5329 if you owe only the tax on early distributions and your Form 1099–R shows a ''1'' in box 7. Instead, enter 10% of the taxable part of the distribution on line 51 of Form 1040 and write ''No'' on the dotted line next to line 51.

Tax on excess distributions. If you received retirement distributions in excess of $150,000 during the calendar year, you are subject to an additional 15% excise tax on the amount over $150,000. For details, see Publication 575.

Tax for failure to make minimum distribution. To make sure that most of your retirement benefits are paid to you during your lifetime, rather than to your beneficiaries after your death, your retirement payments from qualified plans and IRAs must generally begin, at the latest, soon after you reach age 70½. The payments cannot be less than the minimum distribution required each year. If the actual distributions to you in any year are less than the minimum required for that year, you are subject to an additional tax. The tax equals 50% of the required minimum amount not distributed.

The additional tax applies to qualified employee retirement plans, qualified annuity plans, deferred compensation plans under section 457, tax-sheltered annuity programs (for benefits accruing after 1986), and IRAs.

The tax may be waived if you establish that the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall.

For more information, see Publication 575.

Disability Income

If you retired on disability, you must report your disability income as ordinary income.

If you were 65 or older by the end of 1995, or you were retired on permanent and total disability and received taxable disability income in 1995, you may be able to claim the credit for the elderly or the disabled. See *Credit for the Elderly or the Disabled,* later.

Taxable disability pensions or annuities. Generally, you must report as income any amount you receive for your disability through an accident or health insurance plan that is paid for by your employer. However, certain payments may not be taxable to you. See *Sickness or injury benefits,* earlier, under *Nontaxable Income.*

Employee contributions. If the plan says that you must pay a specific part of the cost of your disability pension, any amounts you receive that are due to your payments to the disability pension are not taxed. You do not report them on your return. They are treated as benefits received under an accident or health insurance policy that you bought. You generally must include in income the rest of the amounts you receive that are due to your employer's payments. Your employer should be able to give you specific details about your pension plan and the amount, if any, you paid for your disability pension.

Accrued leave payment. If you retired on disability, any lump-sum payment you received for accrued annual leave is a salary payment. The payment is not a disability payment. Include it in your gross income in the year you receive it.

Workers' compensation. If part of your disability pension is workers' compensation, that part is exempt from tax. If you die, the part of your survivor's benefit that is a continuation of the workers' compensation is exempt from tax.

How to report. You must report all your taxable disability income on line 7, Form 1040, or line 7, Form 1040A, until you reach minimum retirement age. Generally, this is the age at which you can first receive a pension or annuity if you are not disabled.

Beginning on the day after you reach minimum retirement age, the payments are treated as a pension or annuity. Report them on lines 16a and 16b, Form 1040, or on lines 11a and 11b, Form 1040A.

Railroad Retirement Benefits

Benefits paid under the Railroad Retirement Act fall into two categories. These categories are treated differently for income tax purposes.

Tier 1. The first category is the amount of tier 1 railroad retirement benefits that equals the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. This part of the tier 1 benefit is called the ''social security equivalent benefit'' (SSEB) and is treated (for tax purposes) like social security benefits. (See *Social Security and Equivalent Railroad Retirement Benefits,* later.)

Nonsocial security equivalent benefits. The second category consists of the rest of the tier 1 benefits, called the ''nonsocial security equivalent benefit'' (NSSEB), and any tier 2 benefits, vested dual benefits, and supplemental annuity benefits. This category of benefits is treated as an amount received from a qualified employer plan. This allows for the tax-free recovery of employee contributions from the tier 2 benefits and the NSSEB part of the tier 1 benefits. Vested dual benefits and supplemental annuity benefits are fully taxable. See *Pensions and annuities,* earlier. The employee contributions are the taxes that were withheld from the railroad employee's pay that exceeded the amount of taxes that would have been withheld had the earnings been covered under the social security system.

Military Retirement Pay

Military retirement pay based on age or length of service is taxable and must be included in gross income as a pension on lines 16a and 16b of Form 1040 or on lines 11a and 11b of Form 1040A. Do not include in your income the amount of reduction in retirement or retainer pay to provide a survivor annuity for your spouse or children under the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan.

Veterans' benefits and insurance are discussed under *Nontaxable Income,* earlier.

Lump-Sum Distributions

If you receive a lump-sum distribution from a qualified retirement plan, you may be able to elect optional methods of figuring the tax on the distribution. The part from active participation in the plan before 1974 may qualify for capital gain treatment. The part from participation after 1973 (and any part from participation before 1974 that you do not report as capital gain) is ordinary income. You may be able to use the 5– or 10–year tax option to figure tax on the ordinary income part.

You can use these tax options to figure your tax on a lump-sum distribution only if the plan participant was born before 1936.

Note. Beginning in 1995, you may be able to figure the tax on a lump-sum distribution under the 5–year tax option even if the plan participant was born after 1935. You can do this only if the distribution is made on or after the date the participant reached age 59½ and the distribution otherwise qualifies.

Distributions that qualify. A lump-sum distribution is paid within a single tax year. It is the distribution or payment of a plan participant's entire balance from all of the employer's qualified pension plans, all of the employer's qualified stock bonus plans, or all of the employer's qualified profit-sharing plans. (The participant's entire balance does not include deductible voluntary employee contributions or certain forfeited amounts.)

The distribution is paid:

1) Because of the plan participant's death,
2) After the participant reaches age 59½,
3) Because the participant, if an employee, separates from service, or
4) After the participant, if a self-employed individual, becomes totally and permanently disabled.

Tax treatment. You can recover your ***cost*** in the lump sum tax free. Also, you may be entitled to special tax treatment for the remaining part of the distribution.

In general, your cost consists of:

1) The plan participant's total nondeductible contributions to the plan,
2) The total of the plan participant's taxable costs of any life insurance contract distributed,
3) Any employer contributions that were taxable to the plan participant,
4) Repayments of loans that were taxable to the plan participant,
5) The net unrealized appreciation in employer's securities distributed, and
6) The death benefit exclusion, if applicable.

You must reduce this cost by any amounts previously distributed tax free.

Capital gain treatment. Only a plan participant who was born before 1936 can elect to treat a portion of the taxable part of a lump-sum distribution as a capital gain taxable at a 20% rate. This treatment applies to the portion you receive for the participation in the plan before 1974. You can elect this treatment only once for any plan participant. Use **Form 4972**, *Tax on Lump-Sum Distributions,* to make this choice.

5– or 10–year tax options. If the plan participant reached age 50 before 1986 (was born before 1936), you can elect to use the 5– or 10–year option to compute the tax on the ordinary income portion of the distribution. (This also includes the capital gain portion of the distribution if you do not elect the capital gain treatment for it.) To qualify, you must elect to use the 5– or 10–year tax option for all lump-sum distributions received in the tax year.

To qualify for the 5– or 10–year option for a distribution you receive for your own participation in the retirement plan, you must have been a participant in the plan for at least 5 full tax years. You can only make one lifetime election to use this option for any plan participant.

If you choose the tax option, you generally figure your tax, using Form 4972, as though the distribution were received over 5 years.

However, you can instead treat the distribution as though it were received over 10 years if you apply the special 1986 tax rates to it. Form 4972 shows how to make this computation. The Form 4972 Instructions contain a special 1986 tax rate schedule that you must use in making the 10–year tax option computation.

For more information, see Publication 575.

Form 1099–R. If you receive a total distribution from a plan, you should receive a Form 1099–R. If the distribution qualifies as a lump-sum distribution, box 3 shows the capital gain and box 2a minus box 3 is the ordinary income. If you do not get a Form 1099–R, or if you have questions about it, contact your plan administrator.

Life Insurance Proceeds

Life insurance proceeds paid to you because of the death of the insured person are not taxable unless the policy was turned over to you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract.

Proceeds not received in installments. If death benefits are paid to you in a lump sum or other than at regular intervals, include in your gross income the benefits that are more than the amount payable to you at the time of the insured person's death. If the benefit payable at death is not specified, you include in your income the benefit payments that are more than the present value of the payments at the time of death.

Proceeds received in installments. If you receive life insurance proceeds in installments, you can exclude a part of each installment from your income.

To determine the excluded part, divide the amount held by the insurance company (generally, the total lump sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

Example. The face amount of the policy is $75,000 and, as beneficiary, you choose to receive 120 monthly installments of $1,000 each. The excluded part of each installment is $625 a month ($75,000 ÷ 120), or $7,500 for an entire year. The rest of each payment, $375 a month (or $4,500 for an entire year), is interest income to you.

Specified amount payable. If each installment you receive under the insurance contract is a specific amount, you figure the excluded part of each installment by dividing the amount held by the insurance company by the number of installments necessary to use up the principal and guaranteed interest in the contract.

Example. As beneficiary, you choose to receive $40,000 of proceeds in 10 annual installments of $4,000 plus $400 of guaranteed interest each year. During the year you receive $4,400. You can exclude from your gross income $4,000 ($40,000 ÷ 10) as a return of principal. The rest of the installment, $400, is taxable as interest income. (However, see *Surviving spouse,* later.)

Installments for life. If, as the beneficiary under an insurance contract, you are entitled to receive the proceeds in installments for the rest of your life without a refund or period-certain guarantee, you figure the excluded part of each installment by dividing the amount held by the insurance company by your life expectancy. If there is a refund or period-certain guarantee, the amount held by the insurance company for this purpose is reduced by the actuarial value of the guarantee.

Surviving spouse. If your spouse died before October 23, 1986, and insurance proceeds are paid to you because of the death of your spouse, and you receive them in installments, you can exclude up to $1,000 a year of the interest included in the installments. This is in addition to the part of each installment that is excluded as a recovery of the lump sum payable at death. If you remarry, you can continue to take the exclusion.

If your spouse died after October 22, 1986, you cannot exclude any interest payments included in the installment payments.

Interest option on insurance. If an insurance company pays you interest only on proceeds from life insurance left on deposit with them, the interest you are paid is taxable.

If your spouse died before October 23, 1986, and you chose to receive only the interest from your insurance proceeds, the $1,000 interest exclusion for a surviving spouse does not apply. If you later decide to receive the proceeds from the policy in installments, you can take the interest exclusion from the time you begin to receive the installments.

Surrender of policy for cash. If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the amount of premiums that you paid. If you received a Form 1099–R, report these amounts on lines 16a and 16b of Form 1040, or lines 11a and 11b of Form 1040A.

Endowment Proceeds

Endowment proceeds paid in a lump sum to you at maturity are taxable only if the proceeds are more than the cost of the policy. Add any amounts that you previously received under the contract and excluded from income to the lump-sum payment to find out how much of the total is a return of your cost and how much is more than your cost. Include any amount over your cost in income.

Endowment proceeds that you choose to receive in installments instead of a lump-sum payment at the maturity of the policy are taxed as an annuity as explained earlier. For this treatment to apply, you must choose to receive the proceeds in installments before receiving any part of the lump sum. This election must be made within 60 days after the lump-sum payment first becomes payable to you.

Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion)

The first $5,000 of payments made by or for an employer because of an employee's death can be excluded from the income of the beneficiaries. The payments need not be made as the result of a contract. The amount excluded for any deceased employee cannot be more than $5,000 regardless of the number of employers or the number of beneficiaries.

This exclusion also covers payments of the balance to the credit of a deceased employee under a stock bonus, pension, or profit-sharing plan, as long as they are received during one tax year of the beneficiary. See Publication 575 for details.

Example. William Smith was an officer of a corporation at the time of his death last year. The board of directors voted to pay Mr. Smith's salary to his widow for the remainder of the year for his past services. During the year the corporation made payments of $18,000 to the widow. She can exclude from her income the first $5,000 she received, but must include the remaining $13,000 on line 21 of her Form 1040.

Self-employed individuals. The death benefit exclusion also applies to lump-sum distributions paid on behalf of self-employed individuals, if paid under a qualified pension, profit-sharing, or stock bonus plan.

Payments not qualifying. Any amount that the deceased employee (or self-employed individual) had a guaranteed right to receive, had death not occurred, cannot be excluded as a tax-free death benefit. If the deceased employee was receiving a retirement annuity, and the beneficiary continues to receive payments under a joint and survivor annuity option, these payments do not qualify for the death benefit exclusion. However, if the deceased employee had retired on disability and at the time of death had not reached minimum retirement age, payments to the beneficiary may qualify for the death benefit exclusion. Minimum retirement age generally is the age at which an individual can first receive a pension or annuity were that individual not disabled.

See Publication 575 for more information.

Paid in installments. Death benefits paid in installments over a period of years are annuity payments. If you are the beneficiary of an employee who died while still employed, the pension or annuity you receive may qualify for the death benefit exclusion. If you are eligible for the exclusion, add it to the cost or unrecovered cost of the annuity in figuring, at the annuity starting date, the investment in the contract. Figure the excludable part of each payment under the *General Rule,* or *Simplified General Rule,* discussed earlier.

Social Security and Equivalent Railroad Retirement Benefits

If you received social security or tier 1 equivalent railroad retirement benefits, you may have to include a greater percentage of these benefits in taxable income. Some persons may have to include up to 50% in taxable income and others may have to include up to 85% of their benefits in taxable income. See *Are Any of Your Benefits Taxable,* later, for more information.

When the term ''benefits'' is used in this section, it applies to social security benefits and equivalent tier 1 railroad retirement benefits. These equivalent tier 1 railroad retirement benefits are equal to the social security benefits that a railroad employee or beneficiary would have been entitled to receive if the employee's service had been covered under the social security system rather than the railroad retirement system.

SSI payments. If you received any supplemental security income (SSI) payments, during the year, do not include these payments in your total social security benefits received. They are not taxable for federal income tax purposes.

Who is taxed. The person who has the legal right to receive the benefits must determine if the benefits are taxable. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your portion of the benefits in figuring if any part is taxable to you. The portion of the benefits that belongs to your child must be added to your child's other income to see if any of those benefits are taxable.

Are Any of Your Benefits Taxable?

If the only income you received during 1995 was your social security or equivalent tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return. However, if you have income in addition to your benefits, you may have to include part of your benefits in your taxable income.

How to Determine

If the total of your income plus half of your benefits are more than your ***base amount*** (shown next), some of your benefits are taxable. Include in your total income any tax-exempt interest income, excludable interest from U.S. savings bonds, and excludable income earned in a foreign country, U.S. possessions, or Puerto Rico.

Base amount. Your base amount is as follows depending on your filing status.

- $25,000 if you are single, head of household, or qualifying widow(er),
- $25,000 if you are married filing separately and ***lived apart*** from your spouse for ***all*** of 1995,
- $32,000 if you are married filing jointly, or
- $–0– if you are married filing separately and ***lived with*** your spouse at any time during 1995.

Worksheet. You can use the following worksheet to figure whether your income plus half your benefits is more than your base amount.

A. Write in the amount from box 5 of all your Forms SSA–1099 and RRB–1099. Include the full amount of any lump-sum benefit payments received in 1995, for 1995 and earlier years, if you choose to report the full amount for the 1995 tax year. (If you received more than one form, combine the amounts from box 5 and write in the total.)	A.
Note. *If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.*	
B. Enter one-half of the amount on line A.	B.
C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total	C.
D. Write in any tax-exempt interest, (such as interest on municipal bonds) plus any exclusions from income (such as U.S. Savings Bond interest exclusion)	D.
E. Add lines B, C, and D, and write in the total	E.

