

# Form 1040

and Schedules  
A, B, C, D, E, F,  
and SE

# 1988



Department of the Treasury  
Internal Revenue Service

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**Note:**

*This booklet does not  
contain any tax forms.*

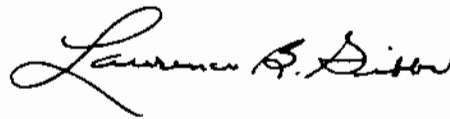
## From the Commissioner

Dear Taxpayer,

Thanks for your special effort in making last year's tax filing season a success. Most people filed promptly and got their refunds on time.

I pledge my personal effort and that of the IRS to search for new and better ways to reduce the burden placed on you, our valued customers. I also pledge that we at IRS will continue to improve the quality of the service we are providing to you.

Working together with you, I believe we jointly can find ways to make taxes less taxing for all of us.



Lawrence B. Gibbs  
*Commissioner of Internal Revenue*

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### What's New for 1988?

**Reduced Tax Rates.** Most of the rates have been reduced. The tax table and tax rate schedules use the reduced rates—with a phase-out of the lowest rate for higher income individuals.

**Increased Deduction for Exemptions.** The deduction for each exemption—for you, your spouse, and dependents—has increased to \$1,950.

#### Should You Itemize Deductions or Take the Standard Deduction?

For most people, the standard deduction has increased. Because of this increase, it may be to your benefit to take the standard deduction for 1988 even though you itemized deductions in past years. Read the instructions for line 34 on page 16.

**Interest Expense.** Even if your deduction for home mortgage interest was limited in 1987, you will probably be able to deduct all of the interest on your mortgage for 1988. See Schedule A instructions for more details.

**Increased Earned Income Credit.** You may be able to take this credit if you

earned less than \$18,576 and a child lived with you. (The limit was \$15,432 last year.) Read the instructions for line 56 on page 19.

**Additional Information.** If you want more information about these and other tax law changes, get **Pub. 553, Highlights of 1988 Tax Changes.** You may also find the publications listed at the end of this booklet helpful in completing your return.

**New Publication.** You have the right to be treated fairly, professionally, promptly, and courteously by IRS employees. Our goal is to make sure that your rights are protected, so that you will have the highest confidence in the integrity, efficiency, and fairness of our tax system. To ensure that you always receive such treatment, you should know about the many rights you have at each step of the tax process. **New Pub. 1, Your Rights as a Taxpayer,** tells you about many of these rights.

**New Filing Locations.** You may have to send your return to a different address this year. Use the envelope that came with your booklet or see **Where To File** on page 5.

### What To Look For in 1989

**Supplemental Medicare Premium.** If you will be eligible for Medicare, Part A benefits (hospital insurance) by June 30, 1989, you may have to pay a supplemental medicare premium. You will pay it with your tax return next year. The premium will help pay the cost of the new medicare coverage for catastrophic expenses and prescription drugs.

The premium will apply if your income tax for 1989 will be \$150 or more. The premium is \$22.50 on each \$150 of income tax. The premium cannot exceed \$800 for each person covered by Medicare, Part A (\$1,600 for certain married persons filing a separate return). So that you won't have to pay too much with your return next year, you may wish to increase your income tax withholding or estimated tax payments in 1989. See **Pub. 934, Supplemental Medicare Premium,** for details.

## Privacy Act and Paperwork Reduction Act Notice

The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information, we must first tell you several things: our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This applies to tax returns and any papers filed with them. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001, 6011, and 6012(a) and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. This is so we know who you are, and can process your return and papers.

You must fill in all parts of the tax form that apply to you. Code section 6109 and its regulations say that you must show your social security number on what you file. You do not have to check the boxes for the Presidential Election Campaign Fund.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, the law says that you may be charged penalties and, in certain cases, you may be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions,

credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

### The Time It Takes To Prepare Your Return

We try to create forms and instructions that are accurate and can be easily understood. Often this is difficult to do because some of the tax laws enacted by Congress are very complex. For some taxpayers with income mostly from wages, filling out the forms is easy. For others who have businesses, pensions, stocks, rental income or other investments, it is more difficult.

The time needed to complete and file the following forms will vary, depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
1040	3 hrs., 7 min.	2 hrs., 28 min.	3 hrs., 7 min.	35 min.
Sch. A (1040)	2 hrs., 47 min.	26 min.	1 hr., 1 min.	20 min.
Sch. B (1040)	33 min.	8 min.	16 min.	20 min.
Sch. C (1040)	7 hrs., 4 min.	1 hr., 11 min.	2 hrs., 9 min.	25 min.
Sch. D (1040)	1 hr., 2 min.	45 min.	54 min.	35 min.
Sch. E (1040)	3 hrs., 12 min.	1 hr., 2 min.	1 hr., 22 min.	35 min.
Sch. F (1040)	10 hrs., 53 min.	2 hrs., 2 min.	4 hrs., 10 min.	35 min.
Sch. R (1040)	20 min.	16 min.	22 min.	35 min.
Sch. SE (1040)				
Short	20 min.	11 min.	13 min.	14 min.
Long	26 min.	22 min.	37 min.	20 min.

### We Welcome Comments on Forms:

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget**, Paperwork Reduction Project, Washington, DC 20503.

**DO NOT** send your return to either of these offices. See **Where To File** on page 5.

## How To Use This Instruction Booklet

The instructions are divided into five main sections.

- **Section 1** (see page 4) explains who must file, how to choose the correct form to use, and when to file a return.
- **Section 2** (see page 6) has steps to help you prepare your return.
- **Section 3** (see page 6) has instructions for most of the lines on Form 1040.

- **Section 4** (see page 22) has general information.
- **Section 5** (see page 23) has instructions for most of the lines on many of the schedules that may be attached to Form 1040.

## What Free Tax Help is Available?

**Tax forms and publications.** Most of your tax questions can be answered by reading the tax form instructions or one of our many free tax publications.

**Recorded tax information by telephone.** Our Tele-Tax service has recorded tax information covering about 140 topics.

**Refund information.** Tele-Tax can also tell you the status of your refund. For details, see Tele-Tax Information.

**Telephone help.** IRS representatives are available to help you with your tax questions. If, after reading the tax form instructions and our tax publications, you are not sure about how to fill out your return, or have a question about a notice you received from us, please call us. Use the toll-free number for your area.

**Send IRS written questions.** You may send your written tax questions to your IRS District Director. If you don't have the address, you can get it by calling the number for your area.

**To find the toll-free number for your area and the pages that contain Tele-Tax Information, see "Telephone Assistance—Federal Tax Information" in the index.**

**Walk-in help.** IRS representatives are available in many IRS offices around the country to help with tax questions that cannot be answered easily by telephone or in our publications. To find the location of the IRS office nearest you, look in the phone book under "United States Government, Internal Revenue Service."

**Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE)** are free and help older, handicapped, and non-English-speaking people fill out their returns.

Call the toll-free telephone number for your area for details. If you received a Federal Income Tax Package in the mail, take it with you when you go for help.

**Videotaped instructions** for completing your return are available in either English or Spanish at many libraries.

**Telephone service for the deaf** is available. **Braille materials for the blind** are available at regional libraries for the blind and handicapped.

**Unresolved tax problems.** The **Problem Resolution Program** is for taxpayers who have been unable to resolve their problems with the IRS. If you have a tax problem you cannot clear up through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance. This office cannot change the tax law or technical decisions. But it can help you clear up problems that resulted from previous contacts.

## Section 1—Filing Information.

Use **Chart A** to see if you must file a return. But, you must use **Chart B** on page 5 if someone (such as your parent) can claim you as a dependent on his or her return. Also see **Other Filing Requirements** on page 5.

### Chart A—For most people

To use this chart, first find your marital status at the end of 1988. Then, read across to find your filing status and age at the end of 1988. You must file a return if your gross income\* was at least the amount shown in the last column.

Marital status	Filing status	Age	Gross income*
Single (including divorced and legally separated)	Single	under 65	\$4,950
		65 or older	\$5,700
Married with a child and living apart from your spouse during the last 6 months of 1988 (see page 7)	Head of household	under 65	\$6,350
		65 or older	\$7,100
Married and living with your spouse at end of 1988 (or on the date your spouse died)	Married, joint return	under 65 (both spouses)	\$8,900
		65 or older (one spouse)	\$9,500
		65 or older (both spouses)	\$10,100
	Married, separate return	any age	\$1,950
Married, not living with your spouse at end of 1988 (or on the date your spouse died)	Married, joint return or separate return	any age	\$1,950
		Single	under 65 65 or older
Widowed before 1988 and not remarried in 1988	Head of household	under 65	\$6,350
		65 or older	\$7,100
		Qualifying widow(er) with dependent child	under 65 65 or older

\* **Gross income** usually means money, goods, and property you received on which you must pay tax. It does not include nontaxable income. See page 9 of the instructions to find out which types of income you should include.

## Chart B—For Children and Other Dependents

If someone (such as your parent) can claim you as a dependent, use **Chart B** to see if you must file a return. If your gross income was \$1,950 or more, you generally cannot be claimed as a dependent. But, you can be claimed as a dependent on your parents' return if you were under age 19 at the end of 1988 or a

full-time student and your parents meet the other 4 tests explained on pages 8 and 9.

**Unearned income** includes taxable interest and dividends. **Earned income** includes wages, tips, and taxable scholarships and fellowships.

### 1. Single dependents under 65

You must file a return if—

Your unearned income was:	and	the total of that income plus your earned income was:
\$1 or more		more than \$500
\$0		more than \$3,000

### 2. Single dependents 65 or older or blind

You must file a return if—

- Your earned income was more than \$3,750, or
- Your unearned income was more than \$1,250 (\$2,000 if 65 or older **and** blind), or
- Your gross income was more than the total of your earned income (up to \$3,000) or \$500, whichever is larger, plus \$750 (\$1,500 if 65 or older **and** blind).

### 3. Married dependents under 65

You must file a return if—

- Your earned income was more than \$2,500, or
- You had any unearned income and your gross income was more than \$500, or
- Your gross income was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.

### 4. Married dependents 65 or older or blind

You must file a return if—

- Your earned income was more than \$3,100, or
- Your unearned income was more than \$1,100 (\$1,700 if 65 or older **and** blind), or
- Your gross income was more than the total of your earned income (up to \$2,500), or \$500, whichever is larger, plus \$600 (\$1,200 if 65 or older **and** blind), or
- Your gross income was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.

### Other Filing Requirements.

You must file a return if any of the following applied for 1988:

- You owe any special taxes, such as:
  - social security tax on tips you did not report to your employer;
  - uncollected social security tax or RRTA tax on tips you reported to your employer;
  - alternative minimum tax;
  - tax on an Individual Retirement Arrangement (IRA) or a qualified retirement plan; or
  - tax from recapture of investment credit or low-income housing credit.

- You received any advance earned income credit (EIC) payments from your employer(s).
- You had net earnings from self-employment income of at least \$400.
- You had wages of \$100 or more from a church or qualified church-controlled organization that is exempt from employer social security taxes.

These rules apply to all U.S. citizens and resident aliens. They also apply to nonresident aliens and dual-status aliens who are married to U.S. citizens or residents at the end of 1988 and who have elected to be treated as resident aliens.

If you were a nonresident alien at any time during 1988 (except as mentioned above), different rules apply. You may have to file **Form 1040NR**, U.S. Nonresident Alien Income Tax Return. Also get **Pub. 519**, U.S. Tax Guide for Aliens.

**Note:** Specific rules apply to determine if you are a resident or nonresident alien. See **Pub. 519** for details.

### Who Should File

Even if you do not have to file, you should file to get a refund if Federal income tax was withheld from any payments to you or if you can take the earned income credit. If you file for either of these reasons only, you may be able to use Form 1040A. If you file only to get a refund of tax withheld, you may be able to use Form 1040EZ.

### When To File

You should file as soon as you can after January 1, but not later than April 17, 1989.

If you file late, you may have to pay penalties and interest. See **Penalties and Interest** on page 22.

If you know that you cannot file by the due date, you should ask for an extension using **Form 4868**, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

**Note:** Form 4868 does not extend the time to pay your income tax. See the instructions for Form 4868.

If you are a U.S. citizen or resident, you may qualify for an automatic extension of time to file if, on the due date of your return, you meet one of the following conditions:

- You live outside the U.S. and Puerto Rico, AND your main place of business or post of duty is outside the U.S. and Puerto Rico.
- You are in military or naval service on duty outside the U.S. and Puerto Rico.

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

### Where To File

If an addressed envelope came with your return, please use it. If you do not have one, or if you moved during the year, mail your return to the **Internal Revenue Service Center** for the place where you live. No street address is needed.

If you are located in:	Use this address:
Florida, Georgia, South Carolina	Atlanta, GA 39901
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501

Connecticut, Maine, Massachusetts, New Hampshire, New York (all other counties), Rhode Island, Vermont  
Andover, MA 05501

Illinois, Iowa, Minnesota, Missouri, Wisconsin  
Kansas City, MO 64999

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia  
Philadelphia, PA 19255

Indiana, Kentucky, Michigan, Ohio, West Virginia  
Cincinnati, OH 45999

Kansas, New Mexico, Oklahoma, Texas  
Austin, TX 73301

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming  
Ogden, UT 84201

California (all other counties), Hawaii  
Fresno, CA 93888

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee  
Memphis, TN 37501

American Samoa  
Philadelphia, PA 19255

Guam  
Commissioner of Taxes  
Agana, GU 96910

Puerto Rico (or if excluding income under section 933)  
Philadelphia, PA 19255

Virgin Islands:  
Nonpermanent residents  
V. I. Bureau of Internal Revenue  
Lockharts Garden No. 1 A  
Charlotte Amalie,  
St. Thomas, VI 00802

Virgin Islands:  
Permanent residents

(Where To File continued on next page)

Foreign country:  
U.S. citizens and those filing  
Form 2555 or Form 4563. Philadelphia, PA 19255  
even if you have an A.P.O.  
or F.P.O. address

A.P.O. or Miami—Atlanta, GA 39901  
F.P.O. New York—Holtsville, NY 00501  
address of: San Francisco—Fresno, CA 93888  
Seattle—Ogden, UT 84201

## Which Form To File

### You MAY Be Able To Use

#### Form 1040EZ If:

- You were single and do not claim any dependents.
- You were not 65 or older OR blind.
- You had **only** wages, salaries, tips, taxable scholarships and fellowships, and not more than \$400 of taxable interest income.
- Your taxable income is less than \$50,000.
- You do not itemize deductions or claim any adjustments to income or tax credits.

### You MAY Be Able To Use Form 1040A

#### If:

- You had income **only** from wages, salaries, tips, taxable scholarships and fellowships, unemployment compensation, interest, or dividends.
- Your taxable income is less than \$50,000.
- You do not itemize deductions.

You can also use Form 1040A to claim the deduction for certain contributions to an Individual Retirement Arrangement (IRA), nondeductible contributions to an IRA, and the credit for child and dependent care expenses.

Since Forms 1040A and 1040EZ are easier to complete than Form 1040, you should use one of them unless using Form 1040 lets you pay less tax. However, even if you meet the above tests, you must file Form 1040 if any of the following situations applies to you.

### You MUST Use Form 1040 If:

- Your taxable income is \$50,000 or more.
- You itemize deductions. (Read the instructions for line 34 that begin on page 16 to see if it would benefit you to itemize.)
- You received, as a nominee, interest or dividends that actually belong to another person.
- You received or paid accrued interest on securities transferred between interest payment dates.
- You received any nontaxable dividends or capital gain distributions.
- You are required to fill in Part III of Schedule B for foreign accounts and foreign trusts (see page 27 of the instructions).
- You had any of the kinds of income shown on Form 1040, lines 10 through 19, 21b, and 22, such as taxable social security or railroad retirement benefits.
- You take any of the adjustments to income shown on Form 1040, lines 24, 26 through 29, or any write-in amount included on line 30.
- You claim any of the credits on Form 1040, lines 42 through 45, or any write-in amount included on line 46.
- You owe any of the taxes on Form 1040, lines 39, 48 through 52, or any write-in amount included on line 53 (other than advance EIC payments).

• You claim any of the payments on Form 1040, lines 55, 59, 60, or any write-in amount included on lines 60 or 61.

• You file any of these forms:

**Form 1040-ES**, Estimated Tax for Individuals, for 1988 (or if you want to apply any part of your 1988 overpayment to estimated tax for 1989).

**Form 2210**, Underpayment of Estimated Tax by Individuals.

**Form 2555**, Foreign Earned Income.

**Form 4563**, Exclusion of Income for Bona Fide Residents of American Samoa.

**Form 8271**, Investor Reporting of Tax Shelter Registration Number.

## Section 2 Steps for Preparing Your Return

Follow the six useful steps below to help you prepare your return. If you follow these steps and read the line-by-line instructions, we feel that you can fill in your return quickly and accurately.

### Step 1— Get all of your records together.

**Income Records.** These include any Forms **W-2**, **W-2G**, **W-2P**, and **1099** that you may have. If you don't get a Form W-2 by January 31, 1989, or if the one you get isn't correct, please contact your employer as soon as possible. Only your employer can give you a Form W-2 or correct it. If you cannot get a Form W-2 by February 15, call the toll-free telephone number listed in the instructions for your area. You will be asked for your employer's name, address, and if known, identification number.

### Itemized Deductions and Tax Credits.

Pages 18 through 26 of these instructions tell you what credits and itemized deductions you can take. Some of the records you may need are:

- Medical and dental payment records.
- Real estate and personal property tax receipts.
- Interest payment records for items such as a home mortgage, car, or appliances.
- Records of payments for child and dependent care so you could work.

### Step 2— Get any forms, schedules, or publications you need.

In general, we mail forms and schedules to you based on what you filed last year. Before you fill in your return, look it over to see if you need more forms or schedules.

If you think you will need any other forms, get them before you start to fill in your return. Most IRS offices and many local banks, post offices, and libraries may have some of them. Or, you can use the order blank on the next to the last page of this instruction booklet. We will send you the forms, schedules, instructions, and publications you ask for.

### Step 3— Fill in your return.

Section 3 begins the line-by-line instructions.

### Step 4— Check your return to make sure it is correct.

See **Avoid Common Mistakes** on page 22.

### Step 5— Sign and date your return.

Form 1040 is not considered a return unless you sign it. Your spouse must also sign if it is a joint return.

### Step 6— Attach all required forms and schedules.

Attach the first copy or Copy B of Forms W-2, W-2G, and W-2P to the front of Form 1040.

Attach all schedules and forms in order of the "Attachment Sequence No." shown in the upper right corner of the schedule or form. For example, the "Attachment Sequence No." for Schedule A (Form 1040) is 07. Attach forms without an attachment sequence number at the end of your return.

If you need more space on forms or schedules, attach separate sheets and use the same format as the printed forms, but show your totals on the printed forms. Please use sheets that are the same size as the forms and schedules. Be sure to put your name and social security number on these separate sheets and attach them at the end of your return.

If you owe tax, be sure to attach your payment to the front of Form 1040.

## Section 3 Line-by-Line Instructions

### Name, Address, and Social Security Number

If you received a mailing label from us, please use it. But don't attach your label to your return until you complete the return. Make sure the label is correct. If it isn't, mark through the label and make corrections on the label. Also add any missing information (such as apartment number).

**Caution:** If the label is for a joint return and the social security numbers are not listed in the same order as the first names, show the numbers in the correct order.

If you do not have a label, print or type your name, address (including apartment number), and social security number. If filing a joint return, be sure you enter your names and social security numbers in the same order as shown on your 1987 return.

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

**Social Security Number.** If you are married, give social security numbers for both you and your spouse whether you file joint or separate returns.

If your spouse is a nonresident alien, has no income, does not have a social security



number, and you file a separate return, enter "NRA" in the block for your spouse's social security number. If you and your spouse file a joint return, your spouse must get a social security number.

If you don't have a social security number, you can get one by filing **Form SS-5** with a local Social Security Administration office. If you don't have a number by the time you are ready to file your return, apply for one and enter "Applied for" in the block for your social security number.

**Name Change.** If you have changed your name because of marriage, divorce, etc., make sure you immediately notify the Social Security Administration (SSA) so the name on your tax return is the same as the name SSA has on its records. This may prevent delays in issuing your refund.

**Joint Return.** If you are married, filing a joint return, show the social security numbers in the same order that you show your first names. If you and your spouse have different last names, please separate the names with an "and." For example: "John Brown and Mary Smith."

## Presidential Election Campaign Fund

Congress set up this fund to help pay for Presidential election costs.

You may have \$1 go to the fund by checking the **Yes** box. If you are filing a joint return, your spouse may also have \$1 go to the fund.

If you check **Yes**, it will not change the tax or refund shown on your return.

## Filing Status Lines 1 through 5 Single

You can file as single if on December 31 you were unmarried or separated from your spouse either by divorce or a separate maintenance decree and you do not qualify for another filing status. State law governs whether you are married, divorced, or legally separated.

If you were married on December 31, consider yourself married for the whole year. If you meet the tests explained on this page for **Married Persons Who Live Apart**, you may file as head of household.

If your spouse died in 1988, consider yourself married to that spouse for the whole year unless you remarried before the end of 1988.

## Married Joint or Separate Returns?

Generally, married couples will pay less tax if they file a joint return because the tax rate for married persons filing jointly is lower than the tax rate for married persons filing separately. However, as a result of some of the changes in the tax law, you may want to figure your tax both ways to see which filing status is to your tax benefit.

**Joint Returns.** If you file a joint return, you must report all income, exemptions, deductions, and credits for you and your spouse. Both of you must sign the return, even if only one of you had income.

You and your spouse can file a joint return even if you did not live together for the whole year. Both of you are responsible for any tax due on a joint return, so if one of you does not pay, the other may have to.

**Note:** If you file a joint return, you may not, after the due date of the return, choose to file separate returns for that year.

If your spouse died in 1988, you can file a joint return for 1988. You can also file a joint return if your spouse died in 1989 before filing a 1988 return. For details on how to file the joint return, see **Death of Taxpayer** on page 22.

**Tax Tip:** If you decide not to file a joint return and plan to file a separate return, see if you can lower your tax by meeting the tests described below under **Married Persons Who Live Apart**.

**Special Rule for Aliens.**—If at the end of 1988 you were a nonresident alien or dual-status alien married to a U.S. citizen or resident alien, you may be able to file a joint return with your spouse. If you do file a joint return, you and your spouse must agree to be taxed on your combined worldwide income. For more details, get **Pub. 519**, U.S. Tax Guide for Aliens.

**Separate Returns.** You can file separate returns if both you and your spouse had income, or if only one of you had income.

If you file a separate return, you each report only your own income, exemptions, deductions, and credits, and you are responsible only for the tax due on your own return. However, if you live in a community property state, special rules apply. For details, get **Pub. 555**.

If you file a separate return, you generally cannot take the credit for child and dependent care expenses and you cannot take the earned income credit. If you lived with your spouse at any time in 1988, you cannot take the credit for the elderly or the disabled. Also, you may have to include in income up to one-half of any social security benefits or equivalent railroad retirement benefits you received in 1988. If your spouse itemizes deductions, you cannot take the standard deduction.

If you file a separate return, enter your spouse's full name in the space provided on line 3 and your spouse's social security number in the block provided for that number.

If your spouse does not file, check the box on line 6b if you can claim an exemption for your spouse. Please see **For Your Spouse** on page 8.

**Married Persons Who Live Apart.** Some married persons who have a child and who do not live with their spouse may file as head of household and use tax rates that are lower than the rates for single or for married filing a separate return. This also means that you can take the standard deduction even if your spouse itemizes deductions. You may also be able to claim the earned income credit.

You should check the box on line 4, **Head of household**, if you meet **ALL 4** of the following tests:

1. You file a separate return from your spouse.
2. You paid more than half the cost to keep up your home in 1988.
3. Your spouse did not live with you at any time during the last 6 months of 1988.
4. For over 6 months of 1988, your home was the main home of your child or stepchild whom—

a. you can claim as a dependent, **OR**

b. the child's other parent claims as a dependent under the rules explained on page 9 for **Children of Divorced or Separated Parents**. (Enter this child's name in the space provided on line 4.)

## Head of Household

**Tax Tip:** The tax rates for a person who can meet the tests for head of household are lower than the rates for single or for married filing a separate return.

You may use this filing status **ONLY IF** on December 31, 1988, you were unmarried (including certain married persons who live apart, as discussed above) or legally separated and meet test 1 or 2 below.

1. You paid more than half the cost of keeping up a home for the entire year, which was the main home of your father or mother whom you can claim as a dependent, **OR**
2. You paid more than half the cost of keeping up the home in which you lived and in which one of the following also lived for more than 6 months of the year (except for temporary absences, such as for vacation or school):

a. Your **unmarried** child, grandchild, great grandchild, etc., adopted child, or stepchild. This child does not have to be your dependent. However, your foster child must be your dependent.

b. Your **married** child, grandchild, great grandchild, etc., adopted child, or stepchild. This child must be your dependent. But if your married child's other parent claims him or her as a dependent under the rules on page 9 for **Children of Divorced or Separated Parents**, this child does not have to be your dependent.

c. Any other relative listed below whom you can claim as a dependent.

Parent	Father-in-law
Grandparent	Brother-in-law
Great grandparent, etc.	Sister-in-law
Brother	Son-in-law
Sister	Daughter-in-law, or if related by blood:
Stepbrother	Uncle
Stepsister	Aunt
Stepmother	Nephew
Stepfather	Niece
Mother-in-law	

**Note:** See instructions for line 6c for the definition of dependent.

## Special rules

- If you receive payments under the Aid to Families with Dependent Children (AFDC) program and use them to pay part of the cost of keeping up this home, you may not count these amounts as furnished by you.
- You cannot file as head of household if you claim a relative described in 1 or 2 above as a dependent under a **Multiple Support Declaration**. (See page 9 for details on dependents supported by two or more taxpayers.)

## Qualifying Widow or Widower With a Dependent Child

If your spouse died in 1986 or 1987 and you did not remarry in 1988, you may be able to use joint return tax rates for 1988.

You can figure your tax at joint return rates if you meet **ALL 3** of the following tests:

1. You could have filed a joint return with your spouse for the year your spouse died, even if you didn't actually do so.
2. Your dependent child, stepchild, adopted child, or foster child lived with you (except for temporary absences, such as for vacation or school).
3. You paid over half the cost of keeping up the home for this child for the whole year.

Check the box on line 5, Qualifying widow(er) with dependent child, and show the year your spouse died in the space provided. **Do not** claim an exemption for your spouse.

If your spouse died before 1986 and you did not remarry by the end of 1988, you may check the box on line 4 if you meet the tests under **Head of Household**. Otherwise, you must file as single.

## Exemptions

### Line 6a

#### For Yourself

Check the box on line 6a unless someone else (such as your parent) can claim you as a dependent.

### Line 6b

#### For Your Spouse

If you file a joint return and your spouse cannot be claimed as a dependent on another person's return, check the box on line 6b. If you file a separate return, you can take an exemption for your spouse only if your spouse is not filing a return, had no income, and was not the dependent of someone else.

If at the end of 1988 you were divorced or legally separated, you cannot take an exemption for your former spouse. If you were separated by a divorce that is not final (interlocutory decree), you are considered married for the whole year.

If your spouse died in 1988 and you did not remarry before the end of 1988, check the box on line 6b if you could have taken an exemption for your spouse on the date of death.

**Nonresident Alien Spouse.** If you do not file a joint return, you may claim an exemption for your spouse only if your spouse had no income from U.S. sources and is not the dependent of another taxpayer. Check the box on line 6b to claim an exemption for a nonresident alien spouse and enter "NRA" to the right of the word Spouse on line 6b.

### Line 6c

#### Children and Other Dependents

You can take an exemption for each person who is your dependent (defined on this page). Enter the full names and other information for your dependent children and other dependents. If you have more than six dependents, show the information requested in columns (1) through (5) for each of those dependents on an attached statement. When entering the total number of dependents in the boxes to the right of line 6c, be sure to count the dependents listed on the attached sheet.

**Column (2).** If your dependent listed in column (1) was under age 5 on December 31, 1988, enter a check mark in column (2).

**Column (3).** If your dependent was age 5 or older on December 31, 1988, you must enter his or her social security number. If you don't or if the number entered is incorrect, you may have to pay a penalty.

If your dependent does not have a social security number, he or she may get one by filing **Form SS-5** with a local Social Security Administration office. If your dependent lives in Canada or Mexico, see **Pub. 501**, Exemptions, Standard Deduction, and Filing Information, for details on how to get a social security number for this dependent. If your dependent does not have a number by the time you are ready to file your return, apply for one and enter "Applied for" in column (3).

**Column (5).** Enter the number of months that your dependent lived with you in 1988. (Temporary absences such as school or vacation are counted as time living in your home.) Write "12" in this column if your dependent was born or died in 1988. If your dependent was not a U.S. citizen but was a resident of Canada or Mexico in 1988, don't enter a number. Instead, write the letter "F" (for foreign).

**Children Who Didn't Live With You.** If you are claiming a child under the rules explained on page 9 for **Children of Divorced or Separated Parents**, enter the number of children who did not live with you (or who lived with their other parent for the greater part of the year) in the box to the right of line 6c labeled "No. of your children on 6c who didn't live with you due to divorce or separation." You must either:

- check the box on line 6d if your divorce decree or written separation agreement was in effect before 1985 and it states that you can claim the child as your dependent, **OR**

- attach **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement. If your divorce decree or separation agreement went into effect after 1984 and it states that you can claim the child as your dependent, you may attach a copy of the following pages from the decree or agreement instead of Form 8332:

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

Enter the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "No. of other dependents listed on 6c." This includes your dependents who were not U.S. citizens and who resided in Canada or Mexico during 1988.

**Birth or Death of Dependent.** You can take an exemption for a dependent who was born or who died during 1988 if he or she met the tests for a dependent while alive. This means that a baby who lived only a few minutes can be claimed as a dependent.

For more details, get **Pub. 501**, Exemptions, Standard Deduction, and Filing Information.

**Dependent.** A dependent is any person who meets **ALL 5** of these tests:

1. income;
2. support;
3. married dependent;
4. citizenship or residence; and
5. relationship.

These tests are explained below.

#### Test 1—Income

In general, the person must have received less than \$1,950 of gross income. Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

Income received by a permanently and totally disabled person for services performed at a sheltered workshop school is generally not included in gross income for purposes of the income test. Get **Pub. 501** for details.

**Special Rules for Your Dependent Child.** Even if your child had income of \$1,950 or more, you can claim your child as a dependent if tests 2, 3, and 4 below are met, and:

- your child was under 19 at the end of 1988, or
- your child was enrolled as a full-time student at a school during any 5 months of 1988, or
- your child took a full-time, on-farm training course during any 5 months of 1988. (The course had to be given by a school or a state, county, or local government agency.)

The school must have a regular teaching staff, a regular course of study, and a regularly enrolled body of students in attendance.

*A school includes:*

- elementary, junior, and senior high schools;
- colleges and universities; and
- technical, trade, and mechanical schools.

However, school does not include on-the-job training courses or correspondence schools.

#### Test 2—Support

In general, you must have given over half of the dependent's support in 1988. If you file a joint return, the support can be from you or your spouse. Even if you did not give over half of the dependent's support, you will be treated as having given over half of the support if you meet the tests explained on page 9 for **Children of Divorced or Separated Parents or Dependent Supported by Two or More Taxpayers**.

In figuring total support, you must include money the dependent used for his or her own support, even if this money was not taxable (for example, gifts, savings, welfare benefits). If your child was a student, do not include amounts he or she received as scholarships.

Support includes items such as food, a place to live, clothes, medical and dental care, recreation, and education. In figuring support, use the actual cost of these items. However, the cost of a place to live is figured at its fair rental value.

**Do not** include in support items such as income and social security taxes, premiums for life insurance, or funeral expenses.



**Capital items**—You must include capital items such as a car or furniture in figuring support, but only if they were actually given to, or bought by, the dependent for his or her use or benefit. Do not include the cost of a capital item for the household or for use by persons other than the dependent.

If you cared for a foster child, see **Pub. 501** for special rules that apply.

### Children of Divorced or Separated Parents

The parent who has custody of a child for most of the year (the custodial parent) can generally take the exemption for that child if the child's parents together paid more than half of the child's support. This general rule also applies to parents who did not live together at any time during the last 6 months of the year. But the parent who does not have custody, or who has the child for the shorter time (the noncustodial parent), may take the exemption if either **a** or **b** below applies.

**a.** The custodial parent signs **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement, agreeing not to claim an exemption for the child in 1988, and the noncustodial parent attaches the form, or similar statement, to his or her 1988 tax return. See **Children Who Didn't Live With You** on page 8, for more information.

**b.** A decree of divorce or separate maintenance (or a written agreement) that was in effect before 1985 states that the noncustodial parent can take the exemption and he or she gave at least \$600 for the child's support in 1988. The noncustodial parent must check the box on line 6d for pre-1985 agreements. This rule does not apply if the decree or agreement was modified after 1984 to specify that the noncustodial parent cannot claim the exemption.

**Note:** In figuring support, a parent who has remarried may count the support provided by the new spouse.

### Dependent Supported by Two or More Taxpayers

Sometimes two or more taxpayers together pay more than half of another person's support, but no one alone pays over half of the support. One of the taxpayers may claim the person as a dependent only if the tests for income, married dependent, citizenship or residence, and relationship are met.

In addition, the taxpayer who claims the dependent must:

**a.** have paid more than 10% of the dependent's support, and

**b.** attach to his or her tax return a signed **Form 2120**, Multiple Support Declaration, from every other person who paid more than 10% of the support. This form states that the person who signs it will not claim an exemption in 1988 for the person he or she helped to support.

### Test 3—Married Dependent

The dependent did not file a joint return. However, if neither the dependent nor the dependent's spouse is required to file, but they file a joint return to get a refund of all tax withheld, you may claim him or her if the other 4 tests are met.

### Test 4—Citizenship or Residence

The dependent must have been a citizen or resident of the United States, a resident of

Canada or Mexico, or an alien child adopted by and living the entire year with a U.S. citizen in a foreign country.

### Test 5—Relationship

The dependent met test **a** or **b** below.

**a.** Was related to you (or your spouse if you are filing a joint return) in one of the following ways:

Child	Great grand-child, etc.	Brother-in-law
Stepchild		Sister-in-law
Mother	Half-brother	Son-in-law
Father	Half-sister	Daughter-in-law
Grandparent	Stepbrother	or, if related by blood:
Great Grandparent, etc.	Stepsister	Uncle
Brother	Stepmother	Aunt
Sister	Stepfather	Nephew
Grandchild	Mother-in-law	Niece
	Father-in-law	

**Note:** Any relationships that have been established by marriage are not treated as ended by death or divorce.

**b.** Was any other person who lived in your home as a member of your household for the whole year. **A person is not a member of your household** if at any time during your tax year the relationship between you and that person violates local law.

The word *child* includes:

- Your son, daughter, stepson, stepdaughter, or adopted son or daughter.
- A child who lived in your home as a member of your family if placed with you by an authorized placement agency for legal adoption.
- A foster child (any child who lived in your home as a member of your family for the whole year for whom you did not receive qualified foster care payments).

## Income

### Examples of Income You Do Not Report

(Do not include these amounts when you decide if you must file a return.)

Welfare benefits.

Disability retirement payments (and other benefits) paid by the Veterans' Administration.

Workers' compensation benefits, insurance damages, etc., for injury or sickness.

Child support.

Gifts, money, or other property you inherited or that was willed to you.

Dividends on veterans' life insurance.

Life insurance proceeds received because of a person's death.

Amounts you received from insurance because you lost the use of your home due to fire or other casualty to the extent the amounts were more than the cost of your normal expenses while living in your home. (You must report as income reimbursements for normal living expenses.)

Certain amounts received as a scholarship (see the instructions for line 7 on page 10).

Cancellation of certain student loans where the student, under the terms of the loan, performs certain professional services for any of a broad class of employers (get **Pub. 520**).

## Examples of Income You Must Report

The following kinds of income should be reported on Form 1040, or related forms and schedules, in addition to the types of income listed on Form 1040, lines 7 through 21b. You may need some of the forms and schedules mentioned below.

Scholarship and fellowship amounts. See the instructions for line 7 on page 10.

Original Issue Discount (Schedule B).

Distributions from SEPs and DECs.

Amounts received in place of wages, from accident and health plans (including sick pay and disability pensions) if your employer paid for the policy.

Bartering income (fair market value of goods or services you received in return for your services).

Business expense reimbursements you received that are more than you spent for these expenses.

Tier 2 and supplemental annuities under the Railroad Retirement Act.

Life insurance proceeds from a policy you cashed in if the proceeds are more than the premium you paid.

Your share of profits from S corporations, partnerships, estates and trusts (Schedule E).

Endowments.

Lump-sum distributions (Form 4972). (See page 12.)

Gains from the sale or exchange (including barter) of real estate, securities, coins, gold, silver, gems, or other property (Schedule D or Form 4797).

Gains from the sale of your main home (Schedule D and Form 2119).

Accumulation distributions from trusts (Form 4970).

Prizes and awards (contests, raffles, lottery, and gambling winnings).

Earned income from sources outside the United States (Form 2555).

Director's fees.

Fees received as an executor or administrator of an estate.

Embezzled or other illegal income.

### U.S. Citizens Living Abroad

Generally, foreign source income must be reported. Get **Pub. 54**, Tax Guide for U.S. Citizens and Resident Aliens Abroad, for more details.

### Community Property States

Community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

If you and your spouse live in a community property state, you must follow state law to determine what is community income and what is separate income. However, different rules could apply if:

- you and your spouse lived apart all year,
- you do not file a joint return, and
- no part of the community income you earn is transferred to your spouse.

For details, get **Pub. 555**, Community Property and the Federal Income Tax.

## Rounding Off to Whole Dollars

You may round off cents to the nearest whole dollar on your return and schedules. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3.

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

**Example.** You received two W-2 forms, one showing wages of \$5,000.55 and one showing wages of \$18,500.73. On Form 1040, line 7, you would enter \$23,501 (\$5,000.55 + \$18,500.73 = \$23,501.28) instead of \$23,502 (\$5,001 + \$18,501).

## Line 7

### Wages, Salaries, Tips, Etc.

Show the total of all wages, salaries, fees, commissions, tips, bonuses, supplemental unemployment benefits, and other amounts you were paid before taxes, insurance, etc., were taken out. For information on allocated tips, get **Pub. 531**, Reporting Income From Tips.

Include in this total:

- The amount that should be shown in Box 10 on **Form W-2**. Report all wages, salaries, and tips you received, even if you do not have a **Form W-2**.

- Tips received that you did not report to your employer. (Show any social security tax due on these tips on line 51—see the instructions on page 19.)

**Note:** Any tip allocation amount shown on **Form W-2** may be added to your gross income unless you are able to prove a lesser amount with adequate records.

- Disability pensions if you have not reached the minimum retirement age set by your employer.

**Note:** Except for those disability pensions mentioned above, pensions shown on **Form W-2P** (other than payments from an IRA) are reported on lines 17a and 17b of **Form 1040**. Payments from an IRA are reported on lines 16a and 16b.

- Payments by insurance companies, etc., not included on **Form W-2**. If you receive sick pay or a disability payment from anyone other than your employer, and it is not included in the wages shown on **Form W-2**, include it on line 7. Attach a statement showing the name and address of the payer and amount of sick pay or disability income. (Get **Form W-4S** for information on withholding of Federal income tax from your sick pay.)

- Fair market value of meals and living quarters if given by your employer as a matter of your choice and not for your employer's convenience. Don't report the value of meals given you at work if they were provided for your employer's convenience. Also do not report the value of living quarters you had to accept on your employer's business premises as a condition of employment.

- Strike and lockout benefits paid by a union from union dues. Include cash and the fair market value of goods received. Don't report benefits that were gifts.

## Page 10

- Any amount your employer paid for your moving expenses (including the value of services furnished in kind) that is not included in Box 10 on **Form W-2**.

**Note:** You must report on line 7 all wages, salaries, etc., paid for your personal services, even if the income was signed over to a trust (including an IRA), another person, a corporation, or a tax-exempt organization.

For more details on reporting income received in the form of goods, property, meals, stock options, etc., get **Pub. 525**, Taxable and Nontaxable Income.

**Fringe Benefits.** If you used an employer-provided highway motor vehicle for both personal and business use and your employer included 100% of the fair rental value of the vehicle in the wages, tips, and other compensation box (Box 10) of your **W-2** form, you must use **Form 2106**, Employee Business Expenses, to claim a deduction for the business use of the vehicle. (The total fair rental value of the vehicle should be shown in Box 16a of your **W-2** form or on a separate statement.) You must report on **Form 1040**, line 7, the total amount shown in Box 10 of your **W-2** form. For more details, get **Pub. 525**.

**Excess Salary Deferrals.** If you choose to have your employer contribute part of your pay to certain retirement plans (such as a 401(k) or the Federal Thrift Savings Fund) instead of having it paid to you, the **Form W-2** you get from that employer should have the "Deferred compensation" box in Box 5 checked. The amount deferred should be shown in Box 16. The total amount that may be deferred for 1988 under all plans is generally limited to \$7,313. Any amount deferred in excess of \$7,313 must be reported on **Form 1040**, line 7. Amounts deferred under a tax-sheltered annuity plan may have a higher limit. Get **Pub. 571**, Tax Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations, for details.

