1998

Instructions for Form 1040-C
U.S. Departing Alien Income Tax Return

Section references are to the Internal Revenue Code.

General Instructions

Changes To Note
For details on these and other changes that may affect your 1998 Federal income tax, see Pub. 553, Highlights of 1997 Tax Changes, or What’s Hot at www.irs.ustreas.gov.

Earned income credit. Beginning in 1998, the definition of modified adjusted gross income has changed. Also, if you expect your 1998 investment income to be more than $2,300, you cannot claim this credit.

Crew members of foreign vessels. Days regular crew members of foreign vessels spend in the United States during 1998 may not have to be counted for purposes of the substantial presence test. See the instructions for Part I. Also, income received by nonresident aliens for services performed as regular crew members of foreign vessels engaged in transportation between the United States and a foreign country or a possession of the United States is generally treated as foreign source income.

Child tax credit. For 1998, you may be able to claim a $400 credit for each of your dependent children who is under age 17 on December 31, 1998.

Credits for higher education expenses. You may be able to take the Hope credit for tuition and related expenses you pay in 1998 for yourself, your spouse, or your dependents to enroll at or attend an eligible educational institution. You may be able to take the lifetime learning credit for qualified expenses paid after June 30, 1998. However, you usually cannot take either credit if you are a nonresident alien for any part of the year.

Student loan interest. You may be able to deduct up to $1,000 of the interest you paid on a loan for qualified higher education expenses for yourself, your spouse, or your dependents. The deduction is allowed in figuring adjusted gross income. But you cannot take the deduction if you are claimed as a dependent on someone else’s 1998 return.

IRA deduction restored for some people covered by retirement plans. You may be able to take an IRA deduction if you are covered by a retirement plan and your 1998 modified adjusted gross income is less than $40,000 if not married ($60,000 if married filing jointly or qualifying widow(er)). If you are not covered by a plan but your spouse is, new rules apply.

Penalty-free IRA distributions. The additional tax on an early distribution from an IRA may not apply if you pay higher education expenses for yourself, your spouse, or your children or grandchildren. The tax also may not apply if you pay expenses related to the purchase of a home by a first-time homebuyer.

Increased deductions. The maximum amount of the following deductions has increased.
- Self-employed health insurance deduction.
- Section 179 expense deduction.

Purpose of Form
Form 1040-C is used by aliens who intend to leave the United States to report income they received or expect to receive for the entire year.

If you are a nonresident alien, use the 1998 Instructions for Form 1040NR, U.S. Nonresident Alien Income Tax Return. Also, Pub. 519, U.S. Tax Guide for Aliens, and Pub. 901, U.S. Tax Treaties, will be helpful in filling in Form 1040-C.

If you are a resident alien, the 1997 Instructions for Form 1040, U.S. Individual Income Tax Return, will help you complete Form 1040-C.

You can get tax forms, instructions, and publications from the Internal Revenue Service (IRS). If you have a foreign address, send your order to either: Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23266-8107, USA; or Western Area Distribution Center, Rancho Cordova, CA 95743-0001, USA, whichever is closer. Please order by publication or form number. You can also download forms and publications from the IRS Internet web site at www.irs.ustreas.gov.

Alien status rules. If you are not a citizen of the United States, specific rules apply to determine if you are a resident or nonresident alien. Intent is not important in determining your residency status. You are considered a resident alien if you meet either the green card test or the substantial presence test. Even though you may otherwise meet the substantial presence test, you will not be considered a U.S. resident if you qualify for the closer connection to a foreign country exception or you are able to qualify as a nonresident by reason of a tax treaty. These tests and the exception are discussed in the instructions for Part I.

Treaty Benefits
If you take the position that a treaty of the United States overrides or modifies any provision of the Internal Revenue Code and that position reduces (or potentially reduces) your tax, you must file Form 8833, Treaty-Based Return Position Disclosure Statement. See the instructions for Part I.