Note. *Compare the amount on line E to your base amount for your filing status. If the amount on line E is less than the base amount for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your base amount, some of your benefits are taxable.*

Joint return. If you are married and file a joint return for 1995, you and your spouse must combine your incomes and your benefits when figuring if any of your combined benefits are taxable. Even if your spouse did not receive any benefits, you must add your spouse's income to yours when figuring if any of your benefits are taxable.

Example. You and your spouse are filing a joint return for 1995 and you both received social security benefits during the year. In January 1996, you received a Form SSA–1099 showing net benefits of $6,600 in box 5. Your spouse received a Form SSA–1099 showing net benefits of $2,400 in box 5. You also received a taxable pension of $10,000 and interest income of $500 during 1995. You did not have any tax-exempt interest income in 1995. Your benefits are not taxable for 1995 because your income, as figured in the following worksheet, is not more than your base amount ($32,000).

A. Write in the amount from box 5 of all your Forms SSA–1099 and RRB–1099. Include the full amount of any lump-sum benefit payments received in 1995, for 1995 and earlier years, if you choose to report the full amount for the 1995 tax year. (If you received more than one form, combine the amounts from box 5 and write in the total.)	A. $ 9,000
Note. *If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.*	
B. Enter one-half of line A	B. 4,500
C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total	C. 10,500
D. Write in any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income (such as U.S. savings bond interest exclusion)	D. –0–
E. Add lines B, C, and D, and write in the total	E. $ 15,000

Note. *Compare the amount on line E to your base amount for your filing status. If the amount on line E is less than the base amount for your filing status, none of your benefits are taxable this year. If the amount on liner E is more than your base amount, some of your benefits are taxable.*

Repayments. Any repayment of benefits you made during 1995 is automatically subtracted from the gross benefits you received in 1995. It does not matter if the repayment you made in 1995 was for a benefit you received before 1995. Your repayment is shown in box 4 of the Form SSA–1099 or Form RRB–1099 you receive.

Example. In 1994 you received $3,000 in social security benefits, and in 1995 you received $2,700. In March 1995, the Social Security Administration notified you that you should have only received $2,500 in benefits in 1994. During 1995, you repaid $500 to the Social Security Administration. The Form SSA–1099 you received for 1995 shows $2,700 in box 3 (gross amount) and $500 in box 4 (repayment). Box 5 shows your net benefits of $2,200 ($2,700 – $500).

How Much Is Taxable?

The amount of your benefits you must include in your taxable income depends on the total of your income plus half of your benefits. The higher the total, the more of your benefits you must include in your taxable income.

You may have to include up to 50% or up to 85% of your benefits in your income. Read the discussions under *50% taxable* and *85% taxable* to see which applies to you. To figure the actual amount that is taxable, use the worksheets provided later. See *Which worksheet to use,* later.

50% taxable. If your income plus half of your benefits is more than the following ***base amount*** for your filing status, up to 50% of your benefits will have to be included in your taxable income.

- $25,000 if you are single, head of household, or qualifying widow(er).
- $25,000 if you are married filing separately and ***lived apart*** from your spouse for ***all*** of 1995.
- $32,000 if you are married filing jointly.

85% taxable. If your income plus half your benefits is more than the following ***adjusted base amount*** for your filing status, up to 85% of your benefits will have to be included in your taxable income.

- $34,000 if you are single, head of household, or qualifying widow(er).
- $34,000 if you are married filing separately and ***lived apart*** from your spouse for all of 1995.
- $44,000 if you are married filing jointly.
- $–0– if you are married filing separately and ***lived with*** your spouse at any time during 1995.

Married filing separately and living with spouse. If you are married filing separately and you ***lived with*** your spouse at any time during 1995, up to 85% of your benefits will have to be included in your taxable income.

How To Figure and Report

After you figure your taxable benefits on one of the worksheets discussed under *Which worksheet to use,* later, report your taxable benefits on Form 1040 or Form 1040A. You cannot use Form 1040EZ. Report your net benefits (the amount in box 5 of your Form SSA–1099 or Form RRB–1099) on line 20a, Form 1040, or on line 13a, Form 1040A. Report the taxable part (from the last line of the worksheet) on line 20b, Form 1040, or on line 13b, Form 1040A.

If none of your benefits are taxable, do not enter any amounts on Form 1040A lines 13a or 13b, or Form 1040 lines 20a or 20b.

Special worksheets for IRA deduction and taxable benefits. If you made contributions to an individual retirement arrangement (IRA) for 1995 and if your IRA deduction is limited because you or your spouse is covered by a retirement plan at work, you must use the special worksheets in Appendix B of Publication 590, *Individual Retirement Arrangements (IRAs),* to figure your IRA deduction and taxable benefits to be reported on your return.

Which worksheet to use. If you are not required to use the Publication 590 worksheets (see *Special worksheets for IRA deduction and taxable benefits,* earlier) to figure your taxable benefits, you can use Worksheet 1 or 1A, provided later. You also may be able to use the worksheet in the Form 1040 or Form 1040A instruction package. However, if you are not required to use the Publication 590 worksheets and you take the U.S. savings bond interest exclusion, the foreign earned income exclusion, the foreign housing exclusion or deduction, the exclusion of income from U.S. possessions, or the exclusion of income from Puerto Rico by bona fide residents of Puerto Rico, you must use the worksheets in Publication 915.

Examples

Following are two examples you can use as a guide to figure the taxable part of your benefits.

Example 1. George White is single and files Form 1040 for 1995. He received the following income in 1995:

Fully taxable pension	$18,600
Wages from part-time job	9,400
Interest income	990
Total	$28,990

George also received social security benefits during 1995. The Form SSA–1099 he received in January 1996 shows $7,200 in box 3; $1,220 in box 4; and $5,980 in box 5. To figure his taxable benefits, George completes the worksheet shown next for Form 1040 filers.

Social Security and Equivalent Tier 1 Railroad Retirement Benefits Worksheet 1—Form 1040 Filers (Keep for your records)

Check only one box.

- ☑ **A.** Single, Head of household, or Qualifying widow(er)
- ☐ **B.** Married filing jointly
- ☐ **C.** Married filing separately and lived with your spouse at any time during 1995
- ☐ **D.** Married filing separately and **did not** live with your spouse at any time during 1995

1. Enter the total amount from **box 5** of **ALL** your **Forms SSA–1099 and RRB–1099** (if applicable) 5,980

Note. *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.*

2. Enter one-half of line 1 2,990
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 14, 15b, 16b, 17 through 19, and line 21. Do not include here any amounts from box 5 of Forms SSA–1099 or RRB–1099 (line 8b is tax-exempt interest income) 28,990

Worksheet 1-For Form 1040 Filers. **Social Security and Equivalent Railroad Retirement Benefits**
(Keep for your records)

Check only one box:

☐ **A.** Single, Head of household, or Qualifying widow(er)
☐ **B.** Married filing jointly
☐ **C.** Married filing separately and lived with your spouse at any time during 1995
☐ **D.** Married filing separately and lived apart from your spouse for all of 1995

1. Enter the total amount from box 5 of ALL your Forms SSA–1099 and RRB–1099 (if applicable) .... **1.** ______

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.*

2. Enter one half of line 1 .... **2.** ______

3. Add the amounts on your 1995 Form 1040, lines 7, 8a, 8b, 9 through 14, and line 15b, 16b, 17 through 19, and 21. Do not include any amounts from box 5 of Forms SSA–1099 or RRB–1099 here (line 8b is tax-exempt interest income) .... **3.** ______

4. Enter the amount of any exclusion from U.S. savings bond interest, foreign earned income, foreign housing, income from U.S. possessions, or income from Puerto Rico by bona fide residents of Puerto Rico that you claimed .... **4.** ______

5. Add lines 2, 3, and 4 .... **5.** ______

6. Enter the total adjustments, plus any write-in amounts from Form 1040, line 30 (other than the foreign housing deduction) .... **6.** ______

7. Subtract line 6 from line 5 .... **7.** ______

8. Enter:
$25,000 if you checked Box **A** or **D,** or
$32,000 if you checked Box **B,** or
–0– if you checked Box **C** .... **8.** ______

9. Subtract line 8 from line 7. If zero or less, enter -0-.......... **9.** ______

Is line 9 more than zero?

No. *Stop here. None of your benefits are taxable. Do not enter any amounts on lines 20a or 20b. But if you are married filing separately and you lived apart from your spouse for all of 1995, enter –0– on line 20b. Be sure you entered 'D' to the left of line 20a.*

Yes. *Go to line 10.*

10. Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1995) .... **10.** ______

11. Subtract line 10 from line 9. If zero or less, enter –0– .... **11.** ______

12. Enter the **smaller** of line 9 or line 10 .... **12.** ______

13. Enter one half of line 12 .... **13.** ______

14. Enter the **smaller** of line 2 or line 13 .... **14.** ______

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–.......... **15.** ______

16. Add lines 14 and 15 .... **16.** ______

17. Multiply line 1 by 85% (.85) .... **17.** ______

18. **Taxable benefits.** Enter the smaller of line 16 or line 17 .... **18.** ______

- Enter on Form 1040, line 20a, the amount from line 1.
- Enter on Form 1040, line 20b, the amount from line 18.

Note: *Use this worksheet whether or not you received a lump-sum payment. If you received a lump-sum payment in this year that was for an earlier year, see Lump-Sum Benefits and get Publication 915.*

Worksheet 1A For 1040A Filers. **Social Security and Equivalent Railroad Retirement Benefits**
(Keep for your records)

Check only one box:

☐ **A.** Single, Head of household, or Qualifying widow(er)
☐ **B.** Married filing jointly
☐ **C.** Married filing separately and lived with your spouse at any time during 1995
☐ **D.** Married filing separately and lived apart from your spouse for all of 1995

1. Enter the total amount from box 5 of ALL your Forms SSA–1099 and RRB–1099 (if applicable) .... **1.** ______

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.*

2. Enter one half of line 1 .... **2.** ______

3. Add the amounts on Form 1040A, lines 7, 8a, 8b, 9, 10b, 11b, and 12. Do not include here any amounts from box 5 of Forms SSA–1099 or RRB–1099 (line 8b is tax-exempt interest income) .... **3.** ______

4. Enter the amount of any U.S. savings bond interest exclusion from Schedule 1, line 3, that you claimed .... **4.** ______

5. Add lines 2, 3, and 4 .... **5.** ______

6. Enter the amount from Form 1040A, line 15c .... **6.** ______

7. Subtract line 6 from line 5 .... **7.** ______

8. Enter:
$25,000 if you checked Box **A** or **D,** or
$32,000 if you checked Box **B,** or
–0– if you checked Box **C** .... **8.** ______

9. Subtract line 8 from line 7. If zero or less, enter -0- .... **9.** ______

Is line 9 more than zero?

No. *Stop here. None of your benefits are taxable. Do not enter any amounts on lines 13a or 13b. But if you are married filing separately and you lived apart from your spouse for all of 1995, enter –0– on line 13b. Be sure you entered 'D' to the left of line 13a.*

Yes. *Go to line 10.*

10. Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1995) .... **10.** ______

11. Subtract line 10 from line 9. If zero or less, enter –0– .... **11.** ______

12. Enter the **smaller** of line 9 or line 10 .... **12.** ______

13. Enter one half of line 12 .... **13.** ______

14. Enter the **smaller** of line 2 or line 13 .... **14.** ______

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–. .... **15.** ______

16. Add lines 14 and 15 .... **16.** ______

17. Multiply line 1 by 85% (.85) .... **17.** ______

18. **Taxable benefits.** Enter the smaller of line 16 or line 17 .... **18.** ______

- Enter on Form 1040A, line 13a, the amount from line 1.
- Enter on Form 1040A, line 13b, the amount from line 18.

Note: *Use this worksheet whether or not you received a lump-sum payment. If you received a lump-sum payment in this year that was for an earlier year, see Lump-Sum Benefits and get Publication 915.*

4.	Enter the amount of any exclusions from: U.S. savings bond interest, foreign earned income, foreign housing, income from U.S. possessions, or income from Puerto Rico by bona fide residents of Puerto Rico that you claimed	0
5.	Add lines 2, 3, and 4	31,980
6.	Enter the total adjustments plus any write-in amounts from Form 1040, line 30 (other than foreign housing deduction)	0
7.	Subtract line 6 from line 5	31,980
8.	Enter: **$25,000** if you checked box **A** or **D,** or **$32,000** if you checked box **B,** or **–0–** if you checked box **C**	25,000
9.	Subtract line 8 from line 7. If zero or less, enter –0–	6,980
	Is line 9 more than zero? **No.** Stop here. None of your benefits are taxable. Do not enter any amounts on lines 20a or 20b. But if you are married filing separately and you lived apart from your spouse for all of 1995, enter –0–on line 20b. Be sure you entered ''D'' to the left of line 20a. **Yes.** Go to line 10.	
10.	Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1995)	9,000
11.	Subtract line 10 from line 9. If zero or less, enter –0–	0
12.	Enter the ***smaller*** of line 9 or line 10	6,980
13.	Enter one-half of line 12	3,490
14.	Enter the ***smaller*** of line 2 or line 13	2,990
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–	0
16.	Add lines 14 and 15	2,990
17.	Multiply line 1 by 85% (.85)	5,083
18.	Taxable benefits. Enter the smaller of line 16 or line 17	2,990

- Enter on Form 1040, line 20a, the amount from line 1
- Enter on Form 1040, line 20b, the amount from line 18

The amount on line 18 of George's worksheet shows that $2,990 of his social security benefits is taxable. On line 20a of his Form 1040, George enters his net benefits of $5,980. On line 20b, he enters the taxable part of $2,990.

Example 2. Joe and Betty Johnson file a joint return on Form 1040A for 1995. Joe is retired and receives social security benefits. Joe's Form SSA–1099 shows $10,000 in box 5. Betty is a retired government worker and receives a fully taxable pension of $38,000. The only other income Joe and Betty had in 1995 was $2,300 in interest income. They claim a $200 exclusion of a Series EE U.S. savings bond interest income. They figure their taxable social security benefits by completing the worksheet shown next.

Worksheet for Social Security and Equivalent Tier 1 Railroad Retirement Benefits Worksheet 1A—Form 1040A Filers

Check only one box.