**Scholarships and Fellowships.** If you received amounts as a scholarship or fellowship, part of the amounts you received may be taxable.

If you were a degree candidate and the scholarship or fellowship was granted after August 16, 1986, the amounts you used for expenses other than tuition and course-related expenses are taxable. For example, amounts you spent on room, board, and travel are taxable.

Include the taxable amount on line 7. Then write "SCH" and the amount not reported on a **W-2** form in the space to the left of line 7.

If the scholarship or fellowship was granted on or before August 16, 1986, or if you were not a degree candidate, get **Pub. 520**, Scholarships and Fellowships, to see how much is taxable and how to report it.

## Line 8a

### Taxable Interest Income

Enter ALL of your taxable interest income. If the total interest is more than \$400, first fill in Schedule B (see page 26 of the instructions).

Report any interest you received or that was credited to your account so you could withdraw it. (It does not have to be entered in your passbook.) Interest that was credited in 1988 on deposits that you could not withdraw because of the bankruptcy or

insolvency of the financial institution may not have to be included in your 1988 income. For details, get **Pub. 550**, Investment Income and Expenses.

Generally, the payer will send you a **Form 1099-INT** or, if applicable, a **Form 1099-OID** for this interest.

If you received, as a nominee, interest that actually belongs to someone else, see Schedule B instructions on page 27.

**Caution:** Be sure to give each payer of interest income your correct social security number. Otherwise, the payer may have to withhold 20% of the interest. You may also be subject to penalties.

For more details, get **Pub. 550**.

## Examples of Taxable Interest Income You MUST Report

Report interest from:

- Accounts (including certificates of deposit and money market accounts) with banks, credit unions, and savings and loan associations.

- Building and loan accounts.

- Notes, loans, and mortgages. Special rules apply to loans with below-market interest rates. Get **Pub. 545**, Interest Expense.

- Tax refunds (report only the interest on them as interest income).

- Bonds and debentures. Also arbitrage bonds issued by state and local governments after October 9, 1969. (Report interest on other state and local bonds and securities on line 8b.) Also report as interest any gain on the disposition of certain market discount bonds issued to you after July 18, 1984, to the extent of the accrued market discount.

- U.S. Treasury bills, notes, and bonds.

- U.S. Savings Bonds. The interest is the yearly increase in the value of the bond. Interest on Series E or EE bonds can be reported using method a or b below:

a. Report the total interest when you cash the bonds, or when they reach final maturity and no longer earn interest; **OR**

b. Each year report on your return the yearly increase of the bonds' value.

If you change to method b, report the entire increase in all your bonds from the date they were issued. Each year after report only the yearly increase. Once you have used method b to report your interest, you must continue to do so for all your U.S. Savings Bonds.

**Note:** If you receive for 1988 a **Form 1099-INT** for U.S. Savings Bond interest, which includes amounts you reported before 1988, see **Pub. 550**.

- Original Issue Discount (OID). This is the difference between the issue price of a debt instrument and the stated redemption price at maturity. If the instrument was issued at a discount after May 27, 1969 (or for certain noncorporate instruments after July 1, 1982), include in your interest income the discount for the part of the year you held it.

If you bought a corporate debt instrument at original issue and held it for all of 1988 or the part of 1988 that it was outstanding, include in interest income the total OID from **Form 1099-OID**. If you bought a corporate instrument after its original issue, or if you did not hold it for all

of 1988, get **Pub. 1212**, List of Original Issue Discount Instruments, for information on how to figure your taxable OID. If you held a noncorporate debt instrument (such as a zero coupon U.S. Treasury-backed security) during 1988, see **Pub. 1212** to figure your taxable OID.

If you had OID for 1988, but did not receive Form 1099-OID, or if the price you paid for the instrument is more than the issue price plus accumulated OID, see **Pub. 1212**. It provides total OID on the instruments listed and gives computational information.

Also include in your interest income any other periodic interest shown on Form 1099-OID.

## Line 8b

### Tax-Exempt Interest Income

If you received any tax-exempt interest income (such as interest on certain state and municipal bonds), that interest must be reported on your return. Enter the total tax-exempt interest you received in 1988 on line 8b. Also, report any exempt-interest dividends you received as a shareholder in a mutual fund or other regulated investment company. **Do not** include this interest in your total income on line 23.

**Note:** Interest earned on your IRA account is not tax-exempt interest for purposes of completing line 8b. Do not include this interest on line 8b. IRA interest is tax-deferred interest and is taxable when you receive IRA distributions.

## Line 9

### Dividends

Dividends are distributions of money, stock, or other property that corporations pay to stockholders. They also include dividends you receive through a partnership, an S corporation, or an estate or trust. Payers include nominees or other agents. Generally, the payer will send you a **Form 1099-DIV** for these dividends.

If you received, as a nominee, dividends that actually belong to someone else, see Schedule B instructions on page 27.

**Caution:** Be sure to give each payer of dividends your correct social security number. Otherwise, the payer may have to withhold 20% of the dividend income. You may also be subject to penalties.

If the total dividends, including capital gain and nontaxable distributions, are more than \$400, first fill in Schedule B (see page 27 of the instructions). If you received \$400 or less in dividends, include only the ordinary dividends on line 9.

### Dividends Include:

- **Ordinary dividends.** Assume that any dividend you receive is an ordinary dividend unless the payer tells you otherwise. Form 1099-DIV shows gross dividends in Box 1. To figure the amount of "ordinary dividends," subtract any capital gain distributions (Box 3) and any nontaxable distributions (Box 5) from gross dividends.
- **Capital gain distributions.** If you have other capital gains or losses, also enter your capital gain distributions on Schedule D. If you don't need Schedule D to report any other gains or losses, enter your capital gain distributions on Form 1040, line 14.

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

**Note:** Generally, payments from a money market fund are dividends.

### Do Not Report as Dividends

- Mutual insurance company dividends that reduced the premiums you paid.
- Amounts paid on deposits or accounts from which you could withdraw your money, such as mutual savings banks, cooperative banks, and credit unions. Remember to report these amounts as interest on line 8a.

## Line 10

### Taxable Refunds of State and Local Income Taxes

If you received a refund (or credit or offset) of state or local income taxes in 1988 that you paid and deducted before 1988, you may have to report all or part of this amount as income if your itemized deduction for state and local income taxes in the year you paid the taxes resulted in a tax benefit. You may receive **Form 1099-G**, or similar statement, showing the refund.

Any part of a refund of state or local income taxes paid before 1988 that you were entitled to receive in 1988 but chose to apply to your 1988 estimated state income tax is considered to have been received in 1988.

**Do not** report the refund as income if it was for a tax you paid in a year for which you did not itemize deductions on Schedule A (Form 1040), or it was for a year in which you filed Form 1040A or Form 1040EZ.

If the refund was for a tax you paid in a year for which you itemized deductions on Schedule A, use the worksheet on this page to figure the amount, if any, you must report as income for 1988.

However, see **Recoveries** in **Pub. 525**, Taxable and Nontaxable Income, instead of using the worksheet on this page if any of the following applies:

- The refund you received in 1988 is for a tax year other than 1987.
- You received a refund (other than an income tax refund, such as a real property tax refund) in 1988 of an amount you deducted or credit you claimed in an earlier year.
- Your 1987 taxable income was less than zero.
- Your last payment of 1987 estimated state income tax was made in 1988.
- You were liable for the alternative minimum tax in 1987.
- You could not deduct the full amount of the credits you were entitled to in 1987 because the total credits exceeded the tax shown on your 1987 Form 1040, line 39.
- You could be claimed as a dependent by someone else in 1987.

## Worksheet—see line 10 instructions on this page (Keep for your records)

1. Enter the income tax refund from **Form(s) 1099-G** (or similar statement) . . . . .
2. Enter the amount from your 1987 Schedule A, line 26 . . . . .
3. Enter on line 3 the amount shown below for the filing status you claimed on your 1987 Form 1040. But if you were 65 or older or blind at the end of 1987, enter on line 3 the amount from the chart on page 17 labeled "Standard Deduction for People Age 65 or Older OR Blind" that applies to you
  - Single or Head of household, enter \$2,540
  - Married filing jointly or Qualifying widow(er), enter \$3,760
  - Married filing separately, enter \$1,880
4. Subtract line 3 from line 2. Enter the result (but not less than zero) . . . . .
5. **Taxable part of your refund.** Compare the amounts on lines 1 and 4 above, and enter the smaller of the two amounts here and on Form 1040, line 10 . . . . .

## Line 11

### Alimony Received

Enter amounts you received as alimony or separate maintenance. You must let the person who made the payments know your social security number. If you do not provide this information to the payer, you may have to pay a \$50 penalty. For more details, get **Pub. 504**, Tax Information for Divorced or Separated Individuals.

If you received payments under a divorce or separation instrument executed after 1984, see the instructions for line 29 on page 15 for information on the rules that apply in determining whether these payments qualify as alimony.

## Line 14

### Capital Gain Distributions

If you do not need Schedule D for other capital transactions, enter your capital gain distributions on line 14.

## Line 15

### Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the instructions for **Form 4797**. Enter the ordinary gain or (loss) from Part II of Form 4797.

## Lines 16a and 16b

### IRA Distributions

Use lines 16a and 16b to report individual retirement arrangement (IRA) distributions you received. This includes regular distributions, premature distributions, rollovers, and any other money or property that you received from your IRA account or annuity. Generally, you will receive either a **Form 1099-R** or a **Form W-2P** showing the amount of your distribution. IRA distributions that you must include in income are taxed at the same rate as the other income on your return. You may not

use the special averaging rule that applies to lump-sum distributions from qualified employer plans. If your distribution is fully taxable, enter it on line 16b; no entry is required on line 16a. If only part of your distribution is taxable enter the total amount of the distribution on line 16a; enter the taxable part on line 16b. If you made nondeductible contributions or rolled your IRA distribution over into another IRA, see below.

**Note:** If you received a premature or excess distribution, you may have to pay an additional tax. Get Form 5329.

**Nondeductible Contributions.** If you received an IRA distribution in 1988 and you made any nondeductible contributions to your IRA, part of your distribution may be nontaxable. Figure the nontaxable part of the distribution on Form 8606, Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions. Follow the instructions for Form 8606, line 15, to figure the taxable part to enter on Form 1040, line 16b. Be sure to also enter the total amount of the distribution on line 16a.

**Rollover Distributions.** A rollover is a tax-free transfer of cash or other assets from one retirement program to another. Use lines 16a and 16b to report a rollover from one IRA to another IRA. But do not use lines 16a or 16b to report a rollover from a qualified employer's plan to an IRA; use lines 17a and 17b instead.

Enter the total distribution on line 16a. If the total on line 16a was rolled over, enter zero on line 16b. Otherwise, enter the part that was not rolled over on line 16b.

For more details, get Pub. 590, Individual Retirement Arrangements (IRAs).

## Lines 17a and 17b

### Pensions and Annuities

Use lines 17a and 17b to report pension and annuity income you received. Also, use these lines to report distributions from profit-sharing plans, retirement plans and employee-savings plans. See below for information on rollover distributions and lump-sum distributions. In general, you should receive a Form W-2P or Form 1099-R showing the amount of your pension or annuity. Be sure to attach Form W-2P to Form 1040.

**Do not** use lines 17a and 17b to report social security or railroad retirement benefits shown on Forms SSA-1099 and RRB-1099. Instead, see the instructions for lines 21a and 21b.

### Fully Taxable Pensions and Annuities

Your pension or annuity payments are fully taxable if:

- you did not contribute to the cost of your pension or annuity, or
- you got back tax-free your entire cost before 1988.

Fully taxable pensions and annuities also include military retirement pay shown on Form W-2P, and any taxable railroad retirement benefits from Box 12 of Form RRB-W-2P. If you received Form RRB-W-2P and an amount is shown in Box 13 of your form, get Pub. 575, Pension and Annuity Income, to see how to report your benefits.

If your pension or annuity is fully taxable, enter it on line 17b; no entry is required on line 17a.

For information on military disability pensions, get Pub. 525, Taxable and Nontaxable Income.

### Other Pensions and Annuities

**a. Annuity Starting Date Was After December 31, 1987.**—If your annuity starting date was after December 31, 1987, and your Form W-2P does not show a taxable part of your pension or annuity, you may use the General Rule explained in Pub. 575 or Pub. 721, Comprehensive Tax Guide to U. S. Civil Service Retirement Benefits, to figure the taxable part. If you choose to, you may submit a ruling request to IRS before the due date of your return (including extensions), and IRS will figure the taxable part for you. See Pub. 575 for details on how to do this.

In some cases, you may be able to use a simpler method to figure the taxable part of your pension or annuity. Pubs. 575 and 721 explain who can use the simpler method and how to figure the taxable part of the pension or annuity using this method. The simpler method will usually result in about the same amount of pension or annuity being taxed each year as under the General Rule or as figured by IRS.

If your Form W-2P shows a taxable amount and the payer tells you that this amount was determined using the simpler method, you may report on line 17b the taxable amount shown on the W-2P. But if you are a beneficiary and are entitled to a death benefit exclusion (see **Beneficiaries—Death Benefit Exclusion** below), get Pub. 575 or 721 to figure the taxable amount to report on line 17b.

**b. Annuity Starting Date Was After July 1, 1986, and Before January 1, 1988.**—If your annuity starting date was after July 1, 1986, and before January 1, 1988, and your Form W-2P does not show the taxable part of your pension or annuity, you may continue to use the General Rule explained in Pub. 575 or 721 if you used this method for 1987. Or, if you had IRS figure the taxable part of your pension or annuity, you can continue to use the figure IRS provided you.

But if you choose to, you may be able to change to the simpler method that applies to people whose annuity starting date began after December 31, 1987. To see if you can change to the simpler method for 1988, get Pub. 575 or 721.

**c. Annuity Starting Date Was Before July 2, 1986.**—If your annuity starting date was before July 2, 1986, and your Form W-2P does not show the taxable part of your pension or annuity, you may use the worksheet on this page to figure the taxable part.

To use the worksheet, you must meet both of the following requirements:

- Both you and your employer contributed to the pension or annuity.
- The total amount you expected to receive within 36 months from the date of your first annuity payment equaled or exceeded your full cost. (Your cost includes amounts you contributed and amounts your employer contributed that you reported as income.)

If you do not meet both of the above requirements, see Pub. 575 or 721 to figure the taxable part.

## Pension and Annuity Worksheet

(Keep for your records)

- 1a. Enter your cost . . . . .
- b. Cost recovered in prior years. . . . .
- c. Subtract line 1b from line 1a. . . . .
2. Amount received this year. Also enter this amount on Form 1040, line 17a . . . . .
3. Enter amount from line 1c above . . . . .
4. **Taxable amount.** Subtract line 3 from line 2. Enter the result (but not less than zero). Also enter this amount on Form 1040, line 17b . . . . .

**Note:** If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.

**Caution:** Certain transactions, such as loans against your interest in a qualified plan, may be treated as taxable distributions and may also be subject to penalties. For details, see Pub. 575.

### Beneficiaries—Death Benefit Exclusion

If you are the beneficiary of a deceased employee or deceased former employee, amounts paid to you by, or on behalf of, an employer because of the death of the employee may qualify for a death benefit exclusion of up to \$5,000. If you are entitled to this exclusion, add it to the cost of the pension or annuity.

Special rules apply if you are the survivor under a joint and survivor's annuity. For details, get Pub. 575.

**Rollover Distributions.** A rollover is a tax-free transfer of cash or other assets from one retirement program to another. Use lines 17a and 17b to report a rollover from one qualified employer's plan to another, or to an IRA.

Rollover distributions are generally reported to you on Form 1099-R or Form W-2P. Enter the total distribution (excluding your nondeductible contribution, if any) on line 17a. If the total on line 17a was rolled over, enter zero on line 17b. Otherwise, enter the part that was not rolled over as ordinary income on line 17b. Special rules apply to partial rollovers of property.

For details on rollovers, including distributions under qualified domestic relations orders, get Pub. 575.

**Lump-Sum Distributions.** If you received a lump-sum distribution from a profit-sharing or retirement plan, you should receive a Form 1099-R showing the amount of the distribution. Enter the total of the ordinary income part and the capital gain part on line 17b; no entry is required on line 17a. But you may pay less tax on this distribution if you were age 50 or older on January 1, 1986, and you meet certain other conditions. For details, get Form 4972, Tax on Lump-Sum Distributions. If you use Form 4972 to figure the tax on any part of your distribution, do not include that part of the distribution on line 17a or b of Form 1040.

**Caution:** If you received a premature or excess distribution from a qualified retirement plan, you may owe additional tax. For details, get Form 5329.



## Line 20

### Unemployment Compensation

Unemployment compensation (insurance) is fully taxable. By January 31, 1989, you should receive a **Form 1099-G** showing the total unemployment compensation paid to you during 1988.

Use line 20 to report the unemployment compensation you received. If you received an overpayment of unemployment compensation in 1988 and you repaid it in 1988, subtract the amount you repaid from the total amount you received and enter the result on line 20. Also write "repayment" and the amount you repaid on the dotted line to the left of line 20.

**Note:** Supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund are wages. Report them on line 7.

## Lines 21a and 21b

### Social Security Benefits and Equivalent Railroad Retirement Benefits

Social security benefits you receive may be taxable in some instances. Social security benefits include any monthly benefit under title II of the Social Security Act or the part of a tier 1 railroad retirement benefit treated as a social security benefit. Social security benefits do not include any Supplemental Security Income (SSI) payments.

By January 31, 1989, you should receive a **Form SSA-1099** showing the

total social security benefits paid to you in 1988, and the amount of any social security benefits you repaid in 1988. If you received railroad retirement benefits treated as social security, you should receive **Form RRB-1099**. For more details, get **Pub. 915**, Social Security Benefits and Equivalent Railroad Retirement Benefits.

Use the worksheet below to see if any of your benefits are taxable, but **please note** the following before you begin it.

● You will first need to complete Form 1040, lines 7 through 20, 22, and 30 if they apply to you to figure the taxable part, if any, of your benefits.

**Caution:** If you made IRA contributions for 1988 and you were covered by a retirement plan at work, you may need to make a special computation. See Pub. 590 for details.

● If you repaid any benefits in 1988, and your total repayments (Box 4) were more than your total benefits for 1988 (Box 3), **do not** use the worksheet below. None of your benefits are taxable for 1988. But you may be able to take an itemized deduction for part of the excess repayments if they were for benefits you included in gross income in an earlier year. Get Pub. 915.

● If you file **Form 2555**, Foreign Earned Income, or **Form 4563**, Exclusion of Income For Bona Fide Residents of American Samoa, or you exclude income from sources within Puerto Rico, use the worksheet in Pub. 915 instead.

## Line 22

### Other Income

Use line 22 to report any income you can't find a place for on your return or other schedules. List the type and amount of income. If necessary, show the required information on an attached statement. For more information, see **Miscellaneous Taxable Income** in **Pub. 525**, Taxable and Nontaxable Income.

**Caution:** Do not report any income from self-employment on line 22. If you do have any income from self-employment, you must use Schedule C or Schedule F. Amounts your employer paid you for business expenses that are more than you spent for the actual business expenses should be added to the wages shown on line 7 unless they were already included on your Form W-2.

Examples of income to be reported on line 22 are:

● Prizes, awards, and gambling winnings. Proceeds from lotteries, raffles, etc., are gambling winnings. You must report the full amount of your winnings on this line. You cannot offset losses against winnings and report the difference.

If you had any gambling losses, you may take them as an itemized deduction on Schedule A. However, you cannot deduct more losses than the winnings you report.

● Amounts you received for medical expenses or other items such as real estate taxes that you deducted in an earlier year if they reduced your tax. See Pub. 525 for information on how to figure the amount to include in income.

● Amounts you recovered on bad debts that you deducted in an earlier year.

● Fees received for jury duty and precinct election board duty.

**Net Operating Loss.** If you had a net operating loss in an earlier year to carry forward to 1988, enter it as a minus figure on line 22. Attach a statement showing how you figured the amount. Get **Pub. 536**, Net Operating Losses, for more details.

## Social Security Benefits Worksheet (Keep for your records)

### Check only one box

- A.** Single—enter \$25,000 on line 7 below.
- B.** Married filing a joint return—enter \$32,000 on line 7 below.
- C.** Married not filing a joint return and lived with your spouse at any time during the year—enter -0- on line 7 below.
- D.** Married not filing a joint return and **DID NOT** live with your spouse at any time during the year—enter \$25,000 on line 7 below.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099** and **Forms RRB-1099** (if applicable) \_\_\_\_\_

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

2. Divide the amount on line 1 by 2 \_\_\_\_\_

3. Add the amounts on Form 1040, lines 7, 8a, 8b through 20, plus line 22. Do not include here any amounts from lines 16a or 17a of Form 1040, or from Box 5 of Forms SSA-1099 or RRB-1099 \_\_\_\_\_

4. Add lines 2 and 3 \_\_\_\_\_

5. Enter the amount from Form 1040, line 30 \_\_\_\_\_

6. Subtract line 5 from line 4 \_\_\_\_\_

7. Enter  $\left\{ \begin{array}{l} \$25,000 \text{ if you checked Box A or D, or} \\ \$32,000 \text{ if you checked Box B, or} \\ -0- \text{ if you checked Box C} \end{array} \right\}$  \_\_\_\_\_

8. Subtract line 7 from line 6. Enter the result, but not less than zero \_\_\_\_\_

**Note:** If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked box D, enter -0- on line 21b and write "D" on the dotted line to the left of line 21b. If line 8 is more than zero, go on to line 9.

9. Divide the amount on line 8 by 2 \_\_\_\_\_

### 10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above, and enter the **smaller** of the two amounts on this line and also on Form 1040, line 21b. \_\_\_\_\_

**Note:** If part of your benefits are taxable for 1988 AND they include benefits paid in 1988 that were for 1984 through 1987, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.

## Adjustments to Income

### Line 24

#### Reimbursed Employee Business Expenses

Use line 24 to deduct only those business expenses for which your employer (or a third party) paid or reimbursed you. Deduct your unreimbursed business expenses on Schedule A, line 20. You must complete and attach **Form 2106**, Employee Business Expense, to figure your deduction.

**Exception.** Do not complete Form 2106 if: You accounted to your employer for your expenses by means of an account book, diary, or similar statement; your expenses equaled your reimbursement; and the reimbursement was not included on your W-2 form. Do not deduct these expenses or report the reimbursement.

For details, see **Tele-Tax Information** in the index (topic no. 251) or get **Pub. 463**, Travel, Entertainment, and Gift Expenses, or get **Pub. 917**, Business Use of a Car.

**Performing Artists.** If you worked in the performing arts for more than one employer, you may be able to deduct your

reimbursed and unreimbursed expenses related to that work on line 24. For details, get **Pub. 529**, Miscellaneous Deductions.

## Lines 25a and 25b

### Individual Retirement Arrangement (IRA) Deduction

Use line 25a to deduct amounts contributed to your IRA. If you file a joint return, use line 25b for your spouse's IRA.

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

### Were You Covered by an Employer Retirement Plan?

The "Pension Plan" box in Box 5 of your Form W-2 should be checked if you were covered by a plan for 1988. This box should be checked even if you are not vested in the plan. You are also covered by a plan if you are self-employed and have a Keogh retirement plan.

If you were married filing a separate return and not covered by a plan but your spouse was, you are not considered to be covered. Get **Pub. 590**, Individual Retirement Arrangements (IRAs), for details.

**Caution:** A pending tax law change would treat married persons filing separate returns as covered by a plan if their spouse was covered and they lived together at any time in 1988. Get **Pub. 553** to find out whether this law was passed.

**Not Covered by a Retirement Plan.** If you (and your spouse if filing a joint return) were not covered by a plan at work, use **Worksheet 1** to figure your IRA.

**Covered by a Retirement Plan.** If you (or your spouse if filing a joint return) were covered by a plan at work, the chart on this page will tell you if you can deduct your IRA and, if you can, which worksheet to use.

**Nondeductible Contributions.** You can make nondeductible contributions to your IRA. You can do this even if you are allowed to deduct your contributions. Your nondeductible contribution is the difference between the total allowable contributions to your IRA and the amount you deduct.

**Example:** You file as single and paid \$2,000 into your IRA. You were covered by a retirement plan and your modified AGI is over \$35,000 (all wages). You can't deduct the \$2,000. But you can treat it as a nondeductible contribution.

If you use **Worksheet 1**, you can treat all or part of line 3 (or line 8 if it applies) as a nondeductible contribution. If you use **Worksheet 2**, you can treat all or part of lines 9 and 10 (or lines 19 and 20 if they apply) as a nondeductible contribution.

Use **Form 8606** to report all contributions you treat as nondeductible. Also use **Form 8606** to figure the basis (nontaxable part) of your IRA and the taxable part of any IRA distribution. If you and your spouse each make nondeductible contributions, each of you must complete a separate **Form 8606**.

**Note:** If you file **Form 2555**, Foreign Earned Income, get **Pub. 590** to figure your IRA.

Before you do the worksheet that applies to you, please note:

- If you made contributions to your IRA in 1988 that you deducted in 1987, do not include them in the worksheet.
- If you make contributions to your IRA in 1989 (by April 17) for 1988, include them in the worksheet.
- If the total of your IRA deduction plus any nondeductible contributions is less than your total IRA contributions for 1988, see **Pub. 590** for special rules.
- If you were married, you must file a joint return to deduct contributions to your nonworking spouse's IRA for 1988. A nonworking spouse is one who had no wages or other earned income in 1988. Also, a working spouse may choose to be treated as having no earned income for figuring the deduction.
- Your IRA deduction can't be more than the total of your wages and other earned income.
- Do not include rollover contributions in figuring your deduction. See the instructions for lines 16a and 16b on page 12 for more details on rollover contributions.
- Do not include trustee's fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on Schedule A.
- Alimony payments received under certain divorce or separation instruments are considered earned income for purposes of the IRA deduction. See **Pub. 590**.
- You will first need to complete **Form 1040** through line 24, and lines 26 through 29, if they apply to you, to figure your IRA deduction and, if applicable, nondeductible contributions.
- You should receive a statement by May 31, 1989, showing all contributions made to your IRA for 1988.

**Note:** If you were married and both spouses worked and both had IRAs, figure each spouse's deduction separately.

### IRA Worksheet 1 (Keep for your records)

1. Enter IRA contributions you made for 1988, but do not enter more than \$2,000 . . . . .
2. Enter your wages and other earned income from **Form 1040**, minus any deduction you claim on **Form 1040**, line 27. (Do not include your spouse's income and do not reduce your wages by losses from self-employment.) . . . . .
3. Compare the amounts on lines 1 and 2 and enter the smaller of the two amounts on line 3. Enter on **Form 1040**, line 25a or 25b, whichever applies, the amount on line 3 you choose to deduct. If contributions were made to your nonworking spouse's IRA, go on to line 4. . . . .

### Nonworking Spouse's IRA

**Complete lines 4 through 8 ONLY if contributions were made to an IRA for your nonworking spouse (as defined on this page).**

4. Compare the amount on line 2 to \$2,250. Enter the smaller of the two amounts . . . . .
5. Enter the amount from line 3 . . . . .
6. Subtract line 5 from line 4 . . . . .
7. Enter IRA contributions made for 1988 for your nonworking spouse, but do not enter more than \$2,000 . . . . .
8. Compare the amounts on lines 2, 6, and 7 and enter the smallest of the three amounts on line 8. Enter on **Form 1040**, line 25b, the amount on line 8 you choose to deduct . . . . .

If you (or your spouse if filing a joint return) were covered by a retirement plan and—

Your filing status is:	and your modified AGI* is:	You can take:
Single or Head of Household	\$25,000 or less	Full IRA deduction (use <b>Worksheet 1</b> )
	Over \$25,000 but less than \$35,000	Partial IRA deduction (use <b>Worksheet 2</b> )
	\$35,000 or more	No IRA deduction (see Nondeductible Contributions)
Married Filing Jointly or Qualifying Widow(er) with dependent child	\$40,000 or less	Full IRA deduction (use <b>Worksheet 1</b> )
	Over \$40,000 but less than \$50,000	Partial IRA deduction (use <b>Worksheet 2</b> )
	\$50,000 or more	No IRA deduction (see Nondeductible Contributions)
Married Filing Separately	Over \$-0- but less than \$10,000	Partial IRA deduction (use <b>Worksheet 2</b> )
	\$10,000 or more	No IRA deduction (see Nondeductible Contributions)

\* **Modified AGI (adjusted gross income)** is the amount on **Form 1040**, line 23, minus the total of any deductions claimed on **Form 1040**, lines 24 and 26 through 29, and any write-in amount included on line 30.



## IRA Worksheet 2 (Keep for your records)

1. If you checked Filing Status box:   
 { 1 or 4, enter \$35,000 }   
 { 2 or 5, enter \$50,000 }   
 { 3, enter \$10,000 }

2. Enter the amount from Form 1040, line 23 . . . . .  
3. Add amounts on Form 1040, lines 24, 26 through 29, and any write-in amount included on line 30 . . . . .  
4. Subtract line 3 from line 2. If the result is equal to or larger than the amount on line 1, none of your IRA contributions are deductible. Stop here; if you want to make a nondeductible IRA contribution, see Form 8606 . . . . .  
5. Subtract line 4 from line 1. If the result is \$10,000 or more, stop here; complete Worksheet 1 . . . . .  
6. Multiply the amount on line 5 by 20% (.20). If the result is not a multiple of \$10, round it up to the next multiple of \$10 (for example, round \$490.30 to \$500). But if the result is less than \$200, enter \$200. Go on to line 7 . . . . .

### Deductible IRA contributions

7. Enter your wages and other earned income from Form 1040, minus any deduction you claim on Form 1040, line 27. (Do not include your spouse's income and do not reduce your wages by losses from self-employment.) . . . . .  
8. Enter IRA contributions you made for 1988, but do not enter more than \$2,000 . . . . .  
9. Enter the **smallest** of lines 6, 7, or 8 here. This is your **maximum IRA deduction**. Enter on Form 1040, line 25a or 25b, whichever applies, the amount on line 9 you choose to deduct. (If line 8 is more than line 9, go on to line 10.) . . . . .

### Nondeductible IRA contributions

10. Subtract line 9 from line 7 or line 8, whichever is **smaller**. Enter the result. Enter on your Form 8606, line 5, the amount on line 10 you choose to make nondeductible . . . . .

If contributions were made to an IRA for your nonworking spouse (as defined on page 14), complete lines 11 through 20.

### Deductible IRA contributions for nonworking spouse

11. Compare the amount on line 7 to \$2,250. Enter the **smaller** of the two amounts . . . . .  
12. Add line 9 and the amount on line 10 you choose to make nondeductible . . . . .  
13. Subtract line 12 from line 11. If the result is zero or less, stop here; you cannot make deductible or nondeductible IRA contributions for your nonworking spouse . . . . .  
14. Enter the **smallest** of: (a) IRA contributions made for 1988 for your nonworking spouse; (b) \$2,000; or (c) the amount on line 13 . . . . .

15. Multiply the amount on line 5 by 22.5% (.225). If the result is not a multiple of \$10, round it up to the next multiple of \$10. But if the result is less than \$200, enter \$200 on line 15 . . . . .  
16. Enter the amount from line 9 . . . . .  
17. Subtract line 16 from line 15. . . . .  
18. Compare the amounts on lines 14 and 17. Enter the **smaller** of the two amounts . . . . .  
19. Compare the amounts on lines 6, 7, and 18 and enter the **smallest** of the three amounts on line 19. This is the **maximum deduction** for contributions to your nonworking spouse's IRA. Enter on Form 1040, line 25b, the amount on line 19 you choose to deduct. (If line 14 is more than line 19, go on to line 20.) . . . . .  
20. Subtract line 19 from line 14. Enter the result. Enter on your spouse's Form 8605, line 5, the amount from line 20 you choose to make nondeductible . . . . .

### Nondeductible IRA contributions for nonworking spouse

## Line 26

### Self-Employed Health Insurance Deduction

If you were self-employed and had a net profit for the year, you may be able to deduct part of the amount paid for health insurance on behalf of yourself, your spouse, and dependents. But you may not take the deduction if you were eligible to participate in any subsidized health plan maintained by your or your spouse's employer. Also, if you had employees, you may not take the deduction unless you provided nondiscriminatory health insurance coverage to your employees. For more details, get **Pub. 535**, Business Expenses.

If you qualify to take the deduction, use the worksheet below to figure the amount you can deduct. But if either of the following applies, use the worksheet in **Pub. 535** instead of the one below.

1. You file **Form 2555** or **Form 4563**, or you exclude income from sources within Puerto Rico.
2. You claim a net operating loss deduction.

### Worksheet (Keep for your records)

1. Enter amount paid for health insurance for 1988 for you, your spouse, and dependents . . . . .  
2. Percentage used to figure the deduction . . . . .  $\times .25$   
3. Multiply the amount on line 1 by the percentage on line 2 . . . . .  
4. Enter your net profit from self-employment and any other earned income\*, minus any deduction you claim on Form 1040, line 27 . . . . .  
5. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts here and on Form 1040, line 26. (**DO NOT** include this amount in figuring any medical expense deduction on Schedule A (Form 1040) . . . . .

\***Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income.

## Line 27

### Keogh Retirement Plan and Self-Employed SEP Deduction

If you are self-employed or a partner, deduct payments to your Keogh (HR 10) plan or SEP on line 27. Deduct payments for your employees on Schedule C or F.

**Caution:** You must be self-employed to claim the Keogh deduction. There are two types of Keogh plans:

• A **defined-contribution plan** has a separate account for each person. Benefits are based on the amount paid to each account.

• Payments to a **defined-benefit plan** are determined by the funds needed to give a specific benefit at retirement. If you deduct payments to this kind of plan, write "DB" to the left of line 27.

Get **Pub. 560**, Self-Employed Retirement Plans, for more information, including limits on the amount you can deduct.

## Line 28

### Penalty on Early Withdrawal of Savings

The **Form 1099-INT** or, if applicable, **Form 1099-OID** given to you by your bank or savings and loan association will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity. Enter this amount on line 28. (Be sure to include the interest income on Form 1040, line 8a.)

## Line 29

### Alimony Paid

You can deduct periodic payments of alimony or separate maintenance made under a court decree. You can also deduct payments made under a written separation agreement or a decree for support. Don't deduct lump-sum cash or property settlements, voluntary payments not made under a court order or a written separation agreement, or amounts specified as child support.

For details, see **Tele-Tax Information** in the index (topic no. 253) or get **Pub. 504**, Tax Information for Divorced or Separated Individuals.

You must enter the recipient's last name, if different than yours, and his or her social security number in the space provided on line 29. If you don't, you may have to pay a \$50 penalty and your deduction may be disallowed. If you paid alimony to more than one person, enter the social security number and last name, if applicable, of one of the recipients. Show the required information, including the amount paid, for the other recipient(s) on an attached statement. Enter your total payments on line 29.

**Divorce or Separation Instruments Executed After 1984.** Generally, you may deduct any payment made in cash to, or on

behalf of, your spouse or former spouse under a divorce or separation instrument executed after 1984 if:

- the instrument does not prevent the payment from qualifying as alimony, **and**
- you and your spouse or former spouse did not live together when the payment was made if you were separated under a decree of divorce or separate maintenance, **and**
- you are not required to make any payment after the death of your spouse or former spouse, **and**
- the payment is not treated as child support.

These rules also apply to certain instruments modified after 1984. Other rules apply if you paid more than \$10,000 in any calendar year. For more details, see Pub. 504.

## Line 30

### Total Adjustments

Add lines 24 through 29 and enter the total on line 30. Also include in the total on line 30 any of the following adjustments.

#### Forestation/Reforestation Amortization.

If you can claim a deduction for amortization of the costs of forestation or reforestation and you do not have to file Schedule C or Schedule F for this activity, include your deduction in the total on line 30. Write "Reforestation" in the space to the left of the total.

#### Repayment of Sub-Pay Under the Trade Act of 1974.

If you repaid supplemental unemployment benefits (sub-pay) that you previously reported in income because you became eligible for payments under the Trade Act of 1974, include the amount you repaid in 1988 in the total on line 30. Write "Sub-pay TRA" in the space to the left of the total. Or, you may be able to claim a credit against your tax instead. **Get Pub. 525, Taxable and Nontaxable Income**, for more details.

## Line 31

### Adjusted Gross Income

If line 31 is less than zero, you may have a net operating loss that you can carry to another tax year. If you carry the loss back to earlier years, see **Form 1045, Application for Tentative Refund**. If you do not wish to carry back a net operating loss, you may elect to carry the loss over to future years. You must attach the election to your return. For more information, get **Pub. 536, Net Operating Losses**.

## IRS Will Figure Your Tax and Some of Your Credits

If you want us to, we will figure your tax for you. If you paid too much, we will send you a refund. If you did not pay enough, we will bill you for the balance. You will not be charged interest or the penalty for late payment if the bill for tax due is paid within 30 days of the notice date, or by the due date for your return, whichever is later.

We can figure your tax if you meet **all** of the conditions described below:

• All of your income for 1988 was from one or more of these sources:

- a. Salaries, wages, and tips.
  - b. Interest.
  - c. Dividends.
  - d. Pensions or annuities.
- You do not itemize deductions.
  - You do not file **Form 8615, Computation of Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,000**.
  - You do not file **Form 2555, Foreign Earned Income**.
  - Your adjusted gross income (line 31) is not more than \$50,000.
  - You (and your spouse if you are filing a joint return) sign and date your return and mail it by April 17, 1989.

• You do not want any of your refund applied to next year's estimated tax.

• You give us enough information so that we can figure the tax. Please read the following instructions:

a. Fill in the parts of your return through line 37 that apply to you. The Line-By-Line Instructions that start on page 6 explain how to fill in your return.

b. Read lines 39 through 61. Fill in the lines that apply to you, but do not fill in the Total lines. Please be sure to fill in line 54 for Federal income tax withheld. See the instructions below if you want us to figure your credit for the elderly or the disabled, or earned income credit.

c. If you are filing a joint return, use the space under the words "Adjustments to Income" on the front of your return to show your taxable income and your spouse's taxable income separately.

d. Fill in any forms or schedules asked for on the lines you completed, and attach them to the return when you file it.

**We will figure the following credits too.**

Fill in your return through line 37 as explained above. Follow the instructions below and sign, date, and mail your return before the due date.

#### Credit for the Elderly or the Disabled.

—If you can take this credit, attach **Schedule R** to your return and write "CFE" on the dotted line to the left of line 42.

Check the box on Schedule R for your filing status and age, and fill in lines 11 and 13 if applicable. Also, complete Part II if applicable.

**Earned Income Credit.**—If you qualify to take this credit (see the instructions for line 56 on page 19), write "EIC" on line 56.

## Tax Computation

### Lines 33a through 33c

**Line 33a.** If you were age 65 or older or blind, check the appropriate boxes on line 33a. If you were married and checked the box on line 6b on page 1 of Form 1040 and your spouse was 65 or older or blind, also check the appropriate boxes for your spouse.

Age and blindness are determined as of December 31. However, if your 65th birthday was on January 1, 1989, you should check the "65 or older" box on your 1988 return.

**Proof of Blindness.** If you were completely blind as of December 31, attach a statement to your return to this effect.

In cases of partial blindness, you must attach to your return each year a certified statement from an eye physician or registered optometrist that:

1. you cannot see better than 20/200 in the better eye with glasses or contact lenses, **OR**
2. your field of vision is not more than 20 degrees.

If this eye condition will never improve beyond the standards in 1 or 2, you may submit a certified opinion to this effect from an examining eye physician. You must attach this certification to your return only once. In later years you can just include a statement referring to it.

**Line 33b.** If someone can claim you as a dependent, check the box on line 33b. If you do not itemize your deductions, be sure to use the **Standard Deduction Worksheet for Dependents** on page 17 to figure the amount to enter on line 34 below.

**Line 33c.** Check this box if your spouse itemizes deductions on a separate return or if you are a dual-status alien. If you were a dual-status alien and you file a joint return with your spouse who was a U.S. citizen or resident at the end of 1988 and you and your spouse agree to be taxed on your combined worldwide income, **do not** check the box.

## Line 34

### Standard Deduction OR Itemized Deductions

You must decide whether to take the standard deduction or itemize your actual deductions for charitable contributions, medical expenses, interest, taxes, etc. Your Federal income tax will be less if you take the **larger** of:

- your standard deduction (figured on page 17), or
- your total itemized deductions reportable on **Schedule A** (Form 1040).

The standard deduction has increased for most people. Even if you itemized last year, be sure to read page 17 to see if the standard deduction will benefit you in 1988.

**If you take the standard deduction**, find the correct amount for you and enter it on line 34.

**If you itemize your deductions**, complete and attach Schedule A and enter on Form 1040, line 34, the amount from Schedule A, line 26.

**Itemizing for State Tax Purposes.** If you itemize even though your itemized deductions are less than the amount of your standard deduction, write "IE" (itemized elected) on the dotted line to the left of line 34.

## Line 38

### Tax

To figure your tax, use one of the following methods.

**Tax Rate Schedules.** You must use the Tax Rate Schedules to figure your tax if your taxable income is \$50,000 or more. The Tax Rate Schedules include a 33% rate to

**Caution:** If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien (you checked the box on line 33c), you **cannot** take the standard deduction even if you were 65 or older or blind.

