

 News Release

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IRS Begins Implementing Extenders Legislation; Works to Help Taxpayers During Filing Season

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WASHINGTON — The Internal Revenue Service announced new guidance today to help tax filers in 2007 claim the extended deductions and other tax advantages in the Tax Relief and Health Care Act of 2006 signed into law this week.

The start of the 2007 filing season will begin on time. However, the recent changes in the law mean the IRS will not be able to process a small percentage of individual tax returns until early February, primarily involving three tax deductions — the state and local sales tax, higher education tuition and fees, and educator expenses.

“The IRS is taking a number of steps to ensure taxpayers have the correct information on these deductions when they prepare and file their tax returns,” IRS Commissioner Mark W. Everson said.

Among the ways taxpayers can get information:

- Taxpayers will be able to visit IRS.gov for updated information on the late legislation.
- The IRS will conduct a special mailing of Publication 600, which will include the state and local sales tax tables and instructions for claiming the sales tax deduction on Schedule A (Form 1040), to 6 million taxpayers. Publication 600, State and Local General Sales Taxes, will be sent to taxpayers who will receive the 2006 Form 1040 package in early January. Publication 600 was posted to IRS.gov today, with the special mailing for taxpayers arriving in mid-January.
- For people using IRS e-file or Free File, tax software will be updated to include the three key tax provisions. E-file gets refunds to taxpayers faster than paper returns.

The IRS urged taxpayers to use e-file instead of the paper forms to minimize confusion over the late changes and reduce the chance of making extender-related errors on their returns.

“As we always do, we encourage taxpayers who think they may claim these deductions to file electronically,” Everson said. “They will get their refunds faster through e-file. Even more importantly, e-file will greatly reduce the chances for making an error compared to claiming the deductions on the paper 1040.”

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This new legislation affects a number of areas of tax law, but the most significant effect on individual taxpayers involves the deductions for state and local sales tax, higher education tuition and fees, and educator expenses. The sales tax deduction was claimed on approximately 11.2 million tax returns filed in 2006 for Tax Year 2005. The tuition and fees deduction was claimed on about 4.7 million returns, and the educator expense deduction was claimed on 3.5 million returns.

The IRS will not be able to process tax returns claiming these extender-related deductions until early February. Based on filings earlier this year, only about 930,000 tax returns claimed any of the three extenders provisions by Feb. 1. This year, the IRS expects to receive about 136 million tax returns.

Form 1040 Changes

The IRS also announced details today on how taxpayers can use existing lines on the current Form 1040 and other tax documents to claim the three major extenders provisions. The key forms (Forms 1040, 1040A, Schedule A&B, and instructions) went to print in early November and reflected the law in effect at that time. The instructions contain a cautionary note to taxpayers that the legislation was pending at the time of printing.

The majority of taxpayers file electronically, but taxpayers using a paper Form 1040 will have to follow special instructions if they are claiming any of the three deductions. Form 1040 will not be updated. Instead, taxpayers should follow these steps:

State and Local General Sales Tax Deduction:

- The deduction for state and local general sales taxes will be claimed on Schedule A (Form 1040), line 5, "State and local income taxes." Enter "ST" on the dotted line to the left of line 5 to indicate you are claiming the general sales tax deduction instead of the deduction for state and local income tax.
- The IRS also will issue Publication 600 for 2006, which includes the state and local sales tax tables, a worksheet and instructions for figuring the deduction.
- This option is available to all taxpayers regardless of where they live, though it's primarily designed to benefit residents of the eight states without state and local income taxes.

Higher Education Tuition and Fees Deduction:

- Taxpayers must file Form 1040 to take this deduction for up to \$4,000 of tuition and fees paid to a post-secondary institution. It cannot be claimed on Form 1040A.
- The deduction for tuition and fees will be claimed on Form 1040, line 35, "Domestic production activities deduction." Enter "T" on the dotted line to the left of that line entry if claiming the tuition and fees deduction, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. For those

entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

Educator Expense Adjustment to Income:

- Educators must file Form 1040 in order to take the deduction for up to \$250 of out-of-pocket classroom expenses. It cannot be claimed on Form 1040A.
- The deduction for educator expenses will be claimed on Form 1040, line 23, "Archer MSA Deduction." Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses on Form 1040. If entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

The new law also affects an even smaller number of business taxpayers who don't use the Form 1040 series. There could be minimal processing delays for some of these business filers in January and early February.

January is the slowest part of the filing season for the IRS, with less than 6 percent of all individual returns coming in during the agency's first two weeks of processing. Typically, early returns are from taxpayers with simpler refund returns who do not claim the extender provisions. Earlier this year, the IRS had less than 2.5 million returns filed by Jan. 20. An additional 4.2 million returns came in by Jan. 27.