- ☐ **A.** Single, Head of household, or Qualifying widow(er)
- ☑ **B.** Married filing jointly
- ☐ **C.** Married filing separately and lived with your spouse at any time during 1995
- ☐ **D.** Married filing separately and lived apart from your spouse for all of 1995

1.	Enter the total amount from box 5 of all your Forms SSA–1099 and RRB–1099 (if applicable)	10,000

Note. *If line 1 is zero or less, stop; none of your benefits are taxable. Otherwise, go on to line 2.*

2.	Enter one-half of line 1	5,000
3.	Add the amounts on Form 1040A, lines 7, 8a, 8b, 9, 10b, 11b, and 12. Do not include any amounts from box 5 of Forms SSA–1099 or RRB–1099 (line 8b is tax-exempt interest income)	40,300
4.	Enter the amount of any U.S. savings bond interest exclusion from Schedule 1, line 3 that you claimed	200
5.	Add lines 2, 3, and 4	45,500
6.	Enter the amount from Form 1040A, line 15c	0
7.	Subtract line 6 from line 5.	45,500
8.	Enter: **$25,000** if you checked box **A** or **D,** or **$32,000** if you checked box **B,** or **–0–** if you checked box **C**	32,000
9.	Subtract line 8 from line 7. If zero or less, enter –0–	13,500
	Is line 9 more than zero? **No.** Stop here. None of your benefits are taxable. Do not enter any amounts on lines 13a or 13b. But if you are married filing separately and you lived apart from your spouse for all of 1995, enter –0– on line 13b. Be sure you entered ''D'' to the left of line 13a. **Yes.** Go to line 10.	
10.	Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1995)	12,000
11.	Subtract line 10 from line 9. If zero or less, enter –0–	1,500
12.	Enter the ***smaller*** of line 9 or line 10	12,000
13.	Enter one-half of line 12	6,000
14.	Enter the ***smaller*** of line 2 or line 13	5,000
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–	1,275
16.	Add lines 14 and 15	6,275
17.	Multiply line 1 by 85% (.85)	8,500
18.	Taxable benefits. Enter the smaller of line 16 or line 17	6,275

- Enter on Form 1040A, line 13a, the amount from line 1
- Enter on Form 1040A, line 13b, the amount from line 18

Because the income on line 7 ($45,500) of the worksheet is more than $44,000 (the Johnsons' adjusted base amount), the Johnsons include more than 50% ($6,275 ÷ $10,000 = 62¾%) of their benefits in taxable income. They enter $10,000 on line 13a, Form 1040A, and $6,275 on line 13b, Form 1040A.

Lump-Sum Benefits

Generally, a lump-sum (or retroactive) payment of benefits is included in your total benefits for the year in which you receive it.

Benefits for earlier year. However, if you receive a lump-sum payment of benefits in 1995 that includes benefits for one or more earlier years, you can figure whether any part of these earlier year benefits are taxable based on the earlier year's income. If that method gives you a lower taxable benefit, you can make the election discussed next.

Election to treat benefits as received in earlier year. If it will lower your taxable benefits, you can choose to treat the earlier benefits as received in the earlier year. In that case, any part of the earlier year benefits that is taxable is then added to your taxable benefits for the current year and the total is included in your current year's income. For more information on lump-sum benefit payments, see Publication 915.

Lump-sum payments received in 1995. If you received a lump-sum payment in 1995 that included benefits for one or more earlier years, it will be included in box 3 of either Form SSA–1099 or RRB–1099.

If you received a lump-sum payment of benefits in 1995 that includes benefits for one or more earlier years, and choose to treat the earlier benefit as if it were received in those earlier years, you must use the worksheets in Publication 915. Otherwise, you should treat the amount as if it were fully attributable to 1995 and include it in your total benefits received during that year.

Repayments More Than Gross Benefits

In some situations, your net benefits in box 5 of your Form 1099 may be a negative figure and none of your benefits will be taxable. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form. If you have any questions about this negative figure, contact your local Social Security Administration office or your local U.S. Railroad Retirement Board field office.

Joint return. If you and your spouse file a joint return, and your Form SSA–1099 or RRB–1099 show that your repayments are more than your gross benefits, but your spouse's are not, subtract the amount in box 5 of your form from the amount in box 5 of your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

Example. John and Mary file a joint return for 1995. John received Form SSA–1099 showing $3,000 in box 5. Mary also received Form SSA–1099 and the amount in box 5 was ($500). John and Mary will use $2,500 ($3,000 minus $500) as the amount of their net benefits when figuring if any of their combined benefits are taxable.

Repayment of benefits received in an earlier year. If the sum of the amount shown in box 5 of all of your Forms SSA–1099 and RRB–1099 is a negative figure and all or part of this negative figure is for benefits you included in gross income in an earlier year, you can take an itemized deduction on Schedule A (Form 1040) for the amount of the negative figure that represents those benefits.

This deduction, if ***$3,000 or less***, is subject to the 2%-of-adjusted-gross-income limit and is claimed on line 22 of Schedule A (Form 1040).

If this deduction is ***more than $3,000***, you should figure your tax two ways:

1) Figure your tax for 1995 with the itemized deduction. This more-than-$3,000 deduction is not subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions.

2) Figure your tax for 1995 without the deduction. If a portion of the negative figure represents a repayment of 1984 benefits, you must first recompute your 1984 tax, reducing your 1984 social security benefits by that portion. Recompute your 1985, 1986, etc., tax in the same manner, using any portion of the negative figure that represents a repayment of benefits for those years. Reduce your 1995 tax, figured without the deduction, by the total decrease in your 1984, 1985, 1986, etc. tax as recomputed.

Compare the tax figured in methods (1) and (2). Your tax for 1995 is the smaller of the two amounts. If method (1) results in less tax, take the itemized deduction on line 27, Schedule A (Form 1040). If method (2) results in less tax, claim a credit for the applicable amount on line 60 of Form 1040 and write ''I.R.C. 1341'' in the margin to the left of line 60. If both methods produce the same tax, deduct the repayment on line 27, Schedule A (Form 1040).

Form SSA–1099. If you received or repaid social security benefits during 1995, you will receive Form SSA–1099, *Social Security Benefit Statement.* You should receive Form SSA–1099 by January 31, 1996. An IRS Notice 703 will be enclosed with your Form SSA–1099. This notice includes a worksheet you can use to determine if any of your benefits are taxable. If you are married and file a joint return for 1995, you and your spouse must combine your incomes and your benefits when figuring if any of your combined benefits are taxable. Keep Form SSA–1099 and the notice for your own records. Do not mail them to either the IRS or the SSA.

Every person who received social security benefits will receive a Form SSA–1099, even if the benefit is combined with another person's in a single check. If you receive benefits on more than one social security record, you may get more than one Form SSA–1099.

Box 3, Benefits Paid in 1995. The figure shown in this box is the total amount of benefits paid in 1995 to you (the person named in box 1). This figure may not agree with the amounts you actually received because adjustments may have been made to your benefits before you received them. An asterisk (*) after the figure shown in this box means that it includes benefits received in 1995 for one or more earlier years. These adjustments are explained in the column ''Description of Amount in Box 3'' of your Form SSA–1099. If no adjustments were made to the benefits paid, the word ''none'' is shown in this column.

Box 4, Benefits Repaid to SSA in 1995. The figure shown in this box is the total amount of benefits you repaid to the SSA in 1995. Entries in the column ''Description of Amount in Box 4'' of your Form SSA–1099 explain the kinds of repayments you made. If you did not make any repayments, the word ''none'' will be shown.

Box 5, Net Benefits for 1995 (Box 3 minus Box 4). The figure in this box is the net amount of benefits paid to you for the year. It is the result of subtracting the figure in box 4 from the amount in box 3. Enter this amount on line A of IRS Notice 703, or on line 1 of Worksheet 1 or 1A in this publication, or the worksheet in either the Form 1040 or the Form 1040A instruction package.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means you repaid more money than you received in 1995. If you have any questions about the negative amount, contact your local Social Security Administration office. If you receive more than one benefit statement (or if you are married and filing jointly and both you and your spouse each receive a Form SSA–1099), a negative figure on one Form SSA–1099 is used to offset a positive figure on another Form SSA–1099.

For a full explanation of the information found on your Form SSA–1099, see Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

Form RRB–1099. If you received or repaid the social security equivalent portion of tier 1 railroad retirement benefits or special guaranty benefits during 1995, you will receive Form RRB–1099, *Payments by the Railroad Retirement Board.*

Each beneficiary will receive his or her own Form RRB–1099. If you receive benefits on more than one railroad retirement record, you may get more than one Form RRB–1099. If you received nonequivalent tier 1 benefits, tier 2 benefits, vested dual benefits, or a supplemental annuity payment, see Publication 575 for information on how these benefits are taxed.

Box 3, Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 1995. The figure shown in this box is the total amount of benefits paid to you in 1995.

Box 4, Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 1995. The figure shown in this box is the total SSEB portion of tier 1 benefits you repaid to the RRB in 1995. This box also includes any social security equivalent benefits you repaid in 1995 that were for one or more years before 1995.

Box 5, Net Social Security Equivalent Benefit (SSEB) Portion of Tier 1 Paid in 1995. The figure shown in this box is the net amount of the SSEB portion of tier 1 benefits paid to you for the year. It is the result of subtracting the amount in box 4 from the amount in box 3. Use this amount to determine if any of your benefits are taxable.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means that you repaid more money than you received in 1995. If you receive more than one Form RRB–1099 (or if you are married and file a joint return and both you and your spouse each receive Form RRB–1099), use any negative figure on one Form RRB–1099 to offset a positive figure on another Form RRB–1099.

Box 6, Workers' Compensation Offset in 1995. The figure shown in this box is the amount you received in workers' compensation benefits during the year that was used to offset the full amount of your tier 1 payments. The SSEB portions of your tier 1 benefits shown in boxes 3 and 5 include the amounts you received from workers' compensation. Your workers' compensation amount is shown in this box separately only for your information. If you did not receive workers' compensation benefits, box 6 is blank.

For a full explanation of the information found on your Form RRB–1099, see Publication 915.

Sale of Home

Note. As this publication was being prepared for print, Congress was considering changes to the tax law that could affect your 1995 tax return. These changes include the treatment of:

1) Capital gains and losses, and
2) Sale of your home.

See Publication 553, *Highlights of 1995 Tax Changes* for any further developments. Information on these changes will also be available electronically through our bulletin board or via the internet (see page 34 of the Form 1040 instructions).

If you sell your main home at a gain, you may have to pay tax on all or part of the gain. But if you buy and live in another home within the **replacement period** (beginning 2 years before and ending 2 years after the sale) and meet certain conditions, you postpone paying the tax.

In certain circumstances, you can exclude from gross income all or part of the gain from the sale of your home.

If you choose to exclude some of the gain from gross income, as discussed later, the tax on the balance of the gain may be postponed. Or, you may be able to use the installment method to report the balance of the gain.

For more information on postponing or excluding your gain, see Publication 523, *Selling Your Home.* For information on the installment method of reporting your gain, see Publication 537, *Installment Sales.*

Form 2119. You must report the sale of your main home using Form 2119, *Sale of Your Home.* This is true whether you sell the home at a gain or a loss. If you have a loss, you cannot deduct it.

Gain or loss is figured in Part I of Form 2119.

Form 1099–S. The law requires that transactions involving the sale of most residential real estate property be reported to the IRS on Form 1099–S, *Proceeds From Real Estate Transactions.* Real estate brokers are prohibited from charging any customer separately for preparing Form 1099–S.

Exclusion of Gain

You can exclude from gross income all or part of your gain from the sale of your main home if you meet certain age, ownership, and use tests at the time of the sale. This is a one-time exclusion of gain for sales after July 26, 1978.

The decision of when to take the exclusion depends on many factors. You will want to consider your personal tax and financial situation before deciding when to take the one-time exclusion. Any gain you exclude is not taxed.

If you change your mind after you file the return for the year of sale, you may be able to make or revoke the choice later. You would have to file an amended return for the year of sale within certain time limits. See *How To Make and Revoke a Choice To Exclude Gain,* later.

Amount excluded. If you meet the age, ownership, and use tests, you can choose to exclude $125,000 of your gain on the sale of your home. If you are married on the date of the sale and file a separate return, you can choose to exclude only $62,500. If there is gain remaining after the exclusion, you may be required to postpone tax on the rest of the gain if you meet the conditions explained in Publication 523.

Age, Ownership, and Use

You can claim the exclusion if you meet all the following tests.

1) You were ***55 or older*** on the date of the sale.
2) During the ***5-year period*** ending on the date of the sale, you:
   - ***Owned*** your main home for at least ***3 years***, and
   - ***Lived in*** your main home for at least ***3 years***.
3) Neither you nor your spouse have ever excluded gain on the sale of a home after July 26, 1978. However, see *Effect of Marital Status,* later, for more details.

Age 55 at time of sale. You must be 55 by the date you sell the home to qualify for the exclusion. You do not meet the age 55 test if you sell the property during the year in which you will be 55 but before you actually become 55. The earliest date on which you can sell your home and still qualify for the exclusion is your 55th birthday.

Ownership and use tests. The required 3 years of ownership and use (during the 5-year period ending on the date of the sale) do not have to be continuous. You meet the tests if you can show that you owned and lived in the property as your main home for either 36 full months or 1,095 days (365 × 3) during the 5-year period. Short temporary absences for vacations or other seasonal absences, even if you rent out the property during the absences, are counted as periods of use. See *Ownership and use tests met at different times,* later.

Example 1. From 1988 through 1992, Joseph Mooney lived with his son and daughter-in-law in a house owned by his son. On January 5, 1993, he bought this house from his son. He continued to live there until May 29, 1995, when he sold it. Although Joseph lived in the property as his main home for more than 3 years, he cannot exclude his gain on the sale. This is because he did not own the property for the required 3 years.

Example 2. Professor John Thomas bought and moved into a house on January 4, 1992. He lived in it as his main home continuously until February 1, 1994, when he went abroad for a 1-year sabbatical leave. During part of the period of leave, the property was unoccupied, and during the rest of the period, he rented it out. On March 4, 1995, he sold the house. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the test of living in the house as his main home for 3 years or more. He cannot exclude his gain from income because he did not live in the house for the required period.

More than one owner. If a husband and wife sell their jointly owned home and either one meets the age, ownership, and use tests, both are considered to have met the tests. See *Jointly owned home,* later.

If the joint owners of a home are other than husband and wife, each owner who chooses to exclude gain from income must meet the age, ownership, and use tests. If one owner meets the tests, that does not automatically qualify the other owners to exclude their gain from income. Each owner excludes gain on an individual basis. A choice to exclude gain by one owner does not keep the other owners from making the choice to exclude gain when they sell a different home in the future.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 3-

year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example. In 1988, Grace Jones was 50 years old and lived in a rented apartment. The apartment building was later changed to a condominium and she bought her apartment on December 1, 1991. In 1993, Grace became ill and on April 14 of that year she moved to her daughter's home. On February 14, 1995, while still living in her daughter's home, she sold her apartment.

Grace can exclude the gain on the sale of her apartment because she met the age, ownership, and use tests. Grace was over 55 at the time of the sale. Her 5-year period is from February 15, 1990, to February 14, 1995, the date she sold the apartment. She owned her apartment from December 1, 1991, to February 14, 1995 (over 3 years). Grace lived in the apartment from February 15, 1990, to April 14, 1993 (over 3 years).

Exception for individuals with a disability. There is an exception to the 3-out-of-5-year use test if you become physically or mentally unable to care for yourself at any time during the 5-year period.

You qualify for this exception to the use test if, during the 5-year period before the sale of your home:

1) You became physically or mentally unable to care for yourself, and
2) You owned and lived in your home as your main home for a total of at least 1 year.

Under this exception, you are considered to live in your home during any time that you reside in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.

If you meet this exception to the use test, you still have to meet the 3-out-of-5-year ownership test to claim the exclusion.

Jointly owned home. Both you and your spouse will meet the age, ownership, and use tests if you meet all of the following requirements.

1) You hold the home either as joint tenants, tenants by the entirety, or community property on the date of the sale.
2) You file a joint return for the tax year in which you sell the home.
3) Either you or your spouse is 55 or older on the date of sale and has owned and lived in the property as a main home for the required time before the sale.

Home of spouse who died. You will meet the ownership and use tests if your spouse is deceased on the date you sell your main home, and:

1) You have not remarried,
2) Your deceased spouse had met the ownership and use tests for that main home, and
3) Your deceased spouse had not previously chosen or joined in choosing to exclude gain on the sale of another main home after July 26, 1978.