### Standard Deduction Chart for Most People

DO NOT use this chart if you were 65 or older or blind OR if someone can claim you as a dependent.

If your Filing Status from page 1 is:	Your standard deduction is:
Single	\$3,000
Married filing joint return or Qualifying widow(er) with dependent child	\$5,000
Married filing separate return	\$2,500
Head of household	\$4,400

### Standard Deduction Chart for People Age 65 or Older or Blind

If someone can claim you as a dependent, use the worksheet below, instead.

Enter the number from the box on line 33a of Form 1040

**Caution:** Do not use the number of exemptions from line 6e.

If your Filing Status from page 1 is:	and the number in the box above is:	Your standard deduction is:
Single	1	\$3,750
	2	4,500
Married filing joint return or Qualifying widow(er) with dependent child	1	\$5,600
	2	6,200
	3	6,800
	4	7,400
Married filing separate return	1	\$3,100
	2	3,700
	3	4,300
	4	4,900
Head of household	1	\$5,150
	2	5,900

### Standard Deduction Worksheet for Dependents

Use this worksheet **ONLY** if someone can claim you as a dependent (Keep for your records)

1. Enter your <b>earned income</b> (defined below)	1. _____
2. Minimum amount	2. <b>\$500</b>
3. Compare the amounts on lines 1 and 2. Enter the larger of the two amounts	3. _____
4. Enter the amount shown below for your filing status.	4. _____
<ul style="list-style-type: none"> <li>• Single, enter \$3,000</li> <li>• Married filing separate return, enter \$2,500</li> <li>• Married filing jointly or Qualifying widow(er) with dependent child, enter \$5,000</li> <li>• Head of household, enter \$4,400</li> </ul>	
5. <b>Standard deduction.</b>	
a. Compare the amounts on lines 3 and 4. Enter the <b>smaller</b> of the two amounts. If under 65 and not blind, stop here; enter this amount on Form 1040, line 34. Otherwise, go on to line 5b	5a. _____
b. If 65 or older or blind, multiply the number entered on Form 1040, line 33a, by \$750 (\$600 if married or a qualifying widow(er) with dependent child). Enter the result	5b. _____
c. Add lines 5a and 5b. Enter the total here and on Form 1040, line 34	5c. _____

**Earned income** includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 19.

cover the phase-out of the 15% tax rate for people with taxable incomes above a certain amount. People with even higher incomes are required to use the worksheet that follows the Tax Rate Schedules to figure the phase-out of their deduction for personal exemptions.

**Form 8615.** Form 8615 must generally be used to figure the tax for any child who was under age 14 on January 1, 1989, and who had more than \$1,000 of investment income (such as taxable interest or

dividends). However, if neither of the child's parents was alive on December 31, 1988, do not use Form 8615 to figure the child's tax.

**Tax Table.** If neither of the above conditions applies to you, you **MUST** use the Tax Table to find your tax. Be sure you use the correct column in the Tax Table. After you have found the correct tax, enter that amount on line 38.

### Line 39

#### Additional Taxes

Check the box(es) on line 39 to report any of the additional taxes listed below.

**Form 4970,** Tax on Accumulation Distribution of Trusts.

**Form 4972,** Tax on Lump-Sum Distributions.

## Credits

### Line 41

#### Credit for Child and Dependent Care Expenses

You may be able to take a credit on line 41 for payments you made for child and disabled dependent care while you (and your spouse if you were married) worked or looked for work.

The credit is allowed if you kept up a home that included a child under age 15 or your dependent or spouse who could not care for himself or herself. Use **Form 2441** to figure the amount of any credit.

Please see Form 2441 for more information, including special rules for divorced or separated parents.

**Note:** If someone cared for your child or disabled dependent in your home, both you and the employee may have to pay a share of the social security tax on the employee's wages. You may also have to pay Federal unemployment tax, which is for your employee's unemployment insurance. For more details, see **Pub. 926, Employment Taxes for Household Employers**.

### Line 42

#### Credit for the Elderly or the Disabled

You may be able to take this credit and reduce your tax if, by the end of 1988, you were:

- age 65 or older, or
- under age 65, you retired on **permanent and total** disability, and you had taxable disability income in 1988.

For more information, see the separate instructions for Schedule R. Enter the credit on line 42.

If you want IRS to figure the credit for you, see **IRS Will Figure Your Tax and Some of Your Credits** on page 16.

### Line 43

#### Foreign Tax Credit

**Form 1116** explains when you can take this credit for payment of income tax to a foreign country. Also get **Pub. 514, Foreign Tax Credit for Individuals**. Enter the credit from Form 1116 on line 43.

### Line 44

#### General Business Credit

Complete line 44 if you can take any of the five credits listed below. Use the appropriate credit form (as described below) to figure the credit. If you have only one credit, enter on line 44 the amount of the credit from the form. Also, check the second box on line 44 and write in the form number for that credit.

If you have two or more of these credits or a credit carryforward, you must also complete Form 3800 to figure the total credit and enter on line 44 the amount from Form 3800. Also be sure to check the box on line 44 for Form 3800.

**Form 3468, Computation of Investment Credit.** This credit was generally repealed for property placed in service after 1985. For exceptions, see Form 3468.

**Form 5884, Jobs Credit.** If you are a business employer who hires people who are members of special targeted groups, you may qualify for this credit. Use Form 5884 to figure the credit. Get **Pub. 572, General Business Credit**, for more details.

**Form 6478, Credit for Alcohol Used as Fuel.** If you sell straight alcohol (or an alcohol mixture) at retail or use it as fuel in your trade or business, you may be able to take a credit for the alcohol used as fuel. Use Form 6478 to figure the credit.

**Form 6765, Credit for Increasing Research Activities.** You may be able to take a credit for research and experimental expenditures paid or incurred in carrying on your trade or business. Use Form 6765 to figure the credit.

**Form 8586, Low-Income Housing Credit** and **Form 8609, Low-Income Housing Credit Allocation Certification.** If you owned a building that was part of a low-income housing project, you may be able to take this credit. Use Form 8586 and Form 8609 to figure the credit.

### Line 45

#### Credit for Prior Year Minimum Tax

You may be able to reduce your 1988 tax by this credit if you paid alternative minimum tax in 1987. Get **Form 8801, Credit for Prior Year Minimum Tax**, to see if you qualify for the credit.

### Line 46

Add amounts on lines 41 through 45 and enter the total on line 46.

Also include in the total on line 46 any of the following credits:

**Mortgage Interest Credit.** You may be able to take a credit for part of the interest you paid on your home mortgage if you were issued a mortgage credit certificate by a state or local government under a qualified mortgage credit certificate program to buy, rehabilitate, or make improvements to your main home. You must complete and attach **Form 8396, Mortgage Interest Credit**, to figure the amount of the credit to include in your total for line 46. On the dotted line next to this total, write "MIC" (mortgage interest credit) and show the amount.

**Credit for Fuel From a Nonconventional Source.** A credit is allowed for the sale of qualified fuels produced from a nonconventional source. See I.R. Code section 29 for a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule showing how you figured the credit. Include the credit in the total for line 46. On the dotted line next to this total, write "FNS" and show the amount.

## Other Taxes

### Line 48

#### Self-Employment Tax

If you had self-employment income in 1988, and earned under \$45,000 in wages from which social security tax or RRTA tax

was withheld, you may have to pay self-employment tax. Please see **Schedule SE (Form 1040)** and instructions. If you have to pay self-employment tax, enter the amount from Schedule SE.

### Line 49

#### Alternative Minimum Tax

You may be liable for the alternative minimum tax if your AGI plus any of the items listed below and included on your return total more than:

- \$40,000 if married filing jointly or qualifying widow(er) with dependent child, or
  - \$30,000 if single or head of household, or
  - \$20,000 if married filing separately.
1. Accelerated depreciation.
  2. Amortization of certified pollution-control facilities.
  3. Charitable contribution of appreciated capital gain property.
  4. Incentive stock options.
  5. Tax-exempt interest from private activity bonds or exempt-interest dividends from a regulated investment company.
  6. Intangible drilling costs.
  7. Depletion.
  8. Reserves for losses on bad debts of financial institutions.
  9. Circulation and research and experimental expenditures.
  10. Mining exploration and development costs.
  11. Installment sales of property.
  12. Tax shelter farm loss.
  13. Passive activity loss.
  14. Income from long-term contracts.

Get **Form 6251** and its instructions to see if you owe this tax.

### Line 50

#### Recapture Taxes

You may owe the tax computed on **Form 4255, Recapture of Investment Credit**, if you disposed of investment credit property or changed its use before the end of its useful life or recovery period. See Form 4255 for details. If you owe this tax, check the box for Form 4255 and enter any tax due on line 50.

If you disposed of property (or there was a reduction in the qualified basis of the property) on which you took the low-income housing credit, you may owe the tax computed on **Form 8611, Recapture of Low-Income Housing Credit**. See Form 8611 for more information. If you owe this tax, check the box for Form 8611 and enter any tax due on line 50.

## Line 51

### Social Security Tax on Tip Income Not Reported to Employer

If you received tips of \$20 or more in any month and you did not report the full amount to your employer, you must pay the social security or railroad retirement (RRTA) tax on the unreported tips. If you reported the full amount to your employer but your employer did not withhold the social security or RRTA tax, you must pay it unless the rules discussed under **Uncollected Employee Social Security and RRTA Tax on Tips** (line 53) apply.

To figure the amount of social security tax on the tips, complete **Form 4137** and attach it to your Form 1040. Enter the tax on this line.

To determine the amount of RRTA tax on the tips, contact your nearest Railroad Retirement Board office. On line 51, enter the tax and on the dotted line next to it, write "RRTA."

Be sure all your tips are reported as income on Form 1040, line 7.

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

## Line 52

### Tax on IRAs and Retirement Plans

You may owe this tax if: (1) you received any early distributions from your IRA, qualified employer plan, qualified annuity plan, or tax-sheltered annuity plan; (2) you received any excess distributions from a plan mentioned in (1); (3) you made excess contributions to your IRA; or (4) you had excess accumulations in your IRA account or annuity. Get **Form 5329** and its instructions to see if you owe this tax. If you do, complete and attach Form 5329 and enter the total tax on line 52.

## Line 53

### Total Tax

Add lines 47 through 52. Put the total on line 53. Also include on line 53 any of the following that applies.

**Section 72 Penalty Tax.** If you are or were a 5% owner of a business and you received an excessive distribution from a Keogh plan or trust, you may have to pay a penalty tax of 10% of the distribution. Get **Pub. 560** for more details.

Include the amount of the penalty in your total for line 53. On the dotted line next to this total, write "Section 72 penalty" and show the amount.

**Advance Earned Income Credit (AEIC) Payments.** If you received advance EIC payments (AEIC), the amount will be shown on your Form W-2. Include the amount of these payments in your total for line 53. On the dotted line next to this total, write "AEIC" and show the amount.

**Note:** The amount of earned income credit that you can actually take will be figured on the worksheet on page 20 and entered on line 56.

**Uncollected Employee Social Security and RRTA Tax on Tips.** If you did not have enough wages to cover the social security tax or railroad retirement (RRTA) tax due on tips you reported to your employer, the amount of tax due will be shown on your

Form W-2. Include that amount in the total on line 53. On the dotted line next to this total, write "Uncollected Tax on Tips" and show the amount.

**Golden Parachute Payments.** Golden parachute payments are certain payments made by a corporation to key employees to compensate them if control of the corporation changes. If you received an excess parachute payment (EPP), you must pay a tax equal to 20% of this excess payment. Include the amount of this tax in your total for line 53. On the dotted line next to this total, write "EPP" and show the amount of the tax.

If you received a **Form W-2** that includes a parachute payment, the amount of tax withheld on any excess payment should be identified in Box 16 of Form W-2. Include the amount from Box 16 in the total for line 53.

If you received a **Form 1099-MISC** that includes a parachute payment, any excess payment will be separately identified on the form. Multiply the excess payment by 20% to figure the amount to include in the total for line 53.

**Shareholders in Qualified Electing Funds.** If you were a shareholder in a qualified electing fund, follow the instructions for **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, to figure the amount of tax to include in or subtract from the total on line 53.

On the dotted line to the left of line 53, write "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 53. (Show an amount to be subtracted in brackets.) Show any interest due in the bottom margin of page 1, Form 1040, and label it "Sec. 1294 interest." Do not include the interest on line 53. See the instructions for Form 8621 for more information.

**Installment Sales for Dealers in Personal Property.** If you deferred payment of tax in 1987 under sec. 811 (c)(7) of the Tax Reform Act of 1986, you must include the ratable portion of tax due for 1988 in the total for line 53. Write "Sec. 453C" and the amount on the dotted line to the left of line 53.

## Payments

### Line 54

#### Total Federal Income Tax Withheld

Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, W-2P, and 1099-R**. Enter the total on line 54. The amount of Federal income tax withheld should be shown in Box 9 of Form W-2, Box 2 of Form W-2G, Box 11 of Form W-2P, and Box 4 of Form 1099-R.

If line 54 includes amounts withheld as shown on Form 1099-R, check the box on line 54.

**Backup Withholding.** If you were subject to backup withholding on dividends, interest income, or other income you received during 1988, include the amount withheld in the total on line 54. This should be shown in Box 4 on the 1099 forms. Be sure to check the box on line 54.

## Line 55

### 1988 Estimated Tax Payments

Enter on this line any payments you made on your estimated Federal income tax (**Form**

**1040-ES**) for 1988. Include any overpayment from your 1987 return that you applied to your 1988 estimated tax.

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, either of you can claim all of the amount paid. Or you can each claim a part of it. Please be sure to show both social security numbers on the separate returns. If you or your spouse paid separate estimated tax, but you are now filing a joint income tax return, add the amounts you each paid.

Follow these instructions even if your spouse died.

**Divorced Taxpayers.** If you were divorced during 1988 and you made joint estimated tax payments with your former spouse, please enter your former spouse's social security number in the block provided on the front of Form 1040.

If you were divorced and remarried in 1988, enter your present spouse's social security number in the block provided on the front of Form 1040. Also, under the bold heading "Payments" to the left of line 55, write your former spouse's social security number, followed by "DIV."

**Name Change.** If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040 explaining all the payments you and your spouse made in 1988, the Service Center where you made the payments, and the name(s) and social security number(s) under which you made the payments.

## Line 56

### Earned Income Credit

The earned income credit helps many taxpayers who have a child and whose earned income (see "Earned income includes" on page 20) and adjusted gross income are less than \$18,576. If you can take the credit, you can subtract it from the tax you owe or get a refund even if you had no tax withheld from your pay. The credit can be as much as \$874.

**Note:** If you received advance earned income credit payments from your employer(s), see the instructions for line 53 on this page for information on how to report these payments.

### Who Can Take the Credit?

You may be able to take the credit if you meet **ALL 5** of the following conditions:

1. You received wages, salaries, tips, or other earned income (see "Earned income includes" on page 20).
2. The amount on Form 1040, line 32, is less than \$18,576.
3. You have a child (see "Definition of Child" on page 20) who lived with you in the same main home in the U.S. for more than 6 months during 1988 (for all of 1988 if your filing status is qualifying widow(er) with dependent child).
4. You do not file **Form 2555**, Foreign Earned Income.
5. Your filing status is married filing joint return, qualifying widow(er) with dependent child, or head of household. In addition, special rules apply to each of these three filing statuses.



## Earned Income Credit Worksheet (Keep for your records)

To figure your credit, follow the instructions below. If you checked Filing Status box 1 or 3, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040, line 7, plus any other compensation from your employer, regardless of whether it is taxable. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. <b>Note:</b> If you received nontaxable compensation from your employer, enter "NEI" on the dotted line to the left of line 56 even if you cannot take the credit.	\$ _____
2. If you were self-employed, enter the amount, even if a loss, from Schedule SE, Section A, line 3, or Section B, line 3c. However, if you use the optional method to figure your self-employment tax, see Pub. 596 for more information before entering an amount on line 2. If you have self-employment income that you reported on line 1 above, do not include it here.	\$ _____
3. <b>Earned income.</b> Add lines 1 and 2. However, if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you <b>cannot</b> take the credit. If line 3 is more than zero, go on to line 4.	\$ _____
4. <b>Adjusted gross income.</b> Enter the amount from Form 1040, line 32. If the amount on line 4 is \$18,576 or more, stop here; you <b>cannot</b> take the credit. Otherwise, go on to line 5 or line 6, whichever applies.	\$ _____
5. If line 4 above is <b>less than \$9,850</b> , use the amount from line 3 above to find your credit in the table that begins on page 52. Enter the credit here and on Form 1040, line 56.	\$ _____
6. If line 4 above is <b>\$9,850 or more:</b> a. Find the amount from line 3 above in the table that begins on page 52 and enter the credit for that amount here. \$ _____ b. Find the amount from line 4 above in the table and enter the credit for that amount here. \$ _____ c. Enter the amount from line 6a or 6b, whichever is smaller, here and on Form 1040, line 56. \$ _____	\$ _____

**Married Filing Joint Return.** Your child must be claimed as your dependent on Form 1040, line 6c. **Exception.** If your spouse is not your child's parent and the child's other parent (the noncustodial parent) claimed the child as a dependent under the rules on page 9 for **Children of Divorced or Separated Parents**, you can take the credit if you meet all 5 of the conditions listed above. If you can take the credit because of this exception, enter the child's name on the dotted line to the left of line 56.

**Qualifying Widow(er) With Dependent Child.** Your child must be claimed as your dependent on Form 1040, line 6c.

**Head of Household.** If your child was **unmarried** for 1988, you must enter that child's name in the space provided on Form 1040, line 4 (or line 6c if you claimed that child as a dependent).

If your child was **married** for 1988, this child must be claimed as your dependent on Form 1040, line 6c. **Exception.** If this child's other parent claimed him or her as a dependent under the rules explained on page 9 for **Children of Divorced or Separated Parents**, you can take the credit if you meet all 5 of the conditions listed under "Who Can Take The Credit?" If you can take the credit because of this exception, you must enter the child's name on the dotted line to the left of line 56 unless you entered the child's name in the space provided on Form 1040, line 4.

If you meet all of the conditions listed above, use the worksheet on this page to figure the credit. Otherwise, do not fill in the worksheet. Instead, enter "NO" on Form 1040, line 56, and go on to line 57

If you want IRS to figure the credit for you, see **IRS Will Figure Your Tax and Some of Your Credits** on page 16.

You may be able to receive advance payments of the credit by filing **Form W-5** with your employer.

For more details about the credit, get **Pub. 596, Earned Income Credit.**

### Earned income includes:

- Wages, salaries, and tips.
- Earnings from self-employment—this is usually the amount shown on Schedule SE (Form 1040), Section A, line 3, or Section B, line 3c.
- Anything else of value (money, goods, or services) you get from your employer for services you performed even if it is not taxable.

**Note:** The following are examples of amounts received from your employer that must be included on line 1 of the worksheet—

- Housing allowance (or rental value of a parsonage) for members of the clergy.
- Meals and lodging.

**Earned income does not include** items such as interest, dividends, social security payments, welfare benefits, veterans' benefits, workers' compensation, unemployment compensation (insurance), or income exempt from self-employment tax as a result of the filing and approval of **Form 4029** (relating to members of certain religious faiths). Earned income also does not include taxable scholarships or fellowships not reported on Form W-2.

**Definition of Child.** In general, for purposes of this credit, your **child** includes:

- Your son or daughter.
- Your stepchild or adopted child.

If your filing status is **married filing a joint return** or **qualifying widow(er) with dependent child**, your child also includes a child placed with you by an authorized placement agency for adoption by you. Your child also includes a foster child (any other child, such as your grandchild, whom you cared for as your own child for the whole year).

If your filing status is **head of household**, your child also includes a descendant of your son, daughter, or adopted child.

If your child was born, or died, in 1988 and your home was your child's home during the part of 1988 that he or she was alive, your child is considered to have lived with you for more than 6 months or, if applicable, for all of 1988.

**Note:** The earned income credit must be reduced by the alternative minimum tax (Form 1040, line 49). If you owe this tax, subtract it from the amount on line 5 or line 6c of the worksheet above, whichever applies, and enter the result (but not less than zero) on Form 1040, line 56.

## Line 57

### Amount Paid With Form 4868 (Extension of Time To File)

If you filed **Form 4868** to get an extension of time to file Form 1040, enter the amount you paid with that form. Also include any amounts paid with **Form 2688** or **2350**.

## Line 58

### Excess Social Security Tax and RRTA Tax Withheld—Two or More Employers

If you had two or more employers in 1988 who together paid you more than \$45,000 in wages, too much social security tax and railroad retirement (RRTA) tax may have been withheld from your wages. If so, you may be able to take a credit against your income tax.

If you are filing a joint return, you must figure the credit separately for yourself and your spouse. Complete the worksheet on page 21 to see if you can take the credit.

If you worked for two or more railroad employers, or if you had both RRTA tax and social security tax withheld from your wages, get **Pub. 505, Tax Withholding and Estimated Tax**, for information on how to figure your excess RRTA or social security tax. **Do not** use the worksheet on page 21.

**Caution:** If you were a Federal, state, or local government employee who paid only the 1.45% medicare (hospital insurance benefits) tax on your government wages, **do not** include on line 1 of the worksheet the medicare tax withheld from your government wages. See the instructions for line 60 to see if you can take a credit for excess medicare tax paid.



## Worksheet (Keep for your records)

1. Add all social security tax withheld (but not more than \$3,379.50 for each employer).  
Enter the total here \_\_\_\_\_
2. Enter any uncollected social security tax on tips included in the total on Form 1040, line 53. \_\_\_\_\_
3. Add lines 1 and 2 \_\_\_\_\_
4. Less \_\_\_\_\_ -3,379.50
5. Subtract line 4 from line 3.  
Enter this amount on line 58 \_\_\_\_\_

\* If any one employer withheld more than \$3,379.50, you should ask the employer to refund the excess to you. You cannot take credit for it on your return.

## Line 59

### Credit for Federal Tax on Fuels

If you can take a credit for tax on gasoline, diesel fuel, and special fuels used in your business, or for certain diesel-powered cars, vans, and light trucks, please attach **Form 4136**. Enter the credit on line 59.

## Line 60

### Regulated Investment Company Credit

Enter on this line the total amount of the credit from **Form 2439**. Be sure to attach Copy B of Form 2439. Also include on line 60 any Excess Medicare Tax Credit.

**Excess Medicare Tax Credit.** If you were a Federal, state, or local government employee whose wages in 1988 were subject only to the 1.45% medicare (hospital insurance benefits) tax and you had other social security or RRTA wages that when added to your government wages total more than \$45,000, too much medicare tax may have been withheld. If so, you may take a credit against your income tax. Use **Form 4469**, Computation of Excess Medicare Tax Credit, to figure the credit. Include the amount of the credit in your total for line 60. On the dotted line next to this total, write "Form 4469" and show the amount.

## Line 61

### Total Payments

Add lines 54 through 60 and enter the total on line 61. Also include on line 61 any Overpaid Windfall Profit Tax.

**Overpaid Windfall Profit Tax.** You may be allowed a credit for overpaid windfall profit tax (OWPT). Use **Form 6249** to figure the overpayment. Include this amount in your total for line 61. On the dotted line next to this total, write "OWPT" and show the amount. Attach Forms 6249 and 6248 to Form 1040.

## Refund or Amount You Owe

## Line 62

### Amount Overpaid (If line 61 is larger than line 53)

Subtract line 53 from line 61. You can choose to have all or part of this amount refunded to you (line 63). The remainder, if any, can be applied to your estimated tax for 1989 (line 64). If line 62 is under \$1, we will send a refund only on written request.

**Income Tax Withholding for 1989.** If the amount you overpaid is large, get a copy of **Form W-4**, Employee's Withholding Allowance Certificate, from your employer to see if you are entitled to additional allowances. If you are, file a new Form W-4 with your employer to change the amount of income tax to be withheld from your wages.

If you go back to work after a period of unemployment, you may reduce the amount of income tax withheld if your employer agrees to use the part-year method of withholding. There are also other methods that could reduce your withholding.

For more details, see your employer or get **Pub. 505**, Tax Withholding and Estimated Tax.

## Line 64

### Applied to 1989 Estimated Tax

Subtract line 63 from line 62. This is the amount that will be applied to your estimated tax for 1989. Enter this amount on line 64.

We will apply amounts to your account unless you request us to apply it to your spouse's account. The request should include your spouse's social security number.

## Line 65

### Amount You Owe (If line 53 is larger than line 61)

Subtract line 61 from line 53 and enter the result. This is the amount you owe.

Attach your check or money order for the full amount when you file. If line 65 is under \$1, you do not have to pay. **Do not** include any estimated tax payment in your check or money order. Mail any estimated tax payment in a separate envelope from the one you use to pay the tax due on Form 1040.

**Income Tax Withholding for 1989.** If you do owe tax for 1988, you may want to increase the amount of income tax withheld from your pay for 1989. To do this, file **Form W-4**, Employee's Withholding Allowance Certificate, with your employer. Otherwise, you may have to make estimated tax payments for 1989. See **Should You Make Estimated Tax Payments for 1989?** on this page.

For more details, get **Pub. 505**, Tax Withholding and Estimated Tax.

### Underpayment of Estimated Tax

If line 65 is \$500 or more and more than 10% of the tax shown on your return, or you underpaid your 1988 estimated tax liability for any payment period, you may owe a penalty. **Form 2210** (Form 2210F for farmers and fishermen) is used to see if you owe a penalty and to figure the amount of the penalty. You may figure the penalty yourself by completing and attaching that form to Form 1040, or IRS will figure the penalty for you and send you a bill. But if you use the annualized income installment method to figure your required payments, you must complete and attach Form 2210 to Form 1040 even if you do not owe the penalty.

**Note:** The penalty may be waived under certain conditions. Get **Pub. 505**.

If you underpaid your 1988 income tax, you will **not** owe a penalty or have to complete Form 2210 (or Form 2210F) if:

1. you had no tax liability for 1987,
2. you were a U.S. citizen or resident for all of 1987, and
3. your 1987 tax return was for a tax year of 12 full months.

If you attach Form 2210 or 2210F, be sure to check the box below line 65 and enter the amount of any penalty you owe in the space provided. If you owe tax, add the penalty amount to the tax due and show the total on line 65. Or, if you are due a refund, subtract the penalty amount from the overpayment you show on line 62.

### Should You Make Estimated Tax Payments for 1989?

In general, you do not have to make estimated tax payments if you expect that your 1989 Form 1040 will show a tax refund, or a tax balance due IRS of less than \$500. If your total estimated tax (including any alternative minimum tax) is \$500 or more, please get **Form 1040-ES**. It contains a worksheet that you can use to see if you have to make estimated tax payments.

**Note:** You may need to make estimated tax payments for 1989 if you are eligible for Medicare Part A and will owe the supplemental Medicare premium. See **Supplemental Medicare Premium under What To Look For in 1989** on page 2 for more information.

## Sign Your Return

Form 1040 is not considered a return unless you sign it. Your spouse must also sign if it is a joint return. Be sure to date your return and show your occupation in the space provided. If you have someone prepare your return for you, you are still responsible for the correctness of the return. If you are filing a joint return with your deceased spouse, see **Death of Taxpayer** on page 22.

**Dependent Child's Return.** If your dependent child cannot sign his or her return because of age or other reasons, you may sign your child's name in the space provided followed by the words "By (your signature), parent (or guardian) for minor child."

**Did You Have Someone Else Prepare Your Return?** If you fill in your own return, the Paid Preparer's space should remain blank. Someone who prepares your return but does not charge you, should not sign.

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

If you have questions about whether a preparer is required to sign your return, please contact an IRS office.

**The preparer required to sign your return MUST:**

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should be familiar with their responsibilities. They should get **Pub. 1045**, Information for Tax Practitioners, for more details.

## Avoid Common Mistakes

This checklist should help you file your form correctly. Errors may delay your refund.

1. Is your address correct on the preprinted label? If not, did you correct the label?
2. If you took the standard deduction, did you use the correct chart or worksheet on page 17?
3. Did you attach your W-2 forms and any other forms? Did you assemble all forms and schedules in the proper order? (See Step 6 on page 6.)
4. Are your addition and subtraction correct? (**Note:** Check your math carefully when figuring your refund or amount you owe.)
5. Did you find the correct tax in the Tax Table for your filing status and taxable income?
6. Did you write your social security number, daytime phone number, and "1988 Form 1040" on your check or money order?
7. Did you sign and date your tax form?

## Section 4

### General Information

This section contains general information about items such as amending your tax return and how long to keep tax records.

#### Penalties and Interest

**Interest.** We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, gross valuation overstatements, and substantial understatements of tax. Interest is charged on the penalty from the due date of the return (including extensions).

**Late Filing of Return.** You can avoid penalties for late filing by sending in your return by the due date. If you file late, the penalty is 5% of the amount due for each month or part of a month your return is late, unless you have a reasonable explanation. If you do, attach it to your return. The penalty cannot be more than 25% of the tax due. If your return is more than 60 days late, the minimum penalty will be \$100 or the amount of any tax you owe, whichever is smaller.

**Late Payment of Tax.** If you pay your taxes late, the penalty is usually 1/2 of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty cannot be more than 25% of the unpaid amount. It applies to any unpaid tax on the return. It also applies to any additional tax shown on a bill not paid within 10 days of the date of the bill. This penalty is in addition to interest charges on late payments.

**Note:** If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1040, page 2. Do not include the interest or penalty amounts in **Amount You Owe** on line 65.

**Penalty for Frivolous Return.** In addition to any other penalties, the law imposes a penalty of \$500 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax, because you take a frivolous position or desire to delay or interfere with the tax laws. This includes any altering or striking out of the preprinted language above the space where you sign.

**Other Penalties.** There are also other penalties that can be imposed for negligence, substantial understatement of tax, and fraud. Get **Pub. 17, Your Federal Income Tax**, for details on some of these penalties.

#### Gift To Reduce America's Debt

You may make a gift to reduce America's debt. If you wish to do so, enclose a separate check with your income tax return. Make it payable to "Bureau of the Public Debt." You may be able to deduct this gift on your 1989 tax return if you itemize your deductions. Please do not add it to any tax you may owe. If you owe tax, include a separate check for that amount payable to "Internal Revenue Service."

#### Address Change

If you move, you should always notify the IRS Service Center where you filed your last return. 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.

#### Mailing Your Return

If you received an envelope with your forms booklet, please use it. If you didn't receive an envelope, or you moved during the year, see **Where To File** on page 5. Envelopes with insufficient postage will be returned by the post office.

#### Corresponding With IRS

Be sure to include your social security number in any correspondence with IRS.

#### How Long Should Records Be Kept?

Keep records of income, deductions, and credits shown on your return, as well as any worksheets used to figure them, until the statute of limitations runs out for that return. Usually this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. Also keep copies of your filed tax returns as part of your records. You should keep some records longer. For example, keep property records (including those on your own home) as long as they are needed to figure the basis of the original or replacement property. For more details, get **Pub. 552**.

**Requesting a Copy of Your Tax Return.** If you need a copy of your tax return, use **Form 4506, Request for Copy of Tax Form**. The charge for a copy of a return is \$4.25. If you need tax account information, contact your local IRS office. If you want a printed copy of your account, it will be mailed to you free of charge.

## Substitute Tax Forms

You may not use your own version of a tax form unless it meets the requirements contained in **Pub. 1167** for acceptable privately designed and printed substitute tax forms. You can get **Pub. 1167** by writing to:

Forms Distribution Center  
P.O. Box 25866  
Richmond, VA 23289.

#### Amended Return

If you file your income tax return and later become aware of any changes you must make to income, deductions, or credits, file **Form 1040X, Amended U.S. Individual Income Tax Return**, to change the Form 1040, 1040A, or 1040EZ you already filed.

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

#### Death of Taxpayer

If a taxpayer died before filing a return for 1988, the taxpayer's spouse or personal representative may have to file and sign a return for the person who died. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased person's property.

The person who files the return should write "deceased" after the deceased's name and show the date of death in the name and address space at the top of the return. Also write "DECEASED" across the top of the tax return.

If the taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

If your spouse died in 1988 and you did not remarry in 1988, you can file a joint return. You can also file a joint return if your spouse died in 1989 before filing a 1988 return. A joint return should show your spouse's 1988 income before death and your income for all of 1988. Also write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

**Claiming a Refund for a Deceased Person.** No other form is needed to claim a refund for a deceased taxpayer if you are:

- a surviving spouse filing a joint return with the deceased; OR
- a court-appointed representative.

**Note:** If you are a court-appointed representative you **MUST** attach to Form 1040 a copy of the certificate that shows your appointment.

All other filers requesting the refund of a deceased taxpayer must file **Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer**.

For more details, see **Tele-Tax Information** in the index (topic no. 158) or get **Pub. 559, Tax Information for Survivors, Executors, and Administrators**.

## Section 5

### Instructions for Schedules to Form 1040

#### Instructions for Schedule A Itemized Deductions

##### Purpose

Some taxpayers should itemize their deductions because they will save money. See Standard Deduction OR Itemized Deductions on page 16.

If you itemize, you can deduct part of your medical and dental expenses and unreimbursed employee business expenses and amounts you paid for certain taxes, interest, contributions, and certain miscellaneous expenses. You may also deduct certain moving expenses and casualty and theft losses.

##### Lines 1a through 4

###### Medical and Dental Expenses

Before you can figure your total deduction for medical and dental expenses, you must complete Form 1040 through line 32.

You may deduct only that part of your medical and dental expenses that is more than 7.5% of the amount on Form 1040, line 32.

**Line 1a.** Write in the amount you paid for doctors, dentists, nurses, and hospitals, prescription medicine and drugs, or for insulin, after you reduce these expenses by any payments received from insurance or other sources. Also include the total amount you paid for insurance premiums for medical and dental care.

**Line 1b.** Write in the amounts spent for transportation and lodging, and other expenses such as hearing aids, dentures, and eyeglasses, after you reduce these expenses by any payments received from insurance or other sources. List the medical expense and the amount of the expense. Enter one total in the total amount column on line 1b.

**Note:** If your insurance company paid your doctor or dentist directly for part of your medical expenses, and you paid only the amount that remained, include in your medical expenses ONLY the amount that you paid.

If in 1988 you received a reimbursement of prior year medical or dental expenses, do not reduce your 1988 expenses by this amount. You must include the reimbursement in income on Form 1040, line 22, if the medical expenses deducted in the earlier year reduced your tax. **Pub. 502** tells you how to figure the amount to include in income.

**Caution:** If you were self-employed, do not include the amount of any health insurance you deducted on Form 1040, line 26.

When you figure your deduction, you may include medical and dental bills you paid for:

- Yourself.
- Your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained on page 9 for **Children of Divorced or Separated Parents**.

• Any person that you could have claimed as a dependent on your return if that person had not received \$1,950 or more of gross income or had not filed a joint return.

**Example.** You provided more than half of your mother's support but may not claim her as a dependent because she received \$1,950 of wages during 1988. If part of your support was the payment of her medical bills, you may include that part in your medical expenses.

###### Examples of Medical and Dental Payments You MAY Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

- Prescription medicines and drugs, or insulin.
- Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists, and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help. If you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Medical treatment at a center for drug addicts or alcoholics.
- Medical aids such as hearing aid batteries, contact lenses, braces, crutches, wheelchairs, guide dogs and the cost of maintaining them.
- Lodging expenses (but not meals) paid while away from home to receive medical care in a hospital or a medical care facility that is related to a hospital. Do not include more than \$50 a night for each eligible person.
- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim 9 cents a mile. Add parking and tolls to the amount you claim under either method.

###### Examples of Medical and Dental Payments You MAY NOT Deduct

- The basic cost of Medicare insurance (Medicare A).

**Note:** If you are 65 or older and not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.

- Life insurance or income protection policies.
- The 1.45% Medicare (hospital insurance benefits) tax withheld from your pay as part of the social security tax or the Medicare tax paid as part of social security self-employment tax.

- Nursing care for a healthy baby. (You may qualify for the child and dependent care credit; get **Form 2441**.)
- Illegal operations or drugs.
- Nonprescription medicines or drugs.
- Travel your doctor told you to take for rest or change.
- Funeral, burial, or cremation costs.

**Pub. 502** has a discussion of expenses that may and may not be deducted. It also explains when you may deduct capital expenditures and special care for handicapped persons.

#### Lines 5 through 8

##### Taxes You Paid

###### Taxes You MAY Deduct

**Line 5—State and local income taxes.** Include on this line state and local income taxes that were withheld from your salary and any estimated payments made in 1988, including payments for a prior year. Also include any part of a prior year refund of state or local income taxes that you chose to have credited to your 1988 estimated state or local taxes. **Do not** reduce your deduction by either of the following:

- any state and local income tax refund (or credit) you expect to receive for 1988, or
- any refund of (or credit for) prior year state and local income taxes you actually received in 1988 (see the instructions for Form 1040, line 10).

**Line 6—Real estate taxes.** Include taxes that you paid on property you own that was not used for business. **Pub. 530** explains the deductions homeowners may take.

If your mortgage payments include your real estate taxes, do not take a deduction for those taxes until the year the mortgage company actually pays them to the taxing authority.

**Line 7—Other taxes.** If you had any deductible tax not listed on Schedule A, lines 5 or 6 (such as personal property or foreign income tax), list the tax and the amount of tax. Enter one total in the total amount column on line 7.

Personal property tax must be based on value alone. For example, if part of the fee you paid for the registration of your car was based on the car's value and part was based on its weight, you may deduct only the part based on value.

If you paid tax to a foreign country or U.S. possession, you may want to take it as a credit instead of a deduction. Please get **Pub. 514**.

###### Taxes You MAY NOT Deduct

- Federal income and excise taxes.
- Social security and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. (However, see **Expenses NOT Subject to the 2% Limit** on page 26.)
- Certain state and local taxes, including: general sales tax, tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

## Lines 9a through 13

### Interest You Paid

Include interest you paid on nonbusiness items only. Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. Get **Pub. 545**, Interest Expense, for details.

In general, if you paid interest in 1988 that includes amounts that apply to any period after 1988, you may deduct only the amount that applies for 1988.

**Note:** If at the end of 1988 you have a loan whose term is in excess of 5 years and the loan agreement in any way refers to the "Rule of 78's," see **Pub. 545**.

### Interest You MAY Deduct

#### Lines 9a and 9b—Home Mortgage

**Interest.** The rules for deducting home mortgage interest have changed for 1988. In most cases, you will be able to deduct all of your home mortgage interest, even if your deduction was limited last year. The new rules apply to any loans secured by your main home, including first and second mortgages, home equity loans and refinanced mortgages. Whether your home mortgage interest is deductible under the new rules depends on the date you took out the mortgage, the amount of the mortgage and your use of its proceeds.

If ALL of your mortgages fit into one or more of categories **a.**, **b.**, and **c.** below, you can deduct all of the interest on those mortgages and report it on Schedule A, line 9a or 9b, whichever applies. If one or more of your mortgages does not fit into any of the categories below, get **Pub. 936**, Limits on Home Mortgage Interest Deduction, to figure the amount of interest you can deduct.

#### **a. Mortgages you took out on your main home ON or BEFORE October 13, 1987.**

These mortgages also include line-of-credit mortgages you had on October 13, 1987, and mortgages you had on October 13, 1987, that you refinanced after that date. But see **Special Rules** if you refinanced or borrowed additional amounts on a line-of-credit mortgage after October 13, 1987.

#### **b. Mortgages you took out on your main home AFTER October 13, 1987, to buy, build, or improve your home, but only if**

these mortgages plus any mortgages in **a.** above totaled \$1 million or less throughout 1988. The limit is \$500,000 or less if married filing separately.

#### **c. Mortgages you took out AFTER**

**October 13, 1987, on your main home, OTHER THAN to buy, build, or improve your home, but only if** these mortgages totaled \$100,000 or less throughout 1988. The limit is \$50,000 or less if married filing separately.

An example of a mortgage used for purposes other than to buy, build, or improve your home is a home equity loan you used to pay off credit card bills, to buy a car, or to pay tuition costs.

### Special Rules

**Refinanced Mortgages.**—If you had a mortgage on your home on October 13, 1987, and refinanced it after that date for no more than the balance of the existing mortgage, all of the new mortgage is treated as a mortgage described in **a.** above. But, if

you refinanced it for more than the balance of the existing mortgage, only the part of the new mortgage equal to the amount you owed on the mortgage at the time you refinanced is treated as a mortgage described in **a.** The part of the new mortgage that is more than the balance of the existing mortgage is a mortgage described in **b.** or **c.** (or **b.** and **c.** if a **mixed-use mortgage**—see below).

**Line-of-Credit Mortgages.**—If you had a line-of-credit mortgage on your home on October 13, 1987, and you borrowed additional amounts on this line of credit after that date, the additional amounts borrowed are treated as a mortgage taken out after October 13, 1987, and are subject to the rules under **b.** or **c.** (or **b.** and **c.** if a **mixed-use mortgage**—see below).