Final Return Required
A Form 1040-C is not a final return. You must file a final income tax return after your tax year ends. If you are not a U.S. citizen or resident on the last day of the year, file Form 1040NR, or Form 1040NR-EZ, U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents. If you are a U.S. citizen or resident on the last day of the year, you should file Form 1040. Any tax you pay with Form 1040-C counts as a credit against tax on your final return. Any overpayment shown on Form 1040-C will be refunded only if and to the extent your final return for the tax year shows an overpayment.

Certificate of Compliance
Note: The issuance of a certificate of compliance is not a final determination of your tax liability. It is later determined that there is a tax deficiency, you will have to pay the additional tax due.

Form 1040-C or Form 2063. If you are an alien, you should not leave the United States or any of its possessions without getting a certificate of compliance from your IRS District Director on Form 1040-C or Form 2063, U.S. Departing Alien Income Tax Statement. But see Exceptions below. You may file the shorter Form 2063 if you filed all U.S. income tax returns you were required to file, you paid any tax due, and either 1 or 2 below applies to you.
1. You have no taxable income for the year of departure and for the preceding
year if the time for filing the earlier year's return has not passed.

2. You are a resident alien with.fontSize(6,99)taxable income for the preceding year or for the year of departure, but the District Director has decided that your leaving will not hinder collecting the tax.

Exceptions. You do not need a certificate of compliance if:

- You are a representative of a foreign government who holds a diplomatic passport; a member of the representative's household; a servant who accompanies the representative; an employee of an international organization or foreign government whose pay is exempt from U.S. taxes; or a member of the employee's household who was not paid by U.S. sources. If you signed a waiver of nonimmigrants' privileges as a condition of holding both your job and your status as an immigrant, the exception does not apply, and you must get a certificate.

- You are a student, industrial trainee, exchange visitor, or the spouse or child of such an individual with an F-1, F-2, H-3, H-4, J-1, J-2, or Q visa. To qualify, you must not have received any income from sources in the United States other than (1) allowances covering expenses incident to your study or training in the United States (including expenses for travel, maintenance, and tuition), (2) the value of any services or accommodations furnished incident to such study or training, (3) income from employment authorized by the U.S. immigration laws, or (4) interest on deposits if that interest is not effectively connected with a U.S. trade or business.

- You are a student or the spouse or child of a student with an M-1 or M-2 visa. To qualify, you must not have received any income from sources in the United States other than (1) income from employment authorized by the U.S. immigration laws, or (2) interest on deposits if that interest is not effectively connected with a U.S. trade or business.

- You are a student, industrial trainee, exchange visitor, or the spouse or child of such an individual with an F-1, F-2, H-3, H-4, J-1, J-2, or Q visa. To qualify, you must not have received any income from sources in the United States other than (1) allowances covering expenses incident to your study or training in the United States (including expenses for travel, maintenance, and tuition), (2) the value of any services or accommodations furnished incident to such study or training, (3) income from employment authorized by the U.S. immigration laws, or (4) interest on deposits if that interest is not effectively connected with a U.S. trade or business.

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How To Obtain the Certificate

To get a compliance certificate, go to your local IRS office at least 2 weeks before you leave the United States and file either Form 2063 and Form 1040-C and any other tax returns that have not been filed as required. The certificate, however, may not be issued more than 30 days before you leave. If both you and your spouse are aliens and are leaving together, both of you must go to the IRS office.

Please be prepared to furnish your anticipated date of departure and bring the following records with you if they apply:

1. A valid passport with your alien registration card or visa.
2. Copies of your U.S. income tax returns filed for the past 2 years. If you were in the United States for less than 2 years, bring copies of the income tax returns you filed for that period.
3. Receipts for income taxes paid on these returns.
4. Receipts, bank records, canceled checks, and Form 1040-C and any other tax returns that have not been filed as required. The certificate, however, may not be issued more than 30 days before you leave. If both you and your spouse are aliens and are leaving together, both of you must go to the IRS office.

Specific Instructions

Line A. If your employer is willing to furnish a letter guaranteeing that the tax will be paid, check the “Yes” box. You only need to sign the form and leave the remainder blank. Be sure to attach the letter from your employer to Form 1040-C. The letter should state specifically the period and type of tax covered.

Joint return. Nonresident aliens may not file a joint return. Resident aliens may file a joint return on Form 1040-C only if both of the following apply.