You must still meet the age test (be at least 55 on the date of sale) to qualify for the exclusion.

Example. Ellen and Doug Smith were married January 6, 1993. After their marriage, their main home was property Doug had owned and lived in as his main home since January 2, 1983. Doug died on January 2, 1995, and he had never chosen or joined in choosing to exclude gain on the sale of any home.

Ellen inherited the property and continued to live in it as her main home until December 10, 1995, when she sold it. At the date of sale she was 56 years old, had not remarried, and had never chosen or joined in choosing to exclude gain on the sale of any home. Ellen can choose to exclude up to $125,000 of the gain from the sale of her home. This is because she meets the age test and Doug met the 3-out-of-5-year ownership and use tests for the property.

Sale by executor. Gain from the sale of a home by the executor of an estate may qualify for this exclusion. To qualify, the sale must be made under a contract entered into before death by a taxpayer who met the age, ownership, and use tests.

Main Home

Usually, the home you live in most of the time is your main home. Your main home can be a houseboat, a mobile home, a cooperative apartment, or a condominium.

Part of property used as main home. You may use only part of the property as your main home. In this case, the rules for exclusion of gain apply only to the gain on the part of the property used as your main home.

Example. Dr. Martin Russell met the age, ownership, and use tests when he sold his main home. However, for the whole time he owned the home, he used half of it exclusively as an office for treating his patients. Only the half of the property used as his home qualifies for the choice to exclude gain from gross income. This is because Dr. Russell did not use the whole property as his main home.

Home traded. If you trade your old home for a different home, the trade is treated as a sale and a purchase. Gain on the old home may qualify for exclusion from gross income.

Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude from income any gain you have from the sale of the land.

Effect of Marital Status

For purposes of the exclusion, your marital status is determined as of the date of sale of your home. If you are legally separated under a decree of divorce or of separate maintenance, you are not considered married.

Your marital status on the date of the sale determines the amount you can exclude, whether your spouse must join you in the choice to exclude gain, and whether each spouse can choose to exclude gain later.

Married persons. If you are married when you sell your main home, you cannot choose to exclude the gain unless your spouse joins you in making the choice. Your spouse must join you in the choice, even if:

1) You or your spouse owned the home separately,
2) You and your spouse file separate returns, or
3) The spouse not owning an interest in the home had not lived in it for the required period before the sale.

Death of spouse after sale. If your spouse died after the sale, but before making the choice to exclude the gain, his or her personal representative (for example, the administrator or executor) must join with you in making the choice. You, as the surviving spouse, are considered the personal representative of your deceased spouse if no one else has been appointed.

Home not jointly owned. If the home is not jointly owned, the spouse who owns the property must meet the age, ownership, and use tests. The other spouse must join in making the choice.

Separate return. If you are married on the date of the sale, file a separate return, and meet the age, ownership and use tests, you can exclude no more than $62,500 of gain on the sale of your main home. Your spouse must show agreement to your choice by writing in the bottom margin of Form 2119 or on an attached statement, ''I agree to the Part II election.'' Your spouse must also sign his or her name.

You or your spouse can exclude gain only once. If you or your spouse chooses to exclude gain from a sale after July 26, 1978, neither of you can choose to exclude gain again for a sale after that date. If you and your spouse each owned separate homes before your marriage and sold both homes after your marriage, you can exclude the gain on one of them, but not on both. If after choosing to exclude gain, you and your spouse divorce, neither of you can exclude gain again. If you remarry, you and your new spouse cannot exclude gain on sales after your marriage. However, you can revoke a previous choice as discussed later under *How To Make and Revoke a Choice To Exclude Gain.*

Sale before marriage. If you meet the age, ownership, and use tests when you sell your separately owned home during the year, you can exclude gain up to $125,000. If you marry before the end of the year, you can take the exclusion whether you file a joint return or a separate return. This is because you were single on the date of the sale.

If one spouse sells a home before the marriage, the other spouse does not have to join in the choice to exclude gain. The spouse who did not join in that choice is eligible to exclude gain if he or she later sells a house, meets the age, ownership, and use tests, and at the time of sale is single or married to a different spouse who has never excluded gain or joined in a choice to do so.

If one spouse excludes gain from a house sold before marriage, that spouse cannot join in another choice to exclude gain. If this couple then sells a home during their marriage, neither can exclude any gain. This is because both spouses have to join in the choice, and one spouse has already excluded gain.

Example 1. Tom Oak sold his main home in January 1993. He met the age, ownership, and use tests to exclude gain on the sale. In June 1993, he married Susan Green. They filed a joint return for 1993 and Tom chose to exclude the gain on the sale of his house. Susan did not have to join in Tom's choice since they were not married on the date of the sale.

While married, Tom and Susan lived in Susan's separately owned house. Tom died in 1995 and Susan sold her house shortly after Tom's death. She met the age, ownership, and use tests to exclude the gain on the sale. She can exclude up to $125,000 of the gain. This is because she was single on the date of the sale and she has never made a choice to exclude gain before. She did not have to join in Tom's choice.

Example 2. Frank and Sheila Brown were married in 1988. In January 1994, they sold their jointly owned home. Frank and Sheila met the age, ownership, and use tests, so they chose to exclude their gain of $70,000 on their joint return for 1994. The Browns divorced in February 1995.

In July 1995, Sheila married Mike Jones. Mike had sold his home in March 1995 when he was single. He met the age, ownership, and use tests at the time of sale. Mike can choose to exclude up to $125,000 gain on a separate or joint return because he was single at the time he sold his home. This is so even though Sheila joined Frank in choosing to exclude gain.

Example 3. Joe Johnson and Betty Smith were single and each owned a home. In August 1995, they sold their homes and each had a gain of $125,000, for a total gain of $250,000. Each met the age, ownership, and use tests at the time of sale.

In October 1995, Joe and Betty married. Because Joe and Betty were single when they sold their homes, they each can choose to exclude $125,000 of gain ($250,000 total). This is true if they file a joint return or separate returns.

Example 4. In February 1995, Bill and Sally White were divorced. At that time they had their jointly owned home up for sale. Sally married Ken Brown in November 1995. In December 1995, Bill and Sally sold their home at a gain. Because Bill and Sally were not married to each other at the time they sold their home and they each met the tests to exclude gain, each can choose to exclude up to $125,000 gain based on the part of the home each owned.

Sally files a joint return with Ken and chooses to exclude up to $125,000 of her part of the gain. Ken must join Sally in her choice. Bill files a single return and chooses to exclude up to $125,000 of his gain.

If Ken Brown later sells a home, he cannot choose to exclude gain because he had to join Sally in her choice. Ken is considered to have made a lifetime choice.

Example 5. David and Beth Pine sell their jointly owned home. They both meet the ownership and use tests at the time of sale, but David is 62 and Beth is 50. They file separate returns for the year they sell their house. Because Beth does not meet the age test, she cannot choose to exclude gain on her separate return. David can choose to exclude up to $62,500 of the gain on his separate return only if Beth joins him in making his choice.

If Beth did join David in making his choice and she later sells a home, she cannot choose to exclude gain because she joined David in his choice.

How To Make and Revoke a Choice To Exclude Gain

You can exclude gain on the sale of your main home ***only once*** for sales after July 26, 1978.

Time to exclude gain. You can make or revoke a choice to exclude gain from a particular sale at any time before the ***latest*** of the following dates:

1) Three years from the due date of the return for the year of sale,
2) Three years from the date you filed the return, or
3) Two years from the date you paid the tax.

How to make the choice. Make the choice by attaching a filled-in **Form 2119** to your income tax return for the year in which you sell your home. However, if you do not have Form 2119, you can make the choice by attaching a signed statement to your return. The statement must say you choose to exclude from income the gain from the sale. It must also include:

1) Your name, age, social security number, and marital status on the date of the sale. If jointly owned, give this information for each owner.
2) The dates you bought and sold the home.
3) The amount realized and the adjusted basis of the property on the date of sale.
4) How long you were away from the home during the 5 years before the sale. Do not include vacations and other seasonal absences, even if you rented out the home during those absences.
5) Whether you or a joint owner ever chose to exclude gain on the sale of a home, and if you did, when and where you did so. If you revoked the choice, give the date you revoked it.

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You can choose to exclude the gain even if you originally included it on your tax return for the year of the sale. You do so by filing an amended return on Form 1040X for that year. You must send a filled-in Form 2119 or a statement that includes the information listed above with your amended return.

How to revoke the choice. You can revoke your choice to exclude gain by filing an amended return for the year of sale using Form 1040X. Attach a new completed Form 2119 and, if needed, a Schedule D (Form 1040). Send the forms to the Internal Revenue Service Center for the place where you live.

If you were married when you sold your home, your spouse who joined you in making the choice must join you in revoking it. If your spouse is deceased, his or her personal representative must join you in revoking the choice.

Note. If you revoke your choice to exclude gain when less than a year is left in the assessment period (time for determining your correct tax) for the return on which the choice was made, you must agree to extend the assessment period. Before the end of the period, you must file a statement that the assessment period will not end until 1 year after the date the statement is filed. The assessment period normally ends on the latest of the dates shown earlier under *Time to exclude gain.*

Adjustments to Income

You may be able to subtract amounts from your gross income (Form 1040, line 22 or Form 1040A, line 14) to get your adjusted gross income (Form 1040, line 31 or Form 1040A, line 16). Some adjustments to income follow:

1) Contributions to your Individual Retirement Arrangement (IRA), (Form 1040, lines 23a and 23b, or Form 1040A, lines 15a and 15b) explained later in the publication.
2) Certain moving expenses (Form 1040, line 24) if you changed job locations or started a new job in 1995. See Publication 521, *Moving Expenses* or get Form 3903, *Moving Expenses,* or Form 3903–F, *Foreign Moving Expenses,* and the accompanying instructions.
3) Some health insurance costs (Form 1040, line 26) if you were self-employed and had a net profit for the year, or if you received wages in 1995 from an S Corporation in which you were a more than 2% shareholder. For more details get Publication 535, *Business Expenses.*
4) Payments to your Keogh and self-employed SEP plans (Form 1040, line 27). For more information, including limits on how much you can deduct, see Publication 560, *Retirement Plans for the Self-Employed.*
5) Penalties paid on early withdrawal of savings. See the instructions for line 28 in your Form 1040 instructions.
6) Alimony payments (Form 1040, line 29). For more information, see Publication 504, *Divorced or Separated Individuals.*

There are other items you can claim as adjustments to income. These adjustments are discussed in the Form 1040 instructions. For other retirement plan items you can claim as adjustments to income, see Publication 560.

Individual Retirement Arrangement (IRA) Deductions

This section explains the tax treatment of amounts you pay into individual retirement arrangements (IRAs). For more detailed information get Publication 590.

IRA contributions. An IRA is a personal savings plan that offers you tax advantages to set aside money for your retirement. That means that you may be able to deduct your contributions to your IRA in whole or in part, depending on your circumstances, and that, generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

Note. Although interest earned on your IRA is generally not taxed in the year earned, it is not tax-exempt interest. Do not report this interest on your tax return as tax-exempt interest.

Contribution limits. Generally, you can take a deduction for the contributions that you are allowed to make to your IRA. However, **if you or your spouse is covered by an employer retirement plan at any time during the year,** your allowable IRA deduction may be less than your contributions. Your allowable deduction may be reduced or eliminated, depending on your filing status and the amount of your income.

Although your deduction for IRA contributions may be reduced or eliminated because of the adjusted gross income limitation, you can still make **contributions** of up to $2,000 ($2,250 for a regular and a spousal IRA combined) or 100% of your compensation, whichever is less. The difference between your total permitted contributions and your total deductible contributions, if any, is your **nondeductible contribution.** You must file **Form 8606**, *Nondeductible IRAs (Contributions, Distributions, and Basis),* to report nondeductible contributions even if you do not have to file a tax return for the year.

The Standard Deduction

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

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

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

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

Note: If you are a nonresident alien who is married to a U.S. citizen or resident at the end of 1995, you can choose to be treated as a U.S. resident for 1995.

Higher standard deduction for age (65 or older). If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year.

You are considered 65 on the day before your 65th birthday. Therefore, you can take the higher standard deduction for 1995 if your 65th birthday was on or before January 1, 1996.

Higher standard deduction for blindness. If you are blind on the last day of the year and you do not itemize deductions, you are entitled to a higher standard deduction shown in *Table 3* in this publication. You qualify for this benefit if you are totally or partly blind.

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

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

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

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

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

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

1) You file a joint return, or

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

Note. You cannot claim the higher standard deduction for an individual, other than yourself and your spouse.

If you are 65 or older or blind, see *Table 3* in this publication, to figure the standard deduction amount you are entitled to.

If you are under age 65 and not blind, see *Table 2* in this publication, to figure the standard deduction amount you are entitled to.

Dependents may have a limited standard deduction. If you can be claimed as a dependent on another person's return, your standard deduction may be limited. See *Table 4* in this publication.

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

If you decide to take the standard deduction, you may find your standard deduction amount by referring to the chart that fits your circumstances.

Example 1. Larry, 66, and Donna, 67, are filing a joint return for 1995. Neither is blind. They decide not to itemize their deductions. They use *Table 3*. Their standard deduction is $8,050.

Example 2. Assume the same facts as in *Example 1* except that Larry is blind at the end of 1995. They use *Table 3*. Larry and Donna's standard deduction is $8,800.

Example 3. Susan, 67, who is blind, qualifies as head of household in 1995. She has no itemized deductions. She uses *Table 3*. Her standard deduction is $7,650.

Standard Deduction for Dependents

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of:

- $650, or
- The individual's earned income for the year (but not more than the regular standard deduction amount for the dependent's filing status, generally $3,900).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher. Use *Table 4* to determine your standard deduction.

Itemized Deductions

Some individuals should itemize their deductions because it will save them money. Others should itemize because they do not qualify for the standard deduction. See the discussion under *The Standard Deduction,* earlier, to decide if it would be to your advantage to itemize deductions.

Medical and dental expenses, some taxes, certain interest expenses, charitable contributions, certain losses, and other miscellaneous expenses may be itemized as deductions on Schedule A (Form 1040).

Note. You may be subject to a limit on some of your itemized deductions if your adjusted gross income (AGI) is more than $114,700 ($57,350 if you file married filing separately).

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

- Cannot take the standard deduction,
- Had large uninsured medical or dental expenses (see *Medical and Dental Expenses* later),
- Paid interest and taxes on your home,
- Had large unreimbursed employee business expenses or other miscellaneous deductions,
- Had large uninsured casualty or theft losses,
- Made large contributions to qualified charities (however, see Publication 526, *Charitable Contributions*), or
- Have total itemized deductions that are more than the highest standard deduction you can claim.

See the instructions for Schedule A in the Form 1040 instructions for more information and how to figure the correct amount of your itemized deductions.

Medical and Dental Expenses

You can deduct certain medical and dental expenses you paid for yourself, your spouse, and your dependents, if you itemize your deductions on Schedule A (Form 1040).

The following lists show items that you can or cannot include in figuring your medical expense deduction. More information can be found in Publication 502, *Medical and Dental Expenses.*

List of Medical Expenses

Use the following list for a ***quick check*** of expenses that you can include or cannot include.