**Mixed-Use Mortgages.**—If you took out a new mortgage after October 13, 1987, (including refinancing for more than what you owed or borrowing additional amounts on a line-of-credit mortgage you had on October 13, 1987), for purposes described in both **b.** and **c.** above, you have a mixed-use mortgage. The mortgage proceeds used to buy, build, or improve the home fit into category **b.** and the rest of the proceeds fit into category **c.**

**Example.** You took out a mortgage on your home for \$200,000 in 1980. You file as single for 1988. In March 1988, when the home had a fair market value of \$400,000, and you owed \$195,000 on the mortgage, you took out a home equity loan for \$120,000. In 1988, you used \$90,000 of the home equity loan proceeds for home improvements, and \$30,000 for other purposes. You can deduct all of the interest on both mortgages. The first mortgage qualifies because it was taken out on or before October 13, 1987. The home equity loan qualifies under the dollar limits in **b.** and **c.** The part of the mortgage subject to the dollar limit in **b.** (\$90,000) plus the first mortgage of \$195,000 totaled less than \$1 million. The part of the mortgage subject to the dollar limit in **c.** (\$30,000) was less than \$100,000.

**Note:** Additional limits apply if the total amount of all mortgages exceeds the fair market value of the home.

**More Than One Home.**—If you had a main home and a second home, the dollar limits explained in **b.** and **c.** above apply to the total mortgages on both homes.

**Line 9a.** Enter on line 9a deductible mortgage interest you paid directly, or indirectly, to financial institutions. If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. Next to line 9a, write "See attached."

If you paid \$600 or more of mortgage interest, the recipient will generally send you a **Form 1098**, Mortgage Interest Statement, or similar statement, by January 31, 1989, showing the total interest received during 1988. Points you paid will not be shown.

**Note:** If the recipient was not a financial institution and you did not receive a **Form 1098** from the recipient, report your deductible mortgage interest on line 9b.

If you paid more interest to financial institutions than is shown on Form 1098, get **Pub. 545** to see if you can deduct the additional interest. If you can, attach a statement explaining the difference and write "See attached" next to line 9a.

**Note:** If you qualify for the **Mortgage Interest Credit** (see instructions for Form 1040, line 46), subtract the amount shown on line 3 of Form 8396 from the total deductible interest you paid on your home mortgage and enter the result on line 9a.

**Line 10—Points.** Generally, points (including loan origination fees) charged only for the use of money are deductible over the life of your mortgage. **Exception.** Points may be deducted in the year paid if the loan was used to **buy or improve your main home**, the loan was secured by that home, the points were paid with funds other than those obtained from the lender, it is customary to charge points in the area where the loan was made, and the points paid did not exceed the points usually charged in that area. This generally does not apply to points paid to refinance your mortgage. For more details, get **Pub. 545**.

#### **Line 11—Investment interest.**

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity.

Complete and attach **Form 4952**, Investment Interest Expense Deduction, to figure your deduction.

**Exception.** You do not have to file Form 4952 if ALL of the following apply:

- your only investment income was from interest or dividends,
- you have no other deductible expenses connected with the production of the interest or dividends,
- your investment interest expense is not more than your investment income,
- you have no carryovers of investment interest expense from 1987, and
- you have no passive activity losses.

For more details, including the treatment of amortizable bond premiums, get **Pub. 550**, Investment Income and Expenses.

#### **Lines 12a and 12b—Personal interest.**

For 1988, only 40% of personal interest (such as interest paid on car loans and credit cards) is deductible. Include on line 12a interest you paid on:

- Bank and other general purpose credit cards. Deduct the finance charge paid as interest if no part of it was for service charges, membership fees, loan fees, credit investigation fees, etc.
- Revolving charge accounts. Deduct finance charges if they were based on your monthly unpaid balances.
- Your personal note for money you borrowed from a bank, a credit union, or another person.
- Loans on life insurance if you paid the interest in cash and report on the cash basis.



● Installment loans on personal property, such as cars (including a business car used in your capacity as an employee) and appliances.

● Taxes you paid late. Show only the interest; do not include any amount that is considered a penalty. If the tax is deductible, show it under **Taxes You Paid** (lines 5 through 8 of this schedule).

**Note:** Special rules apply to interest expense imputed on below-market loans. Get **Pub. 545**.

### Interest You MAY NOT Deduct

Do not include interest paid on your debts by others, such as mortgage interest subsidy payments made by a government agency. Also do not include the interest you paid for—

● Certain loans against your interest in a 401(k) plan or a tax-sheltered annuity plan that were made, renewed, renegotiated, modified, or extended after 1986. (Get **Pub. 575**, Pension and Annuity Income, for details.)

● Tax-exempt income. This includes interest on money you borrowed to buy or carry wholly tax-exempt securities. This also includes interest paid to purchase or carry obligations or shares, or to make deposits or other investments, to the extent any interest income received from the investment is tax exempt.

● A loan on life insurance if the interest is added to the loan and you report on the cash basis.

● A debt to buy a single-premium life insurance or endowment contract.

● Any kind of business transaction. (Use Schedule C, E, or F of Form 1040 to deduct business interest expenses.)

Get **Pub. 545** for more details.

## Lines 14 through 17

### Gifts to Charity

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals.

### Examples of these organizations are:

● Churches, temples, synagogues, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

● Fraternal orders, if the gifts will be used for the purposes listed above.

● Veterans' and certain cultural groups.

● Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

● Federal, state, and local governments if the gifts are solely for public purposes.

If you contributed to a charitable organization and also received a benefit from it, you may deduct only the amount that is more than the value of the benefit you received.

If you do not know whether you may deduct what you gave to an organization, check with that organization or with IRS.

### Contributions You MAY Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described above. If you drove to and from the volunteer work, you may take 12 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (But don't deduct any amounts that were repaid to you.)

**Limit on the amount you may deduct.** Get **Pub. 526**, Charitable Contributions, to figure the amount of your deduction if any of the following applies:

● your cash contributions or contributions of ordinary income property are more than 30% of Form 1040, line 32,

● your gifts of capital gain property to certain organizations are more than 20% of Form 1040, line 32, or

● you gave gifts of property that increased in value or gave gifts of the use of property.

### You MAY NOT Deduct As Contributions

● Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation, or vacation in the travel.

● Political contributions.

● Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

● Cost of raffle, bingo, or lottery tickets.

● Cost of tuition.

● The value of your time or services.

● Value of blood given to a blood bank.

● The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

● Gifts to:

a. Individuals.

b. Foreign organizations.

c. Groups that are run for personal profit.

d. Groups whose purpose is to lobby for changes in the laws.

e. Civic leagues, social and sports clubs, labor unions, and chambers of commerce.

**Recordkeeping.** If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

a. How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)

b. The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

c. How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

d. Any conditions attached to the gift.

**Note:** If your total deduction for gifts of property is over \$500, or if you gave less than your entire interest in the property, or you made a "qualified conservation contribution" under section 170(h), your records should contain additional information. Get **Pub. 526** for details.

**Line 14.** Enter the total contributions you made in cash or by check (including out-of-pocket expenses). If you gave \$3,000 or more to any one organization, show to whom and how much you gave in the space provided.

**Line 15.** Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If the amount of your deduction is more than \$500, you must complete and attach **Form 8283**, Noncash Charitable Contributions. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. For this purpose, the "amount of your deduction" means your deduction BEFORE applying any income limitations that could result in a carryover of contributions. See **Form 8283** and its instructions for details.

## Line 18

### Casualty and Theft Losses

Use line 18 to report casualty or theft losses of property that is not trade or business, income-producing, or rent or royalty property. Complete and attach **Form 4684**, Casualties and Thefts, to figure your loss. Enter on line 18 of Schedule A the amount of loss from **Form 4684**.

### Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat, and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

a. the amount of **EACH** separate casualty or theft loss is more than \$100, and

b. the total amount of **ALL** losses during the year is more than 10% of your adjusted gross income on **Form 1040**, line 32.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. Get **Form 4684** for details.

### Losses You MAY NOT Deduct

● Money or property misplaced or lost.

● Breakage of china, glassware, furniture, and similar items under normal conditions.

● Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Use line 21 of Schedule A to deduct the costs of proving that you had a property loss. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, get **Pub. 547**, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about Federal disaster area losses.

## Line 19

### Moving Expenses

Employees and self-employed persons (including partners) can deduct certain moving expenses.

You can take this deduction if you moved in connection with your job or business and your change in job location has added at least 35 miles to the distance from your old home to your workplace. If you had no former workplace, your new workplace must be at least 35 miles from your old home. If you meet these requirements, see **Tele-Tax Information** in the index (topic no. 304) or **Pub. 521, Moving Expenses**. Complete and attach **Form 3903** to figure the amount of moving expenses to enter on line 19. If you began work at a new workplace outside the United States or its possessions, get **Form 3903F, Foreign Moving Expenses**.

## Lines 20 through 25

### Miscellaneous Deductions

Most miscellaneous deductions cannot be deducted in full. You must subtract 2% of your adjusted gross income from the total. You figure the 2% limit on line 23.

Generally, the 2% limit applies to job expenses you paid for which you were not reimbursed (line 20). The limit also applies to certain expenses you paid to produce or collect taxable income (line 21). See the instructions for lines 20 and 21 for examples of expenses to claim on these lines.

The 2% limit does not apply to certain other miscellaneous expenses that you may deduct. These expenses can be deducted in full on line 25. The line 25 instructions describe these expenses. Included are deductible gambling losses (to the extent of winnings) and certain job expenses of handicapped employees. See **Pub. 529, Miscellaneous Deductions**, for more information.

### Expenses Subject to the 2% Limit (Lines 20 and 21)

**Line 20.** Use this line to report job expenses you paid for which you were not reimbursed. In some cases you **MUST** first fill out **Form 2106, Employee Business Expenses**. Fill out **Form 2106** if:

1. You claim any travel, transportation, meal, or entertainment expenses for your job; OR
2. Your employer paid you for any of your job expenses reportable on line 20.

If 1 or 2 above applies, enter the amount from line 17 of **Form 2106** on line 20 of Schedule A.

If you don't have to fill out **Form 2106**, just list the type and amount of your expenses on the dotted lines for line 20. If you need more space, attach a statement showing the type and amount of the expense. Enter one total in the amount space for line 20.

Examples of expenses to include on line 20 are:

- Travel, transportation, meal, or entertainment expense. (**Note:** If you have any of these expenses you must use **Form 2106** for all of your job expenses).

- Union dues.
- Safety equipment, small tools, and supplies you needed for your job.
- Uniforms your employer said you must have, and which you may not usually wear away from work.
- Protective clothing, required in your work, such as hard hats and safety shoes and glasses.
- Physical examinations your employer said you must have.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Business use of part of your home but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. For details, see **Tele-Tax Information** in the index (topic no. 309) or **Pub. 587, Business Use of Your Home**.
- Education expenses you paid that were required by your employer, or by law or regulations, to keep your salary or job. In general, you may also include the cost of keeping or improving skills you must have in your job. For more details, see **Tele-Tax Information** in the index (topic no. 313) or **Pub. 508, Educational Expenses**. Some education expenses are not deductible. See **Expenses you MAY NOT Deduct**.

**Line 21.** Use this line for amounts you paid to produce or collect taxable income, manage or protect property held for earning income, and for tax preparation fees. List the type and amount of each expense on the dotted lines for line 21. If you need more space, attach a statement showing the type and amount of each expense. Enter one total in the amount space for line 21. Examples of these expenses are:

- Tax return preparation fee.
- Safe deposit box rental.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (e.g., trust account) fees.
- Your share of the investment expenses of a regulated investment company.

### Expenses NOT Subject to the 2% Limit (Line 25)

Use this line to report miscellaneous deductions that are NOT subject to the 2% AGI limit. Only the expenses listed below can be deducted on line 25:

- Gambling losses to the extent of gambling winnings. Report gambling winnings on **Form 1040**, line 22.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of substantial amounts under a claim of right.
- Unrecovered investment in pension.
- Impairment-related work expenses of a handicapped person.

List the type and amount of each expense. Enter one total in the amount space for line 25. For more information on these expenses, get **Pub. 529**.

### Expenses You MAY NOT Deduct

Some expenses are not deductible at all. Examples are:

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property (but see casualty and theft losses).
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Expenses of going to or from work.
- Education that you need to meet minimum requirements for your job or that will qualify you for a new occupation.
- Expenses of:
  - a. Travel as a form of education.
  - b. Attending a seminar, convention, or similar meeting unless it is related to your employment.
  - c. Adopting a child, including a child with special needs.
- Fines and penalties.
- Expenses of producing tax-exempt income.

## Instructions for Schedule B Interest and Dividend Income

### Purpose

Use Schedule B if you are filing **Form 1040** and you:

- Had more than \$400 in taxable interest,
- Had more than \$400 in dividends,
- Had a foreign account, or
- Were a grantor of, or transferor to, a foreign trust.

Part III of the schedule asks you to answer questions about foreign accounts and trusts.

### Part I

#### Interest Income

To see what interest income you must report, read the instructions for **Form 1040**, line 8a, on page 10.

The payer should send you a **Form 1099-INT** or **Form 1099-OID**, if applicable, showing interest you must report. If the total taxable interest from all payers is over \$400, fill in Parts I and III of this schedule.

#### Line 1

Report on line 1 the interest portion of any payments you received from an individual based on a take-back mortgage or other form of seller financing that resulted from the sale of your home or other property. Show the payer's name and the amount.

#### Line 2

Report on line 2 **ALL** taxable interest (other than seller-financed mortgage interest) that you received or that was credited to your account so you could withdraw it. List each payer's name and show the amount.



**Nominees.** Include on line 2 interest you received, as a nominee, that actually belongs to another person (such as your child). Several lines above line 3, put a subtotal of all interest income listed on line 2. Below this subtotal, write "Nominee Distribution" and show the interest amounts you received as a nominee. Subtract these amounts from the subtotal and enter the result on line 3.

**Note:** If you received interest as a nominee, you must give the actual owner a **Form 1099-INT**, unless the owner is your spouse.

**Accrued Interest.** When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules above under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

**Tax-Exempt Interest.** If you received a **Form 1099-INT** for tax-exempt interest, such as from municipal bonds, report the interest on line 2. Several lines above line 3, put a subtotal of all interest listed on line 2. Below this subtotal, write "Tax-Exempt Interest" and show the amount. Subtract this amount from the subtotal and enter the result on line 3. Be sure to also include this tax-exempt interest on Form 1040, line 8b.

**Original Issue Discount (OID).** If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules above for **Nominees** or **Accrued Interest**, whichever applies, to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

## Part II

### Dividend Income

To see what dividend income you must report, read the instructions for Form 1040, line 9, on page 11.

The payer should send you a **Form 1099-DIV** showing dividends you must report. If the total dividends from all payers are over \$400, fill in Parts II and III.

### Line 4

Report on line 4 **ALL** of your dividend income. Include capital gain and nontaxable distributions. They will be deducted on lines 6 and 7. Include cash and the value of stock, property, or merchandise you received as a dividend. If you owned shares in a mutual fund, see **Pub. 564**, Mutual Fund Distributions.

List the payer's name and show the amount of income. If securities are held by a brokerage firm (in "street name"), list the name of the brokerage firm shown on **Form 1099-DIV**.

**Nominees.** Include on line 4 all dividends you received, including dividends you received, as a nominee, that actually belong to another person (such as your child), even if you later distributed some or all of this income to others. Several lines above line 5, put a subtotal of all dividends listed on line 4. Below this subtotal, write "Nominee

Distribution" and show the amounts you received as a nominee. Subtract these amounts from the subtotal and enter the result on line 5.

**Note:** If you received dividends as a nominee, you must give the actual owner a **Form 1099-DIV**, unless the owner is your spouse.

## Part III

### Foreign Accounts and Foreign Trusts

Fill in this part if you had more than \$400 of interest or dividend income; if you had a foreign financial account; or if you were the grantor of, or transferor to, a foreign trust.

### Line 10

Check the **Yes** box if either **1** or **2** below applies to you.

**1.** At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

**Exception.** Check **No** if any of the following apply to you.

- The combined value of the accounts was \$10,000 or less during the whole year.

- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

- You are an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account is in your employer's name; **AND** you do not have a personal financial interest in the account.

- You are an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$1 million and 500 or more shareholders of record; the account is in your employer's name; you do not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

**2.** You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get **Form TD F 90-22.1** to see if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If you checked **Yes** to question 10, file Form TD F 90-22.1 by June 30, 1989, with the **Department of the Treasury** at the address shown on that form. **Do not** attach Form TD F 90-22.1 to Form 1040.

You can get Form TD F 90-22.1 by writing to the IRS Forms Distribution Center for your state, as shown on the inside back cover.

If you checked **Yes** to question 10, write the name of the foreign country or countries in the space provided. Attach a separate sheet if you need more space.

## Instructions for Schedule D

## Capital Gains and Losses

### Purpose

Use Schedule D to:

- Report a sale of a capital asset.
- Report gains from involuntary conversions of capital assets not held for business or profit.
- Reconcile Forms 1099-B you got for bartering transactions. (See Part VI.)
- Make the long-term capital gain election for lump-sum distributions.

Use **Form 4797**, Sales of Business Property, instead of Schedule D to report the following:

- The sale or exchange of trade or business property, depreciable and amortizable property, oil, gas, geothermal, or other mineral property, and section 126 property.
- The involuntary conversion (other than by casualty or theft) of trade or business property and capital assets held for business or profit.
- The disposition of other noncapital assets not mentioned above.

Use **Form 4684**, Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Get **Pub. 544**, Sales and Other Dispositions of Assets, and **Pub. 550**, Investment Income and Expenses, for more information.

**Form 1099-A, Information Return for Acquisition or Abandonment of Secured Property.** If you received a Form 1099-A from your lender, you may have gain or loss to report because of the acquisition or abandonment. Get **Pub. 544** for details.

### Capital Gain Elections on Lump-Sum Distributions From Qualified Retirement Plans

The amount of a lump-sum distribution that qualifies for capital gain treatment should be shown on Form 1099-R, Box 3. If you do not include the capital gain portion on **Form 4972**, Tax on Lump-Sum Distributions, you can make a special capital gain election on Schedule D. To make the election on Schedule D for 1988, enter 95% (.95) of the amount from Form 1099-R, Box 3, in Part II of Schedule D. You should enter the remaining amount of the distribution (Form 1099-R, Box 2, minus the amount used on Schedule D) on Form 1040, line 17b. However, if you qualify to use Form 4972, you may report the balance on that form instead of Form 1040, line 17b.

### Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets.

A capital asset is any property held by a taxpayer **except** the following:

- a. Stock in trade or other property included in inventory or held for sale to customers.
- b. Accounts or notes receivable you received for services in the ordinary course of your trade or business, or from the sale of any property described in a, or for services you performed as an employee.
- c. Depreciable property used in your trade or business even if it was fully depreciated.
- d. Real property (real estate) used in your trade or business.
- e. A copyright, a literary, musical, or artistic composition, a letter or memorandum, or similar property: (1) created by your personal efforts; or (2) prepared or produced for you (in the case of a letter, memorandum, or similar property); or (3) that you received from a taxpayer mentioned in (1) or (2), in a way (such as by gift) that entitled you to the basis of the previous owner.
- f. U.S. Government publications, including the Congressional Record, that you received from the government, other than by purchase at the normal sales price, or that you got from another taxpayer who had received it in a similar way, if your basis is determined by reference to the previous owner.

### Short-Term or Long-Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for long-term capital gains and losses is more than one year (more than 6 months if acquired before January 1, 1988). The holding period for short-term capital gains and losses is one year or less (6 months or less if acquired before January 1, 1988).

To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it. Use the trade dates for date acquired and date sold for stocks and bonds on an exchange or over-the-counter market.

Generally, a nonbusiness bad debt must be treated as a short-term capital loss.

### Capital Losses

The capital loss that can be deducted after offsetting capital gains is limited to \$3,000 (\$1,500 if married filing a separate return).

**Caution:** Under pending legislation, the capital loss deduction would be limited to the smallest of: the total net capital loss; \$3,000 (\$1,500 if married filing separate return); or the taxable income for the taxable year. Get **Pub. 553** to find out whether this law was passed.

### Losses That Are Not Deductible

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following:

- Members of a family.
- A corporation and an individual or a fiduciary owning more than 50 percent of the corporation's stock (not counting liquidations).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a fiduciary or beneficiary of another trust created by the same grantor.

- An individual and a tax-exempt organization controlled by the individual or the individual's family.
- A partnership and a corporation if the same taxpayers own directly or indirectly more than 50 percent of the capital interest, or profits interest, in the partnership and corporation.

Get **Pub. 544** for more information on sales and exchanges between related parties.

If you dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, get the Instructions for **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c). When the loss becomes allowable under the at-risk rules, it is then subject to the passive activity rules. Get **Form 8582**, Passive Activity Loss Limitations, and its Instructions to see how to report capital gains and losses from a passive activity.

### Items for Special Treatment and Special Cases

The following items may require special treatment:

- Transactions by a securities dealer.
- Wash sales of stock or securities. Get **Pub. 550** for details.
- Bonds and other evidence of indebtedness. Get **Pub. 550** for details.
- Certain real estate subdivided for sale which may be considered a capital asset.
- Gain on the sale of depreciable property to a more than 50% owned entity, or to a trust of which you are a beneficiary.
- Gain on the disposition of stock in an Interest Charge Domestic International Sales Corporation.
- Gain on the sale or exchange of stock in certain foreign corporations.
- Gain or loss from the closing or expiration of an option that is not a section 1256 contract, but that is a capital asset in your hands. If a purchased option expired, enter the expiration date in column (c), and write "EXPIRATION" in column (d). If an option granted (written) expires, enter the expiration date in column (b), and write "EXPIRATION" in column (e). Get **Pub. 550** for details.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership which would be treated as an investment company if the partnership were incorporated.
- Gain on the sale of qualified reinvested dividends from a qualified public utility. Get **Pub. 550** for details.
- Transfer of appreciated property to a political organization.
- Loss on sale, exchange, or worthlessness of small business stock (section 1244 stock).
- In general, no gain or loss is recognized on a transfer of property from an individual to a spouse or a former spouse (but only if the transfer is incident to divorce). Get **Pub. 504**, Tax Information for Divorced or Separated Individuals.

• Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument.

• Losses from the disposition of wetlands and highly erodible croplands converted to agricultural use (other than livestock grazing) after March 1, 1986, are reported on Schedule D, but gains are reported on Form 4797.

• For rules on nontaxable exchanges, gifts of property, and inherited property, get **Pub. 544**.

• For treatment by shareholders of corporate liquidations, get **Pub. 542**, Tax Information on Corporations.

For information on mutual fund transactions, get **Pub. 564**, Mutual Fund Distributions.

### Exchange of Like-Kind Property

Report the exchange of "like-kind" property even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." For exceptions, get **Pub. 544**.

Identify in column (a) the property you disposed of. Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in columns (f) and (g).

### Sale or Exchange (Other Than Involuntary Conversion) of Capital Assets Held for Personal Use

This type of gain is a capital gain. Report it on Schedule D, Part I or Part II. Loss from the sale or exchange of this property is not deductible.

For example, you have a loss on the sale of a vacation home which is not your main home. Report it on line 2c or 9c, depending on how long you owned the home. Complete columns (a) through (e). Since the loss is not deductible, enter an "X" in column (f), and -0- in column (g).

### Disposition of Partnership Interest

A sale or other disposition of an interest in a partnership may result in ordinary income. Get **Pub. 541**, Tax Information on Partnerships.

### Long-Term Capital Gains From Regulated Investment Companies

Include in income as a long-term capital gain the amount shown on **Form 2439**, Notice to Shareholders of Undistributed Long-Term Capital Gains, that represents your share of the undistributed capital gains of a regulated investment company. Enter the tax paid by the company as shown on **Form 2439** on line 60 of **Form 1040**. Add to the basis of your stock, the excess of the amount included in income over the credit.

### Sale of Your Home

Use **Form 2119**, Sale of Your Home, to report a gain or loss from the sale of your main home whether or not you bought another one. For more information, get **Pub. 523**, Tax Information on Selling Your Home.

### Installment Sales

If you sold property at a gain (other than publicly traded stocks or securities), and

you will receive a payment in a tax year after the year of sale, you must report the sale on the installment method unless you elect not to. Use **Form 6252**, Installment Sale Income. Also use Form 6252 if you received a payment in 1988 for a sale made in an earlier year on the installment method.

If you want to elect out of the installment method, report the sale as follows on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D.

(2) If you received a note or other obligation and are reporting it at less than face value (including all contingent payment obligations), complete Part V. If you received more than one, enter the amounts separately in the spaces in Part V.

Get **Pub. 537**, Installment Sales, for more details.

### Section 1256 Contracts and Straddles

Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles. Get **Pub. 550** for more information.

## Specific Instructions

### Line 1

#### Reconciliation of Forms 1099-B for Sales of Stocks, Bonds, Etc.

Enter your total sales of stocks, bonds, etc., reported for 1988 to you on Form(s) 1099-B or on any equivalent substitute statement(s). Enter real estate transactions reported to you on **Form 1099-S** or on an equivalent substitute statement on line 2c or 9c. If line 1 differs from the total of lines 2b and 9b, column (d), attach a statement explaining the difference. There may be differences between line 1 and the total of lines 2b and 9b if you reported a Form 1099-B transaction in one year but did not receive a Form 1099-B until the following year. Also, a difference would occur if you received a Form 1099-B for an item that represents a return of capital.

**Note:** If you need more space to list the details, you can attach separate sheets using the same format as the printed schedule. Enter the total sales price of all transactions included in your own schedule on lines 2b and 9b. Report the total gain and the total loss separately on lines 7 and 16.

### Column (d)

#### Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. If you sold stocks or bonds and you received a Form 1099-B or similar statement from your broker that shows gross sales price, enter that amount in column (d). However, if the broker advised you that gross proceeds (gross sales price) less commissions and option premiums were reported to IRS, enter that net amount in column (d). If the net amount is entered in this column, do not include the commissions and option premiums in column (e).

**Caution:** Be sure to add all sales price entries in column (d) on lines 2a and 9a and enter the totals on lines 2b and 9b.

### Column (e)

#### Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions, improvements, and minus depreciation, amortization, and depletion. If you inherited the property or got it as a gift in a tax-free exchange, involuntary conversion, or "wash sale" of stock, you may not be able to use the actual cash cost as the basis. If you do not use cash cost, attach an explanation of your basis.

When selling stock, adjust your basis by subtracting all the nontaxable distributions you received before the sale. Also adjust your basis for any stock splits. Get **Pub. 550** to see how to figure your basis of stock that split during the time you owned it.

The basis of property acquired by gift generally is the basis of the property in the hands of the donor.

The basis of property acquired from a decedent is generally the fair market value at the date of death.

The cost or other basis of an OID debt instrument is increased by the amount of OID that has been included in gross income for that instrument.

If a charitable contribution deduction is allowed because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase your cost or other basis by any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums before making an entry in column (e), unless you reported net sales price in column (d).

For more information, get **Pub. 551**, Basis of Assets.

### Lines 2a and 9a

Enter all sales of stocks, bonds, etc., whether or not you actually received a Form 1099-B. You can use abbreviations to describe property you list as long as your abbreviations are based on the descriptions of the property as shown on Form(s) 1099-B or on equivalent substitute statement(s).

### Lines 2c and 9c

Enter sales and exchanges of other capital assets, including real estate transactions reported to you on Form(s) 1099-S or on equivalent substitute statement(s), unless you reported them on Form 2119, 4797, or 6252.

### Line 6

#### Short-Term Capital Loss Carryover

Enter the amount from your 1987 Schedule D, line 33.

### Line 15

#### Long-Term Capital Loss Carryover

Enter the amount from your 1987 Schedule D, line 38.

## Part VI

### Reconciliation of Forms 1099-B for Bartering Transactions

This part will enable IRS to compare amounts of bartering income reported to you on Forms 1099-B with amounts you report on your tax return.

For details on bartering income, get **Pub. 525**, Taxable and Nontaxable Income.

## Instructions for

## Schedule E

## Supplemental Income

### Purpose

Use Schedule E to report income or loss from rents, royalties, partnerships, S corporations, estates, trusts, and REMICS.

**Note:** If you attach your own schedule(s) to report income or loss from any of these sources, use the same format as the Schedule E. Enter separately on Schedule E the total income and the total loss for each part.

**Files of Forms 1041 and 1041S.** Enter your employer identification number in the block for "Your social security number."

### General Information

#### At-Risk Rules (Parts I and II)

If (1) you have a loss from any activity that you, your partnership, or S corporation engaged in as a trade or business or for the production of income, including the holding of real property (other than mineral property) placed in service after December 31, 1986, and (2) you have amounts for which you are not at risk in the activity, use **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss to report on Schedule E.

Amounts for which you are not at risk are amounts such as the following:

1. nonrecourse loans used to finance the activity, acquire property used in the activity, or acquire your interest in the activity, unless they are secured by property not used in the activity or by certain real property used in an activity of holding real property;
  2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement;
  3. loans from someone who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3)(C), to a person (other than yourself) having such an interest; or
  4. amounts contributed to the activity, or to your interest in the activity that is covered by:
    - nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or
    - loans from a person described in 3 above.
- Get **Pub. 925**, Passive Activity and At-Risk Rules, for more information.

The at-risk rules may apply to a member of a partnership or joint venture, a shareholder in an S corporation, or a lessor of certain property. Generally, the amount you have at risk limits the loss you can deduct for any tax year.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. See Form 6198 and the related instructions for more information.

If, in addition to the amount that you report on Schedule E, you sell or otherwise dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the instructions for Form 6198.

If you have amounts that are not at risk, get Form 6198 to determine the amount of deductible loss. If the loss is from Part I, Schedule E, enter the deductible amount from Form 6198 in the appropriate column(s) on line 23 of Schedule E. If the loss is from Part II, Schedule E, and the activity is a nonpassive activity, enter the deductible amount from Form 6198 in column (i) of Schedule E. If your loss is from a passive activity, your loss may be further limited. You must file Form 8582 to figure the amount of your deductible loss. See **Passive Activity Losses** below.

Any loss from an activity not allowed for the tax year because of the at-risk rules is treated as a deduction allocable to the activity in the next tax year.

### Passive Activity Losses (Parts I—III)

The "passive activity loss" rules may limit the amount of losses you can deduct. They apply to losses in Parts I, II, and III of Schedule E.

You generally can deduct losses from passive activities only to the extent of income from passive activities. Exceptions apply to some activities, such as rental real estate activities (see Part I instructions).

Losses from passive activities may first be subject to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity rules.

**A passive activity** is any business activity in which you DO NOT materially participate. See the instructions for **Form 8582, Passive Activity Loss Limitations**, for a definition of material participation.

Generally, the rental of real or personal property is a passive activity even if you materially participated. But there are exceptions. See the instructions for Form 8582 for more details on these exceptions, as well as special rules that apply if the rental property is a nondepreciable rental property, a rental property incidental to a development activity, or a property rented to a nonpassive activity.

The rental of your home that you also used for personal purposes is not a passive activity. See **Renting Out a Dwelling Unit That Is Also Used for Personal Purposes** on this page.

A working interest in an oil or gas well that you hold directly or through an entity

that does not limit your liability is not a passive activity even if you do not materially participate.

Generally, royalty income not derived in the ordinary course of a trade or business reported on Schedule E is not considered income from a passive activity.

In most cases you must use Form 8582 to summarize your income and losses from passive activities and to figure the amount of loss that you are allowed to deduct for each passive activity. However, in some cases you do not have to use Form 8582 to figure your deductible rental loss. See Part I, line 24 instructions, for details.

For more information on passive activities, see the instructions for Parts I, II, and III of Schedule E, the instructions for Form 8582, and **Pub. 925**.

## Part I

### Rental and Royalty Income or Loss

Use this part to report rental and royalty income. Include room and other space rentals. If you provided significant services to the renter, or if you sold real estate as a business, do not report the income on Schedule E. Instead, report it on **Schedule C** (Form 1040).

For more information, see **Tele-Tax Information** in the index (topic no. 213). Or, get **Pub. 527, Residential Rental Property**.

Report royalties from oil, gas, or mineral properties, copyrights, and patents. However, if you hold an operating oil, gas, or mineral interest, or are in business as a self-employed writer, inventor, artist, etc., report gross income and expenses on Schedule C (Form 1040).

If you use Part I to report rental and royalty income, enter your rental and royalty expenses for each property in the appropriate columns on lines 6 through 22.

If you own a part interest in rental property, you may report your part on Schedule E.

If you have a loss from an activity, see **At-Risk Rules and Passive Activity Losses** discussed earlier and the line 24 instructions.

If you have more than three rental or royalty properties, complete and attach as many Schedules E as are needed to list the properties. Complete lines 1, 2, and 3 for each property. However, fill in the "Totals" column for lines 4, 5, 12, 20, 21, and 25 through 29 on only one Schedule E. The figures in the total column on that Schedule E should be the combined totals of all the schedules.

If you also need to use page 2 of Schedule E, use the same Schedule E that you used to enter the combined totals in Part I.

### Rentals

If you were not in the real estate sales business and you received rent from property you own or control, report it on line 4. If you received services or property, instead of money, as rent, report its fair market value.

You can deduct an amount for the depreciation of rental property. You can

also deduct all normal expenses, such as taxes, interest, repairs, insurance, maintenance, and agent's commissions.

Do not deduct the value of your own labor. Do not deduct capital investments or improvements.

### Renting Out Part of Your Home

If you rent out only part of your home or other property, deduct the part of your expenses that apply to the rented part.

### Renting Out a Dwelling Unit That Is Also Used for Personal Purposes

If you rented out a dwelling unit and you also used it as a home during the year, you may not be able to deduct all the expenses for the rental part. A dwelling unit (unit) means a house, apartment, condominium, mobile home, boat, or like property.

First, figure out if you used the unit as a home under this rule.

**Answer two questions:** During 1988, did you or your family—

1. use the unit for personal use more than 14 days?
2. use the unit for personal use more than 10% of the total days it was rented to others at a fair rental price?

If you answered "No" to either question, all of your expenses for the rental part can be deducted subject to the at-risk and passive activity loss limitations.

If you answered "YES" to BOTH questions, it means you used the unit as a home for this rule. You may NOT be able to deduct all your rental expenses. You can deduct on Schedule E your mortgage interest, real estate taxes, and casualty losses for the rental part. You can also deduct your other expenses for the rental part that are not related to your use of the unit as a home, such as advertising expenses and realtors' fees. If any income is left after you deduct these expenses, you can then deduct other expenses. But you cannot deduct more than the income that is left. Amounts you can't deduct can be carried to 1989. See **Pub. 527** for more details. Also, get **Pub. 545, Interest Expense**, to see how much interest you can deduct.

**What is personal use?** A day of personal use is any day, or part of a day, that the unit was used by:

- You for personal purposes.
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a "shared equity" financing agreement).
- Anyone in your family or in the family of someone else who owns part of the unit. The day is not treated as personal if the unit is rented at a fair rental price to that person as his or her main home.
- Anyone under an agreement that lets you use some other unit.
- Anyone who pays less than a fair rental price for the unit.

If you used the unit as a home and rented it out for less than 15 days, you may not deduct any rental expenses. However, if you itemize your deductions, you may deduct interest, taxes, and casualty losses on **Schedule A** (Form 1040). You do not have to report the rental income.



## Rental Income From Farm Production or Crop Shares

Report farm rental income and expenses on **Form 4835** if you meet these two tests:

1. You received rental income that was based on crops or livestock produced by the tenant.
2. You did not manage or operate the farm to any great extent.

**Note:** A loss from this kind of activity may be subject to the passive activity loss rules. See **Pub. 925** for more information.

If you use **Form 4835**, enter on line 28 of **Schedule E** the net farm rental profit or loss from **Form 4835**. Also enter the gross farm rents from **Form 4835**, line 8, in Part VI of **Schedule E**, line 43.

**Note:** For purposes of estimated tax payments, income received from your share of crops and rental based on farm production is considered income from farming.

## Expenses To Rehabilitate Low-Income Housing

You may amortize part of the costs you paid or incurred to rehabilitate qualified low-income housing if the rehabilitation began before January 1, 1987. If it began after 1986, you may be able to take a tax credit. Get **Form 8586**, Low-Income Housing Credit, and **Pub. 572** for more details. Also, see **Pub. 925** for information on the passive activity loss rules as they apply to low-income housing.

## Deduction for Removal of Barriers to the Handicapped and Elderly

You can deduct up to \$35,000 of the costs you paid or incurred in 1988 to remove architectural or transportation barriers to the handicapped and the elderly. Get **Pub. 535**, Business Expenses, and **Pub. 907**, Tax Information for Handicapped and Disabled Individuals, for more details.

## Line 1

Show the kind of property you rented out, for example "brick duplex." Give the street address, city or town, and state. You do not have to give the ZIP code.

## Line 3

A rental real estate activity is generally a passive activity and, therefore, usually subject to the limitation on losses from passive activities. However, a special rule applies if you actively participated in rental real estate activities and had losses from these activities. In general, you may be able to deduct up to \$25,000 of losses from all rental real estate activities in which you actively participated. However, other amounts apply if you are married filing separately.

The active participation requirement can be met without regular, continuous, and substantial involvement in operations, as long as you participated in making management decisions or arranging for others to provide services (such as repairs), in a significant and bona fide sense. Management decisions that are relevant in this context include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

For more information, see the instructions for **Form 8582** and **Pub. 925**.

## Lines 12 and 13

In general, to determine your interest expense allocable to the rental activities, you will have to keep records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment of the debt. See **Pub. 545** for more information.

If you have a mortgage on your rental property, enter on line 12 the interest you paid for 1988 to banks or other financial institutions. Be sure to fill in the "Totals" column.

If you paid \$600 or more of interest on this mortgage, you should receive by January 31, 1989, a **Form 1098**, Mortgage Interest Statement, or similar statement, showing the total interest received from you during 1988. If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid interest on, the mortgage, and the other person received the **Form 1098**, attach a statement to your return showing the name and address of the person who received the **Form 1098**. In the left margin, next to line 12, write "See attached."

If you paid more mortgage interest than is shown on your **Form 1098**, or similar statement, get **Pub. 545** to see if you can deduct the additional interest. If you can, attach a statement to your return explaining the difference and write "See attached" in the left margin next to line 12.

## Line 21

You may take a deduction for depreciation each year for property used for rental purposes. The deduction does not apply to land and personal use property.

If you placed any property in service after 1980, complete and attach **Form 4562**, Depreciation and Amortization. Enter on line 21 the amount from **Form 4562**, Part I. If you are depreciating only property placed in service before 1981, you do not need **Form 4562**. Figure depreciation on a worksheet from your own books and records and enter the total depreciation on line 21. You do not need to attach the worksheet to your return. For a sample worksheet, see **Pub. 534**, Depreciation.

For more information on depreciation, see the instructions for **Form 4562** and **Pub. 534**.

## Line 24

Enter on line 24 the amount of your deductible rental loss. If the loss is from a rental property that is not treated as a passive activity, enter the loss from line 23 on line 24.

If the loss is from a passive activity, you generally need to complete **Form 8582** to figure the amount of loss, if any, after applying the passive activity loss limits. But, you do not have to complete **Form 8582** to figure the amount of loss you can deduct on line 24 if:

1. rental real estate activities are your only passive activities, and
2. you do not have any prior year unallowed losses from any passive activities, and
3. all of the following apply if you have an overall net loss from these activities:

- You actively participated in all of the rental real estate activities (see line 3 for details on active participation),

- Your total losses from these activities are \$25,000 or less (\$12,500 or less if married filing separately and you lived apart from your spouse all year),

- If you are married filing separately, you lived apart from your spouse all year,

- You have no current or prior year unallowed credits from passive activities, and

- Your modified adjusted gross income, defined below, is \$100,000 or less (\$50,000 or less if married filing separately and you lived apart from your spouse all year).

If you meet all the conditions listed above, your rental real estate losses are not limited by the passive activity rules. Enter the amount of the loss from line 23 on line 24.

If you do not meet all of the conditions listed above, you MUST complete and attach **Form 8582**.

**Modified adjusted gross income** is your adjusted gross income on **Form 1040**, line 31, without taking into account any passive activity loss, any taxable social security or railroad retirement benefits, and any deductible contributions to an IRA or other qualified retirement plan under section 219.

**Note:** If you have net income from a nondepreciable rental property, a rental property incidental to a development activity, or a property rented to a nonpassive activity, the net income is not treated as passive activity income. See **Form 8582** instructions for details on how to report net income from these types of activities.

## Royalties

Report on line 5 royalties from oil, gas, or mineral properties (not including operating oil, gas, or mineral interests); copyrights; and patents. If you received \$10 or more of royalties, you should receive, by January 31, 1989, a **Form 1099-MISC**, or similar statement, showing the royalties. If you are in business as a self-employed writer, inventor, artist, etc., report income and expenses on **Schedule C** (**Form 1040**). Under certain circumstances, you can treat amounts received as "royalties" for transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For more details, get **Pub. 544**, Sales and Other Dispositions of Assets.

If state or local taxes were withheld from oil or gas payments you received, enter on line 5 the gross amount of royalty. Include the taxes withheld by the producer on line 16, but **DO NOT** include on line 16 the amount of windfall profit taxes actually withheld in 1988. Instead, enter that amount in Part V, line 40.

Enter your depletion deduction on line 21. Get **Pub. 535**, Business Expenses.

## Parts II and III

### Income or Loss From Partnerships, S Corporations, Estates, or Trusts

If you are a member of more than one partnership, a shareholder in more than one S corporation, or a beneficiary of more than one estate or trust, enter all the information for each entity on the same line. For

example, you are completing Part II and are a member of Partnerships X and Y. Enter all the information for columns (a) through (k), as appropriate, for Partnership X on line A, and for Partnership Y on line B.