1. The alien and his or her spouse can reasonably expect to be eligible to file a joint return at the normal close of the tax period for which the return is made.
2. If the tax period of the alien is terminated, the tax periods of both spouses are terminated at the same time.

If a joint return is filed on Form 1040-C, both spouses should enter their names, social security numbers, and passport or alien registration card numbers in the space provided on page 1 of the form. Also, both spouses should include their income and furnish the information requested in Part I of the form. If necessary, a separate Part I should be completed for each spouse.

IRS individual taxpayer identification numbers (ITINs). The IRS will issue you an ITIN if you do not have and are not eligible to get a social security number (SSN). To apply for an ITIN, file Form W-7 with the IRS. It usually takes about 30 days to get an ITIN. Enter your ITIN wherever your SSN is requested on your return. If you are required to include
another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

**Part I—Explanation of Status—Resident or Nonresident Alien**

Generally, you are considered a resident alien if you meet either the green card test or the substantial presence test for 1998. You are considered a nonresident alien for the year if you do not meet either of these tests. For more details on resident and nonresident status, see Pub. 519.

**Green card test.** You are a resident for tax purposes if you are a lawful permanent resident of the United States at any time during 1998. You are a lawful permanent resident of the United States if you have been given the privilege, according to the immigration laws, of residing permanently in the United States as an immigrant. You generally have this status if the Immigration and Naturalization Service (INS) has issued you an alien registration card also known as a “green card.”

**Substantial presence test.** You are considered a U.S. resident if you meet the substantial presence test for 1998. You meet this test if you were physically present in the United States for at least: (a) 31 days during 1998, and (b) 183 days during the period 1998, 1997, and 1996, counting all the days of physical presence in 1998 but only 1/6 the number of days of presence in 1997 and only 1/9 the number of days in 1996.

**Days of presence in the United States.** Generally, you are treated as present in the United States on any day that you are physically present in the country at any time during the day. However, you do not count the following days of presence in the United States for purposes of the substantial presence test:

- Days you regularly commuted to work in the United States from a residence in Canada or Mexico.
- Days you were in the United States for less than 24 hours when you were traveling between two places outside the United States.
- For tax years beginning after 1997, days you were temporarily present in the United States as a regular member of the crew of a foreign vessel engaged in transportation between the United States and a foreign country or a possession of the United States. This rule does not apply to any day you were otherwise engaged in a trade or business in the United States.
- Days you were unable to leave the United States because of a medical condition or medical problem that developed while you were in the United States.
- Days you were an exempt individual.

In general, an exempt individual is an individual who is: (a) foreign government-related individual, (b) teacher or trainee, (c) student, or (d) professional athlete who is temporarily present in the United States to compete in a charitable sports event.

**Note:** If you qualify to exclude days of presence in the United States because you are an exempt individual (other than a foreign-government-related individual) or because of a medical condition or problem, file Form 8843, Statement for Exempt Individuals and Individuals With a Medical Condition, with your final income tax return.

**Closer connection to a foreign country exception.** Even though you would otherwise meet the substantial presence test, you are not treated as a U.S. resident for 1998 if you: (a) were present in the United States for fewer than 183 days during 1998, and (b) establish that during 1998 you had a tax home in a foreign country and had a closer connection to that country than to the United States.

**Note:** If you meet this exception, file Form 8840, Closer Connection Exception Statement for Aliens, with your final income tax return.

**Dual-status tax year.** Generally, if you leave the United States during the year with no intent to return, you have a dual-status tax year and are subject to dual-status restrictions in completing Form 1040-C. A dual-status tax year is one in which you have been both a resident alien and a nonresident alien. In figuring your income tax liability, different U.S. income tax rules apply to each status. See Pub. 519.

**Income effectively connected with a U.S. trade or business—nonresident aliens.** If you are a nonresident alien, the tax on your income depends on whether the income is or is not effectively connected with a U.S. trade or business.

Income effectively connected with a U.S. trade or business (including wages earned by an employee) is taxed at the graduated rates that apply to U.S. citizens and resident aliens. Income you receive as a partner in a partnership or as a beneficiary of an estate or trust is considered effectively connected with a U.S. trade or business if the partnership, estate, or trust conducts a U.S. trade or business.