You can include:

Fees for medical services,

Fees for hospital services,

Insurance premiums you paid for medical and dental care,

1995 Standard Deduction Tables

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

Table 2. Standard Deduction Chart for Most People*

If Your Filing Status is:	Your Standard Deduction Is:
Single	$3,900
Married filing joint return or Qualifying widow(er) with dependent child–	6,550
Married filing separate return	3,275
Head of household	5,750

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

Table 3. Standard Deduction Chart for People Age 65 or Older or Blind*

Check the correct number of boxes below. Then go to the chart.

You 65 or older ☐ Blind ☐

Your spouse, if claiming spouse's exemption 65 or older ☐ Blind ☐

Total number of boxes you checked ☐

If Your Filing Status is:	And the Number in the Box Above is:	Your Standard Deduction is:
Single	1	$4,850
	2	5,800
Married filing joint return or Qualifying widow(er) with dependent child	1	7,300
	2	8,050
	3	8,800
	4	9,550
Married filing separate return	1	4,025
	2	4,775
	3	5,525
	4	6,275
Head of household	1	6,700
	2	7,650

* If someone can claim you (or your spouse if married filing jointly) as a dependent, use Table 4, instead.

Table 4. Standard Deduction Worksheet for Dependents*

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.

You 65 or older ☐ Blind ☐

Your spouse, if claiming spouse's exemption 65 or older ☐ Blind ☐

Total number of boxes you checked ☐

1. Enter your **earned income** (defined below). If none, go on to line 3.	**1.**________
2. Minimum amount	**2.** $650
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts here.	**3.**________
4. Enter on line 4 the amount shown below for your filing status. • Single, enter $3,900 • Married filing separate return, enter $3,275 • Married filing jointly or Qualifying widow(er) with dependent child, enter $6,550 • Head of household, enter $5,750	**4.**________
5. Standard deduction. **a.** Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b.	**5a.**________
b. If 65 or older or blind, multiply $950 ($750 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result.	**5b.**________
c. Add lines 5a and 5b. This is your standard deduction for 1995.	**5c.**________

Earned income *includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.*

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

Meals and lodging provided by a hospital during medical treatment,

Special equipment, such as a motorized wheelchair, etc.,

Special items, including false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.,

Transportation and lodging for needed medical care, and

Medicines and drugs that are prescribed, and insulin.

Do not include:

Bottled water,

Funeral, burial, or cremation expenses,

Health club dues,

Household help,

Illegal operation or treatment,

Life insurance or income protection policies,

Program to stop smoking,

Medicare insurance (Medicare A) basic cost,

Medicine or drugs you bought without a prescription,

Toothpaste, toiletries, cosmetics, etc.,

Trip for general improvement of health, or

Weight loss program.

7.5% limit. You can deduct only the amount of your medical and dental expenses that is more than 7.5% of your adjusted gross income shown on line 31, Form 1040.

You can include only the medical and dental expenses you paid during 1995, regardless of when the services were provided. If you pay medical expenses by check, the day you mail or deliver the check generally is the date of payment. If you use a ''pay-by-phone'' account to pay your medical expenses, the date reported on the statement of the financial institution showing when payment was made is the date of payment. You can include medical expenses you charge to your credit card in the year the charge is made. It does not matter when you actually pay the amount charged.

Medical Insurance Premiums

You can include in medical expenses insurance premiums you pay for policies that cover medical care. Policies can provide payment for:

- Hospitalization, surgical fees, X-rays, etc.,
- Prescription drugs,
- Replacement of lost or damaged contact lenses, or
- Membership in an association that gives cooperative or so-called ''free-choice'' medical service, or group hospitalization and clinical care.

If you have a policy that provides more than one kind of payment, you can include the premiums for the medical care part of the policy if the charge for the medical part is reasonable. The cost of the medical portion must be separately stated in the insurance contract or given to you in a separate statement.

Medicare A. If you are covered under social security (or if you are a government employee who paid Medicare tax), you are enrolled in Medicare A. The tax paid for Medicare A is not a medical expense. If you are not covered under social security (or were not a government employee who paid Medicare tax), you may voluntarily enroll in Medicare A. In this situation the premiums paid in 1995 for Medicare A can be included as a medical expense.

Medicare B. Medicare B is a supplemental medical insurance. Premiums you pay for Medicare B are a medical expense. If you applied for it at age 65, you can deduct $46.10 for each month in 1995 for which you paid a premium. If you were over age 65 when you first enrolled, check the information you received from the Social Security Administration to find out your premium.

Prepaid insurance premiums. Premiums you pay before you are 65 for insurance for medical care for yourself, your spouse, or your dependents after you are 65 are medical care expenses in the year paid if they are:

1) Payable in equal yearly installments, or more often, and
2) Paid for at least 10 years, or until you reach 65 (but not for less than 5 years).

Unused sick leave used to pay premiums. You must include in gross income cash payments you receive at the time of retirement for unused sick leave.

You must also include in gross income the value of unused sick leave that, at your option, your employer applies to the cost of your continuing participation in your employer's health plan after you retire. You can include this cost of continuing participation in the health plan as a medical expense.

If you participate in a health plan where your employer automatically applies the value of unused sick leave to the cost of your continuing participation in the health plan (and you do not have the option to receive cash), you do not include the value of the unused sick leave in gross income. You cannot deduct this cost of continuing participation in that health plan as a medical expense.

You cannot include premiums you pay for:

Life insurance policies,

Policies providing payment for loss of earnings,

Policies for loss of life, limb, sight, etc.,

Policies that pay you a guaranteed amount each week for a stated number of weeks if you are hospitalized for sickness or injury, or

The part of your car insurance premiums that provides medical insurance coverage for all persons injured in or by your car because the part of the premium for you and your dependents is not stated separately.

Medical and Dental Expenses

You can include in medical expenses your payments for:

- Medical services by physicians, surgeons, specialists, or any other medical practitioner.
- Hospital services, therapy and nursing services (including part of the cost of all nurses' meals you pay for), ambulance hire, and laboratory, surgical, diagnostic, dental, and X-ray fees.
- Life-care fee or a founder's fee paid either monthly or as a lump sum under an agreement with a ***retirement home***. The part of the payment you include is the amount properly allocable to medical care. The agreement must require a specified fee payment as a condition for the home's promise to provide lifetime care that includes medical care.
- Wages and other amounts you pay for nursing services. Services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient.

  Only the amount spent for nursing services is a medical expense. If the attendant also provides personal and household services, these amounts must be divided between the time spent in performing household and personal services and time spent for nursing services. However, certain expenses for household services or for the care of a qualifying individual incurred to allow you to work may qualify for the child and dependent care credit. See Publication 503, *Child and Dependent Care Expenses.*
- Social security tax, FUTA, and Medicare tax, and state employment taxes for a worker who provided medical care. For information on employment tax responsibilities of household employers, see Publication 926, *Household Employer's Tax Guide.*
- Treatment at a therapeutic center for drug or alcohol addiction, including meals and lodging provided by the center during treatment.

Meals and Lodging

You can include in medical expenses the cost of meals and lodging at a hospital or similar institution if your main reason for being there is to receive medical care.

You may be able to include in medical expenses the cost of lodging not provided in a hospital or similar institution. You can include the cost of such lodging while away from home if you meet all of the following requirements:

1) The lodging is primarily for, and essential to, medical care,
2) The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital,
3) The lodging is not lavish or extravagant under the circumstances, and
4) There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount you include in medical expenses cannot exceed $50 per night for each person. Lodging is included for a person for whom transportation expenses are a medical expense because that person is traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to $100 per night is included as a medical expense for lodging. (Meals are not deductible.)

Nursing home. You can include in medical expenses the cost of medical care in a nursing home or a home for the aged for yourself, your spouse, or your dependents. This includes the cost of meals and lodging in the home if the main reason for being there is to get medical care.

Do not include the cost of meals and lodging if the reason for being in the home is personal. You can, however, include in medical expenses the part of the cost that is for medical or nursing care.

Medical trip. You cannot deduct the cost of your meals and lodging while you are away from home for medical treatment if you do not receive the treatment at a medical facility or if the lodging is not primarily for or essential to the medical care.

Special Items and Equipment

Include payments for:

- False teeth, artificial limbs, contact lenses, eyeglasses, hearing aids and batteries to operate it, and crutches.
- The cost and care of a guide dog or other animal to be used by a visually or hearing impaired person. You can also include the cost and care of a dog or other animal trained to assist persons with other physical disabilities. Amounts you pay for the care of these specially trained animals are also medical expenses.
- The cost and repair of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone.
- The extra cost of a specially equipped television set and the cost of an adapter for a regular set that provides subtitles for a hearing-impaired person.
- The part of the cost of braille books and magazines for use by a visually-impaired person that is more than the price for regular printed editions.
- A plan that keeps your medical information so that it can be retrieved from a computer data bank for your medical care.
- Oxygen and oxygen equipment to relieve breathing problems caused by a medical condition.
- Legal fees you paid that are necessary to authorize treatment for mental illness. You cannot include in medical expenses fees for the management of a guardianship estate, fees for conducting the affairs of

the person being treated, or other fees that are not necessary to the medical care.

- Special hand controls and other special equipment installed in a car for the use of a person with a disability. Include the amount by which the cost of a car specially designed to hold a wheelchair is more than the cost of a regular car.
- An autoette or a wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation to and from work. The cost of operating and keeping up an autoette or wheelchair is also a medical expense.

Do not include the cost of operating a specially equipped car, except as discussed next.

Transportation

Amounts paid for transportation primarily for, and essential to, medical care qualify as medical expenses.

You can include:

- Bus, taxi, train, or plane fares, or ambulance service.
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and is unable to travel alone.
- Actual car expenses, such as gas, oil, parking fees, and tolls. Instead of deducting actual car expenses, you can deduct ***9 cents a mile*** for use of your car for medical reasons. Add the cost of parking fees and tolls to this amount.

  You cannot include depreciation, insurance, or general repair and maintenance expenses on your car, no matter which method you choose to figure the deduction.

Do not include transportation expenses if, for nonmedical reasons, you choose to travel to another city, such as a resort area, for an operation or other medical care prescribed by your doctor.

Capital Expenses

You can include in medical expenses amounts you pay for special equipment installed in your home or for improvements, if their main purpose is medical care for you, your spouse, or a dependent. The cost of permanent improvements that increase the value of the property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of the property. The difference is a medical expense. If the value of the property is not increased by the improvement, the entire cost is included as a medical expense.

Example 1. You suffer from an allergy. On your doctor's advice you have central air conditioning installed to give you relief from your allergy and your difficulty in breathing. The cost of the equipment is $3,000 but, according to competent appraisers, your property is increased in value by $2,500. You can include the difference of $500 as a medical expense. If the value of your home did not increase, you could include all of the $3,000 in medical expenses.

Example 2. You have a heart ailment. On your doctor's advice, you install an elevator in your home so you will not have to climb stairs. This elevator costs $2,000. An appraisal shows that the elevator increases the value of your home by $1,400. The $600 difference is a medical expense. However, you can include the total cost in medical expenses if the elevator does not increase the value of your home.

Home improvements. Certain improvements made to accommodate your personal residence to your disabled condition, or that of your spouse or your dependents who live with you, do not usually increase the value of the residence and the cost can be included in full as medical expenses. These improvements include, but are not limited to, the following items:

- Constructing entrance or exit ramps to your residence,
- Widening doorways at entrances or exits to your residence,
- Widening or otherwise modifying hallways and interior doorways,
- Installing railing, support bars, or other modifications to bathrooms,
- Lowering or modifying kitchen cabinets and equipment,
- Moving or modifying electrical outlets and fixtures,
- Installing porch lifts and other forms of lifts (but generally not elevators),
- Modifying fire alarms, smoke detectors, and other warning systems,
- Modifying stairs,
- Adding handrails or grab bars anywhere (whether or not in bathrooms),
- Modifying hardware on doors,
- Modifying areas in front of entrance and exit doorways, and
- Grading the ground to provide access to the residence.

Only reasonable costs to accommodate a personal residence to a disabled condition are considered medical care. Additional costs for personal motives, such as for architectural or aesthetic reasons, are not medical expenses.

Publication 502 contains additional information and examples, including a capital expense work chart, to assist you in figuring the amount of the capital expense that you can include in your medical expenses. Also, see

Publication 502 for information about deductible operating and upkeep expenses related to such capital expense items, and for information about improvements, for medical reasons, to property rented by a person with disabilities.

Do Not Include In Medical Expenses

Do not include in medical expenses the cost of the following items, even if they are related to medical care:

- A trip or vacation taken for a change in environment, improvement of morale, or general improvement of health, even if you make the trip on the advice of a doctor.
- The part of your car insurance premiums that provides medical insurance coverage for all persons injured in or by your car.
- Weight loss program, for your general health, even if your doctor prescribes the program.
- Program to stop smoking that you join for the improvement of your general health, even if your doctor suggests the program.
- Health club dues, YMCA dues, or amounts paid for steam baths, for your general health or to relieve physical or mental discomfort that is not related to a particular medical condition.
- Cosmetic surgery that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. You can include in medical expenses the amount you pay for cosmetic surgery if it is necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.
- Household help, even if your doctor recommended it.
- Social activities, such as dancing lessons, or swimming for the general improvement of your health, even if they are recommended by your doctor.

Credit for the Elderly or the Disabled

This section explains who qualifies for the credit for the elderly or the disabled and how to figure this credit. The maximum credit available is $1,125. You may be able to take this credit if you are 65 or older, or if you retired on permanent and total disability.

You can only take the credit if you file Form 1040 or Form 1040A. You figure the credit on Schedule R (Form 1040), *Credit for the Elderly or the Disabled,* or on Schedule 3 (Form 1040A), *Credit for the Elderly or the Disabled for Form 1040A Filers*. You cannot take the credit if you file Form 1040EZ. If you want more information, get Publication 524, *Credit for the Elderly or the Disabled.*

The IRS will figure your credit. If you choose to have the IRS figure your tax on Form 1040 or Form 1040A, and you qualify for the credit for the elderly or the disabled, the IRS will figure the credit for you. See *The IRS Will Figure Your Tax and Some of Your Credits,* in your Form 1040 instructions or see your Form 1040A instructions for line 22.

Can You Take the Credit?

You can take the credit for the elderly or the disabled if you are a ***qualified individual*** and if your income is not more than certain limits. See *Limits on Credit,* later.

Qualified individual. You are a qualified individual for this credit if you are a U.S. citizen or resident and:

1) You are age 65 or older by the end of the tax year, or
2) You are under 65 at the end of the tax year, and
   a) You are retired on permanent and total disability,
   b) You did not reach mandatory retirement age before 1995, and
   c) You received taxable disability income in 1995.

Age 65. You are considered 65 on the day before your 65th birthday. Therefore, you are 65 by the end of 1995 if your 65th birthday is on January 1, 1996.

U.S. citizen or resident. You must be a U.S. citizen or resident to take the credit. Generally, you cannot take the credit if you were a nonresident alien at any time during the tax year. However, if you are a nonresident alien who is married to a U.S. citizen or resident at the end of the tax year and you both choose to be treated as U.S. residents and be taxed on your worldwide income, you may be able to take the credit.

Married persons. Generally, if you are married at the end of the tax year, you and your spouse must file a joint return to take the credit. If you and your spouse did not live in the same household at any time during the tax year, you may file either a joint return or separate returns and still take the credit.