If you need more space in Parts II and III to list your income or losses, attach a continuation sheet using the same format as shown in Parts II and III. However, be sure to complete the "Totals" columns for lines 30a and 30b, or lines 34a and 34b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E that you used to enter the combined totals in Part I.

**Tax Shelter Registration Number.** If you are claiming or reporting any deduction, loss, credit, or other tax benefit, or reporting income from an interest purchased or otherwise acquired in a tax shelter, you must attach **Form 8271**, Investor Reporting of Tax Shelter Registration Number, to your return to report the tax shelter registration number as well as other information about the tax shelter. There is a penalty if you fail to report this number on your tax return.

**Tax Preference Items.** If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of tax preference items and adjustments from these entities on **Form 6251**, Alternative Minimum Tax—Individuals. For more information, get **Form 6251**.

**Amount(s) From 1987 Schedule(s) K-1.** You may have received a 1987 Schedule K-1 (Form 1065, 1120S, or 1041) for a short year, and not have reported all of the short-year income on your 1987 return. In this case you must report 25% of the amounts shown on the short-year 1987 Schedule K-1 on the appropriate lines of your 1988 Form 1040 and related schedules. Write "PYA" (prior-year amount) next to the entries. If you received a 1988 Schedule K-1 from the entity, see its instructions for information on how to report the short-year amounts on your 1988 return.

### Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder of an S corporation, use Part II to report your share of the partnership or S corporation income (whether you received it or not) or loss. You should receive a **Schedule K-1** from the partnership or the S corporation. Do not attach that schedule to your return. Keep it for your records. You should also receive a copy of the partner's or shareholder's Instructions for Schedule K-1. If you did not receive a copy of these instructions with your Schedule K-1, you can get a copy at most IRS offices. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items.

Special rules apply that limit losses. Please note the following:

- If you have a loss from a partnership or an S corporation, see the **At-Risk Rules** on page 29.
- See the **Form 8582** instructions to determine whether you materially participated in the partnership or

S corporation activity. Generally, if you are a limited partner, you are not treated as having materially participated in the activity for the year.

- If you have a passive activity loss, you must complete **Form 8582** to figure the amount of the allowable loss to enter in Part II, column (g), for that activity.

- If you have passive activity income, complete Part II, column (h), for that activity.

- If you have nonpassive income or loss, complete Part II, columns (i) through (k), as appropriate.

- If you are treating items on your tax return differently from the way the partnership or S corporation reported the items on its return, you may have to file **Form 8082**.

- If you are claiming a deduction for recovery property (section 179) from a nonpassive activity, enter the amount of this deduction in Part II, column (j).

**Limits on Section 179 Deductions.** The maximum you can deduct on your return for recovery property (section 179) is \$10,000. For example, if you received a K-1 allocating \$1,000 of section 179 expense to you, the maximum amount you can deduct from other sources that have qualifying section 179 expenses is \$9,000. This limit is reduced if the total cost of the section 179 property is more than \$200,000. Your deduction is also limited to the total taxable income from all your trades or businesses. See Pub. 534 for more details.

### Partnerships

If you have other partnership items relating to a passive activity or income or loss from any publicly traded partnership, see the **Form 8582** instructions before entering them on your return.

If you have other partnership items, such as depletion, from a nonpassive activity, show each item on a separate line in Part II. Show unreimbursed partnership expenses on a separate line and enter the amounts in column (i).

If you claimed a credit for Federal tax on gasoline or other fuels on your 1987 Form 1040 (based on information received from the partnership), enter as income in column (h) or column (k), whichever applies, the amount of the credit claimed in 1987.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on **Schedule SE** (Form 1040). Enter the amount from Schedule K-1 (Form 1065), line 14a, on Schedule SE, after you have reduced this amount by any allowable expenses attributable to that income.

If you have losses or deductions from a prior year that you could not deduct in the prior year because of the at-risk rules or basis rules, do not combine the prior-year amounts with any current-year amounts to arrive at a net figure to report on Schedule E. Instead, report on separate lines on Schedule E prior-year amounts and current-year amounts.

### S Corporations

Your share of the net income is **NOT** subject to self-employment tax. Also, distributions of prior-year accumulated earnings and profits of S corporations are dividends and are reported on **Schedule B** (Form 1040). For more information, get **Pub. 589**, Tax Information on S Corporations.

If you are a shareholder claiming a deduction for your share of the S corporation's net operating loss, attach to your return a computation of the adjusted basis of your stock in the corporation and the adjusted basis of any debt the corporation owes you. Your deduction is limited to that amount. However, any amount not allowed this year may be carried forward and deducted in a later year in which you have sufficient basis in the stock and debt. See Pub. 589 for information on adjustments to basis.

### Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (whether you received it or not) or loss. You should receive a **Schedule K-1** (Form 1041) from the fiduciary. Do not attach that schedule to your return. Keep it for your records. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1.

**Caution:** Future regulations will explain how to determine whether you should show amounts reported to you on Schedule K-1 (Form 1041) as amounts from passive activities.

If you have estimated taxes credited to you from a trust (Schedule K-1, line 11a), write "ES payment claimed" and the amount on the dotted line to the left of the line 37 entry space. **Do not** include this amount in the total on line 37; instead, enter the amount on Form 1040, line 55.

A U.S. person who transferred property to a foreign trust may have to include in income the income received by the trust as a result of the transferred property if, during 1988, the trust had a U.S. beneficiary. For more information, get **Form 3520-A**, Annual Return of Foreign Trust With U.S. Beneficiaries.

### Part IV Income or Loss From REMICs

If you are a residual holder of a Real Estate Mortgage Investment Conduit (REMIC), use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive **Schedule Q** (Form 1066) and instructions from the REMIC for each quarter. Do not attach the schedule(s) to your return, but keep them for your records.

REMIC income or loss reported on Schedule E is not income or loss from a passive activity.

**Note:** If you are a regular holder of a REMIC, do not use Schedule E to report the income you received. Instead, report that income on Form 1040, line 8a.



If you are a residual holder in more than one REMIC, attach a continuation sheet using the same format as shown in Part IV. Enter the totals of columns (d) and (e) on line 38 of Schedule E. If you also completed Part I on more than one Schedule E, use the same Schedule E that you used to enter the combined totals in Part I.

If you are treating REMIC items on your tax return differently from the way the REMIC reported the items on its return, you may have to file **Form 8082**.

**Column (c).** Report the total of the amounts shown on Schedule(s) Q, line 2c, in Part IV, column (c). This total is the smallest amount of taxable income you may report on Form 1040, line 37, for 1988. If the taxable income you would show on Form 1040, line 37, is smaller than the total reported in column (c), you must enter the amount from column (c) on Form 1040, line 37. Write "Sch. Q" on the dotted line to the left of line 37 on Form 1040.

**Caution:** Do not include the amount shown in column (c) in the total on line 38 of Schedule E.

**Column (e).** Report the total of the amounts shown on Schedule(s) Q, line 3b, in Part IV, column (e). If you itemize your deductions on Schedule A (Form 1040), include this amount on line 21 of Schedule A.

## Part V Line 39

In certain situations, you must report as income on line 39 the amount of any credit or refund of overpaid windfall profit tax you received in 1988 for tax year 1987, based on overwithholding or the net income limitation.

In general, the amount of credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1987 on Schedule E, and received a tax benefit for the deduction on your 1987 tax return. For more information, see the instructions for **Form 6249**, Computation of Overpaid Windfall Profit Tax.

## Line 40

If you are a cash method taxpayer, deduct on line 40 the amount of windfall profit tax actually withheld in 1988.

**Note:** The windfall profit tax does not apply to crude oil removed after August 22, 1988.

## Part VI Line 43

Enter on this line your total share of gross farming and fishing income as shown on Form 4835, line 8; Schedule K-1 (Form 1065), line 14b; Schedule K-1 (Form 1120S), line 20; and Schedule K-1 (Form 1041), line 11.

You will not be charged a penalty for underpayment of estimated tax if you meet the following tests:

1. your gross farming or fishing income for 1987 or 1988 is at least two-thirds of your gross income, and
2. you file your 1988 tax return and pay the tax due by March 1, 1989.

# Instructions for Schedule C Profit or Loss From Business

## Purpose

If you operated a business or practiced a profession as a sole proprietorship, complete **Schedule C**. If you had more than one business, or if you and your spouse had separate businesses, you must complete a Schedule C for each business. Farmers should use **Schedule F**.

**Filers of Forms 1041 and 1041S.** Do not complete the block labeled "Social security number." Instead, enter your employer identification number on line D.

## Other Schedules and Forms You May Have To File

**Schedule A** to deduct interest, taxes, and casualty losses not related to your business.

**Schedule SE** to pay social security self-employment tax on income from any trade or business unless you are specifically exempted.

**Form 8594** to report certain purchases or sales of groups of assets that constitute a trade or business.

**Form 4797** to report sales, exchanges, and involuntary conversions (other than casualty or theft) of trade or business property.

**Form 4684** to report a casualty or theft involving trade or business, or income producing property.

**Form 3115** to change your method of accounting. **Note:** If you had to change your method of accounting as a result of the capitalization rules, you must file **Form 3115** and a **Section 263A** checklist with your return. If you did not file these items with your 1987 return, file them with your 1988 return. For exceptions and more details, including the **Section 263A** checklist, get **Pub. 1426, Automatic Change in Method To Comply With Section 263A**.

**Information Returns.** You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other basis for resale. For more information, get **Pub. 916**.

If you received cash of more than \$10,000 in one or more related transactions in the course of your trade or business, you may have to file **Form 8300**.

## Additional Information

Get **Pub. 334**, Tax Guide for Small Business, for more details on business income and expenses.

## Line A

Describe the business or professional activity that provided your principal source

of income reported on Part I, line 1a. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client. For example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

## Line B

Enter on this line the 4-digit code that identifies your principal business or professional activity. See Part IV on page 2 of Schedule C for the list of codes.

## Line C

Use your home address only if you actually conducted the business from your home. Show a street address instead of a box number.

## Line D

You don't need an employer ID number unless you had a Keogh plan or were required to file an employment, excise, fiduciary, or alcohol, tobacco, and firearms tax return.

## Line E

Your inventories can be valued at:

- cost,
- cost or market value, whichever is lower, or
- any other method approved by the Commissioner of Internal Revenue.

## Line F

You must use the cash method on your return unless you kept account books. If you kept such books, you can use the cash method or the accrual method. For long-term contracts entered into after February 28, 1986, special rules apply. See Internal Revenue Code section 460 for details. The method used must clearly reflect your income.

To change your accounting method (including treatment of inventories), you must usually first get permission from IRS. In general, file **Form 3115** (1988 revision) within the first 180 days of the tax year in which you want to make the change.

If you use the **cash method**, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Also show amounts actually paid during the year for deductible expenses. Income is constructively received when it is credited to your account or set aside for you to use.

If you use the **accrual method**, report income when you earn it and deduct expenses when you incur them, even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. Get **Pub. 538**, Accounting Periods and Methods.

## Line H

### Business Use of Your Home

Within certain limits, you may deduct business expenses that apply to a part of your home **only** if that part is exclusively used on a regular basis:

1. as your principal place of business for any of your trades or businesses; or
2. as a place of business used by your patients, clients, or customers to meet or deal with you in the normal course of your trade or business; or
3. in connection with your trade or business if it is a separate structure that is not attached to your home.

You may also deduct expenses that apply to space within your home if it is the **only** fixed location of your trade or business. The space must be used on a regular basis to store inventory from your trade or business of selling products at retail or wholesale.

If you use space in your home on a regular basis in your trade or business of providing day care service, you may be able to deduct the business expenses even though you use the same space for nonbusiness purposes.

**Limit on Deductions.** Certain expenses for the business use of your home are limited to the gross income from the business use minus the total of the following deductions.

1. The business part of your deductible mortgage interest, real estate taxes, and casualty losses.
2. Your other business deductions, such as wages and supplies, that are not related to the business use of the home.

The expenses to which the limit applies, and the order in which they must be deducted, are listed below.

- Your expenses for the business use of your home, other than those listed in 1 above, that are related to the use of the home itself. These include maintenance, utilities, and insurance.
- Depreciation.

Generally, any amount you cannot deduct for 1988 because of this limit may be taken into account for 1989. Get **Pub. 587** for details. Also get **Pub. 936**, Limits on Home Mortgage Interest Deduction, to see how much interest you can deduct.

## Line I

### Passive Activity Losses

Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

**A passive activity** generally is any activity involving the conduct of a trade or business if you do not materially participate in the activity. You materially participate in a trade or business activity for the tax year if you satisfy any of the following tests:

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who do not own any interest in the activity) for the tax year.
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other

person for the tax year. This includes individuals who do not own any interest in the activity.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities during the year for more than 500 hours. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you do not materially participate in the activity under tests 1, 2, 3, 5, 6, or 7.

5. You materially participated in the activity for any five (whether or not consecutive) of the prior ten tax years.

6. The activity is a personal service activity in which you materially participated for any three (whether or not consecutive) prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year. You do not materially participate in an activity under this test, however, if—

a. You participated in the activity for 100 hours or less during the tax year, or

b. Any person besides yourself received compensation for performing management services in connection with the activity, or

c. Any individual besides yourself spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the individual was compensated for the management services).

If you meet any of the above tests, check the "Yes" box.

**Exception for oil and gas:** The passive loss rules do not apply to oil and gas wells in which you have a working interest and in which your liability is not limited. In this case, check "Yes" to Question I, even if you did not materially participate.

Check the "No" box if you did not materially participate. If you checked "No" and you claim a loss for this business, you must figure any allowable loss on **Form 8582**, Passive Activity Loss Limitations, and enter it on Schedule C, line 31. If you have prior-year unallowed passive activity losses, see the instructions for Form 8582.

For more details, get **Pub. 925**, Passive Activity and At-Risk Rules.

## Line J

**Tax Shelter.** If you claim or report any deduction, loss, credit, other tax benefit, or income on Schedule C from an interest purchased or otherwise acquired in a tax shelter required to be registered, you **must** check the box on line J, and file **Form 8271**.

## Part I

### Income (Lines 1a through 5)

#### Line 1a

Enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on **Form(s) 1099-MISC**.

**Installment Sales.** Generally, for sales after December 31, 1987, the installment method may no longer be used to report income from the sale of: (1) personal property regularly sold under the installment method; or (2) real property held for resale to customers. But the installment method may be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See Internal Revenue Code section 453(l)(2) for details. If you make this election, include the interest on Form 1040, line 39. Also write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 39.

Also, starting in 1988, any gain not yet recognized from an installment sale after February 28, 1986, of property listed in (1) or (2) above must generally be included in income over a period not to exceed 4 years. See Revenue Procedure 84-74, 1984-2 C.B. 736, to figure the amount to include each year.

If you use the installment method, attach a schedule to your return. Show separately for 1988 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

## Line 1b

Enter on line 1b such items as returned sales, rebates, and allowances from the sales price.

## Line 4

In certain situations, you must report as income on line 4 any credit or refund of overpaid windfall profit tax received in 1988 for tax year 1987, based on overwithholding or the net income limitation. In general, the credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1987 on Schedule C, and received a tax benefit for the deduction on your 1987 tax return. Get the instructions for **Form 6249**, Computation of Overpaid Windfall Profit Tax, for details.

**Note:** The windfall profit tax does not apply to crude oil removed after August 22, 1988.

Also report on line 4 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), credit for Federal tax on gasoline or other fuels claimed on your 1987 Form 1040, and other kinds of miscellaneous business income.

If you have listed property that you placed in service after June 18, 1984, and the business use percentage decreased to 50% or less in 1988, report on this line any recapture of excess depreciation, including the section 179 expense deduction. Use **Form 4797** to figure the recapture.

## Part II

### Deductions (Lines 6 through 29)

#### Capitalizing Costs of Property

If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property must also include part of certain indirect costs in

their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers, must also be capitalized. Reduce the amounts on lines 6-29 by amounts capitalized. For more details, see **Pub. 538**.

**Exception for Creative Property.** If you are an artist, author, photographer, or have a similar occupation in which you produce creative property, you may be able to elect to amortize and deduct certain expenses over a 3-year period. You may make this election only if your personal efforts are primarily responsible for the creation of the property. For more details, including a list of qualifying property, see **Pub. 538**.

**Caution:** Pending legislation would exempt most creative property from the capitalization rules. Get **Pub. 553** to find out whether this legislation was passed.

## Line 7

**Caution:** Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

Include debts and partial debts arising from sales or services that were included in income and are definitely known to be worthless.

If you later collect a debt that you deducted as a bad debt, include it as income in the year collected.

**Note:** If you used the reserve method prior to 1987 to figure your bad debts, any balance you had in the reserve account at the end of 1986 must be included in your income ratably over a 4-year period.

For details, get **Pub. 548**, Deduction for Bad Debts.

## Line 9

You can deduct the actual cost of running your car or truck, or take the standard mileage rate. You must use actual costs if you use more than one vehicle in your business. If you deduct actual costs, show depreciation on line 12.

**Note:** If you claim any car expenses (actual costs or the standard mileage rate), you must complete Part III of **Form 4562**, Depreciation and Amortization.

The standard mileage rate is 24 cents a mile up to 15,000 miles for 1988, and 11 cents for each mile after that. Add to this amount your parking fees and tolls.

For cars and trucks that have been fully depreciated, the rate is 11 cents a mile.

If you use the standard rate, the vehicle is considered to have a useful life of 60,000 miles of business use at the maximum standard mileage rate. For details, get **Pub. 917**, Business Use of a Car.

**Note:** If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway use tax. Get **Form 2290**, Heavy Vehicle Use Tax Return, to see if you owe this tax.

## Line 11

Enter your deduction for depletion on this line. If you have timber depletion, attach **Form T**. Get **Pub. 535** for details.

## Line 12

You can deduct an amount each year for assets you buy to use in your business. The deduction for depreciation does not apply to stock in trade, inventories, land, and personal assets. You may also choose under section 179 to expense part of the cost of certain depreciable property you bought in 1988 for use in your business. Figure your depreciation deduction, including the section 179 expense deduction, on **Form 4562**.

The depreciation deduction for cars, including any section 179 deduction, is limited. For example, if you used your car 100% for business, and placed the car in service in 1988, your deduction is limited to \$2,560. The allowable amounts are further limited if your business use is less than 100%. If you claim depreciation for any cars or other listed property, you must complete Part III of **Form 4562**. See the instructions for **Form 4562** and **Pub. 534** for details.

If you have listed property (such as a car or light truck) that you placed in service after June 18, 1984, and the business use percentage of the property decreased to 50% or less during 1988, you may have to recapture excess depreciation, including any section 179 expense deduction. Get **Form 4797** and its instructions for details.

If you took an investment credit on property that you dispose of before the end of its class life or life years, the business use percentage decreases, or the property use otherwise changes so that it no longer qualifies, you may have to refigure the credit. Get **Form 4255**, Recapture of Investment Credit, for details.

## Line 14

Deduct contributions that are not an incidental part of a pension or profit-sharing plan included on line 21. Also include contributions to insurance, health, and welfare programs.

**Note:** You may be able to deduct part of the amount paid for health insurance for you and your family even if you don't itemize your deductions. See the instructions for **Form 1040**, line 26.

## Lines 17a and 17b

**Interest Allocation Rules.** The tax treatment of interest expense differs depending on its type. For example, personal interest, home mortgage interest, and investment interest are all treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the right place of your return (or capitalized) and gets the proper tax treatment. These rules could affect how much interest you deduct on Schedule C.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See **Pub. 535** and **Pub. 545** for details.

If you paid interest on a debt secured by your main home, and any of the proceeds from that debt were used in connection with your trade or business, see **Pub. 545** to figure the amount that is deductible on Schedule C.

If you paid interest that applies to future years, deduct for 1988 only the part that applies to 1988.

If you have a mortgage on real property used in your business (other than your main home), enter on line 17a the interest you paid for 1988 to banks or other financial institutions. If you paid \$600 or more of interest on this mortgage, you should receive a **Form 1098**, Mortgage Interest Statement, or similar statement. It shows the total interest received from you during 1988. You should receive this statement by January 31, 1989. If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the **Form 1098**, attach a statement to your return showing the name and address of the person who received the **Form 1098**. In the left margin, next to line 17a, write "See attached."

If you paid more mortgage interest to financial institutions than is shown on **Form 1098**, or similar statement, get **Pub. 545** to see if you can deduct the additional interest. If you can, attach a statement to your return explaining the difference and write "See attached" in the left margin next to line 17a.

Do not deduct interest you paid or accrued on debts allocable to investment property. This interest is generally deducted on **Schedule A**. For details, get **Pub. 550**, Investment Income and Expenses.

## Line 21

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, enter contributions made as an employer on your behalf on **Form 1040**, line 27, not on Schedule C.

Generally, you must file one of the following forms if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year.

**Form 5500.**—Complete this form for each plan with 100 or more participants.

**Form 5500-C, 5500-R, or 5500EZ.**—Complete the applicable form for each plan with less than 100 participants.

There is a penalty for failure to timely file these forms.

For more information, get **Pub. 560**, Self-Employed Retirement Plans.

## Line 23

Deduct the cost of repairs including labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property. They are chargeable to capital accounts or to the depreciation reserve, depending on how depreciation is charged on your books.

## Line 25

You can deduct the following taxes:

- Real estate and personal property taxes on business assets.
- Social security taxes paid to match required withholding from your employees' wages. Also, Federal unemployment tax paid.

● If you hold an operating oil, gas, or mineral interest, and you are a cash method taxpayer, deduct on line 25 the windfall profit tax actually withheld in 1988. **Form 6248** shows this amount.

● Federal highway use tax.

**Do not deduct:**

- Federal income taxes.
- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal property.
- State and local sales taxes (treat instead as part of the cost of the property).
- Other taxes not related to your business.

**Lines 26a through 26d**

You may deduct only 80% of your business-related meal and entertainment expenses, including meals incurred while traveling away from home on business. This rule also applies to meal and entertainment expenses for which you reimburse your employees, but only if you do not treat the reimbursement as wages subject to withholding.

Business meal expenses are deductible only if they are: (1) directly related to or associated with the active conduct of your trade or business; (2) not lavish or extravagant; and (3) incurred while you or your employee is present at the meal.

There are exceptions to these rules as well as other rules that apply to sky-box rentals, tickets to entertainment events, and luxury water travel. Get **Pub. 463**.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

**Note:** You may be able to deduct the expense if the amount is treated as compensation and reported on **Form W-2** for an employee or **Form 1099-MISC** for an independent contractor. See **Pub. 463**.

**Foreign Conventions.** Generally, you cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area or Jamaica as within it. These rules apply to both employers and employees. See **Pub. 463**.

**Line 26b.** Enter your total meal and entertainment expense.

**Line 26c.** Figure how much of the amount on line 26b is subject to the 80% limit. Then, multiply this amount by 20% (.20) and enter the result on 26c.

**Lines 28a and 28b**

Enter on line 28a the total salaries and wages (other than salaries and wages deducted elsewhere on your return) paid or incurred for the tax year. Do not include amounts paid to yourself.

**Caution:** If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

Enter on line 28b the jobs credit from **Form 5884**, Jobs Credit.

**Line 29**

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. Do not include the cost of business equipment or furniture, replacements or permanent improvements to property, or personal living and family expenses. List the type and amount of each expense separately. Enter one total in the line 29 entry space.

Any loss from this activity that was not allowed as a deduction last year because of the at-risk provisions is treated as a deduction allocable to this activity in 1988.

**Amortization.** Use **Form 4562** to figure your amortization deduction. Include on line 29 of Schedule C the amount from **Form 4562**, Part II.

You may amortize:

- The cost of pollution-control facilities.
- The cost to rehabilitate qualified low-income housing if the rehabilitation began before 1987. If it began after 1986, you may be able to take a tax credit. Get **Pub. 535** and **Form 8586**, Low-Income Housing Credit, for more details. Also, see **Pub. 925** for information on the passive activity loss rules as they apply to low-income housing.
- Amounts paid for research and experiments.
- Amounts paid before 1987 for trademarks and trade names.
- Certain business startup costs.
- Qualified forestation and reforestation costs.

You can deduct up to \$35,000 of costs paid or incurred in 1988 to remove architectural or transportation barriers to the handicapped and elderly. See **Pub. 535**.

You can depreciate your leasehold improvement costs for leased business property. See **Pub. 535**.

In general, you may not amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business. See **Pub. 535**.

**Line 31**

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to lines 32a and 32b before entering your loss on line 31. If you answered "No" to Question I on Schedule C, also see **Form 8582**. Enter the net profit or deductible loss here and combine this amount with the profit or loss from your other businesses, if any. Enter the total on **Form 1040**, line 12, and Schedule SE, line 2 (or **Form 1041**, line 5, or **Form 1041S**, line 5).

**Lines 32a and 32b**

**At-Risk Rules**

Deductions for losses by persons who are engaged in a trade or business or an activity for the production of income, including the holding of real property (other than mineral property), are limited to the amount they have at risk in the business.

If (1) you have a loss from any activity that you engaged in as a trade or business or for the production of income, including the holding of real property (other than mineral property) placed in service after December 31, 1986, and (2) you have amounts for which you are not at risk in the

activity, use **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss.

Check **box 32b** if you have amounts for which you are not at risk for this business, such as the following:

1. nonrecourse loans used to finance your business, to acquire property used in your business, or to acquire your interest in the business, unless they are secured by property not used in your business or by certain real property used in an activity of holding real property; or
2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or
3. loans from someone who has an interest in your business, other than as a creditor, or who is related, under section 465(b)(3)(C), to a person (other than yourself) having such an interest; or
4. amounts contributed to your business, or to your interest in the business that is covered by:
  - nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or
  - loans from a person described in 3 above.

If you do not have any of these kinds of amounts for which you are not at risk in this business, check **box 32a** and enter your loss on line 31 unless you answered "No" to Question I. In this case, you must complete **Form 8582** to figure your allowable loss to enter on line 31.

If you checked **box 32b**, get **Form 6198** to determine the amount of your deductible loss and enter that amount on line 31. But if you answered "No" to Question I, your loss may be further limited. See **Form 8582**. If your at-risk amount is zero or less, enter zero on line 31. Be sure to attach **Form 6198** to your return. If you checked **box 32b** and you fail to attach **Form 6198**, processing of your tax return may be delayed.

If, in addition to the amount that you report on Schedule C, you dispose of an asset used in an activity to which the at-risk rules apply and you have amounts in the activity for which you are not at risk, see the instructions for **Form 6198**.

Any loss from this business not allowed for 1988 because of the at-risk rules is treated as a deduction allocable to the business in 1989. For more details, see **Form 6198** and **Pub. 925**.

**Part III**

**Cost of Goods Sold and/or Operations**

Certain expenses must be capitalized or included in inventory. See the instructions for Part II.

**Cost of Goods Sold.** If you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, merchandise inventories must be taken into account at the beginning and end of your tax year.

**Cost of Operations** (Inventories Not an Income-Producing Factor). If the amount on line 2, Part I, includes the cost of operations, complete lines 1 through 8 of Part III as appropriate.



# Instructions for Schedule SE Social Security Self-Employment Tax

## Purpose

If you are subject to self-employment tax, use Schedule SE to figure any tax due on net earnings from self-employment. You may also have to pay this tax on wages you were paid as an employee of an electing church or qualified church-controlled organization. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are. It applies even if you are already getting social security benefits.

Get **Pub. 533, Self-Employment Tax**, for details.

**Note:** The Schedule SE has two sections: Section A, Short Schedule SE and Section B, Long Schedule SE.

## Who Must File Schedule SE

You must file Schedule SE if a and b below apply to you:

- a.** You were self-employed, and your net earnings from your business were \$400 or more. (Or you had wages of \$100 or more as an employee of an electing church or organization controlled by a church.) **AND**
- b.** You did not have wages (including tips), other than medicare qualified government wages, of \$45,000 or more that were subject to social security tax or railroad retirement tax.

## Who Can File Schedule SE

Even if you are not required to file Schedule SE, it may be to your benefit to file it and use the "optional method" in Section B.

**Note:** Using the optional method may give you the benefits described below, but it will also increase your self-employment tax.

## How can the optional method help you?

1. **Social security coverage.**—The optional method may give you credit toward your social security coverage even though you have a loss or low income from self-employment.

2. **Earned income credit.**—Depending on your circumstances, using the optional method may qualify you to claim the earned income credit or give you a larger credit. This could happen if your SE earnings by not using the optional method are less than \$1,600. Figure the earned income credit with and without using the optional method to see if the optional method will benefit you.

3. **Child and dependent care credit.**—The optional method may also help you if your SE earnings are less than \$1,600 and you want to increase your net SE earnings to qualify to claim the child and dependent care credit.

## Who Is Subject to Self-Employment Tax?

**Self-Employed Persons.** You are subject to SE tax if you had net earnings from being

self-employed. If you are in business for yourself, or are a farmer, for example, you are self-employed.

Your shares of certain partnership income and guaranteed payments are subject to SE tax. Read the Partnership instructions on page 38.

## Employees of Churches and Church Organizations.

If you were an employee of a church or qualified church-controlled organization that has in effect a certificate electing exemption from employer social security taxes, you may be subject to SE tax on your wages. This applies if the wages were \$100 or more from any one church or church-controlled organization. See line B at the top of the long SE. If you also have medicare qualified government wages, you must use the worksheet for line 6b. The worksheet is on page 39 of the instructions.

## U.S. Citizens Employed by Foreign Governments or International Organizations.

You are subject to SE tax if you are a U.S. citizen employed:

- in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the Virgin Islands;
- by a foreign government; and
- in certain cases, by a wholly-owned instrumentality of a foreign government or by an international organization under the International Organizations Immunities Act. Report income from this employment on Schedule SE (Section A or B), line 2. If you are employed by a foreign government or an international organization in a country other than those listed, you are not subject to this tax.

## U.S. Citizens or Resident Aliens Living Outside the United States.

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you are subject to the self-employment tax. You may reduce your foreign earnings from self-employment by the deduction for certain foreign housing costs. But you may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

**Coverage for Overseas Missionaries.** You may figure net earnings from self-employment as if you were in the United States if:

- You are a U.S. citizen; and
- You were a minister (but not a Christian Science practitioner) or a member of a religious order serving outside the United States; and
- You are not exempt from SE tax because you filed **Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners.** Get Pub. 517 for more details.

## Who Is Not Subject to Self-Employment Tax?

**Members of the Clergy and Certain Religious Orders and Sects.** In most cases you are subject to SE tax on your net earnings you get as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. But you will not be subject to the tax on those net earnings if you filed **Form 4361** and IRS approved you as exempt from the tax. In this case, if you have no other

income subject to SE tax, write "Exempt—Form 4361" on Form 1040, line 48. However, if you have other earnings of \$400 or more subject to SE tax, see line A at the top of the long SE. **Note:** If you have ever filed **Form 2031** to elect social security coverage on your earnings as a minister, you cannot change that election now.

If you have conscientious objections to social security insurance because of your belief in the teachings of a recognized religious sect of which you are a member, you are not subject to the tax if you got IRS approval by filing **Form 4029, Application for Exemption From Tax on Self-Employment Income and Waiver of Benefits.** In this case, do not file Schedule SE. Instead, write "Exempt—Form 4029" on Form 1040, line 48. **Note:** Do not file **Form 4029** for wages you get from a church or church-controlled organization that has chosen to treat its employees as self-employed.

## General Information

**Fiscal Year Filers.**—If your tax year is a fiscal year, you must use the tax rate and earnings base that apply at the time the fiscal year begins. The tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change is not prorated.

**More Than One Business.**—If you farmed and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

**Joint Returns.**—Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. If one spouse qualifies to use the short SE, and the other has to use the long SE, both can use one Schedule SE. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Then enter the combined SE tax on Form 1040, line 48.

**Community Income.**—In most cases, if any of the income from a business, (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business. The identity of the spouse who carried on the business is determined by the facts in each case. If you and your spouse are partners in a partnership, see the instructions for Partnerships on page 38.

If you and your spouse have community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also attach Schedule(s) C and/or Schedule(s) F.

**Caution:** Community income included on Schedule(s) C or F must be divided for income tax purposes on the basis of the community property laws.

## Specific Instructions

Read the top of page 1 of the form to see if you can use **Section A, Short Schedule SE**, or if you must use **Section B, Long**



**Schedule SE.** For either section, you need to know what to include as net earnings from self-employment. Read below to see what to include as net earnings and how to fill in lines 1 and 2 of either the short or long SE.

**Name of Self-Employed Person.** Enter the name and social security number of the self-employed person as it appears on that person's social security card.

## Net Earnings From Self-Employment

**What is included in net SE earnings?** In most cases, net earnings include your net profit from a farm or nonfarm business. If you are a partner in a partnership, see the instructions below.

Do not report on lines 1 and 2 any income or expense not included in figuring net SE earnings. If you are a partner, reduce lines 1 and 2 for any deduction for recovery property (section 179), oil or gas depletion, or unreimbursed partnership expenses. You must attach a statement to explain why you are not including certain items of income or expense.

If you deposited earnings into a capital construction fund set up under the Merchant Marine Act of 1936, get **Pub. 595**.

If you are a duly ordained minister who is an employee of a church and you are subject to SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction. They are deducted from your SE earnings in figuring SE tax. However, special rules apply. Get **Pub. 517**.

## Partnerships

If you are a general partner, include in your total net earnings your share of partnership income or loss from the trade or business. Also include any guaranteed payments your partnership paid you for your personal services. If you are a limited partner, only include guaranteed payments. Line 14a of Schedule K-1 (Form 1065) should show net earnings for either general or limited partners.

If your partnership is engaged solely in the operation of a group investment program, earnings from the operation are not self-employment earnings for either the general or limited partner.

If you are married and both you and your spouse are partners in a partnership, each of you is subject to SE tax on your own share of partnership income. Each of you must file a Schedule SE and report the partnership income or loss on Schedule E (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse. This applies even in community property states.

If a partner in an ongoing partnership dies, that member's share of partnership ordinary income or loss for the year must be included in the partner's net SE earnings.

## Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or

livestock produced (or the proceeds from them). This is true even if you had another person ("agent") doing the actual work or management for you. Report your net earnings for income tax purposes on Schedule F and for SE tax purposes on Schedule SE. For more details, get **Pub. 225**, Farmer's Tax Guide.

## Other Income Included in Net Earnings From Self-Employment

- Rental income from a farm, if as landlord, you participated materially in the production or management of the production of farm products on this land. This income is farm earnings. (To determine whether you participated materially in farm management or production, do not consider the activities of any agent who acted for you.) The material participation tests are explained in Pub. 225.
  - Cash or a payment in kind from the Department of Agriculture for being in a land diversion program.
  - Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, and tourist camps, or homes.
  - Payments for space in parking lots, trailer parks, warehouses, or storage garages.
  - Income from the retail sale of newspapers and magazines if you are 18 or over and kept the profits.
  - Income as a crew member of a fishing vessel with a crew of normally less than 10 people. Get **Pub. 595**.
  - Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a Federal-State social security coverage agreement.
  - Interest received in the course of any trade or business, such as interest on notes or accounts receivable.
  - The rental value of a home or an allowance for a home furnished you as a minister or a member of a religious order.
  - The value of meals and lodging given to you for the convenience of your employer if you are a minister or member of a religious order.
  - Fees and other payments received by you as a director of a corporation for services as a director. Beginning in 1988, director's earnings are treated as received when the services are performed, regardless of when paid, for SE tax purposes.
- Caution:** At the time these instructions were printed, legislation was pending that would prevent this change from going into effect. Get **Pub. 553**, Highlights of 1988 Tax Changes, to find out whether this law was passed.
- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposal of property. See **Form 4797**, Sales of Business Property.
  - Fiduciaries' fees you received as a professional fiduciary. This may also apply to fees you got as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's

business, or the management of an estate that required extensive management activities over a long period of time.

Option and commodity dealers engaged in trading section 1256 contracts, see section 1402(i) to figure net SE earnings.

## Income Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained under **Other Income Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.
- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.
- Income from real estate rentals (including rentals paid in crop shares), if you did not get the income in the course of a trade or business as a real estate dealer. This includes cash and crop shares received from a tenant or sharefarmer. You should report this income on Schedule E, Part I.
- Dividends on shares of stock and interest on bonds, notes, etc., if you did not get the income in the course of your trade or business as a dealer in stocks or securities.
- Gain or loss from:
  - a. the sale or exchange of a capital asset;
  - b. the sale, exchange, involuntary conversion, or other disposition of property unless the property is stock-in-trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or
  - c. certain transactions in timber, coal, or domestic iron ore.
- Net operating losses from other years.

## Medicare Qualified Government Employment

### Section B, Long Schedule SE, line 5a

Medicare qualified government wages are wages you get as a Federal, state, or local government employee that are subject ONLY to the 1.45% medicare tax. If you received such wages, do NOT include them as social security wages on Schedule SE, line 5a. Wages you enter on line 5a are wages subject to the old-age, survivors, and disability insurance tax as well as the 1.45% medicare tax.

**Note:** Also see the instructions for **Form 1040**, line 60, to see if you should file **Form 4469**, Computation of Excess Medicare Tax Credit.

Figure your SE tax using the rate below line 7 of Section B if you do not have to use the worksheet below. Do not reduce the rate by the medicare tax rate. But you must use the worksheet and skip line 7 of Section B if:

- a. you had medicare qualified government wages as explained above; and
- b. the total of the amounts on lines 3a, 3b, 5c, 6b, and 6c of Schedule SE is more than \$45,000.

**Worksheet**—(Keep for your records)

1. Enter total of lines 3a, 3b, and 6c from Schedule SE. . . . . **1.** \_\_\_\_\_
2. Enter line 6a from Schedule SE. . . . . **2.** \_\_\_\_\_
3. Enter your medicare qualified government wages here and on line 6b of Schedule SE. . . . . **3.** \_\_\_\_\_
4. Subtract line 3 from line 2. (If zero or less, enter -0-) **4.** \_\_\_\_\_
5. Multiply the smaller of line 1 or line 2 by .1051. . . . . **5.** \_\_\_\_\_
6. Multiply the smaller of line 1 or line 4 by .0251. . . . . **6.** \_\_\_\_\_
7. Add lines 5 and 6. Enter on line 8 of Schedule SE and on Form 1040, line 48. . . . . **7.** \_\_\_\_\_

**Optional Methods**

**Optional Method for FARM Income**

**Was your gross farm income for the year \$2,400 or less?** If it was, you can report two-thirds of your gross farm income instead of your actual net earnings from farming on line 3a of Part I and line 10 of Part II.

If your gross farm income was more than \$2,400, and your net farm profits were less than \$1,600, you can report \$1,600 on line 3a of Part I and line 10 of Part II.

If you can use this method, it can increase or decrease your net SE farm earnings, even if the farming business resulted in a loss. There is no limit on how many times you can use this method. If you use this method, you must apply it to all farm earnings from self-employment for the year.

You may change the method after you file your return. For example, you can change from the regular method to the optional or from the optional to the regular.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payment plus your share of the gross income after it is reduced by all guaranteed payments of the partnership. If you are a limited partner, include only guaranteed payments.

**Optional Method for NONFARM Income**

**Were your net nonfarm profits less than \$1,600 and also less than two-thirds of your gross nonfarm income?** If they were, you may use this method if you are regularly self-employed or regularly a partner. You meet this requirement if you had actual net earnings from self-employment of \$400 or more in at least 2 of the 3 years just before the year for which you use this nonfarm method. The net earnings of \$400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of the income or loss from any of your partnerships.

You may report on line 3b of Part I and line 12 of Part II two-thirds of your gross nonfarm income, up to \$1,600 as your net earnings, but **you may not report less than your actual net earnings from nonfarm self-employment.**

For a nonfarm partnership, see **Optional Method for Farm Income** for details on how to figure your share of gross income.

The limit for the optional method for nonfarm self-employment is five years. The five years do not have to be one after another.

**Using Both Optional Methods**

**Did you have both nonfarm and farm income?** If you did, you may use the nonfarm optional method if:

- a. your actual net earnings from nonfarm self-employment were less than \$1,600, and
- b. your net nonfarm profits were less than two-thirds of your gross nonfarm income.

If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm income, but you **cannot** report less than your actual net earnings from nonfarm SE income alone.

If you use both methods to figure net earnings, you **cannot** report more than \$1,600 of net SE earnings.

**Line 10**

Enter the **smaller of:**

- two-thirds (2/3) of the total gross income from all Schedules F, line 12, and Schedules K-1 (Form 1065), line 14b; or
- \$1,600.

**Line 12**

Enter the **smallest of:**

- \$1,600; or
- two-thirds (2/3) of the total gross income from all Schedules C, line 5, plus your distributive share of gross income from all nonfarm partnerships, Schedules K-1 (Form 1065), line 14c; or
- the amount on line 5 if you also had farm income and elect the farm optional method.

**Instructions for Schedule F Farm Income and Expenses**

**Purpose**

Use Schedule F to report farm income and expenses. File it with Forms 1040, 1041, 1041S, or 1065.

**Additional Information. Pub. 225, Farmer's Tax Guide,** has samples of filled-in forms and schedules, and lists important dates that apply to farmers. It also contains information about some of the payments under the Disaster Assistance Act of 1988.

**Filers of Forms 1041, 1041S, and 1065.** Do not complete the block labeled "Social security number (SSN)." Instead, complete the block labeled "Employer ID number (Not SSN)."