Income from U.S. sources that is not effectively connected with a U.S. trade or business is generally taxed at 30%. Your rate may be lower if the country of which you are a citizen or resident and the United States have a treaty setting lower rates. See Pub. 901 for more details.

For a listing of the types of income not considered effectively connected with a U.S. trade or business, see the instructions for Schedules A and B. If you are a nonresident alien in the United States for study or training, see Pub. 519.

**Part II—Exemptions**

If you are a resident alien, you may claim the same exemptions allowed U.S. citizens on Form 1040.

Nonresident aliens of Canada, India, Mexico, Japan, the Republic of Korea, or U.S. nationals (American Samoans) engaged in a trade or business in the United States may claim the same number of exemptions they are entitled to on Form 1040NR. All other nonresident aliens engaged in a U.S. trade or business may claim only one exemption. For more details, see Pub. 519 or the Form 1040NR instructions.

If you are a nonresident alien not engaged in a trade or business in the United States, you cannot take any personal exemptions. An exemption that is not effectively connected with a U.S. trade or business.

**Dependent’s social security number (SSN).** Enter each dependent’s SSN in column (2) of line 14c. Your dependent can get an SSN by filing Form SS-5 with a Social Security Administration office.

**Part III—Figuring Your Income Tax**

Read the descriptions on line 1 of Form 1040-C for Groups I, II, and III to see which group applies to you. If Group I or II applies, use lines 15-22 to figure your tax. If Group III applies, use lines 23 and 24 to figure your tax. If you are a nonresident alien and both Groups I and II apply, use lines 15-24 to figure your tax.

**Line 16—Adjustments.** If you are a resident alien, you can take the adjustments allowed on Form 1040. The Form 1040 instructions have information on adjustments you may take.

If you are a nonresident alien and have income effectively connected with a U.S. trade or business, you may take the adjustments allowed on Form 1040NR. See the Form 1040NR instructions.

If you are a nonresident alien with income not effectively connected with a U.S. trade or business, you cannot take any adjustments.

**Line 19—Credits.** If you are a resident alien, you may claim the same credits as on Form 1040. If you are a nonresident alien with income effectively connected with a U.S. trade or business, you may generally claim the same credits as on Form 1040NR.

**Line 21—Other taxes.** Enter on line 21 any other taxes such as those listed below. See the instructions for Form 1040 or 1040NR for information on the additional taxes to include on this line.

- **Self-employment tax.** Use Schedule SE (Form 1040), Form 1040-PR, or Form 1040-SS to figure your self-employment tax. This tax applies only to resident aliens. The self-employment tax rate for 1998 is 15.3%. This includes a 2.9% Medicare tax and a 12.4% social security tax. For 1998, the maximum amount of self-employment income subject to social security tax is $68,400. There is no limit on the amount of self-employment income subject to the Medicare tax.

(continued)
• Alternative minimum tax. Use Form 6251, Alternative Minimum Tax—Individuals, to figure the tax.
• Tax on accumulation distribution of trusts. Use Form 4970 to figure the tax.
• Tax from recapture of investment credit. Use Form 4255 to figure the tax.
• Tax from recapture of low-income housing credit. Use Form 8611 to figure the tax.
• Tax from recapture of Federal mortgage subsidy. Use Form 8828 to figure the tax.
• Tax from recapture of qualified electric vehicle credit. For details on how to figure the tax, see Pub. 535, Business Expenses.
• Tax from recapture of the Indian employment credit.

Line 24—Tax. Enter 30% of the amount on line 23. If you are entitled to a lower rate because of a treaty between your country and the United States, attach a statement showing your computation.

Line 26—U.S. income tax paid or withheld at source. Enter the amount from Schedule A, line 4, column (c), or amounts withheld as shown on Forms W-2, W-2G, 8288-A, 1099-R, 1042-S, 8805, etc.