You will not be considered married, for tax purposes, if you meet all of the tests for certain married persons who lived apart. If you meet all these tests, you can file as **head of household** and qualify to take the credit even if your spouse lived with you during the first 6 months of the year. See Publication 501, *Exemptions, Standard Deduction, and Filing Information* or your Form 1040 or 1040A instructions for line 4.

Qualified individual under age 65. If you are under age 65, you may qualify for the credit only if you are retired on permanent and total disability. You are retired on permanent and total disability if:

1) You were permanently and totally disabled when you retired, and
2) You retired on disability before the end of the tax year.

You are considered retired on disability, even if you do not retire formally, when you have stopped working because of your disability.

Permanent and total disability. You are permanently and totally disabled if you cannot engage in any substantial gainful activity because of your physical or mental condition. A physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death. See *Physician's statement,* later.

Substantial gainful activity. Substantial gainful activity is the performance of significant duties over a reasonable period of time while working for pay or profit, or in work generally done for pay or profit. Full-time work (or part-time work done at the employer's convenience) in a competitive work situation for at least the minimum wage conclusively shows that you are able to engage in substantial gainful activity. The minimum wage is $4.25 an hour.

Substantial gainful activity is not work you do to take care of yourself or your home. It is not unpaid work on hobbies, institutional therapy or training, school attendance, clubs, social programs, and similar activities. However, doing this kind of work may show that you are able to engage in substantial gainful activity. The fact that you have not worked for some time is not, of itself, conclusive evidence that you cannot engage in substantial gainful activity. The following examples illustrate the tests of substantial gainful activity.

Example 1. Trisha, a sales clerk, retired on disability. She is 53 years old and now works as a full-time babysitter for minimum wage. Even though Trisha is doing different work, she is able to do the duties of her new job in a full-time competitive work situation for the minimum wage. She cannot take the credit because she is able to engage in substantial gainful activity.

Example 2. Tom, a bookkeeper, retired on disability. He is 59 years old and now drives a truck for a charitable organization. He sets his own hours and is not paid. Duties of this nature generally are performed for pay or profit. Some weeks he works 10 hours and some weeks he works 40 hours. Over the year he averages 20 hours a week. The kind of work and his average hours a week conclusively show that Tom is able to engage in substantial gainful activity. This is true even though Tom is not paid and he sets his own hours. He cannot take the credit.

Example 3. John, who retired on disability, took a job with a former employer on a trial basis. The purpose of the job was to see if John could do the work. The trial period lasted for 6 months during which John was paid the minimum wage. Because of John's disability, he was assigned only light duties of a nonproductive ''make-work'' nature. The activity was gainful because John was paid at least the minimum wage. But the activity was not substantial because his duties were nonproductive. These facts do not, by themselves, show that John is able to engage in substantial gainful activity.

Example 4. Joan, who retired on disability from employment as a bookkeeper, lives with her sister who manages several motel units. Joan assists her sister for 1 or 2 hours a day by performing duties such as washing dishes, answering phones, registering guests, and bookkeeping. Joan can select the time during the day when she feels most fit to perform the tasks undertaken. Work of this nature, performed off and on during the day at Joan's convenience, is not activity of a ''substantial and gainful'' nature even if she is paid for the work. The performance of these duties does not, of itself, show that Joan is able to engage in substantial gainful activity.

Sheltered employment. Certain work offered at qualified locations to physically or mentally impaired persons is considered sheltered employment. These locations are in sheltered workshops, hospitals and similar institutions, homebound programs, and Department of Veterans Affairs (VA) sponsored homes. Compared to commercial employment, pay is lower for sheltered employment. Therefore, one usually does not look for sheltered employment if he or she can get other employment. The fact that one has accepted sheltered employment is not proof of the person's ability to engage in substantial gainful activity.

Physician's statement. If you are under 65, you must have your physician complete a statement certifying that you are permanently and totally disabled. Attach the statement to your return. You may use the physician's statement in Part II of either Schedule R (Form 1040) or of Schedule 3 (Form 1040A). However, check the box on line 2 and do not attach a physician's statement if:

1) You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician signed line B on the statement, **and**
2) Due to your continued disabled condition, you were unable to engage in any substantial gainful activity in 1995.

If you have not filed a physician's statement in a previous year, or if the statement you filed did not meet these conditions, your physician must complete the statement.

If you file a joint return and you checked box 5 in Part I of either Schedule R or Schedule 3, you and your spouse must each file a physician's statement. Attach a separate Schedule R or Schedule 3 for your spouse with only Part II filled out.

Disability income. If you are under age 65, you may qualify for the credit only if you have taxable disability income. Disability income must meet the following two requirements:

1) The income must be paid under your employer's accident or health plan or pension plan.
2) The income must be wages or payments in lieu of wages for the time you are absent from work because of permanent and total disability.

Table 5. **Base Amounts for Schedule R and Schedule 3**

If your filing status is:	Your Base Amount to enter on line 10 of Schedule R or Schedule 3 is:
Single, an unmarried head of household, or a qualifying widow(er) with dependent child and	
• 65 or older	$5,000
• under 65 and retired on permanent and total disability [1]	$5,000
Married filing a joint return and	
• both of you are 65 or older	$7,500
• both of you are under 65 and one of you retired on permanent and total disability [1]	$5,000
• both of you are under 65 and both of you retired on permanent and total disability [2]	$7,500
• one of you is 65 or older, and the other is under 65 and retired on permanent and total disability [3]	$7,500
• one of you is 65 or older, and the other is under 65 and ***not*** retired on permanent and total disability	$5,000
Married filing a separate return and did not live with your spouse at any time during the year and	
• 65 or older	$3,750
• under 65 and retired on permanent and total disability [1]	$3,750

[1] Your base amount cannot be more than the taxable disability income.
[2] Your base amount cannot be more than your combined taxable disability income.
[3] Your base amount is $5,000 plus the taxable disability income of the spouse under age 65, but not more than $7,500.

Any payment you receive from a plan that does not provide for disability retirement is not disability income. Any lump-sum payment for accrued annual leave that you receive when you retire on disability is a salary payment and is not disability income.

For purposes of the credit for the elderly or the disabled, disability income does not include amounts you receive after you reach mandatory retirement age. Mandatory retirement age is the age set by your employer at which you would have had to retire had you not become disabled.

Figuring the Credit

If you figure the credit yourself, fill out the front of either Schedule R (if you are filing Form 1040) or Schedule 3 (if you are filing Form 1040A). Next, fill out Part III of either Schedule R or Schedule 3. There are three steps to follow in Part III to determine the amount on which you figure your credit:

1) Determine your ***base amount*** (lines 10–12 of either Schedule R or Schedule 3).

2) Total any ***nontaxable social security*** or ***railroad retirement benefits*** and other nontaxable pensions and disability benefits you received (lines 13a, 13b, and 13c of either Schedule R or Schedule 3).

3) Determine your ***excess adjusted gross income***, (lines 14–17 of either Schedule R or Schedule 3).

Amount of credit. If (1) is more than the total of (2) and (3), multiply the difference by 15% to get the amount of your credit. If the total of (2) and (3) is more than (1), you cannot take the credit. This computation is found in Part III, lines 18–20 of either Schedule R or Schedule 3. In certain cases the amount of your credit may be limited.

Step 1. Determine Base Amount

To figure the credit, you must first determine your base amount. See *Table 5. Base Amounts for Schedule R and Schedule 3*.

Base amounts for persons under age 65. If you are a qualified individual under age 65, your base amount cannot be more than your taxable disability income. This limit affects you only if:

1) Your filing status is single, head of household, or qualifying widow(er) with dependent child and your taxable disability income is less than $5,000,

2) Your filing status is married filing a joint return and:

   a) Your spouse is also a qualified individual under 65 and your combined taxable disability income is less than $7,500,

   b) Your spouse is under 65 and not a qualified individual and your taxable disability income is less than $5,000, or

   c) Your spouse is 65 or older and your taxable disability income is less than $2,500, or

3) Your filing status is married filing separately and your taxable disability income is less than $3,750.

Step 2. Total Certain Nontaxable Income

Once you have determined your base amount, you must reduce it by the total amount of nontaxable social security and certain other nontaxable payments you receive during the year. Enter these nontaxable payments on lines 13a or 13b of either Schedule R or Schedule 3, and total them on line 13c. If you are married filing a joint return, you must enter the combined amount of nontaxable payments both you and your spouse receive.

Worksheets are provided in the instructions for Forms 1040 and 1040A to help you determine if any part of your social security (or equivalent railroad retirement benefits) is taxable. The nontaxable portions are used to reduce your base amount.

The following payments reduce your base amount.

- Nontaxable social security payments. This is the nontaxable part of the amount of benefits shown in box 5 of Form SSA–1099, which includes disability benefits, before deducting any amounts withheld to pay premiums on supplementary Medicare insurance, and before any reduction because of receipt of a benefit under workers' compensation.

  Do not include a lump-sum death benefit payment you may receive as a surviving spouse, or a surviving child's insurance benefit payments you may receive as a guardian.

- Social security equivalent part of tier 1 railroad retirement pension payments that are not taxed. This is the nontaxable part of the amount of benefits shown in box 5 of Form RRB–1099

- Nontaxable pension or annuity payments or disability benefits that are paid under a law administered by the Department of Veterans Affairs (VA). Do not include amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service, or as a disability annuity under section 808 of the Foreign Service Act of 1980.

- Pension or annuity payments or disability benefits that are excluded from income under any provision of federal law other than the Internal Revenue Code.

Amounts that are a return of your cost of a pension or annuity do not reduce your base amount.

You should correctly include all of the nontaxable amounts you receive. These amounts are verified by the IRS through information supplied by other government agencies.

Step 3. Determine Excess Adjusted Gross Income

You also have to subtract the amount of your excess adjusted gross income from the base amount used to figure your credit.

You figure your ***excess adjusted gross income*** as follows:

1) Subtract from your adjusted gross income the amount shown for your filing status in the following list:

   - $7,500 if you are single, head of household, or a qualifying widow(er) with dependent child,
   - $10,000 if you are married filing a joint return, or
   - $5,000 if you are married filing a separate return and you and your spouse did not live in the same household at any time during the tax year.

2) Divide the result of (1) by 2.

Figure your excess adjusted gross income on lines 14 through 17 of either Schedule R or Schedule 3.

You will not be able to claim the credit on Schedule R or Schedule 3 if—

- You are single, head of household, or a qualifying widow(er) with dependent child, and you receive nontaxable social security or other nontaxable pensions of $5,000 or more or have adjusted gross income of $17,500 or more.
- You are married filing a joint return, only ***one spouse*** is a qualified individual, and together you receive nontaxable social security or other nontaxable pensions of $5,000 or more or have adjusted gross income of $20,000 or more.
- You are married filing a joint return, ***both*** of you are qualified individuals, and together you receive nontaxable social security or other nontaxable pensions of $7,500 or more or have adjusted gross income of $25,000 or more.
- You are married filing a separate return, you and your spouse did not live in the same household at any time during the tax year, and you receive nontaxable social security or other nontaxable pensions of $3,750 or more or have adjusted gross income of $12,500 or more.

Example. You are 66 years old and your spouse is 64. Your spouse is not disabled. You file a joint return on Form 1040. Your adjusted gross income is $14,630. Together you received $3,200 from social security, which was nontaxable. You figure the credit as follows:

1. Base amount			$5,000
2. Subtract the total of:			
a) Social security and other nontaxable pensions		$3,200	
b) Excess adjusted gross income [($14,630 − $10,000) ÷ 2]		2,315	5,515
3. Balance (not less than –0–)			–0–
4. Credit			$ –0–

You may not take the credit since your nontaxable social security (line 2a) plus your excess adjusted gross income (line 2b) is more than your base amount (line 1).

Limits on Credit

The amount of your credit may be limited if:

1) You file Schedules C, C–EZ, D, E, or F (Form 1040), and
2) The amount on Form 1040, line 22, is more than:
   - $33,750 if you are single or head of household,
   - $45,000 if married filing jointly or qualifying widow(er) with dependent child,
   - $22,500 if married filing separately, or
   - You are subject to the alternative minimum tax.

For purposes of (2), any **tax-exempt interest** from private activity bonds issued after August 7, 1986, and any net operating loss deduction must be added to the amount from Form 1040, line 22.

If both (1) and (2) do not apply, your credit is not subject to this limit. Enter the amount of the credit from Schedule R, line 20, on Form 1040, line 42. If you meet both (1) and (2), get **Form 6251**, *Alternative Minimum Tax—Individuals,* and complete it through line 24. The limit on your credit will be the smaller of:

1) Your credit as computed, or
2) Your regular tax (line 40, Form 1040) minus:
   a) Any credit for child and dependent care expenses, and
   b) Any amount shown on line 24, Form 6251.

Enter the smaller of (1) or (2) on Form 1040, line 42. If (2) is the smaller amount, also write ''AMT'' on the dotted line next to line 42, Form 1040, and replace the amount on Schedule R, line 20, with that amount.

Tax credit not refundable. Your credit for the elderly or the disabled cannot be more than the amount of your tax liability. Therefore, you cannot get a refund for any part of the credit that is more than your tax.

Examples. The following examples illustrate the credit for the elderly or the disabled. Assume that none of the taxpayers in these examples had to file a Form 6251.

Example 1. Jerry Ash is single and 68 years old. He received the following income for the year:

Nontaxable social security	$3,120
Interest (taxable)	215
Pension (all taxable)	3,600
Wages from a part-time job	4,245

Jerry's adjusted gross income is $8,060 ($4,245 + $3,600 + $215). Jerry figures the credit as follows:

1. Base amount			$5,000
2. Subtract the total of:			
a) Social security and other nontaxable pensions		$3,120	
b) Excess adjusted gross income [($8,060 − $7,500) ÷ 2]		280	3,400
3. Balance (not less than –0–			$1,600
4. **Credit** (15% of $1,600)			$ 240

Jerry's credit is $240.

Example 2. James Davis is single, 58 years old, and files Form 1040A. Two years ago he retired on permanent and total disability and he is still permanently and totally disabled. He filed the required physician's statement with his return for the year he retired on disability, so this year he checks the box in Part II of Schedule 3. This year he received nontaxable social security disability benefits of $3,000, a taxable disability pension of $8,400, and $100 interest. His adjusted gross income is $8,500 ($8,400 + $100). James figures his credit on Schedule 3 as follows:

1. Base amount			$5,000
2. Taxable disability pension			$8,400
3. Smaller of these amounts			$5,000
4. Subtract the total of:			
a) Nontaxable disability benefits (social security)		$3,000	
b) Excess adjusted gross income [($8,500 − $7,500) ÷ 2]		500	3,500
5. Balance			$1,500
6. **Credit** (15% of $1,500)			$ 225

His credit is $225. James enters $225 on line 24b of Form 1040A.

Child and Dependent Care Credit

If you pay someone to care for your dependent who is under age 13 or for your spouse or dependent who is not capable of self-care, you may be able to get a credit of up to 30% of your expenses. To qualify, you must pay these expenses so you can work or look for work.

If you claim this credit, you must show on your return the name, address, and generally the social security number of the person who provided the care.

For information, see Publication 503.

Earned Income Credit

The earned income credit is available to persons with a qualifying child and to persons without a qualifying child. This section will list separately the rules that persons with a qualifying child must meet to get the credit and the rules that persons without a qualifying child must meet to get the credit. After you have read the rules and think you may qualify for the credit, get Publication 596, *Earned Income Credit.* You can also find information in the instructions for Form 1040 (line 57), Form 1040A (line 29c), or Form 1040EZ (line 8).

