

TAX TIME 2001

TAX PACKAGES

The Internal Revenue Service will send more than 40 million tax packages and 17 million filing-related postcards this year. This mailout costs \$9.2 million for printing and nearly \$10.2 million for postage, for an average cost of 33.5 cents per item mailed. Most people will get their tax packages in early January. The IRS expects to receive around 130 million tax returns in 2001, with e-filing reaching 42 million returns.

Nearly 18 million TeleFile packages invite recipients to file by telephone. These packages -- which contain no tax forms -- include Customer Service Numbers, used to "sign" the returns, and a "Tax Record" that helps the taxpayer prepare for the call and serves as a record of filing. The IRS is no longer sending TeleFile packages to taxpayers who used a paid preparer the previous year, but it is mailing them a postcard urging them to file their returns electronically.

Although the name labels on the tax packages do not contain Social Security numbers (SSNs), taxpayers should use the labels on their forms to help ensure a correct mailing address. They must put their SSNs on the tax forms, taking care that each person's SSN matches the name on the Social Security card. Failure to do so may result in delayed refunds or lost tax benefits. Incorrect or missing numbers were the most frequent error on returns the last two years.

The IRS is no longer sending postcards with "customer numbers" for taxpayers to use when e-filing. Instead, it will send taxpayers who used a computer to do their own returns last year information on the new, Self-Select PIN (personal identification number) program. E-filers will use this five-digit PIN, plus two items from the 1999 tax return -- adjusted gross income and total tax -- as an electronic "signature." The Self-Select PIN may be used by those preparing their own returns as well as by taxpayers using a paid preparer.

Forms and publications are available via computer from the IRS Web site at www.irs.gov. The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

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TAXES: WHAT'S NEW FOR 2000?

- **"Checkbox" Disclosure Authorization** -- Taxpayers may check a box to authorize the IRS to discuss any processing problems with the paid preparer who signs the return. This will reduce the correspondence burden on taxpayers by allowing the IRS to resolve processing issues through a phone call to the preparer. It does not authorize the preparer to represent the taxpayer in any post-processing matters, such as examinations or collection notices.
- **New Definition of "Eligible Foster Child"** -- A third factor has been added to the qualifications of a person to be an eligible foster child for either the Child Tax Credit or the Earned Income Tax Credit. The child must now be the taxpayer's brother, sister, stepbrother, stepsister, or a descendant of one of these, or must have been placed with the taxpayer by an authorized placement agency. In addition, the taxpayer must have cared for the child as his or her own and the child must have lived with the taxpayer for the whole year.
- **Student Loan Interest Deduction** -- Taxpayers may deduct up to \$2,000 of interest paid on a qualified student loan during the first 60 months of the loan's repayment schedule. The 1999 limit was \$1,500. A person does not have to itemize deductions to claim this benefit, but cannot be claimed as a dependent, nor be a married person filing separately. The deduction is not available for those with incomes above \$55,000 (\$75,000, for a married couple filing jointly).
- **IRA Deduction** -- The income limits for deducting traditional IRA contributions that apply to workers covered by an employer retirement plan are higher. The following workers can generally deduct at least \$200 of contributions: a single person or head of household with income under \$42,000; a married person filing jointly or a qualifying widow(er) with income under \$62,000. If only one spouse is covered by a plan, the other spouse may make deductible IRA contributions if their joint income is under \$160,000.
- **Reporting Capital Gain Distributions on Form 1040A** -- Taxpayers whose only capital gains or losses are capital gain distributions from mutual funds may now report these gains on line 10 of Form 1040A, unless any of the gains are from the sale of collectibles, depreciable real property or qualified small business stock. These taxpayers will use a worksheet in the instructions to get the benefits of the lower capital gains tax rates when figuring their tax.
- **Estimated Tax Penalty Relief** -- A taxpayer whose 1999 AGI was more than \$150,000 will not face an estimated tax penalty if the withholding and estimated tax payments for 2000 are at least 108.6% of the 1999 tax liability. This rate increases to 110% of the 2000 tax liability for 2001 payments.

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- **Standard Mileage Rates** -- Taxpayers may deduct 32½ cents a mile for all business miles driven during 2000.

INFLATION ADJUSTMENTS FOR 2000

The filing requirements, personal exemption, standard deduction and maximum Earned Income Tax Credit amounts are adjusted each year for inflation.

- The 2000 gross income **filing requirements** are:

Single	\$ 7,200
Head of household	\$ 9,250
Married filing jointly	\$ 12,950
Married filing separately	\$ 2,800
Qualifying widow(er)	\$ 10,150

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations which require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

- The **personal exemption** amount for 2000 is \$2,800 -- \$50 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 128,950
Head of household	\$ 161,150
Married filing jointly or Qualifying widow(er)	\$ 193,400
Married filing separately	\$ 96,700

These taxpayers use a worksheet in the tax package to figure their exemption.

- The **standard deduction** amounts for 2000 are:

Single	\$ 4,400
Head of household	\$ 6,450
Married filing jointly or Qualifying widow(er)	\$ 7,350
Married filing separately	\$ 3,675

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Tax Credit** amounts for 2000 are:

<u>Qualifying child</u>	<u>Income Limit</u>	<u>Max. Credit</u>	<u>Income for Max. Credit</u>
One	\$ 27,413	\$ 2,353	\$ 6,920 - 12,690
Two or more	\$ 31,152	\$ 3,888	\$ 9,720 - 12,690
None	\$ 10,380	\$ 353	\$ 4,610 - 5,770

The maximum amount of investment income a person may have and still be eligible for this credit increased to \$2,400.