Line 28—Other payments. Include on line 28 any of the following payments. See the instructions for Form 1040 or 1040NR for details on other payments to include on this line.
• Earned income credit. Enter any earned income credit that is due you.
• U.S. income tax paid at previous departure during the tax period. Enter any tax you paid during the tax period when you previously departed the United States.
• Excess social security and RRTA tax withheld. If you had two or more employers in 1998 who together paid you more than $68,400 in wages, too much social security tax and tier 1 railroad retirement (RRTA) tax may have been withheld. See Pub. 505, Tax Withholding and Estimated Tax. For 1998, the maximum social security tax and tier 1 RRTA tax is $4,240.80.
• Credit for Federal tax paid on fuels. Use Form 4136 to figure the credit.

Signature
Form 1040-C is not considered a valid return unless you sign it. If an agent (including your spouse) signs for you, your authorization of the signature must be filed with the return. You may have an agent in the United States prepare and sign your return if you are sick or otherwise unable to sign. However, you must have IRS approval to use an agent. To obtain approval, file a statement with the IRS office where you file Form 1040-C explaining why you cannot sign.

Paid preparers must sign. Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must also give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

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

Schedule A—Income
Line 1, column (d). Resident aliens should include income that would be included on Form 1040, such as wages, salaries, interest, dividends, rents, alimony, etc.

Line 1, column (l). Enter nonresident alien income effectively connected with a U.S. trade or business.

Line 1, column (f). Enter nonresident alien income not effectively connected with a U.S. trade or business, including:
• Interest, dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, and other fixed or determinable annual or periodic gains, profits, and income.
• Prizes, awards, and certain gambling winnings. Proceeds from lotteries, raffles, etc., are gambling winnings. You must report the full amount of your winnings. You cannot offset losses against winnings and report the difference.
• Eighty-five percent of the U.S. social security benefits you receive are taxable. This amount is treated as U.S. source income not effectively connected with a U.S. trade or business and is subject to the 30% tax rate, unless exempt or taxed at a reduced rate under a U.S. tax treaty. Social security benefits include any monthly benefit under title II of the Social Security Act or part of a tier 1 railroad retirement benefit treated as a social security benefit. They do not include any supplemental security income (SSI) payments.

Exempt income for nonresident aliens. The following income received by a nonresident alien is exempt from U.S. tax.

1. Interest on bank deposits or withdrawable accounts with savings and loan associations or credit unions that are chartered and supervised under Federal or state law, or amounts held by an insurance company under an agreement to pay interest on them, if the income is not effectively connected with a U.S. trade or business. Also, certain portfolio interest on obligations issued after July 18, 1984.

2. Your personal service income if you:
   • Were in the United States 90 days or less during the tax year,
   • Received $3,000 or less for your services, and
   • Performed the services as an employee of or under contract with a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in a U.S. trade or business; or for a foreign office of a U.S. partnership, corporation, citizen, or resident.

3. Capital gains not effectively connected with a U.S. trade or business if you were in the United States fewer than 183 days during the tax year. However, the gain or loss on the disposition of a U.S. real property interest is not exempt.

4. U.S. bond income. Your income from series E, EE, H, or HH U.S. savings bonds that you bought while a resident of the Ryukyu Islands (including Okinawa) or the Trust Territory of the Pacific Islands (Caroline and Marshall Islands).

5. Qualifying annuities. Annuities you received from qualifying annuity plans or trusts under both the following conditions:
   • The work done that entitles you to the annuity was done either in the United States for a foreign employer or outside the United States, and
   • When the first amount was paid as an annuity, at least 90% of the employees covered by the plan (or plans that included the trust) were U.S. citizens or residents.

Certain items of income may be exempt from Federal tax by a treaty. For more details, see Pub. 901.

Schedule B—Gains and Losses From Sales or Exchanges of Nonresidents’ Property Not Effectively Connected With a U.S. Trade or Business
If you are a nonresident alien, use Schedule B to figure your gain or loss from the sale or exchange of property not effectively connected with a U.S. trade or business. Include the following types of income. For more details on these types of income, see Pub. 519 and the Instructions for Form 1040NR.

Income other than capital gains. Gains from the disposition of timber, coal, or U.S. iron ore with a retained economic interest.