Increased earned income credit amount. If you have one qualifying child, the maximum credit has increased from $2,038 in 1994 to $2,094 in 1995. If you have two or more qualifying children, the maximum credit has increased from $2,528 in 1994 to $3,110 in 1995. If you do not have a qualifying child, the maximum credit has increased from $306 in 1994 to $314 in l995.

Credit has no effect on certain welfare benefits. The earned income credit and the advance earned income credit payments you receive will not be used to determine whether you are eligible for the following benefit programs, or how much you can receive from the programs.

- Aid to Families With Dependent Children (AFDC),
- Medicaid,
- Supplemental Security Income (SSI),
- Food Stamps, and
- Low-income housing.

Who Can Claim the Credit?

The earned income credit is available to persons with a qualifying child and to persons without a qualifying child. Some of the rules are the same, but some of the rules only apply to persons with a qualifying child or to persons without a qualifying child. Use the discussion that applies to you.

Persons Who Work and Have One or More Qualifying Children

Generally, if you are a nonresident alien for any part of the year, you cannot claim the credit. To claim the earned income credit under this section, you must meet all the following rules:

1) You must have a qualifying child who lived with you in the United States for more than half the year (the whole year for an eligible foster child). For purposes of the earned income credit U.S. military personnel stationed outside the U.S. on extended active duty are considered to live in the United States for that duty period.
2) You must have earned income during the year.
3) Your earned income and adjusted gross income must each be less than:
   - $24,396 if you have one qualifying child, or
   - $26,673 if you have more than one qualifying child.
4) Your filing status can be any filing status except married filing a separate return.
5) You cannot be a qualifying child of another person.
6) Your qualifying child cannot be the qualifying child of another person whose adjusted gross income is more than yours.
7) You usually must claim a qualifying child who is married as a dependent.
8) You are not filing Form 2555, *Foreign Earned Income* (or Form 2555–EZ, *Foreign Earned Income Exclusion*).

Who Is a Qualifying Child?

You have a qualifying child if your child meets three tests. They are:

- Relationship,
- Residency, and
- Age.

Relationship test. To meet the relationship test for a qualifying child, the child must be your:

1) Son, daughter, or adopted child (or a descendant of your son, daughter, or adopted child — for example, your grandchild),
2) Stepson or stepdaughter, or
3) Eligible foster child (this could include a niece, nephew, brother, sister, cousin, etc.).

Residency test. To meet the residency test, there are two rules:

1) You must have a child who lived with you for more than half the year (the whole year if your child is an eligible foster child), and
2) The home must be in the United States (one of the 50 states or the District of Columbia). U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States.

Age test. To meet the age test, your child must be:

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

Persons Who Work and Do Not Have a Qualifying Child

Generally, if you are a nonresident alien for any part of the year, you cannot claim the earned income credit. In order to take the earned income credit under this section, you must meet all the following rules:

1) You must have earned income during 1995.
2) Your earned income and adjusted gross income must each be less than $9,230.
3) Your filing status can be any filing status except married filing a separate return.
4) You cannot be a qualifying child of another person.
5) You (or your spouse if filing a joint return) must be at least age 25 but ***under age 65*** at the end of your tax year (usually December 31).
6) You cannot be eligible to be claimed as a dependent on anyone else's return.
7) Your main home must be in the United States for more than half the year. For purposes of the earned income credit, U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period.
8) You are not filing Form 2555, *Foreign Earned Income*, or Form 2555–EZ, *Foreign Earned Income Exclusion*.

Advance Earned Income Credit Payments

If you expect to qualify for the earned income credit in 1996, you can choose to receive advance payments of part of the credit in your regular paycheck. You must file a 1995 return to report what you already received in 1995 and to take advantage of any additional earned income credit.

You can request advance payments of the credit by completing Form W–5, *Earned Income Credit Advance Payment Certificate.* See Publication 596 or the instructions for Form W–5 for more information on the advance earned income credit.

Note. The advance earned income credit payment is available only to persons who have at least one qualifying child.

Estimated Tax

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, unemployment compensation, interest, dividends, taxable social security benefits, alimony, rent, gains from the sale of assets, prizes, and awards.

Income tax is generally withheld from pensions and annuity payments you receive. However, if the tax withheld is not enough, you may have to pay estimated tax. If you do not pay enough tax through withholding or by making estimated tax payments, you may be charged a penalty.

Who Must Make Estimated Tax Payments

If you had a tax liability for 1995, you may have to pay estimated tax for 1996. Generally, you must make estimated tax payments for 1996 if you expect to owe at least $500 in tax for 1996 after subtracting your withholding and credits, and you expect your withholding and credits to be less than the smaller of:

1) 90% of the tax to be shown on your 1996 tax return, or
2) 100% of the tax shown on your 1995 tax return. The 1995 tax return must cover all 12 months.

If all of your 1996 income will be subject to income tax withholding, you probably do not need to make estimated tax payments.

For more information on estimated tax for 1996, see Publication 505, *Tax Withholding and Estimated Tax.*

Sample Form 1040 Return

This part of the publication gives an example of a filled-in Form 1040 for Martin and Hayley Green.

Form 1040

Martin and Hayley Green are married. Their financial transactions during the year are shown on the tax forms on the sample Form 1040. Both Martin and Hayley are retired.

The Greens were sent a Form 1040 tax package for 1995. The forms they received were based on the return and schedules they filed for 1994. They use the order blank in their Form 1040 tax package to order the other forms they need.

Identifying information. The Greens use the label that came with their tax forms to show their names, address, and social security numbers. Because they filed Form 8822, *Change of Address* when they moved during the year, the label shows their new address. They check the label to make sure the information is correct.

Presidential Election Campaign Fund. Both Martin and Hayley want $3 of their taxes to go to this fund. They check both *Yes* boxes. Their tax will not change by checking *Yes.*

Filing status (lines 1–5). Martin and Hayley decide to file a joint return. They check the filing status box on line 2, *Married filing joint return.*

Exemptions (lines 6a–6e). The Greens show the exemption for Martin on line 6a and for Hayley on line 6b. They then enter the number of boxes checked (2) on the line to the right of lines 6a and 6b. Martin and Hayley have no dependents, so they also enter the number 2 in the box to the right of line 6e to show the total exemptions they claim.

Income (lines 7–22)

Martin and Hayley are now ready to report their income.

Taxable interest income (line 8a and Part I of Schedule B). The Greens add their taxable interest income shown on the Forms 1099–INT they received and enter the total of $3,142 on line 8a. Because their total interest is more than $400, the Greens must complete Part I of Schedule B. They list all payers and all amounts on line 1 of Part I and show the total on lines 2 and 4, Part I of Schedule B.

Dividends (line 9 and Part II of Schedule B). During the time Hayley was working, she participated in a stock bonus plan that her employer had set up. She received $1,490 in ordinary dividends from the company in 1995. This is the only dividend income Martin and Hayley received during 1995.

Because the total amount of dividends received is more than $400, the Greens must complete Part II of Schedule B. They list the payer and the amount on line 5, Schedule B. The total dividends received of $1,490 is entered on line 6, Schedule B. Because the dividends Hayley received did not include capital gain distributions or nontaxable distributions, they skip lines 7 through 9 and enter $1,490 on line 10, Schedule B, and on line 9, Form 1040.

Foreign accounts and foreign trusts (Part III of Schedule B). Neither Martin nor Hayley had a foreign account or were a grantor of, or transferor to, a foreign trust. They check the *No* boxes for lines 11a and 12 in Part III of Schedule B.

Capital gains and losses (line 13). If you have a sale or exchange of stock, see your Form 1040, line 13 instructions.

Caution. As this publication was going to print, Congress was considering changes that would affect how you figure the tax on your capital gains and losses. See Publication 553, *Highlights of 1995 Tax Changes* for further developments.

Sale of home (Form 2119). Martin and Hayley sold their old home on January 16, 1995. Because their children were grown, they did not feel they needed a house anymore. The Greens are now renting an apartment.

The Greens bought their old home on October 19, 1957, for $25,500. Throughout the years, they added improvements to the home. These improvements cost $7,667. They sold their home for $138,000 and paid $8,280 commissions to the realty company.

Mr. and Mrs. Green want to exclude gain on the sale from their income. Because they were age 55 or older before the date of the sale, had owned and used the property sold as their main home for at least 3 years out of the 5–year period ending on the date of sale, and have not excluded gain on the sale of a home after July 26, 1978, they may exclude up to $125,000.

The Greens figure their gain on the sale as follows:

1)	Selling price of home	$138,000
2)	Minus: Selling expense (commission)	8,280
3)	Amount realized	$129,720
4)	Minus: Basis of home ($25,500 cost plus $7,667 improvements)	33,167
5)	**Gain on sale**	$ 96,553

Because the Greens' gain on the sale is less than $125,000, they do not include any of the gain in their income. But they fill out Form 2119 and attach it to their return to report the sale. Their filled-in Form 2119 is illustrated at the end of this publication.

Pensions and annuities (lines 16a and 16b). Hayley retired on January 1, 1995, with a monthly pension of $425 beginning in February. Her contributions to the plan (her pension cost) were $17,000. She is 67 years old.

Hayley figures the taxable part of her pension using the worksheet in the Form 1040 instructions for the Simplified General Rule. The taxable part is $3,575 (line 9 of the worksheet). Her worksheet is shown below.

Martin retired in 1987. He receives a fully taxable pension of $600 a month. The Greens enter $11,875 (Hayley's pension of $4,675 plus Martin's pension of $7,200) on line 16a, Form 1040. They enter $10,775 (the taxable amount) on line 16b, Form 1040.

Social security benefits (lines 20a and 20b). In January 1996, Hayley received a Form SSA–1099 showing net social security benefits of $2,220 in box 5. Martin did not receive any social security benefits or railroad retirement benefits during 1995. The Greens' income on Form 1040 totaled $15,407. They did not receive any tax-exempt interest income and they did not claim any adjustments to income. None of Hayley's social security benefits are taxable because half of the net benefits($1,110), plus the rest of the Greens' income ($15,407), is less than $32,000. They do not enter any amounts on lines 20a or 20b.

Total income (line 22). Martin and Hayley add lines 8a, 9, and 16b to find their total income of $15,407 and enter it on line 22. The Greens do not have any adjustments to income, so they enter zero on line 30. They then enter $15,407 on line 31. This is their adjusted gross income.

Table 6. **Simplified General Rule Worksheet** (keep for your records)

1. Enter the total pension or annuity payments received this year. Also enter this amount on Form 1040, line 16a			**1.** ______
2. Enter your cost in the plan at the annuity starting date, plus any death benefit exclusion		**2.** ______	
3. Age at annuity starting date:	Enter:		
55 and under	300		
56-60	260		
61-65	240	**3.** ______	
66-70	170		
71 and older	120		
4. Divide line 2 by the number on line 3		**4.** ______	
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was **before** 1987, also enter this amount on line 8; skip lines 6 and 7. Otherwise, go to line 6.		**5.** ______	
6. Enter the amount, if any, recovered tax free in years after 1986		**6.** ______	
7. Subtract line 6 from line 2		**7.** ______	
8. Enter the **smaller** of line 5 or line 7			**8.** ______
9. **Taxable amount.** Subtract line 8 from line 1. Enter the result (but not less than zero). Also enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R			**9.** ______

Note: If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 1995 on Form 1040, line 16a.

Tax Computation (lines 32–40)

The Greens are now ready to figure their tax. They enter their adjusted gross income of $15,407 (from line 31), on line 32. Martin and Hayley are both 65 or older, so they check the appropriate boxes on line 33a, and enter "2" in the box to the right of line 33a. Neither can be claimed as a dependent on another person's return, so no entry is required on line 33b. They skip line 33c. The Greens use the *Standard Deduction Chart for People Age 65 or Older or Blind—Line 34* in the Form 1040 instructions to find their standard deduction. (Their standard deduction depends on their filing status and whether they are 65 or older or blind. It is not built into the Tax Table or the Tax Rate Schedules but is figured separately.)

Martin and Hayley choose not to itemize their deductions because their total itemized deductions are less than their $8,050 standard deduction.

The Greens enter their $8,050 standard deduction on line 34. They subtract it from line 32 and enter $7,357 on line 35.

They multiply $2,500 by the total number of exemptions claimed on line 6e and enter $5,000 on line 36. They subtract $5,000 from $7,357 and enter $2,357 on line 37. This is their taxable income.

Martin and Hayley use the Tax Table to find their tax because their taxable income is less than $100,000. They read down the income column until they find the line that includes their taxable income, $2,357. They then read across to the column headed *Married filing jointly.* The amount shown of $354 is their tax. Martin and Hayley enter this amount on line 38 and check the box marked *Tax Table.* The Greens do not owe any additional taxes. They enter $354 on line 40.

Credits (lines 41–46)

The Greens check to see if they can claim any credits.

Credit for the elderly or the disabled (line 42 and Schedule R). Because Martin and Hayley are both 65 or older, they complete Schedule R to see if they can claim this credit.

They check box 3 in Part I of Schedule R and enter $7,500 on lines 10 and 12 in Part III. They do not complete Part II because neither of them is under 65.

On lines 13a and 13c, the Greens enter $2,220, the total of Hayley's social security benefits. They enter $15,407, their adjusted gross income, on line 14, and $10,000 on line 15. They subtract $10,000 from $15,407 and enter the difference, $5,407, on line 16. They divide line 16 by 2 and enter $2,704 on line 17.

The Greens enter the total of lines 13c and 17 ($4,924) on line 18. They subtract line 18 from line 12, and enter the difference of $2,576 on line 19. They multiply $2,576 by 15% and enter the result of $386 on line 20. The Greens' credit for the elderly or the disabled is $386. They enter $386 on line 42, Form 1040.

The credit for the elderly or the disabled cannot be more than the total tax of $354. The Green's can only take $354 of their $386 credit. They enter $386 on line 45, Form 1040. They then subtract the $386 from the tax shown on line 40 ($354) and enter the balance of $–0– on line 46. The Greens do not claim any other credits. Because they do not owe any of the taxes listed on lines 47 through 51 and did not receive advance earned income credit payments (line 52), or have any household employees (line 53) they also enter $–0– line 54.

Payments (lines 55–61)

In January 1995, Martin and Hayley gave the payers of their pensions Forms W–4P choosing not to have taxes withheld. Because they would have no withholding, they made estimated tax payments. Using the estimated tax worksheet on Form 1040–ES, they figured their estimated tax for 1995 to be $800. They decided to pay their estimated tax in four equal installments and paid $200 on April 17, 1995; June 15, 1995; September 15, 1995; and January 16, 1996. The Greens did not have any part of their 1994 refund credited to their estimated tax for 1995, so they enter $800 on line 56, Form 1040. Because this is the only payment the Greens have, they also enter $800 on line 61, Form 1040.

Refund or Amount You Owe (lines 62–66)

Because line 61 ($800) is more than line 54 ($–0–), Martin and Hayley have overpaid their taxes. The Greens enter their overpayment of $800 on line 62. Since they wish to have this amount refunded, they enter $800 on line 63.