If you had to make estimated tax payments in 1988 and you underpaid your estimated tax, you will not be charged a penalty if:

- 1. your gross farming or fishing income for 1987 or 1988 is at least two-thirds of your gross income, AND

2. you file your 1988 tax return and pay the tax due by March 1, 1989.

For more details, see Pub. 225.

**Do not** report the following income on Schedule F:

- Rent based on farm production or crop shares if you did not materially participate (for self-employment tax purposes) in the management or operation of the farm and the activity is a rental activity for purposes of the passive activity loss and credit limitations. Report this income on **Form 4835** and **Schedule E** (Form 1040). It is not subject to self-employment tax. See Pub. 225.
- Rent from pasture land that is based on a flat charge. Report this income in Part I of Schedule E. But report on line 11 of Schedule F pasture income received from taking care of someone else's livestock.
- Sales, exchanges, or involuntary conversions (other than casualties or thefts) of certain farm property. Report this income on **Form 4797**.
- Sales of livestock held for draft, breeding, sport, or dairy purposes. Report this income on Form 4797.

Use **Form 4684** to report a casualty or theft involving farm business property, including livestock held for draft, breeding, sport, or dairy purposes.

**Filing Information Returns**

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other basis for resale. For more information, get **Pub. 916**.

In addition, if you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file **Form 8300**.

**Lines A and B**

On line A, enter your principal crop or activity for the current year.

On line B, enter one of the fifteen major agricultural activity codes listed in Part IV on page 2 of Schedule F. The code you select should represent the major farm activity from which you derive the largest amount of your income. **Field crop** pertains to the production of grains, such as wheat, rice, feed corn, soybeans, barley, rye, and lentils; and nongrains such as cotton, tobacco, sugar, and Irish potatoes. **Animal specialty** includes the raising of pets or laboratory animals, such as dogs, cats, bees, and snakes.

**Line C**

Under the **cash method**, include all income in the year you actually get it. Generally, deduct expenses when you pay them. If you use the cash method, check the box labeled "cash." Complete Parts I and II of Schedule F.

Under the **accrual method**, include income in the year you earn it. It does not matter when you get it. Deduct expenses

when you incur them. If you use the accrual method, check the box labeled "accrual." Complete Parts II and III of Schedule F.

Other rules apply that determine the timing of deductions based on economic performance. Get **Pub. 538**, Accounting Periods and Methods, for details.

## Line D

You need an employer ID number only if you had a Keogh plan, or were required to file an employment, excise, fiduciary, partnership, or alcohol, tobacco, or firearms tax return.

## Line E

You can elect to include Commodity Credit Corporation loan proceeds as income in the year you received them instead of reporting as income the proceeds from the sale of the commodities in the year sold or in the year of forfeiture. If you made this election and reported these loan proceeds as income in a prior year, check the "Yes" box on line E. Otherwise, check "No." For information on how to make this election, see the instructions for lines 8a-8c.

## Line F

### Passive Activity Losses

Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

A **passive activity** generally is any activity involving the conduct of a trade or business if you do not materially participate in the activity. See the instructions for Schedule C (Form 1040), line I, for the definition of material participation.

If you meet any of the material participation tests described in the line I instructions for Schedule C, check the "Yes" box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if the real property used in the activity meets the estate tax rules for special valuation of farm property passed from a qualifying decedent, and the surviving spouse actively manages the farm.

Check the "No" box if you did not materially participate. If you checked "No" and you claim a loss, you must figure your allowable loss on **Form 8582**, Passive Activity Loss Limitations, and enter it on Schedule F, line 39.

If you have prior-year unallowed passive activity losses, see the instructions for **Form 8582**.

For more details get **Pub. 925**, Passive Activity and At-Risk Rules.

## Line G

**Caution:** Consider the line G election carefully. It can affect future tax years as well as the current year. The election also affects the tax treatment of property disposed of that was covered by the election.

**Capitalization rules** apply if you produce real or tangible personal property or acquire property for resale. This means that certain expenses must be included in inventory costs or capitalized. These expenses include

the direct costs of the property and the share of any indirect costs allocable to that property.

These rules generally do NOT apply to any plant or animal produced in your farming business that has a preproductive period of 2 years or less. Also, these rules generally do not apply to expenses of replanting certain crops if they were lost or damaged by reason of disease, drought, or other casualty.

Even if the preproductive period of the plant or animal you produce is more than 2 years, you may elect to currently deduct these expenses. But you may not make this election for the costs of planting or growing citrus or almond groves that are incurred before the close of the fourth tax year beginning with the tax year you plant them in their permanent grove.

**Note:** This election may not be made by tax shelters, farm syndicates, or partnerships required to use the accrual method of accounting under Internal Revenue Code section 447.

If you elect to currently deduct your preproductive period expenses, you will have to recapture these costs as ordinary income when you dispose of this property, and the alternative depreciation rules apply to property placed in service in any tax year your election is in effect. You must make this election in the first tax year after 1986 during which you engage in a farming business involving the production of property subject to the capitalization rules. You may not revoke this election without the consent of the Internal Revenue Service.

For more information, see **Pub. 225**.

**Which box should I check?** Check the "Yes" box on line G if you are electing to currently deduct your preproductive period expenses. Also check the "Yes" box if you made this election last year.

Check the "No" box if you are capitalizing your preproductive period expenses. Also check the "No" box if you chose to capitalize them last year.

Check the "Does Not Apply" box if you do not have preproductive period expenses or you are not eligible to make the election.

**Caution:** If you are eligible to make this election but you do not check any of the boxes on line G nor enter an amount on line 37 of Schedule F, you will be treated as if you checked the "Yes" box.

**Special Capitalization Rules for Certain Cattle.** If you raise or purchase female beef or dairy cattle, you may be able to elect to capitalize a fixed amount for each cow instead of your actual costs. You may be able to make this election even if you previously elected to deduct your preproductive period expenses. For more details, see **Pub. 225**.

## Part I

### Farm Income—Cash Method

In Part I show income received for items listed on lines 1 through 11. Count both the cash actually or constructively received and the fair market value of goods or other property received for these items.

Income is constructively received when it is credited to your account or set aside for you to use.

If you ran the farm yourself and received rents based on farm production or crop shares, report these rents as income on line 4.

**Sales of Livestock Because of Drought.** If you sold livestock because of a drought, you can count the income from the sale in the year after the drought, instead of the year of the sale. You can do this IF:

- your main business is farming, AND
- you can show that you sold the livestock only because of the drought, AND
- your area qualified for Federal aid.

## Information Returns

If you received information returns (Forms 1099) showing amounts paid to you, first determine if the amounts are to be included with farm income. Then, use the chart below to determine where to report the income on Schedule F. Include the Form 1099 amounts with any other income reported on that line.

Information return	Where to report
Form 1099-PATR	Line 5a
Form 1099-G	Line 7a
Form 1099-A	Line 8b
Form 1099-MISC (for crop insurance)	Line 9a

You may also receive Form 1099-MISC for other types of income. In this case, report it on whichever line best describes the income. For example, if you received a Form 1099-MISC for custom farming work, include this amount on line 10, "Custom hire (machine work) income."

## Lines 1 and 2

On line 1 show amounts received from sales of livestock and other items bought for resale. On line 2, show the cost or other basis of the livestock and other items you actually sold.

## Line 4

Show amounts received from sales of livestock, produce, grains, and other products you raised.

## Lines 5a and 5b

If you received distributions from a cooperative in 1988, you should receive **Form 1099-PATR**, Statement for Recipients (Patrons) of Taxable Distributions Received From Cooperatives. On line 5a show your total distributions from cooperatives. This includes patronage dividends, nonpatronage dividends, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you get per-unit retains in cash, show the amount of cash. If you get qualified per-unit retain certificates, show the stated dollar amount of the certificate.

You do not have to include as income patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5b. If you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

## Lines 7a and 7b

Enter on line 7a the TOTAL of the following amounts. These are government payments you received, usually reported to you on Form 1099-G.

- Price support payments.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).
- Face value of commodity credit certificates (often called "generic" or "PIK" certificates).

On line 7b report only the taxable amount. For example, if you qualify to exclude payments received under certain cost-sharing conservation programs (see Pub. 225), do not include these payments on line 7b.

## Lines 8a through 8c

**Commodity Credit Corporation (CCC) Loans.** Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you may elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 1988 on line 8a and attach a statement to your return showing the details of the loan(s).

If you made the election in a prior year to report loan proceeds as income, be sure you checked the "Yes" box on line E. Otherwise check "No." See the instructions for line E.

**What if I forfeited a CCC loan?** Include the full amount forfeited on line 8b, even if you reported the loan proceeds as income.

If you did **not** elect to report the loan proceeds as income, also include the forfeited amount on line 8c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 8c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 8c.

**What if I repaid a CCC loan with CCC certificates?** Include on line 8b the amount of any CCC loan you repaid with certificates, even if you reported the loan proceeds as income.

If you did **not** elect to report the CCC loan proceeds as income, include on line 8c the amount of the loan you repaid with the certificates minus your basis in those certificates. Your basis in certificates is the face value of the certificates you included as income, or the amount you paid for them.

If you did elect to report the loan proceeds as income, do not include the amount of the loan you repaid with the certificates on line 8c.

For more information on the tax consequences of electing to report CCC loan proceeds as income, forfeiting CCC loans, and repaying CCC loans with certificates, see Pub. 225.

## Line 9a through 9d

In general, you must report crop insurance proceeds in the year you receive them. However, if 1988 was the year of damage, you may elect to include these proceeds (and certain disaster payments) in income next year. To make this election, check the box on line 9c and attach a statement to your return. See Pub. 225 for what you must include in your statement.

Enter on line 9a the TOTAL crop insurance proceeds you received in 1988, even if you elect to include them in income next year.

Enter on line 9b the taxable amount of the proceeds you received in 1988. Do not include proceeds you elect to include in income next year.

Enter on line 9d the amount, if any, of crop insurance proceeds you received in 1987 and elected to include in income in 1988.

## Line 10

Enter on this line the income you received for custom hire (machine work).

## Line 11

Use this line to report income not shown on lines 1 through 10. For example, include the following income items on line 11:

- Illegal Federal irrigation subsidies, see Pub. 225.
- Barter income.
- Income from discharge of indebtedness. Generally, if a debt is canceled or forgiven, you must include the canceled amount in income. However, certain solvent farmers may exclude from income discharged qualified farm indebtedness. For information on whether you must include in income any discharge of indebtedness, see Pub. 225.
- State gasoline or fuel tax refund you got in 1988.
- The amount of credit for Federal tax on gasoline or other fuel claimed on your 1987 Form 1040.
- The amount of credit for alcohol used as a fuel that was entered on **Form 6478**.

Report the sale of commodity futures contracts on this line if they were made to protect you from price changes. These are a form of business insurance and are considered hedges. Enter any profit on line 11. If you had a loss in a closed futures contract, show it as a minus amount.

**Caution:** For property acquired and hedging positions established, you must clearly identify on your books and records that the transaction was a hedging transaction.

Purchase or sales contracts are not true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, do not report the profit or loss on this line. Report it on **Form 6781**.

## Part II

### Farm Deductions

**Note:** Certain costs must be capitalized if you produced real or tangible personal property, or acquired property held for resale. Special rules apply to the capitalization of interest and certain farm costs. See the instructions for line G for more details.

Do not reduce your deductions on lines 13—35e by the preproductive period expenses you are required to capitalize. Instead, enter the total amount capitalized on line 37.

Do not deduct:

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.
- Expenses of raising anything you or your family used.
- The value of animals you raised that died.
- Loss of inventory.
- Personal losses.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

**Prepaid Farming Expenses.** Generally, if you use the cash method of accounting, and your prepaid expenses are more than 50% of your other deductible farming expenses, your expenses for feed, seed, fertilizer, and other farm supplies, are deductible only in the year in which you actually use them. The cost of poultry bought for use in the business must be spread over the lesser of 12 months or the useful life of the poultry. The cost of poultry bought for resale is deductible in the year in which the poultry is sold or otherwise disposed of. For an exception to this rule and additional information on prepaid expenses, see Pub. 225.

**Farming syndicates** cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

- a. the interests in the business have ever been for sale in a way that would require registration with any Federal or state agency, or
- b. more than 35% of the loss during any tax year is spread between limited partners or limited entrepreneurs. (A limited partner is one who can lose only the amount invested in the partnership; a limited entrepreneur is a person who does not take any active part in managing the business.)

## Line 15

Amounts you spent to conserve soil or water, or to prevent erosion of your land can be deducted only if the expenses are consistent with a conservation plan approved by the Soil Conservation Service (SCS) of the Department of Agriculture for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You must attach **Form 8645**, Soil and Water Conservation Plan Certification, to your return if you claim this deduction.



Do not deduct expenses you pay or incur to drain or fill wetlands or to prepare land for center pivot irrigation systems.

Do not deduct more than 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, carry the excess over to following years.

### Line 16

Enter what you paid to rent machinery used on your farm.

### Line 17

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on your home, furniture, or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You may also choose under section 179 to expense a portion of the cost of certain depreciable property you bought in 1988 for use in your business. Figure your depreciation deduction, including the section 179 expense deduction, on **Form 4562**, Depreciation and Amortization. Enter on line 17 of Schedule F the amount from Form 4562, Part I.

The depreciation deduction for cars, including any section 179 deduction, is limited. For example, if you used your car 100% for business and placed the car in service in 1988, your deduction is limited to \$2,560. The allowable amounts are further limited if your business use is less than 100%. In general, for cars or other "listed property," you may not take a section 179 deduction if the property is used 50% or less in your trade or business. If you claim depreciation for any listed property, you must complete Part III of Form 4562. See the instructions for Form 4562 and **Pub. 534**, Depreciation, for details.

If you have listed property (such as a car or light truck) that you placed in service after June 18, 1984, for which you claimed a depreciation deduction, and the business use percentage of the property decreased to 50% or less during 1988, you may have to recapture excess depreciation, including any section 179 expense deduction. Get **Form 4797** and its instructions for details.

If you took an investment credit on property that you dispose of before the end of its class life or life years, or the business use percentage decreases, or the use of the property otherwise changes so that it no longer qualifies, you may have to refigure the credit. Get **Form 4255**, Recapture of Investment Credit, for details.

### Line 18

Enter any amounts you paid to programs for your employees that are not a part of the plans on line 26. Examples are insurance, health, and welfare programs. Do not include here amounts paid for yourself or your family.

### Line 19

Generally, you cannot currently deduct expenses for feed to be consumed by your livestock in a later tax year. See **Prepaid Farming Expenses**, earlier.

### Line 21

Do not include as freight paid the cost of transportation incurred in purchasing livestock held for resale. Instead, add these costs to the cost of the livestock, and deduct them when the livestock are sold.

### Line 23

Enter only the amount of premiums for fire, storm, crop, and theft insurance for this year for your farm business assets. Do not include insurance on personal assets, or medical, health, or disability insurance on yourself or your family.

**Note:** You may be able to deduct part of the amount paid for health insurance for you and your family even if you don't itemize your deductions. See the instructions for Form 1040, line 26.

### Lines 24a and 24b

**Interest Allocation Rules.** The tax treatment of interest expense differs depending on its type. For example, personal interest, home mortgage interest, and investment interest are all treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the right place of your return and gets the right tax treatment. These rules could affect how much interest you deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See **Pub. 535** and **Pub. 545** for details.

If you paid interest on a debt secured by your main home, and any of the proceeds from that debt were used in your farming business, see **Pub. 545** to figure the amount that is deductible on Schedule F.

If you have a mortgage on your real property used in your farming business (other than your main home), enter on line 24a the interest you paid for 1988 to banks or other financial institutions. If you paid \$600 or more of interest on this mortgage, you should receive **Form 1098**, Mortgage Interest Statement, or similar statement. It shows the total interest received from you during 1988. You should receive this statement by January 31, 1989. If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin, next to line 24a, write "see attached."

If you paid more mortgage interest to financial institutions than is shown on Form 1098, or similar statement, see **Pub. 545** to see if you can deduct the additional interest. If you can, attach a statement to your return explaining the difference and write "see attached" in the left margin next to line 24a.

On line 24b, enter the interest on other loans related to this farm. Do not deduct interest you prepaid in 1988 for years after 1988. Include only the part that applies to 1988.

### Lines 25a and 25b

Enter amounts you paid for farm labor. Count the cost of boarding farm labor but not the value of any products they used from the farm. Count only what you paid household help to care for farm laborers. Do not count the value of your own or your family's labor.

**Caution:** If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Enter on line 25b the jobs credit from **Form 5884**. Get **Pub. 572**, General Business Credit, for information on the jobs credit.

### Line 26

Enter what you paid to pension, profit-sharing, or annuity plans for your employees. If the plan included you as an owner-employee, see the instructions for Schedule C, line 21. Enter the amount you paid for yourself on Form 1040, line 27.

### Line 27

Enter what you paid to rent pasture or farm land.

### Line 28

Enter what you paid for repairs and upkeep of farm buildings, machinery, and equipment. You can also include what you paid for tools of short life or small cost, such as shovels and rakes.

Do not deduct repairs or upkeep on your home.

### Line 32

You may deduct the following taxes:

- Real estate and personal property taxes on farm business assets.
- Social security taxes you paid to match what you are required to withhold from farm employees' wages and any Federal unemployment tax paid.
- Federal highway use tax.

#### Do not deduct:

- Federal income taxes.
- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal property.
- State and local sales taxes (treat them as part of the cost of the property).
- Other taxes not related to the farm business.

### Line 33

Enter what you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities.



## Lines 35a through 35e

Enter expenses not listed on another line, such as:

- Office supplies.
- Advertising.
- Any loss from this activity that was not allowed as a deduction last year because of the at-risk provisions. This is treated as a deduction allocable to this activity in 1988.
- Amortization of qualifying forestation and reforestation costs over an 84-month period.
- Amortization of certain business startup costs over a period of at least 60 months.

Use **Form 4562** to figure your amortization deduction. Include on line 35 of Schedule F the amount of the deduction from Form 4562, Part II. For more information on amortization, get **Pub. 535**.

- **Bad Debts.** Include debts and partial debts arising from sales that were included in income and are definitely known to be worthless. **Caution:** Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

If you later collect a debt that you deducted as a bad debt, include it as income in the year you collect it.

**Note:** If you used the reserve method prior to 1987 to figure your bad debts, any balance you had in the reserve account at the end of 1986 must be included in your income ratably over a 4-year period.

For more details, get **Pub. 548**, Deduction for Bad Debts.

- **Car and truck expenses.** You can deduct the actual cost of running your car or truck, or take the standard mileage rate.

**Note:** If you claim any car or truck expenses (actual costs or the standard mileage rate), you must complete Part III of Form 4562.

The standard rate is 24 cents a mile up to 15,000 miles for 1988, and 11 cents a mile for each mile after that. If you use more than one vehicle for business, you must use the actual cost. If you use the vehicle for both personal and farm purposes, show only the miles (or costs) which apply to farming.

For vehicles that have been fully depreciated, the rate is 11 cents a mile.

If you use the standard rate, the vehicle is considered to have a useful life of 60,000 miles of business use at the maximum standard mileage rate.

For details, get **Pub. 917**, Business Use of a Car.

**Note:** If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway use tax. Get **Form 2290**, Heavy Vehicle Use Tax Return, to see if you owe this tax.

## Line 37

Enter on line 37 preproductive period expenses that are capitalized. If you had preproductive period expenses in 1988 and you checked the "No" box on line G of Schedule F because you decided to capitalize these expenses, there MUST be an entry on this line. If you checked the "No" box but you did not have any preproductive period expenses in 1988, do not enter an amount on line 37.

Do not enter an amount on line 37 if either of the following applies:

- You made the election on line G to currently deduct your preproductive period expenses (you checked the "Yes" box), or
- You checked the "Does Not Apply" box on line G.

For more information, see the instructions for line G and Pub. 225.

## Line 39

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to lines 40a and 40b before entering your loss on line 39. If you answered "No" to Question F on Schedule F, also see **Form 8582**. Enter the net profit or deductible loss here and on Form 1040, line 19, and Schedule SE, line 1 (or Form 1041, line 5, or Form 1041S, line 5). Partnerships should stop here and enter the profit or loss on this line and on Form 1065, line 5.

## Lines 40a and 40b

### At-Risk Rules

Deductions for losses by persons who are engaged in a trade or business or an activity for the production of income, including the holding of real property (other than mineral property), are limited to the amount they have at risk in the business.

If (1) you have a loss from any farming activity that you engaged in as a trade or business or for the production of income, including the holding of real property (other than mineral property) placed in service after December 31, 1986, and (2) you have amounts for which you are not at risk in the activity, use **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss.

Check **box 40b** if you have amounts for which you are not at risk for this farm, such as the following:

1. nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, unless they are secured by property not used in the activity or by certain real property.
2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or

3. loans from someone who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3)(C), to a person (other than yourself) having such an interest; or

4. amounts contributed to the activity, or to your interest in the activity that is covered by:

- nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement, or
- loans from a person described in 3 above.

If you do not have any of these kinds of amounts for which you are not at risk in this business, check **box 40a** and enter your loss on line 39 unless you answered "No" to Question F. In this case, you must complete **Form 8582** to figure your allowable loss to enter on line 39.

If you checked **box 40b**, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 39. But if you answered "No" to Question F, your loss may be further limited. See Form 8582. If your at-risk amount is zero or less, enter zero on line 39. Be sure to attach Form 6198 to your return. If you checked box 40b and you fail to attach Form 6198, processing of your tax return may be delayed.

If, in addition to the amount that you report on Schedule F, you sell or otherwise dispose of an asset used in an activity to which the at-risk rules apply and you have amounts in the activity for which you are not at risk, see the instructions for Form 6198.

Any loss from this activity not allowed for 1988 because of the at-risk rules is treated as a deduction allocable to the activity in 1989.

For more details, get **Pub. 925**, Passive Activity and At-Risk Rules. Also see the instructions for Form 6198.

## Part III

### Farm Income—Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must inventory your animals and crops if you use this method. Get **Pub. 538**, Accounting Periods and Methods, for exceptions, inventory methods, how to change methods of accounting, and for rules that require certain costs to be capitalized or included in inventory.

## Line 41

Enter the amount you got from the sales of livestock, produce, grains, and other products you raised.

## Lines 42a through 48

See instructions for Part I, lines 5a and 5b, 7a–8c, 10, and 11.



# 1988 Tax Table

Use if your taxable income is less than \$50,000. If \$50,000 or more, use the Tax Rate Schedules.

**Example:** Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 37 of Form 1040 is \$25,300. First, they find the \$25,300-25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,799. This is the tax amount they must write on line 38 of their return.

At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
<b>Your tax is—</b>					
25,200	25,250	4,743	3,784	5,129	3,956
25,250	25,300	4,757	3,791	5,143	3,970
25,300	25,350	4,771	3,799	5,157	3,984
25,350	25,400	4,785	3,806	5,171	3,998

If line 37 (taxable income) is—						If line 37 (taxable income) is—						If line 37 (taxable income) is—											
At least		But less than		Single	Married filing jointly *	Married filing separately	Head of a household	At least		But less than		Single	Married filing jointly *	Married filing separately	Head of a household	At least		But less than		Single	Married filing jointly *	Married filing separately	Head of a household
<b>Your tax is—</b>																							
\$0	\$5	\$0	\$0	\$0	\$0	1,400	1,425	212	212	212	212	2,700	2,725	407	407	407	407	3,000	3,050	454	454	454	454
5	15	2	2	2	2	1,425	1,450	216	216	216	216	2,725	2,750	411	411	411	411	3,050	3,100	461	461	461	461
15	25	3	3	3	3	1,450	1,475	219	219	219	219	2,750	2,775	414	414	414	414	3,100	3,150	469	469	469	469
25	50	6	6	6	6	1,475	1,500	223	223	223	223	2,775	2,800	418	418	418	418	3,150	3,200	476	476	476	476
50	75	9	9	9	9	1,500	1,525	227	227	227	227	2,800	2,825	422	422	422	422	3,200	3,250	484	484	484	484
75	100	13	13	13	13	1,525	1,550	231	231	231	231	2,825	2,850	426	426	426	426	3,250	3,300	491	491	491	491
100	125	17	17	17	17	1,550	1,575	234	234	234	234	2,850	2,875	429	429	429	429	3,300	3,350	499	499	499	499
125	150	21	21	21	21	1,575	1,600	238	238	238	238	2,875	2,900	433	433	433	433	3,350	3,400	506	506	506	506
150	175	24	24	24	24	1,600	1,625	242	242	242	242	2,900	2,925	437	437	437	437	3,400	3,450	514	514	514	514
175	200	28	28	28	28	1,625	1,650	246	246	246	246	2,925	2,950	441	441	441	441	3,450	3,500	521	521	521	521
200	225	32	32	32	32	1,650	1,675	249	249	249	249	2,950	2,975	444	444	444	444	3,500	3,550	529	529	529	529
225	250	36	36	36	36	1,675	1,700	253	253	253	253	2,975	3,000	448	448	448	448	3,550	3,600	536	536	536	536
250	275	39	39	39	39	1,700	1,725	257	257	257	257	<b>3,000</b>						3,600	3,650	544	544	544	544
275	300	43	43	43	43	1,725	1,750	261	261	261	261	3,050	3,100	461	461	461	461	3,650	3,700	551	551	551	551
300	325	47	47	47	47	1,750	1,775	264	264	264	264	3,100	3,150	469	469	469	469	3,700	3,750	559	559	559	559
325	350	51	51	51	51	1,775	1,800	268	268	268	268	3,150	3,200	476	476	476	476	3,750	3,800	566	566	566	566
350	375	54	54	54	54	1,800	1,825	272	272	272	272	3,200	3,250	484	484	484	484	3,800	3,850	574	574	574	574
375	400	58	58	58	58	1,825	1,850	276	276	276	276	3,250	3,300	491	491	491	491	3,850	3,900	581	581	581	581
400	425	62	62	62	62	1,850	1,875	279	279	279	279	3,300	3,350	499	499	499	499	3,900	3,950	589	589	589	589
425	450	66	66	66	66	1,875	1,900	283	283	283	283	3,350	3,400	506	506	506	506	3,950	4,000	596	596	596	596
450	475	69	69	69	69	1,900	1,925	287	287	287	287	<b>4,000</b>						4,000	4,050	604	604	604	604
475	500	73	73	73	73	1,925	1,950	291	291	291	291	4,050	4,100	611	611	611	611	4,050	4,100	611	611	611	611
500	525	77	77	77	77	1,950	1,975	294	294	294	294	4,100	4,150	619	619	619	619	4,100	4,150	619	619	619	619
525	550	81	81	81	81	1,975	2,000	298	298	298	298	4,150	4,200	626	626	626	626	4,150	4,200	626	626	626	626
550	575	84	84	84	84	<b>2,000</b>						4,200	4,250	634	634	634	634	4,200	4,250	634	634	634	634
575	600	88	88	88	88	2,000	2,025	302	302	302	302	4,250	4,300	641	641	641	641	4,250	4,300	641	641	641	641
600	625	92	92	92	92	2,025	2,050	306	306	306	306	4,300	4,350	649	649	649	649	4,300	4,350	649	649	649	649
625	650	96	96	96	96	2,050	2,075	309	309	309	309	4,350	4,400	656	656	656	656	4,350	4,400	656	656	656	656
650	675	99	99	99	99	2,075	2,100	313	313	313	313	4,400	4,450	664	664	664	664	4,400	4,450	664	664	664	664
675	700	103	103	103	103	2,100	2,125	317	317	317	317	4,450	4,500	671	671	671	671	4,450	4,500	671	671	671	671
700	725	107	107	107	107	2,125	2,150	321	321	321	321	4,500	4,550	679	679	679	679	4,500	4,550	679	679	679	679
725	750	111	111	111	111	2,150	2,175	324	324	324	324	4,550	4,600	686	686	686	686	4,550	4,600	686	686	686	686
750	775	114	114	114	114	2,175	2,200	328	328	328	328	4,600	4,650	694	694	694	694	4,600	4,650	694	694	694	694
775	800	118	118	118	118	2,200	2,225	332	332	332	332	4,650	4,700	701	701	701	701	4,650	4,700	701	701	701	701
800	825	122	122	122	122	2,225	2,250	336	336	336	336	4,700	4,750	709	709	709	709	4,700	4,750	709	709	709	709
825	850	126	126	126	126	2,250	2,275	339	339	339	339	4,750	4,800	716	716	716	716	4,750	4,800	716	716	716	716
850	875	129	129	129	129	2,275	2,300	343	343	343	343	4,800	4,850	724	724	724	724	4,800	4,850	724	724	724	724
875	900	133	133	133	133	2,300	2,325	347	347	347	347	4,850	4,900	731	731	731	731	4,850	4,900	731	731	731	731
900	925	137	137	137	137	2,325	2,350	351	351	351	351	4,900	4,950	739	739	739	739	4,900	4,950	739	739	739	739
925	950	141	141	141	141	2,350	2,375	354	354	354	354	4,950	5,000	746	746	746	746	4,950	5,000	746	746	746	746
950	975	144	144	144	144	2,375	2,400	358	358	358	358	<b>1,000</b>						1,000	1,025	152	152	152	152
975	1,000	148	148	148	148	2,400	2,425	362	362	362	362	1,025	1,050	156	156	156	156	1,025	1,050	156	156	156	156
<b>1,000</b>						2,425	2,450	366	366	366	366	1,050	1,075	159	159	159	159	1,050	1,075	159	159	159	159
1,000	1,025	152	152	152	152	2,450	2,475	369	369	369	369	1,075	1,100	163	163	163	163	1,075	1,100	163	163	163	163
1,025	1,050	156	156	156	156	2,475	2,500	373	373	373	373	1,100	1,125	167	167	167	167	1,100	1,125	167	167	167	167
1,050	1,075	159	159	159	159	2,500	2,525	377	377	377	377	1,125	1,150	171	171	171	171	1,125	1,150	171	171	171	171
1,075	1,100	163	163	163	163	2,525	2,550	381	381	381	381	1,150	1,175	174	174	174	174	1,150	1,175	174	174	174	174
1,100	1,125	167	167	167	167	2,550	2,575	384	384	384	384	1,175	1,200	178	178	178	178	1,175	1,200	178	178	178	178
1,125	1,150	171	171	171	171	2,575	2,600	388	388	388	388	1,200	1,225	182	182	182	182	1,200	1,225	182	182	182	182
1,150	1,175	174	174	174	174	2,600	2,625	392	392	392	392	1,225	1,250	186	186	186	186	1,225	1,250	186	186	186	186
1,175	1,200	178	178	178	178	2,625	2,650	396	396	396	396	1,250	1,275	189	189	189	189	1,250	1,275	189	189	189	189
1,200	1,225	182	182	182	182	2,650	2,675	399	399	399	399	1,275	1,300	193	193	193	193	1,275	1,300	193	193	193	193
1,225	1,250	186	186	186	186	2,675	2,700	403	403	403	403	1,300	1,325	197	197	197	197	1,300	1,325	197	197	197	197
1,250	1,275	189	189	189	189	<b>1,000</b>						1,325	1,350	201	201	201	201	1,325	1,350	201	201	201	201

1988 Tax Table—Continued

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>5,000</b>						<b>8,000</b>						<b>11,000</b>					
5,000	5,050	754	754	754	754	8,000	8,050	1,204	1,204	1,204	1,204	11,000	11,050	1,654	1,654	1,654	1,654
5,050	5,100	761	761	761	761	8,050	8,100	1,211	1,211	1,211	1,211	11,050	11,100	1,661	1,661	1,661	1,661
5,100	5,150	769	769	769	769	8,100	8,150	1,219	1,219	1,219	1,219	11,100	11,150	1,669	1,669	1,669	1,669
5,150	5,200	776	776	776	776	8,150	8,200	1,226	1,226	1,226	1,226	11,150	11,200	1,676	1,676	1,676	1,676
5,200	5,250	784	784	784	784	8,200	8,250	1,234	1,234	1,234	1,234	11,200	11,250	1,684	1,684	1,684	1,684
5,250	5,300	791	791	791	791	8,250	8,300	1,241	1,241	1,241	1,241	11,250	11,300	1,691	1,691	1,691	1,691
5,300	5,350	799	799	799	799	8,300	8,350	1,249	1,249	1,249	1,249	11,300	11,350	1,699	1,699	1,699	1,699
5,350	5,400	806	806	806	806	8,350	8,400	1,256	1,256	1,256	1,256	11,350	11,400	1,706	1,706	1,706	1,706
5,400	5,450	814	814	814	814	8,400	8,450	1,264	1,264	1,264	1,264	11,400	11,450	1,714	1,714	1,714	1,714
5,450	5,500	821	821	821	821	8,450	8,500	1,271	1,271	1,271	1,271	11,450	11,500	1,721	1,721	1,721	1,721
5,500	5,550	829	829	829	829	8,500	8,550	1,279	1,279	1,279	1,279	11,500	11,550	1,729	1,729	1,729	1,729
5,550	5,600	836	836	836	836	8,550	8,600	1,286	1,286	1,286	1,286	11,550	11,600	1,736	1,736	1,736	1,736
5,600	5,650	844	844	844	844	8,600	8,650	1,294	1,294	1,294	1,294	11,600	11,650	1,744	1,744	1,744	1,744
5,650	5,700	851	851	851	851	8,650	8,700	1,301	1,301	1,301	1,301	11,650	11,700	1,751	1,751	1,751	1,751
5,700	5,750	859	859	859	859	8,700	8,750	1,309	1,309	1,309	1,309	11,700	11,750	1,759	1,759	1,759	1,759
5,750	5,800	866	866	866	866	8,750	8,800	1,316	1,316	1,316	1,316	11,750	11,800	1,766	1,766	1,766	1,766
5,800	5,850	874	874	874	874	8,800	8,850	1,324	1,324	1,324	1,324	11,800	11,850	1,774	1,774	1,774	1,774
5,850	5,900	881	881	881	881	8,850	8,900	1,331	1,331	1,331	1,331	11,850	11,900	1,781	1,781	1,781	1,781
5,900	5,950	889	889	889	889	8,900	8,950	1,339	1,339	1,339	1,339	11,900	11,950	1,789	1,789	1,789	1,789
5,950	6,000	896	896	896	896	8,950	9,000	1,346	1,346	1,346	1,346	11,950	12,000	1,796	1,796	1,796	1,796
<b>6,000</b>						<b>9,000</b>						<b>12,000</b>					
6,000	6,050	904	904	904	904	9,000	9,050	1,354	1,354	1,354	1,354	12,000	12,050	1,804	1,804	1,804	1,804
6,050	6,100	911	911	911	911	9,050	9,100	1,361	1,361	1,361	1,361	12,050	12,100	1,811	1,811	1,811	1,811
6,100	6,150	919	919	919	919	9,100	9,150	1,369	1,369	1,369	1,369	12,100	12,150	1,819	1,819	1,819	1,819
6,150	6,200	926	926	926	926	9,150	9,200	1,376	1,376	1,376	1,376	12,150	12,200	1,826	1,826	1,826	1,826
6,200	6,250	934	934	934	934	9,200	9,250	1,384	1,384	1,384	1,384	12,200	12,250	1,834	1,834	1,834	1,834
6,250	6,300	941	941	941	941	9,250	9,300	1,391	1,391	1,391	1,391	12,250	12,300	1,841	1,841	1,841	1,841
6,300	6,350	949	949	949	949	9,300	9,350	1,399	1,399	1,399	1,399	12,300	12,350	1,849	1,849	1,849	1,849
6,350	6,400	956	956	956	956	9,350	9,400	1,406	1,406	1,406	1,406	12,350	12,400	1,856	1,856	1,856	1,856
6,400	6,450	964	964	964	964	9,400	9,450	1,414	1,414	1,414	1,414	12,400	12,450	1,864	1,864	1,864	1,864
6,450	6,500	971	971	971	971	9,450	9,500	1,421	1,421	1,421	1,421	12,450	12,500	1,871	1,871	1,871	1,871
6,500	6,550	979	979	979	979	9,500	9,550	1,429	1,429	1,429	1,429	12,500	12,550	1,879	1,879	1,879	1,879
6,550	6,600	986	986	986	986	9,550	9,600	1,436	1,436	1,436	1,436	12,550	12,600	1,886	1,886	1,886	1,886
6,600	6,650	994	994	994	994	9,600	9,650	1,444	1,444	1,444	1,444	12,600	12,650	1,894	1,894	1,894	1,894
6,650	6,700	1,001	1,001	1,001	1,001	9,650	9,700	1,451	1,451	1,451	1,451	12,650	12,700	1,901	1,901	1,901	1,901
6,700	6,750	1,009	1,009	1,009	1,009	9,700	9,750	1,459	1,459	1,459	1,459	12,700	12,750	1,909	1,909	1,909	1,909
6,750	6,800	1,016	1,016	1,016	1,016	9,750	9,800	1,466	1,466	1,466	1,466	12,750	12,800	1,916	1,916	1,916	1,916
6,800	6,850	1,024	1,024	1,024	1,024	9,800	9,850	1,474	1,474	1,474	1,474	12,800	12,850	1,924	1,924	1,924	1,924
6,850	6,900	1,031	1,031	1,031	1,031	9,850	9,900	1,481	1,481	1,481	1,481	12,850	12,900	1,931	1,931	1,931	1,931
6,900	6,950	1,039	1,039	1,039	1,039	9,900	9,950	1,489	1,489	1,489	1,489	12,900	12,950	1,939	1,939	1,939	1,939
6,950	7,000	1,046	1,046	1,046	1,046	9,950	10,000	1,496	1,496	1,496	1,496	12,950	13,000	1,946	1,946	1,946	1,946
<b>7,000</b>						<b>10,000</b>						<b>13,000</b>					
7,000	7,050	1,054	1,054	1,054	1,054	10,000	10,050	1,504	1,504	1,504	1,504	13,000	13,050	1,954	1,954	1,954	1,954
7,050	7,100	1,061	1,061	1,061	1,061	10,050	10,100	1,511	1,511	1,511	1,511	13,050	13,100	1,961	1,961	1,961	1,961
7,100	7,150	1,069	1,069	1,069	1,069	10,100	10,150	1,519	1,519	1,519	1,519	13,100	13,150	1,969	1,969	1,969	1,969
7,150	7,200	1,076	1,076	1,076	1,076	10,150	10,200	1,526	1,526	1,526	1,526	13,150	13,200	1,976	1,976	1,976	1,976
7,200	7,250	1,084	1,084	1,084	1,084	10,200	10,250	1,534	1,534	1,534	1,534	13,200	13,250	1,984	1,984	1,984	1,984
7,250	7,300	1,091	1,091	1,091	1,091	10,250	10,300	1,541	1,541	1,541	1,541	13,250	13,300	1,991	1,991	1,991	1,991
7,300	7,350	1,099	1,099	1,099	1,099	10,300	10,350	1,549	1,549	1,549	1,549	13,300	13,350	1,999	1,999	1,999	1,999
7,350	7,400	1,106	1,106	1,106	1,106	10,350	10,400	1,556	1,556	1,556	1,556	13,350	13,400	2,006	2,006	2,006	2,006
7,400	7,450	1,114	1,114	1,114	1,114	10,400	10,450	1,564	1,564	1,564	1,564	13,400	13,450	2,014	2,014	2,014	2,014
7,450	7,500	1,121	1,121	1,121	1,121	10,450	10,500	1,571	1,571	1,571	1,571	13,450	13,500	2,021	2,021	2,021	2,021
7,500	7,550	1,129	1,129	1,129	1,129	10,500	10,550	1,579	1,579	1,579	1,579	13,500	13,550	2,029	2,029	2,029	2,029
7,550	7,600	1,136	1,136	1,136	1,136	10,550	10,600	1,586	1,586	1,586	1,586	13,550	13,600	2,036	2,036	2,036	2,036
7,600	7,650	1,144	1,144	1,144	1,144	10,600	10,650	1,594	1,594	1,594	1,594	13,600	13,650	2,044	2,044	2,044	2,044
7,650	7,700	1,151	1,151	1,151	1,151	10,650	10,700	1,601	1,601	1,601	1,601	13,650	13,700	2,051	2,051	2,051	2,051
7,700	7,750	1,159	1,159	1,159	1,159	10,700	10,750	1,609	1,609	1,609	1,609	13,700	13,750	2,059	2,059	2,059	2,059
7,750	7,800	1,166	1,166	1,166	1,166	10,750	10,800	1,616	1,616	1,616	1,616	13,750	13,800	2,066	2,066	2,066	2,066
7,800	7,850	1,174	1,174	1,174	1,174	10,800	10,850	1,624	1,624	1,624	1,624	13,800	13,850	2,074	2,074	2,074	2,074
7,850	7,900	1,181	1,181	1,181	1,181	10,850	10,900	1,631	1,631	1,631	1,631	13,850	13,900	2,081	2,081	2,081	2,081
7,900	7,950	1,189	1,189	1,189	1,189	10,900	10,950	1,639	1,639	1,639	1,639	13,900	13,950	2,089	2,089	2,089	2,089
7,950	8,000	1,196	1,196	1,196	1,196	10,950	11,000	1,646	1,646	1,646	1,646	13,950	14,000	2,096	2,096	2,096	2,096

\* This column must also be used by a qualifying widow(er).

