

**FEDERAL INCOME TAX GUIDE
FOR PEACE CORPS TRAINEES, VOLUNTEERS, AND
FORMER VOLUNTEERS
TAX YEAR 2005**

READ THE FOLLOWING POINTS BEFORE PROCEEDING TO SAVE YOU TIME AND EFFORT IN DETERMINING YOUR OBLIGATIONS UNDER FEDERAL TAX LAWS.

1. You must file a tax return if—

Your marital status at the end of 2005 was:	and your filing status is:	and at the end of 2005 you were:	and your gross income was at least:
Single (including divorced and legally separated)	Single	under 65	\$8,200
		65 or older	\$9,450
	Head of household	under 65	\$10,500
		65 or older	\$11,750
Married, with a child, living apart from your spouse during the last 6 months of 2005	Head of household	under 65	\$10,500
		65 or older	\$11,750
Married, living with your spouse at end of 2005 (or on the date your spouse died)	Married, joint return	under 65 (both)	\$16,400
		65 or older (one)	\$17,400
		65 or older (both)	\$18,400
	Married, separate return	any age	\$3,200
Married, not living with your spouse at end of 2005 (or on the date your spouse died)	Married, joint return or separate return	any age	\$3,200
	Single	under 65	\$8,200
		65 or older	\$9,450
Widowed before 2005 and not remarried in 2005	Head of household	under 65	\$10,500
		65 or older	\$11,750
	Qualifying widow(er) with dependent child	under 65	\$13,200
		65 or older	\$14,200

2. If you receive a W-2 Form from the Peace Corps for 2005 and you were not a Volunteer or Trainee in any part of calendar year 2005, remember that the amount shown on the W-2 reflects Readjustment Allowance accrued from December 1, 2004 through November 30, 2005 or through your actual termination date, whichever came first.
3. The W-2 Form enclosed with these instructions represents only a portion of your Peace Corps income subject to tax: that of the Readjustment Allowance accrued during 2005. Your Country Director is responsible for advising which portion of other allowances received in-country is taxable. If you are no longer overseas and do not have this information, contact Volunteer Financial Operations (CFO/VPS/VFO) at Peace Corps/Washington, 1-800-424-8580, ext. 1770.
4. Form 1040 is the only IRS form which provides for reporting of “other income” not included on the W-2 Form. Because the taxable portion of living and leave allowance is not included on your W-2 Form, Peace Corps Volunteers must use Form 1040 to file a tax return.

I. HOW TO DETERMINE YOUR TAXABLE INCOME FOR 2005

A. "Readjustment Allowance" _____
(Enter amount shown on enclosed Peace Corps W-2 form.)

B. "Other employment" _____
(Enter amount on W-2 form(s) received from other employers.)

Add lines A and B. Enter total on line #7 (Wages, Salaries, Tips etc.) of IRS form 1040.

Complete lines 8 through 20 of IRS form 1040 as appropriate.

C. "Walk-around allowance" _____
(Multiply number of days in training by daily rate.)

D. "Leave Allowance" _____
(Enter \$24.00 for each month of service for which you were a PCV
(not a trainee) for 16 days or more; \$12.00 for 15 days or less.)

E. "Living Allowance" _____
(Multiply the percent of your Total Living Allowance, which is taxable times
your Total Living Allowance. Obtain this information from your
Country Director.)

F. "Special Leave Allowance" _____
(**Applies only to Volunteers that extend service**: Enter \$12.00 for each
day of "special leave" taken; 30 days of "special leave" equals \$360.00.)

Add lines C through F and enter amount on line #21 (Other income) of IRS form 1040. (You may also have non-Peace Corps income that falls into this category, consult the "other income" section of your IRS 1040 instruction booklet.)

Total lines #7 through #21 on IRS form 1040 and enter on line #22 of that form. This is your TOTAL INCOME.

To determine if you must file an income tax return this year, check the table on the front of this guide. If your TOTAL INCOME is equal to or greater than the amount listed for your filing status, YOU MUST FILE a tax return. If your TOTAL INCOME is less than the amount listed for your filing status, YOU ARE NOT REQUIRED to file a tax return.