The Greens check their return to make certain they have completed all the items and schedules called for. They both sign and date the return and enter ''retired'' in the space provided for their occupations. They attach the label and mail the return to the Internal Revenue Service Center for their area. They keep a copy of their return for their records.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (1) **1995**
IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 1995, or other tax year beginning , 1995, ending , 19 OMB No. 1545-0074

Label (See instructions on page 11.)
Use the IRS label. Otherwise, please print or type.

Your first name and initial	Last name	Your social security number
CAR-RT SORT**CR01		Spouse's social security number
BN 333-00-3333 444-00-4444 S29 30		
MARTIN D & HAYLEY S GREEN	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see page 7.**
2001 MAIN ST		
EVERYTOWN, ES 00000		

Presidential Election Campaign (See page 11.)

	Yes	No	
Do you want $3 to go to this fund?	✓		*Note: Checking "Yes" will not change your tax or reduce your refund.*
If a joint return, does your spouse want $3 to go to this fund?	✓		

Filing Status
(See page 11.)
Check only one box.

1 ☐ Single
2 ☑ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 12.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 12.)

Exemptions
(See page 12.)

6a ☑ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a. But be sure to check the box on line 33b on page 2 — No. of boxes checked on 6a and 6b: 2
b ☑ **Spouse**
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number. If born in 1995, see page 13.	(3) Dependent's relationship to you	(4) No. of months lived in your home in 1995

If more than six dependents, see page 13.

No. of your children on 6c who:
• lived with you
• didn't live with you due to divorce or separation (see page 14)
Dependents on 6c not entered above

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed — Add numbers entered on lines above ▶ 2

Income
Attach Copy B of your Forms W-2, W-2G, and 1099-R here.
If you did not get a W-2, see page 14.
Enclose, but do not attach, your payment and payment voucher. See page 33.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	
8a	Taxable interest income (see page 15). Attach Schedule B if over $400	3,142
b	Tax-exempt interest (see page 15). DON'T include on line 8a — 8b	
9	Dividend income. Attach Schedule B if over $400	1,490
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 15)	
11	Alimony received	
12	Business income or (loss). Attach Schedule C or C-EZ	
13	Capital gain or (loss). If required, attach Schedule D (see page 16)	
14	Other gains or (losses). Attach Form 4797	
15a	Total IRA distributions — 15a; b Taxable amount (see page 16) — 15b	
16a	Total pensions and annuities — 16a 11,875; b Taxable amount (see page 16) — 16b	10,775
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	
18	Farm income or (loss). Attach Schedule F	
19	Unemployment compensation (see page 17)	
20a	Social security benefits — 20a; b Taxable amount (see page 18) — 20b	
21	Other income. List type and amount—see page 18	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	15,407

Adjustments to Income

23a	Your IRA deduction (see page 19)		
b	Spouse's IRA deduction (see page 19)		
24	Moving expenses. Attach Form 3903 or 3903-F		
25	One-half of self-employment tax		
26	Self-employed health insurance deduction (see page 21)		
27	Keogh & self-employed SEP plans. If SEP, check ▶ ☐		
28	Penalty on early withdrawal of savings		
29	Alimony paid. Recipient's SSN ▶		
30	Add lines 23a through 29. These are your **total adjustments** ▶		0

Adjusted Gross Income

31 Subtract line 30 from line 22. This is your **adjusted gross income**. If less than $26,673 and a child lived with you (less than $9,230 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶ — 31: 15,407

Cat. No. 11320B Form **1040** (1995)

Tax Computation

(See page 23.)

32	Amount from line 31 (adjusted gross income)	32	15,407
33a	Check if: ☑ You were 65 or older, ☐ Blind; ☑ Spouse was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here ▶ 33a [2]		
b	If your parent (or someone else) can claim you as a dependent, check here ▶ 33b ☐		
c	If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 23 and check here ▶ 33c ☐		
34	Enter the larger of your: **Itemized deductions** from Schedule A, line 28, OR **Standard deduction** shown below for your filing status. **But if you checked any box on line 33a or b,** go to page 23 to find your standard deduction. If you checked **box 33c,** your standard deduction is zero. • Single—$3,900 • Married filing jointly or Qualifying widow(er)—$6,550 • Head of household—$5,750 • Married filing separately—$3,275	34	8,050
35	Subtract line 34 from line 32	35	7,357
36	If line 32 is $86,025 or less, multiply $2,500 by the total number of exemptions claimed on line 6e. If line 32 is over $86,025, see the worksheet on page 23 for the amount to enter	36	5,000
37	**Taxable income.** Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-	37	2,357
38	Tax. Check if from a ☑ Tax Table, b ☐ Tax Rate Schedules, c ☐ Capital Gain Tax Worksheet, or d ☐ Form 8615 (see page 24). Amount from Form(s) 8814 ▶ e	38	354
39	Additional taxes. Check if from a ☐ Form 4970 b ☐ Form 4972	39	
40	Add lines 38 and 39 ▶	40	354

If you want the IRS to figure your tax, see page 35.

Credits

(See page 24.)

41	Credit for child and dependent care expenses. Attach Form 2441	41			
42	Credit for the elderly or the disabled. Attach Schedule R	42	386		
43	Foreign tax credit. Attach Form 1116	43			
44	Other credits (see page 25). Check if from a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify)	44			
45	Add lines 41 through 44			45	386
46	Subtract line 45 from line 40. If line 45 is more than line 40, enter -0- ▶			46	0

Other Taxes

(See page 25.)

47	Self-employment tax. Attach Schedule SE	47	
48	Alternative minimum tax. Attach Form 6251	48	
49	Recapture taxes. Check if from a ☐ Form 4255 b ☐ Form 8611 c ☐ Form 8828	49	
50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	50	
51	Tax on qualified retirement plans, including IRAs. If required, attach Form 5329	51	
52	Advance earned income credit payments from Form W-2	52	
53	Household employment taxes. Attach Schedule H	53	
54	Add lines 46 through 53. This is your **total tax** ▶	54	0

Payments

Attach Forms W-2, W-2G, and 1099-R on the front.

55	Federal income tax withheld. If any is from Form(s) 1099, check ▶ ☐	55			
56	1995 estimated tax payments and amount applied from 1994 return	56	800		
57	**Earned income credit.** Attach Schedule EIC if you have a qualifying child. Nontaxable earned income: amount ▶ and type ▶	57			
58	Amount paid with Form 4868 (extension request)	58			
59	Excess social security and RRTA tax withheld (see page 32)	59			
60	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136	60			
61	Add lines 55 through 60. These are your **total payments** ▶			61	800

Refund or Amount You Owe

62	If line 61 is more than line 54, subtract line 54 from line 61. This is the amount you **OVERPAID**			62	800
63	Amount of line 62 you want **REFUNDED TO YOU** ▶			63	800
64	Amount of line 62 you want **APPLIED TO YOUR 1996 ESTIMATED TAX** ▶	64			
65	If line 54 is more than line 61, subtract line 61 from line 54. This is the **AMOUNT YOU OWE.** For details on how to pay and use **Form 1040-V,** Payment Voucher, see page 33 ▶			65	
66	Estimated tax penalty (see page 33). Also include on line 65	66			

Sign Here

Keep a copy of this return for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation
Martin D. Green	2-1-96	Retired
Spouse's signature. If a joint return, BOTH must sign.	Date	Spouse's occupation
Vaughey L. Green	2-1-96	Retired

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address		EIN	
		ZIP code	

Printed on recycled paper

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side.

Martin D. and Hayley S. Green

Your social security number: 333 00 3333

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See pages 15 and B-1.)

Note: *If you had over $400 in taxable interest income, you must also complete Part III.*

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address ▶		
	Hometown Savings and Loan	1	1,870
	Hometown Bank		1,272
2	Add the amounts on line 1	2	3,142
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	4	3,142

Part II Dividend Income

(See pages 15 and B-1.)

Note: *If you had over $400 in gross dividends and/or other distributions on stock, you must also complete Part III.*

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

			Amount
5	List name of payer. Include gross dividends and/or other distributions on stock here. Any capital gain distributions and nontaxable distributions will be deducted on lines 7 and 8 ▶ Hometown Corporation	5	1,490
6	Add the amounts on line 5	6	1,490
7	Capital gain distributions. Enter here and on Schedule D*. 7		
8	Nontaxable distributions. (See the inst. for Form 1040, line 9.) 8		
9	Add lines 7 and 8	9	
10	Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶	10	1,490

**If you do not need Schedule D to report any other gains or losses, see the instructions for Form 1040, line 13, on page 16.*

Part III Foreign Accounts and Trusts

(See page B-2.)

If you had over $400 of interest or dividends or had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must complete this part.

		Yes	No
11a	At any time during 1995, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1		✓
b	If "Yes," enter the name of the foreign country ▶		
12	Were you the grantor of, or transferor to, a foreign trust that existed during 1995, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		✓

Schedule R (Form 1040)

Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ Attach to Form 1040. ▶ See separate instructions for Schedule R.

OMB No. 1545-0074

1995

Attachment Sequence No. **16**

Name(s) shown on Form 1040: Martin D. and Hayley S. Green

Your social security number: 333 00 3333

You may be able to take this credit and reduce your tax if by the end of 1995:

- You were age 65 or older, **OR** • You were under age 65, you retired on **permanent and total** disability, and you received taxable disability income.

But you must also meet other tests. See the separate instructions for Schedule R.

Note: *In most cases, the IRS can figure the credit for you. See page 35 of the Form 1040 instructions.*

Part I Check the Box for Your Filing Status and Age

If your filing status is:	And by the end of 1995:	Check only one box:
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were 65 or older . . . 1	☐
	2 You were under 65 and you retired on permanent and total disability . . . 2	☐
Married filing a joint return	3 Both spouses were 65 or older . . . 3	☑
	4 Both spouses were under 65, but only one spouse retired on permanent and total disability . . . 4	☐
	5 Both spouses were under 65, and both retired on permanent and total disability . . . 5	☐
	6 One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability . . . 6	☐
	7 One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability . . . 7	☐
Married filing a separate return	8 You were 65 or older and you lived apart from your spouse for all of 1995 . . 8	☐
	9 You were under 65, you retired on permanent and total disability, and you lived apart from your spouse for all of 1995 . . . 9	☐

Did you check box 1, 3, 7, or 8?
- **Yes** ▶ Skip Part II and complete Part III on back.
- **No** ▶ Complete Parts II and III.

Part II Statement of Permanent and Total Disability (Complete **only** if you checked box 2, 4, 5, 6, or 9 above.)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician signed line B on the statement, **AND**

2 Due to your continued disabled condition, you were unable to engage in any substantial gainful activity in 1995, check this box . . . ▶ ☐

- If you checked this box, you do not have to file another statement for 1995.
- If you **did not** check this box, have your physician complete the statement below.

Physician's Statement (See instructions at bottom of page 2.)

I certify that ______________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after 1976, enter the date retired. ▶ ______________

Physician: Sign your name on **either** line A or B below.

A The disability has lasted or can be expected to last continuously for at least a year . . . . ______________
Physician's signature Date

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________
Physician's signature Date

Physician's name	Physician's address

Part III **Figure Your Credit**

10	**If you checked (in Part I):** Box 1, 2, 4, or 7 . . . $5,000; Box 3, 5, or 6 . . . $7,500; Box 8 or 9 . . . $3,750 (Enter:)		10	7,500
	Did you check box 2, 4, 5, 6, or 9 in Part I? **Yes** → You **must** complete line 11. **No** → Enter the amount from line 10 on line 12 and go to line 13.			
11	**If you checked:** • Box 6 in Part I, add $5,000 to the taxable disability income of the spouse who was under age 65. Enter the total. • Box 2, 4, or 9 in Part I, enter your taxable disability income. • Box 5 in Part I, add your taxable disability income to your spouse's taxable disability income. Enter the total. **TIP:** For more details on what to include on line 11, see the instructions.		11	
12	If you completed line 11, enter the **smaller** of line 10 or line 11; **all others,** enter the amount from line 10		12	7500
13	Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 1995.			
a	Nontaxable part of social security benefits, and Nontaxable part of railroad retirement benefits treated as social security. See instructions.	13a 2,220		
b	Nontaxable veterans' pensions, and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. See instructions.	13b		
c	Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included here to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c	13c 2,220		
14	Enter the amount from Form 1040, line 32 — 14: 15,407			
15	**If you checked (in Part I):** Box 1 or 2 . . . $7,500; Box 3, 4, 5, 6, or 7 . . . $10,000; Box 8 or 9 . . . $5,000 (Enter:) — 15: 10,000			
16	Subtract line 15 from line 14. If zero or less, enter -0- — 16: 5,407			
17	Enter one-half of line 16	17 2,704		
18	Add lines 13c and 17		18	4924
19	Subtract line 18 from line 12. If zero or less, **stop;** you **cannot** take the credit. Otherwise, go to line 20		19	2,576
20	Multiply line 19 by 15% (.15). Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, C-EZ, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 20 for the amount of credit you can claim*		20	386

Instructions for Physician's Statement

Taxpayer

If you retired after 1976, enter the date you retired in the space provided in Part II.

Physician

A person is permanently and totally disabled if **both** of the following apply:

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and

2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year or can lead to death.

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Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ Attach to Form 1040 for year of sale.

▶ See separate instructions. ▶ Please print or type.

OMB No. 1545-0072

1995

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial.	Last name	Your social security number
Martin D. and Hayley S.	Green	333 : 00 : 3333

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Spouse's social security number
Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)	444 : 00 : 4444
City, town or post office, state, and ZIP code	

Part I Gain on Sale

1	Date your former main home was sold (month, day, year) ▶	1	1 / 16 / 95
2	Have you bought or built a new main home?		☐ Yes ☑ No
3	If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see page 3.		
4	Selling price of home. Do not include personal property items you sold with your home	4	138,000
5	Expense of sale (see page 3)	5	8,280
6	Subtract line 5 from line 4	6	129,720
7	Adjusted basis of home sold (see page 3)	7	33,167
8	**Gain on sale.** Subtract line 7 from line 6	8	96,553

Is line 8 more than zero?

Yes ⟶ If line 2 is "Yes," you must go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.

No ⟶ **Stop and attach this form to your return.**

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see page 1)? ☐ Yes ☑ No

- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** on page 1.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II One-Time Exclusion of Gain for People Age 55 or Older—By completing this part, you are electing to take the one-time exclusion (see page 2). If you are not electing to take the exclusion, go to Part III now.

10	Who was age 55 or older on the date of sale?		☐ You ☐ Your spouse ☑ Both of you
11	Did the person who was 55 or older own and use the property as his or her main home for a total of at least 3 years of the 5-year period before the sale? See page 2 for exceptions. If "No," go to Part III now		☑ Yes ☐ No
12	At the time of sale, who owned the home?		☐ You ☐ Your spouse ☑ Both of you
13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None" ▶	13	: :
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15	14	96,553

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8	15	
	• If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the **installment method, stop and see page 4.** • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		
16	Fixing-up expenses (see page 4 for time limits)	16	
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16	17	
18	**Adjusted sales price.** Subtract line 17 from line 6	18	
19a	Date you moved into new home ▶ / / **b** Cost of new home (see page 4)	19b	
20	Subtract line 19b from line 18. If zero or less, enter -0-	20	
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20	21	
	• If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		
22	Postponed gain. Subtract line 21 from line 15	22	
23	**Adjusted basis of new home.** Subtract line 22 from line 19b	23	

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's signature	Date
▶		▶	

If a joint return, both must sign.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11710J Form **2119** (1995)

Pending tax law may change this form.

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