Continued on next page

**1988 Tax Table—Continued**

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>14,000</b>						<b>17,000</b>						<b>20,000</b>					
14,000	14,050	2,104	2,104	2,104	2,104	17,000	17,050	2,554	2,554	2,833	2,554	20,000	20,050	3,287	3,004	3,673	3,004
14,050	14,100	2,111	2,111	2,111	2,111	17,050	17,100	2,561	2,561	2,847	2,561	20,050	20,100	3,301	3,011	3,687	3,011
14,100	14,150	2,119	2,119	2,119	2,119	17,100	17,150	2,569	2,569	2,861	2,569	20,100	20,150	3,315	3,019	3,701	3,019
14,150	14,200	2,126	2,126	2,126	2,126	17,150	17,200	2,576	2,576	2,875	2,576	20,150	20,200	3,329	3,026	3,715	3,026
14,200	14,250	2,134	2,134	2,134	2,134	17,200	17,250	2,584	2,584	2,889	2,584	20,200	20,250	3,343	3,034	3,729	3,034
14,250	14,300	2,141	2,141	2,141	2,141	17,250	17,300	2,591	2,591	2,903	2,591	20,250	20,300	3,357	3,041	3,743	3,041
14,300	14,350	2,149	2,149	2,149	2,149	17,300	17,350	2,599	2,599	2,917	2,599	20,300	20,350	3,371	3,049	3,757	3,049
14,350	14,400	2,156	2,156	2,156	2,156	17,350	17,400	2,606	2,606	2,931	2,606	20,350	20,400	3,385	3,056	3,771	3,056
14,400	14,450	2,164	2,164	2,164	2,164	17,400	17,450	2,614	2,614	2,945	2,614	20,400	20,450	3,399	3,064	3,785	3,064
14,450	14,500	2,171	2,171	2,171	2,171	17,450	17,500	2,621	2,621	2,959	2,621	20,450	20,500	3,413	3,071	3,799	3,071
14,500	14,550	2,179	2,179	2,179	2,179	17,500	17,550	2,629	2,629	2,973	2,629	20,500	20,550	3,427	3,079	3,813	3,079
14,550	14,600	2,186	2,186	2,186	2,186	17,550	17,600	2,636	2,636	2,987	2,636	20,550	20,600	3,441	3,086	3,827	3,086
14,600	14,650	2,194	2,194	2,194	2,194	17,600	17,650	2,644	2,644	3,001	2,644	20,600	20,650	3,455	3,094	3,841	3,094
14,650	14,700	2,201	2,201	2,201	2,201	17,650	17,700	2,651	2,651	3,015	2,651	20,650	20,700	3,469	3,101	3,855	3,101
14,700	14,750	2,209	2,209	2,209	2,209	17,700	17,750	2,659	2,659	3,029	2,659	20,700	20,750	3,483	3,109	3,869	3,109
14,750	14,800	2,216	2,216	2,216	2,216	17,750	17,800	2,666	2,666	3,043	2,666	20,750	20,800	3,497	3,116	3,883	3,116
14,800	14,850	2,224	2,224	2,224	2,224	17,800	17,850	2,674	2,674	3,057	2,674	20,800	20,850	3,511	3,124	3,897	3,124
14,850	14,900	2,231	2,231	2,231	2,231	17,850	17,900	2,685	2,685	3,071	2,685	20,850	20,900	3,525	3,131	3,911	3,131
14,900	14,950	2,239	2,239	2,245	2,239	17,900	17,950	2,699	2,689	3,085	2,689	20,900	20,950	3,539	3,139	3,925	3,139
14,950	15,000	2,246	2,246	2,259	2,246	17,950	18,000	2,713	2,696	3,099	2,696	20,950	21,000	3,553	3,146	3,939	3,146
<b>15,000</b>						<b>18,000</b>						<b>21,000</b>					
15,000	15,050	2,254	2,254	2,273	2,254	18,000	18,050	2,727	2,704	3,113	2,704	21,000	21,050	3,567	3,154	3,953	3,154
15,050	15,100	2,261	2,261	2,287	2,261	18,050	18,100	2,741	2,711	3,127	2,711	21,050	21,100	3,581	3,161	3,967	3,161
15,100	15,150	2,269	2,269	2,301	2,269	18,100	18,150	2,755	2,719	3,141	2,719	21,100	21,150	3,595	3,169	3,981	3,169
15,150	15,200	2,276	2,276	2,315	2,276	18,150	18,200	2,769	2,726	3,155	2,726	21,150	21,200	3,609	3,176	3,995	3,176
15,200	15,250	2,284	2,284	2,329	2,284	18,200	18,250	2,783	2,734	3,169	2,734	21,200	21,250	3,623	3,184	4,009	3,184
15,250	15,300	2,291	2,291	2,343	2,291	18,250	18,300	2,797	2,741	3,183	2,741	21,250	21,300	3,637	3,191	4,023	3,191
15,300	15,350	2,299	2,299	2,357	2,299	18,300	18,350	2,811	2,749	3,197	2,749	21,300	21,350	3,651	3,199	4,037	3,199
15,350	15,400	2,306	2,306	2,371	2,306	18,350	18,400	2,825	2,756	3,211	2,756	21,350	21,400	3,665	3,206	4,051	3,206
15,400	15,450	2,314	2,314	2,385	2,314	18,400	18,450	2,839	2,764	3,225	2,764	21,400	21,450	3,679	3,214	4,065	3,214
15,450	15,500	2,321	2,321	2,399	2,321	18,450	18,500	2,853	2,771	3,239	2,771	21,450	21,500	3,693	3,221	4,079	3,221
15,500	15,550	2,329	2,329	2,413	2,329	18,500	18,550	2,867	2,779	3,253	2,779	21,500	21,550	3,707	3,229	4,093	3,229
15,550	15,600	2,336	2,336	2,427	2,336	18,550	18,600	2,881	2,786	3,267	2,786	21,550	21,600	3,721	3,236	4,107	3,236
15,600	15,650	2,344	2,344	2,441	2,344	18,600	18,650	2,895	2,794	3,281	2,794	21,600	21,650	3,735	3,244	4,121	3,244
15,650	15,700	2,351	2,351	2,455	2,351	18,650	18,700	2,909	2,801	3,295	2,801	21,650	21,700	3,749	3,251	4,135	3,251
15,700	15,750	2,359	2,359	2,469	2,359	18,700	18,750	2,923	2,809	3,309	2,809	21,700	21,750	3,763	3,259	4,149	3,259
15,750	15,800	2,366	2,366	2,483	2,366	18,750	18,800	2,937	2,816	3,323	2,816	21,750	21,800	3,777	3,266	4,163	3,266
15,800	15,850	2,374	2,374	2,497	2,374	18,800	18,850	2,951	2,824	3,337	2,824	21,800	21,850	3,791	3,274	4,177	3,274
15,850	15,900	2,381	2,381	2,511	2,381	18,850	18,900	2,965	2,831	3,351	2,831	21,850	21,900	3,805	3,281	4,191	3,281
15,900	15,950	2,389	2,389	2,525	2,389	18,900	18,950	2,979	2,839	3,365	2,839	21,900	21,950	3,819	3,289	4,205	3,289
15,950	16,000	2,396	2,396	2,539	2,396	18,950	19,000	2,993	2,846	3,379	2,846	21,950	22,000	3,833	3,296	4,219	3,296
<b>16,000</b>						<b>19,000</b>						<b>22,000</b>					
16,000	16,050	2,404	2,404	2,553	2,404	19,000	19,050	3,007	2,854	3,393	2,854	22,000	22,050	3,847	3,304	4,233	3,304
16,050	16,100	2,411	2,411	2,567	2,411	19,050	19,100	3,021	2,861	3,407	2,861	22,050	22,100	3,861	3,311	4,247	3,311
16,100	16,150	2,419	2,419	2,581	2,419	19,100	19,150	3,035	2,869	3,421	2,869	22,100	22,150	3,875	3,319	4,261	3,319
16,150	16,200	2,426	2,426	2,595	2,426	19,150	19,200	3,049	2,876	3,435	2,876	22,150	22,200	3,889	3,326	4,275	3,326
16,200	16,250	2,434	2,434	2,609	2,434	19,200	19,250	3,063	2,884	3,449	2,884	22,200	22,250	3,903	3,334	4,289	3,334
16,250	16,300	2,441	2,441	2,623	2,441	19,250	19,300	3,077	2,891	3,463	2,891	22,250	22,300	3,917	3,341	4,303	3,341
16,300	16,350	2,449	2,449	2,637	2,449	19,300	19,350	3,091	2,899	3,477	2,899	22,300	22,350	3,931	3,349	4,317	3,349
16,350	16,400	2,456	2,456	2,651	2,456	19,350	19,400	3,105	2,906	3,491	2,906	22,350	22,400	3,945	3,356	4,331	3,356
16,400	16,450	2,464	2,464	2,665	2,464	19,400	19,450	3,119	2,914	3,505	2,914	22,400	22,450	3,959	3,364	4,345	3,364
16,450	16,500	2,471	2,471	2,679	2,471	19,450	19,500	3,133	2,921	3,519	2,921	22,450	22,500	3,973	3,371	4,359	3,371
16,500	16,550	2,479	2,479	2,693	2,479	19,500	19,550	3,147	2,929	3,533	2,929	22,500	22,550	3,987	3,379	4,373	3,379
16,550	16,600	2,486	2,486	2,707	2,486	19,550	19,600	3,161	2,936	3,547	2,936	22,550	22,600	4,001	3,386	4,387	3,386
16,600	16,650	2,494	2,494	2,721	2,494	19,600	19,650	3,175	2,944	3,561	2,944	22,600	22,650	4,015	3,394	4,401	3,394
16,650	16,700	2,501	2,501	2,735	2,501	19,650	19,700	3,189	2,951	3,575	2,951	22,650	22,700	4,029	3,401	4,415	3,401
16,700	16,750	2,509	2,509	2,749	2,509	19,700	19,750	3,203	2,959	3,589	2,959	22,700	22,750	4,043	3,409	4,429	3,409
16,750	16,800	2,516	2,516	2,763	2,516	19,750	19,800	3,217	2,966	3,603	2,966	22,750	22,800	4,057	3,416	4,443	3,416
16,800	16,850	2,524	2,524	2,777	2,524	19,800	19,850	3,231	2,974	3,617	2,974	22,800	22,850	4,071	3,424	4,457	3,424
16,850	16,900	2,531	2,531	2,791	2,531	19,850	19,900	3,245	2,981	3,631	2,981	22,850	22,900	4,085	3,431	4,471	3,431
16,900	16,950	2,539	2,539	2,805	2,539	19,900	19,950	3,259	2,989	3,645	2,989	22,900	22,950	4,099	3,439	4,485	3,439
16,950	17,000	2,546	2,546	2,819	2,546	19,950	20,000	3,273	2,996	3,659	2,996	22,950	23,000	4,113	3,446	4,499	3,44



**1988 Tax Table—Continued**

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>23,000</b>						<b>26,000</b>						<b>29,000</b>					
23,000	23,050	4,127	3,454	4,513	3,454	26,000	26,050	4,967	3,904	5,353	4,180	29,000	29,050	5,807	4,354	6,193	5,020
23,050	23,100	4,141	3,461	4,527	3,461	26,050	26,100	4,981	3,911	5,367	4,194	29,050	29,100	5,821	4,361	6,207	5,034
23,100	23,150	4,155	3,469	4,541	3,469	26,100	26,150	4,995	3,919	5,381	4,208	29,100	29,150	5,835	4,369	6,221	5,048
23,150	23,200	4,169	3,476	4,555	3,476	26,150	26,200	5,009	3,926	5,395	4,222	29,150	29,200	5,849	4,376	6,235	5,062
23,200	23,250	4,183	3,484	4,569	3,484	26,200	26,250	5,023	3,934	5,409	4,236	29,200	29,250	5,863	4,384	6,249	5,076
23,250	23,300	4,197	3,491	4,583	3,491	26,250	26,300	5,037	3,941	5,423	4,250	29,250	29,300	5,877	4,391	6,263	5,090
23,300	23,350	4,211	3,499	4,597	3,499	26,300	26,350	5,051	3,949	5,437	4,264	29,300	29,350	5,891	4,399	6,277	5,104
23,350	23,400	4,225	3,506	4,611	3,506	26,350	26,400	5,065	3,956	5,451	4,278	29,350	29,400	5,905	4,406	6,291	5,118
23,400	23,450	4,239	3,514	4,625	3,514	26,400	26,450	5,079	3,964	5,465	4,292	29,400	29,450	5,919	4,414	6,305	5,132
23,450	23,500	4,253	3,521	4,639	3,521	26,450	26,500	5,093	3,971	5,479	4,306	29,450	29,500	5,933	4,421	6,319	5,146
23,500	23,550	4,267	3,529	4,653	3,529	26,500	26,550	5,107	3,979	5,493	4,320	29,500	29,550	5,947	4,429	6,333	5,160
23,550	23,600	4,281	3,536	4,667	3,536	26,550	26,600	5,121	3,986	5,507	4,334	29,550	29,600	5,961	4,436	6,347	5,174
23,600	23,650	4,295	3,544	4,681	3,544	26,600	26,650	5,135	3,994	5,521	4,348	29,600	29,650	5,975	4,444	6,361	5,188
23,650	23,700	4,309	3,551	4,695	3,551	26,650	26,700	5,149	4,001	5,535	4,362	29,650	29,700	5,989	4,451	6,375	5,202
23,700	23,750	4,323	3,559	4,709	3,559	26,700	26,750	5,163	4,009	5,549	4,376	29,700	29,750	6,003	4,459	6,389	5,216
23,750	23,800	4,337	3,566	4,723	3,566	26,750	26,800	5,177	4,016	5,563	4,390	29,750	29,800	6,017	4,470	6,403	5,230
23,800	23,850	4,351	3,574	4,737	3,574	26,800	26,850	5,191	4,024	5,577	4,404	29,800	29,850	6,031	4,484	6,417	5,244
23,850	23,900	4,365	3,581	4,751	3,581	26,850	26,900	5,205	4,031	5,591	4,418	29,850	29,900	6,045	4,498	6,431	5,258
23,900	23,950	4,379	3,589	4,765	3,592	26,900	26,950	5,219	4,039	5,605	4,432	29,900	29,950	6,059	4,512	6,445	5,272
23,950	24,000	4,393	3,596	4,779	3,606	26,950	27,000	5,233	4,046	5,619	4,446	29,950	30,000	6,073	4,526	6,459	5,286
<b>24,000</b>						<b>27,000</b>						<b>30,000</b>					
24,000	24,050	4,407	3,604	4,793	3,620	27,000	27,050	5,247	4,054	5,633	4,460	30,000	30,050	6,087	4,540	6,473	5,300
24,050	24,100	4,421	3,611	4,807	3,634	27,050	27,100	5,261	4,061	5,647	4,474	30,050	30,100	6,101	4,554	6,487	5,314
24,100	24,150	4,435	3,619	4,821	3,648	27,100	27,150	5,275	4,069	5,661	4,488	30,100	30,150	6,115	4,568	6,501	5,328
24,150	24,200	4,449	3,626	4,835	3,662	27,150	27,200	5,289	4,076	5,675	4,502	30,150	30,200	6,129	4,582	6,515	5,342
24,200	24,250	4,463	3,634	4,849	3,676	27,200	27,250	5,303	4,084	5,689	4,516	30,200	30,250	6,143	4,596	6,529	5,356
24,250	24,300	4,477	3,641	4,863	3,690	27,250	27,300	5,317	4,091	5,703	4,530	30,250	30,300	6,157	4,610	6,543	5,370
24,300	24,350	4,491	3,649	4,877	3,704	27,300	27,350	5,331	4,099	5,717	4,544	30,300	30,350	6,171	4,624	6,557	5,384
24,350	24,400	4,505	3,656	4,891	3,718	27,350	27,400	5,345	4,106	5,731	4,558	30,350	30,400	6,185	4,638	6,571	5,398
24,400	24,450	4,519	3,664	4,905	3,732	27,400	27,450	5,359	4,114	5,745	4,572	30,400	30,450	6,199	4,652	6,585	5,412
24,450	24,500	4,533	3,671	4,919	3,746	27,450	27,500	5,373	4,121	5,759	4,586	30,450	30,500	6,213	4,666	6,599	5,426
24,500	24,550	4,547	3,679	4,933	3,760	27,500	27,550	5,387	4,129	5,773	4,600	30,500	30,550	6,227	4,680	6,613	5,440
24,550	24,600	4,561	3,686	4,947	3,774	27,550	27,600	5,401	4,136	5,787	4,614	30,550	30,600	6,241	4,694	6,627	5,454
24,600	24,650	4,575	3,694	4,961	3,788	27,600	27,650	5,415	4,144	5,801	4,628	30,600	30,650	6,255	4,708	6,641	5,468
24,650	24,700	4,589	3,701	4,975	3,802	27,650	27,700	5,429	4,151	5,815	4,642	30,650	30,700	6,269	4,722	6,655	5,482
24,700	24,750	4,603	3,709	4,989	3,816	27,700	27,750	5,443	4,159	5,829	4,656	30,700	30,750	6,283	4,736	6,669	5,496
24,750	24,800	4,617	3,716	5,003	3,830	27,750	27,800	5,457	4,166	5,843	4,670	30,750	30,800	6,297	4,750	6,683	5,510
24,800	24,850	4,631	3,724	5,017	3,844	27,800	27,850	5,471	4,174	5,857	4,684	30,800	30,850	6,311	4,764	6,697	5,524
24,850	24,900	4,645	3,731	5,031	3,858	27,850	27,900	5,485	4,181	5,871	4,698	30,850	30,900	6,325	4,778	6,711	5,538
24,900	24,950	4,659	3,739	5,045	3,872	27,900	27,950	5,499	4,189	5,885	4,712	30,900	30,950	6,339	4,792	6,725	5,552
24,950	25,000	4,673	3,746	5,059	3,886	27,950	28,000	5,513	4,196	5,899	4,726	30,950	31,000	6,353	4,806	6,739	5,566
<b>25,000</b>						<b>28,000</b>						<b>31,000</b>					
25,000	25,050	4,687	3,754	5,073	3,900	28,000	28,050	5,527	4,204	5,913	4,740	31,000	31,050	6,367	4,820	6,753	5,580
25,050	25,100	4,701	3,761	5,087	3,914	28,050	28,100	5,541	4,211	5,927	4,754	31,050	31,100	6,381	4,834	6,767	5,594
25,100	25,150	4,715	3,769	5,101	3,928	28,100	28,150	5,555	4,219	5,941	4,768	31,100	31,150	6,395	4,848	6,781	5,608
25,150	25,200	4,729	3,776	5,115	3,942	28,150	28,200	5,569	4,226	5,955	4,782	31,150	31,200	6,409	4,862	6,795	5,622
25,200	25,250	4,743	3,784	5,129	3,956	28,200	28,250	5,583	4,234	5,969	4,796	31,200	31,250	6,423	4,876	6,809	5,636
25,250	25,300	4,757	3,791	5,143	3,970	28,250	28,300	5,597	4,241	5,983	4,810	31,250	31,300	6,437	4,890	6,823	5,650
25,300	25,350	4,771	3,799	5,157	3,984	28,300	28,350	5,611	4,249	5,997	4,824	31,300	31,350	6,451	4,904	6,837	5,664
25,350	25,400	4,785	3,806	5,171	3,998	28,350	28,400	5,625	4,256	6,011	4,838	31,350	31,400	6,465	4,918	6,851	5,678
25,400	25,450	4,799	3,814	5,185	4,012	28,400	28,450	5,639	4,264	6,025	4,852	31,400	31,450	6,479	4,932	6,865	5,692
25,450	25,500	4,813	3,821	5,199	4,026	28,450	28,500	5,653	4,271	6,039	4,866	31,450	31,500	6,493	4,946	6,879	5,706
25,500	25,550	4,827	3,829	5,213	4,040	28,500	28,550	5,667	4,279	6,053	4,880	31,500	31,550	6,507	4,960	6,893	5,720
25,550	25,600	4,841	3,836	5,227	4,054	28,550	28,600	5,681	4,286	6,067	4,894	31,550	31,600	6,521	4,974	6,907	5,734
25,600	25,650	4,855	3,844	5,241	4,068	28,600	28,650	5,695	4,294	6,081	4,908	31,600	31,650	6,535	4,988	6,921	5,748
25,650	25,700	4,869	3,851	5,255	4,082	28,650	28,700	5,709	4,301	6,095	4,922	31,650	31,700	6,549	5,002	6,935	5,762
25,700	25,750	4,883	3,859	5,269	4,096	28,700	28,750	5,723	4,309	6,109	4,936	31,700	31,750	6,563	5,016	6,949	5,776
25,750	25,800	4,897	3,866	5,283	4,110	28,750	28,800	5,737	4,316	6,123	4,950	31,750	31,800	6,577	5,030	6,963	5,790
25,800	25,850	4,911	3,874	5,297	4,124	28,800	28,850	5,751	4,324	6,137	4,964	31,800	31,850	6,591	5,044	6,977	5,804
25,850	25,900	4,925	3,881	5,311	4,138	28,850	28,900	5,765	4,331	6,151	4,978	31,850	31,900	6,605	5,058	6,991	5,818
25,900	25,950	4,939	3,889	5,325	4,152	28,900	28,950	5,779	4,339	6,165	4,992	31,900	31,950	6,619	5,072	7,005	5,832
25,950	26,000	4,953	3,896	5,339	4,166	28,950	29,000	5,793	4,346	6,179	5,006	31,950	32,000	6,633	5,086	7,019	5,84

1988 Tax Table—Continued

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>32,000</b>						<b>35,000</b>						<b>38,000</b>					
32,000	32,050	6,647	5,100	7,033	5,860	35,000	35,050	7,487	5,940	7,873	6,700	38,000	38,050	8,327	6,780	8,817	7,540
32,050	32,100	6,661	5,114	7,047	5,874	35,050	35,100	7,501	5,954	7,887	6,714	38,050	38,100	8,341	6,794	8,834	7,554
32,100	32,150	6,675	5,128	7,061	5,888	35,100	35,150	7,515	5,968	7,901	6,728	38,100	38,150	8,355	6,808	8,850	7,568
32,150	32,200	6,689	5,142	7,075	5,902	35,150	35,200	7,529	5,982	7,915	6,742	38,150	38,200	8,369	6,822	8,867	7,582
32,200	32,250	6,703	5,156	7,089	5,916	35,200	35,250	7,543	5,996	7,929	6,756	38,200	38,250	8,383	6,836	8,883	7,596
32,250	32,300	6,717	5,170	7,103	5,930	35,250	35,300	7,557	6,010	7,943	6,770	38,250	38,300	8,397	6,850	8,900	7,610
32,300	32,350	6,731	5,184	7,117	5,944	35,300	35,350	7,571	6,024	7,957	6,784	38,300	38,350	8,411	6,864	8,916	7,624
32,350	32,400	6,745	5,198	7,131	5,958	35,350	35,400	7,585	6,038	7,971	6,798	38,350	38,400	8,425	6,878	8,933	7,638
32,400	32,450	6,759	5,212	7,145	5,972	35,400	35,450	7,599	6,052	7,985	6,812	38,400	38,450	8,439	6,892	8,949	7,652
32,450	32,500	6,773	5,226	7,159	5,986	35,450	35,500	7,613	6,066	7,999	6,826	38,450	38,500	8,453	6,906	8,966	7,666
32,500	32,550	6,787	5,240	7,173	6,000	35,500	35,550	7,627	6,080	8,013	6,840	38,500	38,550	8,467	6,920	8,982	7,680
32,550	32,600	6,801	5,254	7,187	6,014	35,550	35,600	7,641	6,094	8,027	6,854	38,550	38,600	8,481	6,934	8,999	7,694
32,600	32,650	6,815	5,268	7,201	6,028	35,600	35,650	7,655	6,108	8,041	6,868	38,600	38,650	8,495	6,948	9,015	7,708
32,650	32,700	6,829	5,282	7,215	6,042	35,650	35,700	7,669	6,122	8,055	6,882	38,650	38,700	8,509	6,962	9,032	7,722
32,700	32,750	6,843	5,296	7,229	6,056	35,700	35,750	7,683	6,136	8,069	6,896	38,700	38,750	8,523	6,976	9,048	7,736
32,750	32,800	6,857	5,310	7,243	6,070	35,750	35,800	7,697	6,150	8,083	6,910	38,750	38,800	8,537	6,990	9,065	7,750
32,800	32,850	6,871	5,324	7,257	6,084	35,800	35,850	7,711	6,164	8,097	6,924	38,800	38,850	8,551	7,004	9,081	7,764
32,850	32,900	6,885	5,338	7,271	6,098	35,850	35,900	7,725	6,178	8,111	6,938	38,850	38,900	8,565	7,018	9,098	7,778
32,900	32,950	6,899	5,352	7,285	6,112	35,900	35,950	7,739	6,192	8,125	6,952	38,900	38,950	8,579	7,032	9,114	7,792
32,950	33,000	6,913	5,366	7,299	6,126	35,950	36,000	7,753	6,206	8,141	6,966	38,950	39,000	8,593	7,046	9,131	7,806
<b>33,000</b>						<b>36,000</b>						<b>39,000</b>					
33,000	33,050	6,927	5,380	7,313	6,140	36,000	36,050	7,767	6,220	8,157	6,980	39,000	39,050	8,607	7,060	9,147	7,820
33,050	33,100	6,941	5,394	7,327	6,154	36,050	36,100	7,781	6,234	8,174	6,994	39,050	39,100	8,621	7,074	9,164	7,834
33,100	33,150	6,955	5,408	7,341	6,168	36,100	36,150	7,795	6,248	8,190	7,008	39,100	39,150	8,635	7,088	9,180	7,848
33,150	33,200	6,969	5,422	7,355	6,182	36,150	36,200	7,809	6,262	8,207	7,022	39,150	39,200	8,649	7,102	9,197	7,862
33,200	33,250	6,983	5,436	7,369	6,196	36,200	36,250	7,823	6,276	8,223	7,036	39,200	39,250	8,663	7,116	9,213	7,876
33,250	33,300	6,997	5,450	7,383	6,210	36,250	36,300	7,837	6,290	8,240	7,050	39,250	39,300	8,677	7,130	9,230	7,890
33,300	33,350	7,011	5,464	7,397	6,224	36,300	36,350	7,851	6,304	8,256	7,064	39,300	39,350	8,691	7,144	9,246	7,904
33,350	33,400	7,025	5,478	7,411	6,238	36,350	36,400	7,865	6,318	8,273	7,078	39,350	39,400	8,705	7,158	9,263	7,918
33,400	33,450	7,039	5,492	7,425	6,252	36,400	36,450	7,879	6,332	8,289	7,092	39,400	39,450	8,719	7,172	9,279	7,932
33,450	33,500	7,053	5,506	7,439	6,266	36,450	36,500	7,893	6,346	8,306	7,106	39,450	39,500	8,733	7,186	9,296	7,946
33,500	33,550	7,067	5,520	7,453	6,280	36,500	36,550	7,907	6,360	8,322	7,120	39,500	39,550	8,747	7,200	9,312	7,960
33,550	33,600	7,081	5,534	7,467	6,294	36,550	36,600	7,921	6,374	8,339	7,134	39,550	39,600	8,761	7,214	9,329	7,974
33,600	33,650	7,095	5,548	7,481	6,308	36,600	36,650	7,935	6,388	8,355	7,148	39,600	39,650	8,775	7,228	9,345	7,988
33,650	33,700	7,109	5,562	7,495	6,322	36,650	36,700	7,949	6,402	8,372	7,162	39,650	39,700	8,789	7,242	9,362	8,002
33,700	33,750	7,123	5,576	7,509	6,336	36,700	36,750	7,963	6,416	8,388	7,176	39,700	39,750	8,803	7,256	9,378	8,016
33,750	33,800	7,137	5,590	7,523	6,350	36,750	36,800	7,977	6,430	8,405	7,190	39,750	39,800	8,817	7,270	9,395	8,030
33,800	33,850	7,151	5,604	7,537	6,364	36,800	36,850	7,991	6,444	8,421	7,204	39,800	39,850	8,831	7,284	9,411	8,044
33,850	33,900	7,165	5,618	7,551	6,378	36,850	36,900	8,005	6,458	8,438	7,218	39,850	39,900	8,845	7,298	9,428	8,058
33,900	33,950	7,179	5,632	7,565	6,392	36,900	36,950	8,019	6,472	8,454	7,232	39,900	39,950	8,859	7,312	9,444	8,072
33,950	34,000	7,193	5,646	7,579	6,406	36,950	37,000	8,033	6,486	8,471	7,246	39,950	40,000	8,873	7,326	9,461	8,086
<b>34,000</b>						<b>37,000</b>						<b>40,000</b>					
34,000	34,050	7,207	5,660	7,593	6,420	37,000	37,050	8,047	6,500	8,487	7,260	40,000	40,050	8,887	7,340	9,477	8,100
34,050	34,100	7,221	5,674	7,607	6,434	37,050	37,100	8,061	6,514	8,504	7,274	40,050	40,100	8,901	7,354	9,494	8,114
34,100	34,150	7,235	5,688	7,621	6,448	37,100	37,150	8,075	6,528	8,520	7,288	40,100	40,150	8,915	7,368	9,510	8,128
34,150	34,200	7,249	5,702	7,635	6,462	37,150	37,200	8,089	6,542	8,537	7,302	40,150	40,200	8,929	7,382	9,527	8,142
34,200	34,250	7,263	5,716	7,649	6,476	37,200	37,250	8,103	6,556	8,553	7,316	40,200	40,250	8,943	7,396	9,543	8,156
34,250	34,300	7,277	5,730	7,663	6,490	37,250	37,300	8,117	6,570	8,570	7,330	40,250	40,300	8,957	7,410	9,560	8,170
34,300	34,350	7,291	5,744	7,677	6,504	37,300	37,350	8,131	6,584	8,586	7,344	40,300	40,350	8,971	7,424	9,576	8,184
34,350	34,400	7,305	5,758	7,691	6,518	37,350	37,400	8,145	6,598	8,603	7,358	40,350	40,400	8,985	7,438	9,593	8,198
34,400	34,450	7,319	5,772	7,705	6,532	37,400	37,450	8,159	6,612	8,619	7,372	40,400	40,450	8,999	7,452	9,609	8,212
34,450	34,500	7,333	5,786	7,719	6,546	37,450	37,500	8,173	6,626	8,636	7,386	40,450	40,500	9,013	7,466	9,626	8,226
34,500	34,550	7,347	5,800	7,733	6,560	37,500	37,550	8,187	6,640	8,652	7,400	40,500	40,550	9,027	7,480	9,642	8,240
34,550	34,600	7,361	5,814	7,747	6,574	37,550	37,600	8,201	6,654	8,669	7,414	40,550	40,600	9,041	7,494	9,659	8,254
34,600	34,650	7,375	5,828	7,761	6,588	37,600	37,650	8,215	6,668	8,685	7,428	40,600	40,650	9,055	7,508	9,675	8,268
34,650	34,700	7,389	5,842	7,775	6,602	37,650	37,700	8,229	6,682	8,702	7,442	40,650	40,700	9,069	7,522	9,692	8,282
34,700	34,750	7,403	5,856	7,789	6,616	37,700	37,750	8,243	6,696	8,718	7,456	40,700	40,750	9,083	7,536	9,708	8,296
34,750	34,800	7,417	5,870	7,803	6,630	37,750	37,800	8,257	6,710	8,735	7,470	40,750	40,800	9,097	7,550	9,725	8,310
34,800	34,850	7,431	5,884	7,817	6,644	37,800	37,850	8,271	6,724	8,751	7,484	40,800	40,850	9,111	7,564	9,741	8,324
34,850	34,900	7,445	5,898	7,831	6,658	37,850	37,900	8,285	6,738	8,768	7,498	40,850	40,900	9,125	7,578	9,758	8,338
34,900	34,950	7,459	5,912	7,845	6,672	37,900	37,950	8,299	6,752	8,784	7,512	40,900	40,950	9,139	7,592	9,774	8,352
34,950	35,000	7,473	5,926	7,859	6,686	37,950	38,000	8,313	6,766	8,801							

**1988 Tax Table—Continued**

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>41,000</b>						<b>44,000</b>						<b>47,000</b>					
41,000	41,050	9,167	7,620	9,807	8,380	44,000	44,050	10,050	8,460	10,797	9,220	47,000	47,050	11,040	9,300	11,787	10,060
41,050	41,100	9,181	7,634	9,824	8,394	44,050	44,100	10,067	8,474	10,814	9,234	47,050	47,100	11,057	9,314	11,804	10,074
41,100	41,150	9,195	7,648	9,840	8,408	44,100	44,150	10,083	8,488	10,830	9,248	47,100	47,150	11,073	9,328	11,820	10,088
41,150	41,200	9,209	7,662	9,857	8,422	44,150	44,200	10,100	8,502	10,847	9,262	47,150	47,200	11,090	9,342	11,837	10,102
41,200	41,250	9,223	7,676	9,873	8,436	44,200	44,250	10,116	8,516	10,863	9,276	47,200	47,250	11,106	9,356	11,853	10,116
41,250	41,300	9,237	7,690	9,890	8,450	44,250	44,300	10,133	8,530	10,880	9,290	47,250	47,300	11,123	9,370	11,870	10,130
41,300	41,350	9,251	7,704	9,906	8,464	44,300	44,350	10,149	8,544	10,896	9,304	47,300	47,350	11,139	9,384	11,886	10,144
41,350	41,400	9,265	7,718	9,923	8,478	44,350	44,400	10,166	8,558	10,913	9,318	47,350	47,400	11,156	9,398	11,903	10,158
41,400	41,450	9,279	7,732	9,939	8,492	44,400	44,450	10,182	8,572	10,929	9,332	47,400	47,450	11,172	9,412	11,919	10,172
41,450	41,500	9,293	7,746	9,956	8,506	44,450	44,500	10,199	8,586	10,946	9,346	47,450	47,500	11,189	9,426	11,936	10,186
41,500	41,550	9,307	7,760	9,972	8,520	44,500	44,550	10,215	8,600	10,962	9,360	47,500	47,550	11,205	9,440	11,952	10,200
41,550	41,600	9,321	7,774	9,989	8,534	44,550	44,600	10,232	8,614	10,979	9,374	47,550	47,600	11,222	9,454	11,969	10,214
41,600	41,650	9,335	7,788	10,005	8,548	44,600	44,650	10,248	8,628	10,995	9,388	47,600	47,650	11,238	9,468	11,985	10,228
41,650	41,700	9,349	7,802	10,022	8,562	44,650	44,700	10,265	8,642	11,012	9,402	47,650	47,700	11,255	9,482	12,002	10,242
41,700	41,750	9,363	7,816	10,038	8,576	44,700	44,750	10,281	8,656	11,028	9,416	47,700	47,750	11,271	9,496	12,018	10,256
41,750	41,800	9,377	7,830	10,055	8,590	44,750	44,800	10,298	8,670	11,045	9,430	47,750	47,800	11,288	9,510	12,035	10,270
41,800	41,850	9,391	7,844	10,071	8,604	44,800	44,850	10,314	8,684	11,061	9,444	47,800	47,850	11,304	9,524	12,051	10,284
41,850	41,900	9,405	7,858	10,088	8,618	44,850	44,900	10,331	8,698	11,078	9,458	47,850	47,900	11,321	9,538	12,068	10,298
41,900	41,950	9,419	7,872	10,104	8,632	44,900	44,950	10,347	8,712	11,094	9,472	47,900	47,950	11,337	9,552	12,084	10,312
41,950	42,000	9,433	7,886	10,121	8,646	44,950	45,000	10,364	8,726	11,111	9,486	47,950	48,000	11,354	9,566	12,101	10,326
<b>42,000</b>						<b>45,000</b>						<b>48,000</b>					
42,000	42,050	9,447	7,900	10,137	8,660	45,000	45,050	10,380	8,740	11,127	9,500	48,000	48,050	11,370	9,580	12,117	10,340
42,050	42,100	9,461	7,914	10,154	8,674	45,050	45,100	10,397	8,754	11,144	9,514	48,050	48,100	11,387	9,594	12,134	10,354
42,100	42,150	9,475	7,928	10,170	8,688	45,100	45,150	10,413	8,768	11,160	9,528	48,100	48,150	11,403	9,608	12,150	10,368
42,150	42,200	9,489	7,942	10,187	8,702	45,150	45,200	10,430	8,782	11,177	9,542	48,150	48,200	11,420	9,622	12,167	10,382
42,200	42,250	9,503	7,956	10,203	8,716	45,200	45,250	10,446	8,796	11,193	9,556	48,200	48,250	11,436	9,636	12,183	10,396
42,250	42,300	9,517	7,970	10,220	8,730	45,250	45,300	10,463	8,810	11,210	9,570	48,250	48,300	11,453	9,650	12,200	10,410
42,300	42,350	9,531	7,984	10,236	8,744	45,300	45,350	10,479	8,824	11,226	9,584	48,300	48,350	11,469	9,664	12,216	10,424
42,350	42,400	9,545	7,998	10,253	8,758	45,350	45,400	10,496	8,838	11,243	9,598	48,350	48,400	11,486	9,678	12,233	10,438
42,400	42,450	9,559	8,012	10,269	8,772	45,400	45,450	10,512	8,852	11,259	9,612	48,400	48,450	11,502	9,692	12,249	10,452
42,450	42,500	9,573	8,026	10,286	8,786	45,450	45,500	10,529	8,866	11,276	9,626	48,450	48,500	11,519	9,706	12,266	10,466
42,500	42,550	9,587	8,040	10,302	8,800	45,500	45,550	10,545	8,880	11,292	9,640	48,500	48,550	11,535	9,720	12,282	10,480
42,550	42,600	9,601	8,054	10,319	8,814	45,550	45,600	10,562	8,894	11,309	9,654	48,550	48,600	11,552	9,734	12,299	10,494
42,600	42,650	9,615	8,068	10,335	8,828	45,600	45,650	10,578	8,908	11,325	9,668	48,600	48,650	11,568	9,748	12,315	10,508
42,650	42,700	9,629	8,082	10,352	8,842	45,650	45,700	10,595	8,922	11,342	9,682	48,650	48,700	11,585	9,762	12,332	10,522
42,700	42,750	9,643	8,096	10,368	8,856	45,700	45,750	10,611	8,936	11,358	9,696	48,700	48,750	11,601	9,776	12,348	10,536
42,750	42,800	9,657	8,110	10,385	8,870	45,750	45,800	10,628	8,950	11,375	9,710	48,750	48,800	11,618	9,790	12,365	10,550
42,800	42,850	9,671	8,124	10,401	8,884	45,800	45,850	10,644	8,964	11,391	9,724	48,800	48,850	11,634	9,804	12,381	10,564
42,850	42,900	9,685	8,138	10,418	8,898	45,850	45,900	10,661	8,978	11,408	9,738	48,850	48,900	11,651	9,818	12,398	10,578
42,900	42,950	9,699	8,152	10,434	8,912	45,900	45,950	10,677	8,992	11,424	9,752	48,900	48,950	11,667	9,832	12,414	10,592
42,950	43,000	9,713	8,166	10,451	8,926	45,950	46,000	10,694	9,006	11,441	9,766	48,950	49,000	11,684	9,846	12,431	10,606
<b>43,000</b>						<b>46,000</b>						<b>49,000</b>					
43,000	43,050	9,727	8,180	10,467	8,940	46,000	46,050	10,710	9,020	11,457	9,780	49,000	49,050	11,700	9,860	12,447	10,620
43,050	43,100	9,741	8,194	10,484	8,954	46,050	46,100	10,727	9,034	11,474	9,794	49,050	49,100	11,717	9,874	12,464	10,634
43,100	43,150	9,755	8,208	10,500	8,968	46,100	46,150	10,743	9,048	11,490	9,808	49,100	49,150	11,733	9,888	12,480	10,648
43,150	43,200	9,770	8,222	10,517	8,982	46,150	46,200	10,760	9,062	11,507	9,822	49,150	49,200	11,750	9,902	12,497	10,662
43,200	43,250	9,786	8,236	10,533	8,996	46,200	46,250	10,776	9,076	11,523	9,836	49,200	49,250	11,766	9,916	12,513	10,676
43,250	43,300	9,803	8,250	10,550	9,010	46,250	46,300	10,793	9,090	11,540	9,850	49,250	49,300	11,783	9,930	12,530	10,690
43,300	43,350	9,819	8,264	10,566	9,024	46,300	46,350	10,809	9,104	11,556	9,864	49,300	49,350	11,799	9,944	12,546	10,704
43,350	43,400	9,836	8,278	10,583	9,038	46,350	46,400	10,826	9,118	11,573	9,878	49,350	49,400	11,816	9,958	12,563	10,718
43,400	43,450	9,852	8,292	10,599	9,052	46,400	46,450	10,842	9,132	11,589	9,892	49,400	49,450	11,832	9,972	12,579	10,732
43,450	43,500	9,869	8,306	10,616	9,066	46,450	46,500	10,859	9,146	11,606	9,906	49,450	49,500	11,849	9,986	12,596	10,746
43,500	43,550	9,885	8,320	10,632	9,080	46,500	46,550	10,875	9,160	11,622	9,920	49,500	49,550	11,865	10,000	12,612	10,760
43,550	43,600	9,902	8,334	10,649	9,094	46,550	46,600	10,892	9,174	11,639	9,934	49,550	49,600	11,882	10,014	12,629	10,774
43,600	43,650	9,918	8,348	10,665	9,108	46,600	46,650	10,908	9,188	11,655	9,948	49,600	49,650	11,898	10,028	12,645	10,788
43,650	43,700	9,935	8,362	10,682	9,122	46,650	46,700	10,925	9,202	11,672	9,962	49,650	49,700	11,915	10,042	12,662	10,802
43,700	43,750	9,951	8,376	10,698	9,136	46,700	46,750	10,941	9,216	11,688	9,976	49,700	49,750	11,931	10,056	12,678	10,816
43,750	43,800	9,968	8,390	10,715	9,150	46,750	46,800	10,958	9,230	11,705	9,990	49,750	49,800	11,948	10,070	12,695	10,830
43,800	43,850	9,984	8,404	10,731	9,164	46,800	46,850	10,974	9,244	11,721	10,004	49,800	49,850	11,964	10,084	12,711	10,844
43,850	43,900	10,001	8,418	10,748	9,178	46,850	46,900	10,991	9,258	11,738	10,018	49,850	49,900	11,981			

# 1988 Tax Rate Schedules Caution: Use ONLY if your taxable income (Form 1040, line 37) is \$50,000 or more. If less, use the Tax Table.