If you file a return, attach the worksheet portion of this tax guide to your IRS 1040 form, enclose all W-2 forms, and mail to the IRS service center for home-of-record. A list of service centers and addresses can be found in the IRS 1040 instruction booklet.

Even though you may not be required to file a tax return this year, you should retain all of your W-2 forms and this completed guide for your permanent records. DO NOT RETURN THIS GUIDE TO PEACE CORPS WASHINGTON.

II. FILING YOUR TAX RETURN

A. When to file

If you are in the United States on April 15, 2006, you must file your tax return by that date. If you are outside the United States on April 15, 2006, you are given an automatic extension of time until June 15, 2006 in which to file.

However, a note must be attached to your return stating that you are residing or traveling outside the U.S. as of April 15. Otherwise, the Internal Revenue Service may classify you as a delinquent and penalize you for late filing. ALTHOUGH YOU RECEIVE AN AUTOMATIC EXTENSION OF TIME IN WHICH TO FILE, YOU SHOULD NOTE THAT THERE IS A STATUTORY CHARGE FOR INTEREST ON ANY TAX WHICH IS NOT PAID BY APRIL 15, 2006.

If it is impossible for you to file your tax return before June 15 because of the complexities of your income sources, you may request an extension of time in which to file your tax return. Your Country Director has IRS form 4868, Application for Extension of Time, which must be submitted to IRS before April 15, 2006. AGAIN, PLEASE BE REMINDED THAT THERE IS A STATUTORY CHARGE FOR INTEREST ON ANY TAX WHICH IS NOT PAID BY APRIL 15, 2006. Therefore, you must pay interest on any tax due at the time you do submit your return.

B. Where to file

The IRS instruction booklet contains the addresses of all IRS Centers. Pick out the office nearest your legal residence. If you do not claim a legal residence in the United States, use the Philadelphia address. (Do not send W-2 Forms to CFO/VPS/Volunteer Financial Operations.)

C. Filing

Income must be reported on your tax return in United States dollars. Your Country Director will advise you of the taxable portion of overseas allowances paid in U.S. dollars equivalence.

You must pay your tax in U.S. dollars. You may use personal or certified dollar checks, money orders or traveler's checks. You may also request that your Country Director deduct the appropriate sum from your Readjustment Allowance, providing the amount is \$350.00 or less. Your Country Director will request authorization from CFO/VPS/Volunteer Financial Operations by email or fax, followed by a Form PC-10, Application to Allot or Withdraw from RA. This request should be made to your Country Director at least one month prior to the date you want the check to be issued to insure timely filing of your tax return. Your Country Director cannot accept responsibility for late filing of tax returns.

At the time you request the deduction, you **MUST** enclose your tax return. When your Country Director has received the processed check from VFO, he/she will mail it ALONG WITH your return to the IRS office you have specified on the form. Do not send your tax return to VFO.

III. EXEMPTIONS AND WITHHOLDING

Note that there was no withholding from the Readjustment Allowance during 2005 unless you elected optional withholding. The fact that no withholding has been made is generally to your advantage since you would have been required to file a tax return to obtain a refund even though your income as a single volunteer was less than \$8,200.00. You may elect optional withholding in \$5.00 increments from \$15.00 up to \$100.00 per month. Ask your Country Director for additional information.

IV. STATE AND LOCAL TAXES

This Tax Guide deals only with Federal Income Tax provisions. **YOU ARE RESPONSIBLE FOR OBTAINING INFORMATION ON STATE AND LOCAL TAXES AND FOR PAYING ANY TAXES AS REQUIRED.**

V. FORMS

The following forms and publications have been sent to your Country Director:

FORM 1040	U.S. INDIVIDUAL INCOME TAX RETURN (To be used by all Peace Corps Volunteers that file a tax return.)
Schedule A	To report itemized deductions
Schedule B	To report interest/dividend income
FORM 4868	FIRST-Application for Extension of Time
INSTRUCTION BOOKLET FOR FORM 1040	