Gains from the sale or exchange of patents, copyrights, secret processes and formulas, goodwill, trademarks, trade brands, franchises, and other like property, or of any interest in any such property. The gains must result from payments for the productivity, use, or disposition of the property or interest.

Original issue discount (OID). If you sold or exchanged the obligation, include only the OID that accrued while you held the obligation minus the amount previously included in income. If you received a payment on the obligation, see Pub. 519.

Capital gains. Capital gains in excess of capital losses if you were in the United States at least 183 days during the year. However, the gain or loss on the disposition of a U.S. real property interest is considered effectively connected and should be shown on Schedule A.
Schedule C—Itemized Deductions

If you are a resident alien, you can take the deductions allowed on Schedule A of Form 1040NR. See the Schedule A (Form 1040) instructions.

If you are a nonresident alien and have income effectively connected with a U.S. trade or business, you can take the deductions allowed on Schedule A of Form 1040NR. See the Schedule A (Form 1040) instructions. If you do not have income effectively connected with a U.S. trade or business, you cannot take any deductions.

Note: Nonresident aliens of India who were students or business apprentices may be able to take the standard deduction. See Pub. 519 for details.

Line 2. If the amount on Form 1040-C, line 17, is over $124,500 ($62,250 if married filing separately), use the worksheet on this page to figure the amount to enter on line 2.

Schedule D—Tax Computation

Standard Deduction (Group I only)

If you do not itemize your deductions, you may take the 1998 standard deduction listed below:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly or</td>
<td>$7,100*</td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td></td>
</tr>
<tr>
<td>Head of household</td>
<td>$6,250*</td>
</tr>
<tr>
<td>Single</td>
<td>$4,250*</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$3,550*</td>
</tr>
</tbody>
</table>

*To these amounts, add the additional amount shown next.

Additional amount for the elderly or the blind. An additional standard deduction amount of $850 is allowed for a married individual (whether filing jointly or separately) or a qualifying widow(er) who is age 65 or older and blind ($1,700 if the individual is both age 65 or older and blind, $3,400 if both spouses are age 65 or older and blind). An additional standard deduction amount of $1,050 is allowed for an unmarried individual (single or head of household) who is age 65 or older or blind ($2,100 if the individual is both age 65 or older and blind).

Note: If you will turn age 65 on January 1, 1999, you are considered to be age 65 for 1998.

Limited standard deduction for dependents. If you can be claimed as a dependent on another person's 1998 return, your standard deduction is the greater of:

- $700, or
- Your earned income plus $250 (up to the standard deduction amount).

To this amount add any additional amount for the elderly or the blind.

Lines 6 and 12

Include in the total on line 6 or line 12, whichever applies, any tax from Form 4972, Tax on Lump-Sum Distributions, and Form 8814, Parents' Election To Report Child's Interest and Dividends.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Sections 6001, 6011, 6012(a), 6851, and their regulations require that you give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, and the District of Columbia to carry out their tax laws. If you do not give the information asked for, you may be charged penalties and, in certain cases, you may be subject to criminal prosecution.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 2 hr., 5 min.; Learning about the law or the form, 46 min.; Preparing the form, 2 hr., 13 min.; and Copying, assembling, and sending the form to the IRS, 1 hr., 13 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. DO NOT send the tax form to this address. Instead, see How To Obtain the Certificate on page 2.

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**Itemized Deductions Worksheet** (keep for your records)

1. Add the amounts in columns (b) and (d) of Schedule C, line 1.  
2. Enter the total amount included on line 1 above for medical and dental expenses, investment interest expense, casualty or theft losses of personal use property, and gambling losses.  
3. Subtract line 2 from line 1. If zero, stop here; enter the amount from line 1 above on Schedule C, line 2.  
4. Multiply line 3 above by 80% (.80)  
5. Enter the amount from Form 1040-C, line 17.  
6. Enter $124,500 ($62,250 if married filing separately).  
7. Subtract line 6 from line 5. If zero or less, stop here; enter the amount from line 1 above on Schedule C, line 2.  
8. Multiply line 7 above by 3% (.03)  
9. Enter the smaller of line 4 or line 8.  
10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule C, line 2.
Deduction for Exemptions Worksheet (keep for your records)

1. Is the amount on Schedule D, line 1 or line 7, more than the amount shown on line 4 below for your filing status?

No. Stop. Multiply $2,700 by the total number of exemptions claimed on Form 1040-C, line 14d, and enter the result on Schedule D, line 4 or line 10, whichever applies.