## Schedule X—Use if your filing status is Single

If the amount on Form 1040, line 37, is:	But not over—	Enter on Form 1040, line 38	of the amount over—
\$0	\$17,850	..... 15%	\$0
17,850	43,150	<b>\$2,677.50 + 28%</b>	<b>17,850</b>
43,150	89,560	<b>9,761.50 + 33%</b>	<b>43,150</b>
89,560	.....	Use <b>Worksheet</b> below to figure your tax.	

## Schedule Z—Use if your filing status is Head of household

If the amount on Form 1040, line 37, is:	But not over—	Enter on Form 1040, line 38	of the amount over—
\$0	\$23,900	..... 15%	\$0
23,900	61,650	<b>\$3,585 + 28%</b>	<b>23,900</b>
61,650	123,790	<b>14,155 + 33%</b>	<b>61,650</b>
123,790	.....	Use <b>Worksheet</b> below to figure your tax.	

## Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)

If the amount on Form 1040, line 37, is:	But not over—	Enter on Form 1040, line 38	of the amount over—
\$0	\$29,750	..... 15%	\$0
29,750	71,900	<b>\$4,462.50 + 28%</b>	<b>29,750</b>
71,900	149,250	<b>16,264.50 + 33%</b>	<b>71,900</b>
149,250	.....	Use <b>Worksheet</b> below to figure your tax.	

## Schedule Y-2—Use if your filing status is Married filing separately

If the amount on Form 1040, line 37, is:	But not over—	Enter on Form 1040, line 38	of the amount over—
\$0	\$14,875	..... 15%	\$0
14,875	35,950	<b>\$2,231.25 + 28%</b>	<b>14,875</b>
35,950	113,300	<b>8,132.25 + 33%</b>	<b>35,950</b>
113,300	.....	Use <b>Worksheet</b> below to figure your tax.	

### Worksheet (Keep for your records)

- If your filing status is:
  - Single, enter \$25,076.80
  - Head of household, enter \$34,661.20
  - Married filing jointly or Qualifying widow(er), enter \$41,790.00
  - Married filing separately, enter \$33,657.75
 ..... **1.** \_\_\_\_\_
- Enter your taxable income from Form 1040, line 37 ..... **2.** \_\_\_\_\_
- If your filing status is:
  - Single, enter \$89,560
  - Head of household, enter \$123,790
  - Married filing jointly or Qualifying widow(er), enter \$149,250
  - Married filing separately, enter \$113,300
 ..... **3.** \_\_\_\_\_
- Subtract line 3 from line 2. Enter the result. (If the result is zero or less, use the schedule above for your filing status to figure your tax. DO NOT use this worksheet.) ..... **4.** \_\_\_\_\_
- Multiply the amount on line 4 by 28% (.28). Enter the result ..... **5.** \_\_\_\_\_
- Multiply the amount on line 4 by 5% (.05). Enter the result ..... **6.** \_\_\_\_\_
- Multiply \$546 by the number of exemptions claimed on Form 1040, line 6e. (If married filing separately, see the **Caution** below.) Enter the result ..... **7.** \_\_\_\_\_
- Compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts ..... **8.** \_\_\_\_\_
- Tax.** Add lines 1, 5, and 8. Enter the total here and on Form 1040, line 38 ..... **9.** \_\_\_\_\_

**Caution:** Pending legislation would require married persons filing separately who did not claim an exemption for their spouse to add \$546 to the result otherwise figured on line 7 above. Get **Pub. 553, Highlights of 1988 Tax Changes**, to find out whether this law was passed.

# 1988 Earned Income Credit Table

Caution: This Is Not a Tax Table

To find your earned income credit:

Read down the column titled "If line 3 or 4 of the worksheet is—" and find the

appropriate amount from the Earned Income Credit Worksheet on page 20. Read across to the right and find the amount of

the income credit. Enter that amount on line 5 or 6 of the worksheet, whichever applies.

If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—
At least	But less than		At least	But less than		At least	But less than		At least	But less than		At least	But less than	
\$1	\$25	\$2	\$1,600	\$1,625	\$226	\$3,200	\$3,225	\$450	\$4,800	\$4,825	\$674	\$10,000	\$10,025	\$857
25	50	5	1,625	1,650	229	3,225	3,250	453	4,825	4,850	677	10,025	10,050	854
50	75	9	1,650	1,675	233	3,250	3,275	457	4,850	4,875	681	10,050	10,075	852
75	100	12	1,675	1,700	236	3,275	3,300	460	4,875	4,900	684	10,075	10,100	849
100	125	16	1,700	1,725	240	3,300	3,325	464	4,900	4,925	688	10,100	10,125	847
125	150	19	1,725	1,750	243	3,325	3,350	467	4,925	4,950	691	10,125	10,150	844
150	175	23	1,750	1,775	247	3,350	3,375	471	4,950	4,975	695	10,150	10,175	842
175	200	26	1,775	1,800	250	3,375	3,400	474	4,975	5,000	698	10,175	10,200	839
200	225	30	1,800	1,825	254	3,400	3,425	478	5,000	5,025	702	10,200	10,225	837
225	250	33	1,825	1,850	257	3,425	3,450	481	5,025	5,050	705	10,225	10,250	834
250	275	37	1,850	1,875	261	3,450	3,475	485	5,050	5,075	709	10,250	10,275	832
275	300	40	1,875	1,900	264	3,475	3,500	488	5,075	5,100	712	10,275	10,300	829
300	325	44	1,900	1,925	268	3,500	3,525	492	5,100	5,125	716	10,300	10,325	827
325	350	47	1,925	1,950	271	3,525	3,550	495	5,125	5,150	719	10,325	10,350	824
350	375	51	1,950	1,975	275	3,550	3,575	499	5,150	5,175	723	10,350	10,375	822
375	400	54	1,975	2,000	278	3,575	3,600	502	5,175	5,200	726	10,375	10,400	819
400	425	58	2,000	2,025	282	3,600	3,625	506	5,200	5,225	730	10,400	10,425	817
425	450	61	2,025	2,050	285	3,625	3,650	509	5,225	5,250	733	10,425	10,450	814
450	475	65	2,050	2,075	289	3,650	3,675	513	5,250	5,275	737	10,450	10,475	812
475	500	68	2,075	2,100	292	3,675	3,700	516	5,275	5,300	740	10,475	10,500	809
500	525	72	2,100	2,125	296	3,700	3,725	520	5,300	5,325	744	10,500	10,525	807
525	550	75	2,125	2,150	299	3,725	3,750	523	5,325	5,350	747	10,525	10,550	804
550	575	79	2,150	2,175	303	3,750	3,775	527	5,350	5,375	751	10,550	10,575	802
575	600	82	2,175	2,200	306	3,775	3,800	530	5,375	5,400	754	10,575	10,600	799
600	625	86	2,200	2,225	310	3,800	3,825	534	5,400	5,425	758	10,600	10,625	797
625	650	89	2,225	2,250	313	3,825	3,850	537	5,425	5,450	761	10,625	10,650	794
650	675	93	2,250	2,275	317	3,850	3,875	541	5,450	5,475	765	10,650	10,675	792
675	700	96	2,275	2,300	320	3,875	3,900	544	5,475	5,500	768	10,675	10,700	789
700	725	100	2,300	2,325	324	3,900	3,925	548	5,500	5,525	772	10,700	10,725	787
725	750	103	2,325	2,350	327	3,925	3,950	551	5,525	5,550	775	10,725	10,750	784
750	775	107	2,350	2,375	331	3,950	3,975	555	5,550	5,575	779	10,750	10,775	782
775	800	110	2,375	2,400	334	3,975	4,000	558	5,575	5,600	782	10,775	10,800	779
800	825	114	2,400	2,425	338	4,000	4,025	562	5,600	5,625	786	10,800	10,825	777
825	850	117	2,425	2,450	341	4,025	4,050	565	5,625	5,650	789	10,825	10,850	774
850	875	121	2,450	2,475	345	4,050	4,075	569	5,650	5,675	793	10,850	10,875	772
875	900	124	2,475	2,500	348	4,075	4,100	572	5,675	5,700	796	10,875	10,900	769
900	925	128	2,500	2,525	352	4,100	4,125	576	5,700	5,725	800	10,900	10,925	767
925	950	131	2,525	2,550	355	4,125	4,150	579	5,725	5,750	803	10,925	10,950	764
950	975	135	2,550	2,575	359	4,150	4,175	583	5,750	5,775	807	10,950	10,975	762
975	1,000	138	2,575	2,600	362	4,175	4,200	586	5,775	5,800	810	10,975	11,000	759
1,000	1,025	142	2,600	2,625	366	4,200	4,225	590	5,800	5,825	814	11,000	11,025	757
1,025	1,050	145	2,625	2,650	369	4,225	4,250	593	5,825	5,850	817	11,025	11,050	754
1,050	1,075	149	2,650	2,675	373	4,250	4,275	597	5,850	5,875	821	11,050	11,075	752
1,075	1,100	152	2,675	2,700	376	4,275	4,300	600	5,875	5,900	824	11,075	11,100	749
1,100	1,125	156	2,700	2,725	380	4,300	4,325	604	5,900	5,925	828	11,100	11,125	747
1,125	1,150	159	2,725	2,750	383	4,325	4,350	607	5,925	5,950	831	11,125	11,150	744
1,150	1,175	163	2,750	2,775	387	4,350	4,375	611	5,950	5,975	835	11,150	11,175	742
1,175	1,200	166	2,775	2,800	390	4,375	4,400	614	5,975	6,000	838	11,175	11,200	739
1,200	1,225	170	2,800	2,825	394	4,400	4,425	618	6,000	6,025	842	11,200	11,225	737
1,225	1,250	173	2,825	2,850	397	4,425	4,450	621	6,025	6,050	845	11,225	11,250	734
1,250	1,275	177	2,850	2,875	401	4,450	4,475	625	6,050	6,075	849	11,250	11,275	732
1,275	1,300	180	2,875	2,900	404	4,475	4,500	628	6,075	6,100	852	11,275	11,300	729
1,300	1,325	184	2,900	2,925	408	4,500	4,525	632	6,100	6,125	856	11,300	11,325	727
1,325	1,350	187	2,925	2,950	411	4,525	4,550	635	6,125	6,150	859	11,325	11,350	724
1,350	1,375	191	2,950	2,975	415	4,550	4,575	639	6,150	6,175	863	11,350	11,375	722
1,375	1,400	194	2,975	3,000	418	4,575	4,600	642	6,175	6,200	866	11,375	11,400	719
1,400	1,425	198	3,000	3,025	422	4,600	4,625	646	6,200	6,225	870	11,400	11,425	717
1,425	1,450	201	3,025	3,050	425	4,625	4,650	649	6,225	6,250	874	11,425	11,450	714
1,450	1,475	205	3,050	3,075	429	4,650	4,675	653	6,250	6,275	878	11,450	11,475	712
1,475	1,500	208	3,075	3,100	432	4,675	4,700	656	6,275	6,300	881	11,475	11,500	709
1,500	1,525	212	3,100	3,125	436	4,700	4,725	660	6,300	6,325	885	11,500	11,525	707
1,525	1,550	215	3,125	3,150	439	4,725	4,750	663	6,325	6,350	888	11,525	11,550	704
1,550	1,575	219	3,150	3,175	443	4,750	4,775	667	6,350	6,375	892	11,550	11,575	702
1,575	1,600	222	3,175	3,200	446	4,775	4,800	670	6,375	6,400	895	11,575	11,600	699



**1988 Earned Income Credit Table (continued)**

If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—
At least	But less than		At least	But less than		At least	But less than		At least	But less than		At least	But less than	
\$11,600	\$11,625	\$697	\$13,000	\$13,025	\$557	\$14,400	\$14,425	\$417	\$15,800	\$15,825	\$277	\$17,200	\$17,225	\$137
11,625	11,650	694	13,025	13,050	554	14,425	14,450	414	15,825	15,850	274	17,225	17,250	134
11,650	11,675	692	13,050	13,075	552	14,450	14,475	412	15,850	15,875	272	17,250	17,275	132
11,675	11,700	689	13,075	13,100	549	14,475	14,500	409	15,875	15,900	269	17,275	17,300	129
11,700	11,725	687	13,100	13,125	547	14,500	14,525	407	15,900	15,925	267	17,300	17,325	127
11,725	11,750	684	13,125	13,150	544	14,525	14,550	404	15,925	15,950	264	17,325	17,350	124
11,750	11,775	682	13,150	13,175	542	14,550	14,575	402	15,950	15,975	262	17,350	17,375	122
11,775	11,800	679	13,175	13,200	539	14,575	14,600	399	15,975	16,000	259	17,375	17,400	119
11,800	11,825	677	13,200	13,225	537	14,600	14,625	397	16,000	16,025	257	17,400	17,425	117
11,825	11,850	674	13,225	13,250	534	14,625	14,650	394	16,025	16,050	254	17,425	17,450	114
11,850	11,875	672	13,250	13,275	532	14,650	14,675	392	16,050	16,075	252	17,450	17,475	112
11,875	11,900	669	13,275	13,300	529	14,675	14,700	389	16,075	16,100	249	17,475	17,500	109
11,900	11,925	667	13,300	13,325	527	14,700	14,725	387	16,100	16,125	247	17,500	17,525	107
11,925	11,950	664	13,325	13,350	524	14,725	14,750	384	16,125	16,150	244	17,525	17,550	104
11,950	11,975	662	13,350	13,375	522	14,750	14,775	382	16,150	16,175	242	17,550	17,575	102
11,975	12,000	659	13,375	13,400	519	14,775	14,800	379	16,175	16,200	239	17,575	17,600	99
12,000	12,025	657	13,400	13,425	517	14,800	14,825	377	16,200	16,225	237	17,600	17,625	97
12,025	12,050	654	13,425	13,450	514	14,825	14,850	374	16,225	16,250	234	17,625	17,650	94
12,050	12,075	652	13,450	13,475	512	14,850	14,875	372	16,250	16,275	232	17,650	17,675	92
12,075	12,100	649	13,475	13,500	509	14,875	14,900	369	16,275	16,300	229	17,675	17,700	89
12,100	12,125	647	13,500	13,525	507	14,900	14,925	367	16,300	16,325	227	17,700	17,725	87
12,125	12,150	644	13,525	13,550	504	14,925	14,950	364	16,325	16,350	224	17,725	17,750	84
12,150	12,175	642	13,550	13,575	502	14,950	14,975	362	16,350	16,375	222	17,750	17,775	82
12,175	12,200	639	13,575	13,600	499	14,975	15,000	359	16,375	16,400	219	17,775	17,800	79
12,200	12,225	637	13,600	13,625	497	15,000	15,025	357	16,400	16,425	217	17,800	17,825	77
12,225	12,250	634	13,625	13,650	494	15,025	15,050	354	16,425	16,450	214	17,825	17,850	74
12,250	12,275	632	13,650	13,675	492	15,050	15,075	352	16,450	16,475	212	17,850	17,875	72
12,275	12,300	629	13,675	13,700	489	15,075	15,100	349	16,475	16,500	209	17,875	17,900	69
12,300	12,325	627	13,700	13,725	487	15,100	15,125	347	16,500	16,525	207	17,900	17,925	67
12,325	12,350	624	13,725	13,750	484	15,125	15,150	344	16,525	16,550	204	17,925	17,950	64
12,350	12,375	622	13,750	13,775	482	15,150	15,175	342	16,550	16,575	202	17,950	17,975	62
12,375	12,400	619	13,775	13,800	479	15,175	15,200	339	16,575	16,600	199	17,975	18,000	59
12,400	12,425	617	13,800	13,825	477	15,200	15,225	337	16,600	16,625	197	18,000	18,025	57
12,425	12,450	614	13,825	13,850	474	15,225	15,250	334	16,625	16,650	194	18,025	18,050	54
12,450	12,475	612	13,850	13,875	472	15,250	15,275	332	16,650	16,675	192	18,050	18,075	52
12,475	12,500	609	13,875	13,900	469	15,275	15,300	329	16,675	16,700	189	18,075	18,100	49
12,500	12,525	607	13,900	13,925	467	15,300	15,325	327	16,700	16,725	187	18,100	18,125	47
12,525	12,550	604	13,925	13,950	464	15,325	15,350	324	16,725	16,750	184	18,125	18,150	44
12,550	12,575	602	13,950	13,975	462	15,350	15,375	322	16,750	16,775	182	18,150	18,175	42
12,575	12,600	599	13,975	14,000	459	15,375	15,400	319	16,775	16,800	179	18,175	18,200	39
12,600	12,625	597	14,000	14,025	457	15,400	15,425	317	16,800	16,825	177	18,200	18,225	37
12,625	12,650	594	14,025	14,050	454	15,425	15,450	314	16,825	16,850	174	18,225	18,250	34
12,650	12,675	592	14,050	14,075	452	15,450	15,475	312	16,850	16,875	172	18,250	18,275	32
12,675	12,700	589	14,075	14,100	449	15,475	15,500	309	16,875	16,900	169	18,275	18,300	29
12,700	12,725	587	14,100	14,125	447	15,500	15,525	307	16,900	16,925	167	18,300	18,325	27
12,725	12,750	584	14,125	14,150	444	15,525	15,550	304	16,925	16,950	164	18,325	18,350	24
12,750	12,775	582	14,150	14,175	442	15,550	15,575	302	16,950	16,975	162	18,350	18,375	22
12,775	12,800	579	14,175	14,200	439	15,575	15,600	299	16,975	17,000	159	18,375	18,400	19
12,800	12,825	577	14,200	14,225	437	15,600	15,625	297	17,000	17,025	157	18,400	18,425	17
12,825	12,850	574	14,225	14,250	434	15,625	15,650	294	17,025	17,050	154	18,425	18,450	14
12,850	12,875	572	14,250	14,275	432	15,650	15,675	292	17,050	17,075	152	18,450	18,475	12
12,875	12,900	569	14,275	14,300	429	15,675	15,700	289	17,075	17,100	149	18,475	18,500	9
12,900	12,925	567	14,300	14,325	427	15,700	15,725	287	17,100	17,125	147	18,500	18,525	7
12,925	12,950	564	14,325	14,350	424	15,725	15,750	284	17,125	17,150	144	18,525	18,550	4
12,950	12,975	562	14,350	14,375	422	15,750	15,775	282	17,150	17,175	142	18,550	18,575	2
12,975	13,000	559	14,375	14,400	419	15,775	15,800	279	17,175	17,200	139	18,575	18,576	1

\$18,576 or more—you cannot take the credit

# What Is Tele-Tax?

**Automated Refund Information** is available so you can check the status of your refund.

**Recorded Tax Information** has about 140 topics of tax information that answer many Federal tax questions. You can hear up to three topics on each call you make.

## To Call Tele-Tax Toll-Free, Use Only the Numbers Listed Below for Your Area.

Long-distance charges apply if you call from outside the local dialing area of the numbers listed below. **Do not dial 1-800 when using a local number.** A complete list of these topics is on the next page.

## How Do I Use Tele-Tax?

### Automated Refund Information

1. Have a copy of your tax return available since you will need to know the first social security number shown on your return, the filing status, and the exact amount of your refund.
2. Call the appropriate phone number listed below.
3. Follow the recorded instructions.
4. ● Push-button (tone signaling) service is available Monday through Friday from 7:00 A.M. to 11:30 P.M. (Hours may vary in your area.)  
● Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

### Recorded Tax Information

1. Select, by number, the topic you want to hear.
2. Have paper and pencil handy to take notes.
3. Call the appropriate phone number listed below.
4. ● If you have a push-button (tone signaling) phone, immediately follow the recorded instructions, or  
● If you have a rotary (dial) or push-button (pulse dial) phone, wait for further recorded instructions.
5. ● Push-button (tone signaling) service is available 24 hours a day, 7 days a week.  
● Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

**INDIANA**  
Indianapolis, 631-1010  
Elsewhere,  
1-800-554-4477

**IOWA**  
1-800-554-4477

**KANSAS**  
1-800-554-4477

**KENTUCKY**  
1-800-554-4477

**LOUISIANA**  
1-800-554-4477

**MAINE**  
1-800-554-4477

**MARYLAND**  
Baltimore, 244-7306  
Elsewhere,  
1-800-554-4477

**MASSACHUSETTS**  
Boston, 523-8602  
Elsewhere,  
1-800-554-4477

**MICHIGAN**  
Detroit, 961-4282  
Elsewhere,  
1-800-554-4477

**MINNESOTA**  
St. Paul, 224-4288  
Elsewhere,  
1-800-554-4477

**MISSISSIPPI**  
1-800-554-4477

**MISSOURI**  
St. Louis, 241-4700  
Elsewhere,  
1-800-554-4477

**MONTANA**  
1-800-554-4477

**NEBRASKA**  
Omaha, 221-3324  
Elsewhere,  
1-800-554-4477

**NEVADA**  
1-800-554-4477

**NEW HAMPSHIRE**  
1-800-554-4477

**NEW JERSEY**  
Newark, 624-1223  
Elsewhere,  
1-800-554-4477

**NEW MEXICO**  
1-800-554-4477

**NEW YORK**  
Brooklyn, 858-4461  
Buffalo, 856-9320  
Manhattan, 406-4080  
Queens, 858-4461  
Staten Island,  
858-4461  
Elsewhere,  
1-800-554-4477

**NORTH CAROLINA**  
1-800-554-4477

**NORTH DAKOTA**  
1-800-554-4477

**OHIO**  
Cincinnati, 421-0329  
Cleveland, 522-3037  
Elsewhere,  
1-800-554-4477

**OKLAHOMA**  
1-800-554-4477

**OREGON**  
Portland, 294-5363  
Elsewhere,  
1-800-554-4477

**PENNSYLVANIA**  
Philadelphia, 592-8946  
Pittsburgh, 261-1040  
Elsewhere,  
1-800-554-4477

**PUERTO RICO**  
1-800-554-4477

**RHODE ISLAND**  
1-800-554-4477

**SOUTH CAROLINA**  
1-800-554-4477

**SOUTH DAKOTA**  
1-800-554-4477

**TENNESSEE**  
Nashville, 242-1541  
Elsewhere,  
1-800-554-4477

**TEXAS**  
Dallas, 767-1792  
Houston, 850-8801  
Elsewhere,  
1-800-554-4477

**UTAH**  
1-800-554-4477

**VERMONT**  
1-800-554-4477

**VIRGINIA**  
Richmond, 829-6397  
Elsewhere,  
1-800-554-4477

**WASHINGTON**  
Seattle, 343-7221  
Elsewhere,  
1-800-554-4477

**WEST VIRGINIA**  
1-800-554-4477

**WISCONSIN**  
Milwaukee, 291-1783  
Elsewhere,  
1-800-554-4477

**WYOMING**  
1-800-554-4477

**ALABAMA**  
1-800-554-4477

**ALASKA**  
1-800-554-4477

**ARIZONA**  
Phoenix, 252-4909  
Elsewhere,  
1-800-554-4477

**ARKANSAS**  
1-800-554-4477

**CALIFORNIA**  
Counties of Amador,  
Calaveras, Contra Costa,  
Marin, and San Joaquin,  
1-800-428-4032

Los Angeles, 617-3177  
Oakland, 839-4245  
Elsewhere,  
1-800-554-4477

**COLORADO**  
Denver, 592-1118  
Elsewhere,  
1-800-554-4477

**CONNECTICUT**  
1-800-554-4477

**DELAWARE**  
1-800-554-4477

**DISTRICT OF COLUMBIA**  
628-2929

**FLORIDA**  
Jacksonville, 353-9579  
Elsewhere,  
1-800-554-4477

**GEORGIA**  
Atlanta, 331-6572  
Elsewhere,  
1-800-554-4477

**HAWAII**  
1-800-554-4477

**IDAHO**  
1-800-554-4477

**ILLINOIS**  
Chicago, 829-6397  
Springfield, 789-0489  
Elsewhere,  
1-800-554-4477

# Tele-Tax Topic Numbers and Subjects

Topic No.	Subject
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101	IRS help available—Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
102	Tax assistance for handicapped individuals and the deaf
103	Small business tax workshops—Tax help for new businesses
104	Problem resolution program—Special help for problem situations
105	Public libraries—Tax information tapes and reproducible tax forms
106	Examination procedures and how to prepare for an audit
107	The collection process
108	Tax fraud—How to report
109	Special enrollment examination to practice before IRS
110	Organizations—How to apply for exempt status
111	Audit appeal rights
112	Electronic filing
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154	What is your filing status?
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209	Capital gains and losses
210	Pensions and annuities
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212	Lump-sum distributions—Profit-sharing plans
213	Rental income and expenses
214	Renting vacation property/Renting to relatives
215	Royalties
216	Farming and fishing income
217	Earnings for clergy
218	Unemployment compensation
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220	Bartering income
221	Scholarships, fellowships, and grants
222	Nontaxable income
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303	Taxes
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309	Business use of home
310	Business use of car
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313	Educational expenses
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403	Credit for the elderly or the disabled
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451	Substitute tax forms
452	Highlights of 1988 tax changes
453	Refunds—How long they should take
454	Copy of your tax return—How to get one
455	Forms/Publications—How to order
456	Tax shelter registration
457	Extensions for time to file your tax return
458	Form W-2—What to do if not received
459	Penalty for underpayment of estimated tax
460	Recordkeeping
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462	Failure to pay child/spousal support and other Federal obligations
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465	Checklist/Common errors when preparing your tax return
466	Withholding on pensions and annuities
467	Foreign currency transactions
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501	Notices—What to do
502	Your tax form is overdue—Let us hear from you
503	Second request for information about your tax form
504	Notice of intent to levy
505	Notice of underreported income—CP2000
506	IRS notices and bills/Penalty and interest charges
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551	Sale of your home—General
552	Sale of your home—How to report gain
553	Sale of your home—Exclusion of gain, age 55 and over
554	Basis of assets
555	Depreciation
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Topic No.	Subject
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602	Form W-2—Where, when and how to file
603	Form W-4—Employee's Withholding Allowance Certificate
604	Federal tax deposits—General
605	Employer identification number—How to apply
606	Form 942—Employer's Quarterly Tax Return for Household Employees
607	Form 941—Deposit requirements
608	Form 941—Employer's Quarterly Federal Tax Return
609	Form 940—Deposit requirements
610	Form 940—Employer's Annual Federal Unemployment Tax Return
611	Targeted jobs credit
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652	Acceptable media/Locating a third party to prepare your files
653	Applications, forms, and information
654	Waivers, extensions, and format deviations
655	Test files and combined Federal/State filing
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752	Which form to use?
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755	Highlights of 1988 tax changes
756	Forms and publications—How to order
757	Alien tax clearance
758	Refunds—How long they should take
759	IRS help available—Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
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852	Deductions and Credits for Puerto Rico filers
853	Federal Employment Taxes in Puerto Rico
854	Tax Assistance For Residents of Puerto Rico

# Call IRS With Your Tax Question

If the instructions to the tax forms and our free tax publications have not answered your question, please call us TOLL-FREE. "Toll-Free" is a telephone call for which you pay only local charges.

**CHOOSING THE RIGHT NUMBER:** Use only the number listed below for your area. Use a local city number only if it is not a long distance call for you. **Please do not dial 1-800 when using a local city number.**

**BEFORE YOU CALL:** Remember that good communication is a two-way process. IRS representatives care about the quality of the service we provide to you, our customer. You can help us provide accurate, complete answers to your tax questions by having the following information available:

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

**BEFORE YOU HANG UP:** If you do not fully understand the answer you receive, or you feel our representative may not fully understand your question, our representative needs to know this. He or she will be happy to take the additional time required to be sure we have answered your question fully and in the manner which is most helpful to you.

By law, you are responsible for paying your fair share of Federal income tax. If we should make an error in answering your question, you are still responsible for the payment of the correct tax. Should this occur, however, you will not be charged any penalty. To make sure that IRS representatives give accurate and courteous answers, a second IRS representative sometimes listens in on telephone calls. No record is kept of any taxpayer's identity.

**ALABAMA**  
1-800-424-1040

**ALASKA**  
Anchorage, 561-7484  
Elsewhere, 1-800-424-1040

**ARIZONA**  
Phoenix, 257-1233  
Elsewhere, 1-800-424-1040

**ARKANSAS**  
1-800-424-1040

**CALIFORNIA**  
Please call the telephone number shown in the white pages of your local telephone directory under U.S. Government, Internal Revenue Service, Federal Tax Assistance.

**COLORADO**  
Denver, 825-7041  
Elsewhere, 1-800-424-1040

**CONNECTICUT**  
1-800-424-1040

**DELAWARE**  
1-800-424-1040

**DISTRICT of COLUMBIA**  
488-3100

**FLORIDA**  
Jacksonville, 354-1760  
Elsewhere, 1-800-424-1040

**GEORGIA**  
Atlanta, 522-0050  
Elsewhere, 1-800-424-1040

**HAWAII**  
Oahu, 541-1040  
Elsewhere, 1-800-424-1040

**IDAHO**  
1-800-424-1040

**ILLINOIS**  
Chicago, 435-1040  
Elsewhere, 1-800-424-1040

**INDIANA**  
Indianapolis, 226-5477  
Elsewhere, 1-800-424-1040

**IOWA**  
Des Moines, 283-0523  
Elsewhere, 1-800-424-1040

**KANSAS**  
1-800-424-1040

**KENTUCKY**  
1-800-424-1040

**LOUISIANA**  
1-800-424-1040

**MAINE**  
1-800-424-1040

**MARYLAND**  
Baltimore, 962-2590  
Montgomery County, 488-3100  
Prince George's County, 488-3100  
Elsewhere, 1-800-424-1040

**MASSACHUSETTS**  
Boston, 523-1040  
Elsewhere, 1-800-424-1040

**MICHIGAN**  
Detroit, 237-0800  
Elsewhere, 1-800-424-1040

**MINNESOTA**  
Minneapolis, 291-1422  
St. Paul, 291-1422  
Elsewhere, 1-800-424-1040

**MISSISSIPPI**  
1-800-424-1040

**MISSOURI**  
St. Louis, 342-1040  
Elsewhere, 1-800-424-1040

**MONTANA**  
1-800-424-1040

**NEBRASKA**  
Omaha, 422-1500  
Elsewhere, 1-800-424-1040

**NEVADA**  
1-800-424-1040

**NEW HAMPSHIRE**  
1-800-424-1040

**NEW JERSEY-**  
Newark, 622-0600  
Elsewhere, 1-800-424-1040

**NEW MEXICO**  
1-800-424-1040

**NEW YORK**  
Bronx, 732-0100  
Brooklyn, 596-3770  
Buffalo, 855-3955  
Manhattan, 732-0100  
Nassau, 222-1131  
Queens, 596-3770  
Rockland County, 997-1510  
Staten Island, 596-3770  
Suffolk, 724-5000  
Westchester County, 997-1510  
Elsewhere, 1-800-424-1040

**NORTH CAROLINA**  
1-800-424-1040

**NORTH DAKOTA**  
1-800-424-1040

**OHIO**  
Cincinnati, 621-6281  
Cleveland, 522-3000  
Elsewhere, 1-800-424-1040

**OKLAHOMA**  
1-800-424-1040

**OREGON**  
Portland, 221-3960  
Elsewhere, 1-800-424-1040

**PENNSYLVANIA**  
Philadelphia, 574-9900  
Pittsburgh, 281-0112  
Elsewhere, 1-800-424-1040

**PUERTO RICO**  
San Juan Metro Area, 766-5040  
Isla DDD, 766-5549

**RHODE ISLAND**  
1-800-424-1040

**SOUTH CAROLINA**  
1-800-424-1040

**SOUTH DAKOTA**  
1-800-424-1040

**TENNESSEE**  
Nashville, 259-4601  
Elsewhere 1-800-424-1040

**TEXAS**  
Dallas, 742-2440  
Ft. Worth, 263-9229  
Houston, 965-0440  
Elsewhere, 1-800-424-1040

**UTAH**  
1-800-424-1040

**VERMONT**  
1-800-424-1040

**VIRGINIA**  
Bailey's Crossroads, 557-9230  
Richmond, 649-2361  
Elsewhere, 1-800-424-1040

**WASHINGTON**  
Seattle, 442-1040  
Elsewhere, 1-800-424-1040

**WEST VIRGINIA**  
1-800-424-1040

**WISCONSIN**  
Milwaukee, 271-3780  
Elsewhere, 1-800-424-1040

**WYOMING**  
1-800-424-1040

**Telephone Assistance Services for Deaf Taxpayers Who Have Access to TV / Telephone—TTY Equipment.**

Indiana residents, 1-800-382-4059

Elsewhere in U.S., including Alaska, Hawaii, Virgin Islands, and Puerto Rico, 1-800-428-4732

Hours of Operation  
8:00 A.M. to 6:45 P.M. EST (Jan. 1–April 17)

8:00 A.M. to 4:30 P.M. EST (April 18–Dec. 31)

## Need Additional Forms or Publications?

If you do not have any tax questions and you only need tax forms and publications, you can—

- Visit your local bank or post office for Forms 1040, 1040A, 1040EZ and Schedules A&B and their related instructions.
- Visit your local library that stocks a wider variety of forms and publications.
- Visit your local IRS office.
- Use the handy order blank on the next to the last page of the instructions. You should receive the items you order within 2 weeks of the time you mail your request.
- Call our toll-free "Forms Only" number (1-800-424-FORM (3676)). The hours of operation during the filing season are 8:00 A.M. to 8:00 P.M. (Monday–Friday) and 9:00 A.M. to 3:00 P.M. (Saturdays). You should receive your order within 7 to 10 work days after you call.





## How To Get Forms

Generally, we mail forms and schedules directly to you based on what seems to be right for you. Schedules and forms you may need are listed below. Also see list of related publications.

**You can order the following items from IRS or get them at many participating banks, post offices, or libraries:**

**Form 1040**, U.S. Individual Income Tax Return  
Instructions for Form 1040

**Form 1040A**  
Instructions for Form 1040A

**Form 1040EZ**  
Instructions for Form 1040EZ

**Schedule A** for itemized deductions

**Schedule B** for interest income if more than \$400; for dividends and other distributions on stock if more than \$400; and for answering the Foreign Accounts or Foreign Trusts questions

**You can photocopy the following items (as well as those listed above) at many participating libraries or order them from IRS:**

**Schedule C**, Profit or Loss From Business

**Schedule D**, Capital Gains and Losses

**Schedule E**, Supplemental Income Schedule

**Schedule F**, Farm Income and Expenses

**Schedule R**, Credit for the Elderly or the Disabled

**Schedule SE**, Social Security Self-Employment Tax

**Form 1040-ES**, Estimated Tax for Individuals

**Form 2106**, Employee Business Expenses

**Form 2119**, Sale of Your Home

**Form 2210**, Underpayment of Estimated Tax by Individuals and Fiduciaries

**Form 2441**, Credit for Child and Dependent Care Expenses

**Form 3468**, Computation of Investment Credit

**Form 3903**, Moving Expenses

**Form 4562**, Depreciation and Amortization

**Form 4868**, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

**Form 8283**, Noncash Charitable Contributions

**Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents

**Form 8582**, Passive Activity Loss Limitations

**Form 8606**, Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions

**Form 8615**, Computation of Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,000

## How To Get Publications

**The following publications can be ordered from IRS or you can read or photocopy them at many participating libraries:**

**1** Your Rights as a Taxpayer

**17** Your Federal Income Tax

**463** Travel, Entertainment, and Gift Expenses

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

**502** Medical and Dental Expenses

**504** Tax Information for Divorced or Separated Individuals

**505** Tax Withholding and Estimated Tax

**508** Educational Expenses

**521** Moving Expenses

**523** Tax Information on Selling Your Home

**524** Credit for the Elderly or the Disabled

**525** Taxable and Nontaxable Income

**527** Residential Rental Property

**529** Miscellaneous Deductions

**545** Interest Expense

**553** Highlights of 1988 Tax Changes

**554** Tax Information for Older Americans

**910** Guide to Free Tax Services

**917** Business Use of a Car

**929** Tax Rules for Children and Dependents

**Other publications and forms referred to in the instructions are also available without cost from the "Forms Distribution Center" for your state. See Publication 910 for a complete list of available publications.**

# Where To Send Your Order for Free Forms and Publications

Please send your order to the "Forms Distribution Center" for your state.

- Alabama**—P.O. Box 9903, Bloomington, IL 61799
- Alaska**—Rancho Cordova, CA 95743-0001
- Arizona**—Rancho Cordova, CA 95743-0001
- Arkansas**—P.O. Box 9903, Bloomington, IL 61799
- California**—Rancho Cordova, CA 95743-0001
- Colorado**—Rancho Cordova, CA 95743-0001
- Connecticut**—P.O. Box 25866, Richmond, VA 23289
- Delaware**—P.O. Box 25866, Richmond, VA 23289
- District of Columbia**—P.O. Box 25866, Richmond, VA 23289
- Florida**—P.O. Box 25866, Richmond, VA 23289
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- Hawaii**—Rancho Cordova, CA 95743-0001
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- New Hampshire**—P.O. Box 25866, Richmond, VA 23289
- New Jersey**—P.O. Box 25866, Richmond, VA 23289
- New Mexico**—Rancho Cordova, CA 95743-0001
- New York**—P.O. Box 25866, Richmond, VA 23289

- North Carolina**—P.O. Box 25866, Richmond, VA 23289
- North Dakota**—P.O. Box 9903, Bloomington, IL 61799
- Ohio**—P.O. Box 9903, Bloomington, IL 61799
- Oklahoma**—P.O. Box 9903, Bloomington, IL 61799
- Oregon**—Rancho Cordova, CA 95743-0001
- Pennsylvania**—P.O. Box 25866, Richmond, VA 23289
- Rhode Island**—P.O. Box 25866, Richmond, VA 23289
- South Carolina**—P.O. Box 25866, Richmond, VA 23289
- South Dakota**—P.O. Box 9903, Bloomington, IL 61799
- Tennessee**—P.O. Box 9903, Bloomington, IL 61799
- Texas**—P.O. Box 9903, Bloomington, IL 61799
- Utah**—Rancho Cordova, CA 95743-0001
- Vermont**—P.O. Box 25866, Richmond, VA 23289
- Virginia**—P.O. Box 25866, Richmond, VA 23289
- Washington**—Rancho Cordova, CA 95743-0001
- West Virginia**—P.O. Box 25866, Richmond, VA 23289
- Wisconsin**—P.O. Box 9903, Bloomington, IL 61799
- Wyoming**—Rancho Cordova, CA 95743-0001

**Foreign Addresses**—Taxpayers with mailing addresses in foreign countries should send the order blank to either: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289; or Forms Distribution Center, Rancho Cordova, CA 95743-0001, whichever is closer. Send letter requests for other forms and publications to: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289.

**Puerto Rico**—Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289

**Virgin Islands**—V. I. Bureau of Internal Revenue, Lockharts Garden No. 1A, Charlotte Amalie, St. Thomas, VI 00802

**Order Blank**—We will send you 2 copies of each form and 1 copy of each set of instructions or publication you circle. Please cut the order blank on the dotted line and **be sure to print or type your name and address accurately on the other side.** This will be the label used to return material to you. Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state. To help reduce waste, please order only the forms and publications you think you will need to prepare your return. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper listing the additional forms and publications you may need. Be sure to allow 2 weeks to receive your order.

**Detach at This Line**

## Order blank

**Circle Desired Forms and Publications**

1040	Schedule C (1040)	2106 & Instructions	4868	Pub. 463	Pub. 523	Pub. 554	
Instructions for 1040 & Schedules	Schedule D (1040)	2119 & Instructions	8283 & Instructions	Pub. 501	Pub. 524	Pub. 910	
1040A	Schedule E (1040)	2210 & Instructions	8332	Pub. 502	Pub. 525	Pub. 917	
1040EZ	Schedule F (1040)	2441	8582 & Instructions	Pub. 504	Pub. 527	Pub. 929	
1040A & 1040EZ Instructions	Schedule R (1040) & Instructions	3468 & Instructions	8606	Pub. 505	Pub. 529		
1040X & Instructions	Schedule SE (1040)	3903 & Instructions	8615	Pub. 508	Pub. 545		
Schedules A&B (1040)	1040-ES (1989)	4562 & Instructions	Pub. 17	Pub. 521	Pub. 553		

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