Yes. Go to line 2.

2. Multiply $2,700 by the total number of exemptions claimed on Form 1040-C, line 14d.

3. Enter the amount from Schedule D, line 1 or line 7.

4. Enter the amount shown below for your filing status:
   - Married filing separately, enter $93,400
   - Single, enter $124,500
   - Head of household, enter $155,650
   - Married filing jointly or Qualifying widow(er), enter $186,800

5. Subtract line 4 from line 3. If zero or less, stop; enter the amount from line 2 above on Schedule D, line 4 or line 10.

6. Divide line 5 by $2,500 ($1,250 if married filing separately). If the result is not a whole number, round it up to the next higher whole number (for example, round 0.0004 to 1).

7. Multiply line 6 by 2% (.02) and enter the result as a decimal amount.

8. Multiply line 2 by line 7.

9. Deduction for exemptions. Subtract line 8 from line 2. Enter the result here and on Schedule D, line 4 or line 10, whichever applies.

1998 Tax Rate Schedules (Groups I and II)

Caution: Do not use these Tax Rate Schedules to figure your 1997 taxes. Use only to figure your 1998 taxes.

Schedule X—Single Taxpayers (Groups I and II)
If the amount on Schedule D, line 5 or 11, is:

<table>
<thead>
<tr>
<th>Over— but not over—</th>
<th>15%</th>
<th>Over— but not over—</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>25,350</td>
<td>25,350</td>
<td>38,925.50 + 28%</td>
<td>25,350</td>
</tr>
<tr>
<td>61,400</td>
<td>61,400</td>
<td>13,896.50 + 31%</td>
<td>61,400</td>
</tr>
<tr>
<td>128,100</td>
<td>128,100</td>
<td>34,573.50 + 36%</td>
<td>128,100</td>
</tr>
<tr>
<td>278,450</td>
<td>278,450</td>
<td>88,699.50 + 39.6%</td>
<td>278,450</td>
</tr>
</tbody>
</table>

Schedule Y—Married Taxpayers and Qualifying Widows and Widowers

Married Filing Joint Return (Group I only) and Qualifying Widows and Widowers (Groups I and II)
If the amount on Schedule D, line 5 or 11, is:

<table>
<thead>
<tr>
<th>Over— but not over—</th>
<th>15%</th>
<th>Over— but not over—</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>42,350</td>
<td>42,350</td>
<td>6,352.50 + 28%</td>
<td>42,350</td>
</tr>
<tr>
<td>102,300</td>
<td>102,300</td>
<td>23,138.50 + 31%</td>
<td>102,300</td>
</tr>
<tr>
<td>155,950</td>
<td>155,950</td>
<td>39,770.00 + 36%</td>
<td>155,950</td>
</tr>
<tr>
<td>278,450</td>
<td>278,450</td>
<td>83,870.00 + 39.6%</td>
<td>278,450</td>
</tr>
</tbody>
</table>

Married Filing Separate Return (Groups I and II)
If the amount on Schedule D, line 5 or 11, is:

<table>
<thead>
<tr>
<th>Over— but not over—</th>
<th>15%</th>
<th>Over— but not over—</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>21,175</td>
<td>21,175</td>
<td>1,156.25 + 31%</td>
<td>21,175</td>
</tr>
<tr>
<td>51,150</td>
<td>51,150</td>
<td>11,569.25 + 31%</td>
<td>51,150</td>
</tr>
<tr>
<td>77,975</td>
<td>77,975</td>
<td>19,885.00 + 36%</td>
<td>77,975</td>
</tr>
<tr>
<td>139,225</td>
<td>139,225</td>
<td>41,935.00 + 39.6%</td>
<td>139,225</td>
</tr>
</tbody>
</table>