Instructions for Form 1040-C

U.S. Departing Alien Income Tax Return

Section references are to the Internal Revenue Code.

General Instructions

What's New
For details on these and other changes that may affect your 2006 federal income tax, see Pub. 553, Highlights of 2005 Tax Changes.

Personal exemption and itemized deduction overall limitations reduced. The overall limitation on personal exemptions and itemized deductions will be reduced by 1/3.

Certain credits no longer allowed against alternative minimum tax (AMT). The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, mortgage interest credit, and carryforwards of the District of Columbia first-time homebuyer credit are no longer allowed against AMT and a new tax liability limit applies. For most people, this limit is your regular tax minus any tentative minimum tax.

AMT exemption amount decreased. The AMT exemption amount will decrease to $33,750 ($45,000 if married filing jointly or qualifying widow(er); $22,500 if married filing separately).

Educator expenses. The adjustment to gross income for educator expenses will expire. To deduct educator expenses, you must itemize your deductions.

IRA deduction expanded. If you were covered by a retirement plan, you may be able to take an IRA deduction if your 2006 modified AGI is less than $50,000 if married filing jointly or qualifying widow(er). You, and your spouse if filing jointly, may be able to deduct up to $5,000 if age 50 or over at the end of 2006.

Standard mileage rates. The 2006 rate for business use of your vehicle is 44.5 cents a mile. The 2006 rate for use of your vehicle to get medical care or to move is 18 cents a mile.

District of Columbia first-time homebuyer credit expires. This credit will not apply to property purchased after December 31, 2005.

Clean-fuel vehicle deduction reduced. You may be able to deduct $500 of the cost of a new clean-fuel vehicle if you purchase it in 2006. Higher deduction amounts apply for heavy trucks, vans, and buses.

Tuition and fees deduction expires. You cannot take a deduction for qualified tuition and fees paid in 2006. But you still may be able to take a credit for these expenses.

Source of compensation for labor or personal services. In tax years beginning after July 13, 2005, new rules apply in determining the source of compensation for labor or personal services performed as an employee. If you file your tax returns on a calendar year basis, the new rules apply to your returns for 2006 and later years.

Under the new rules, compensation (other than fringe benefits) is surcharged on a geographical basis. Fringe benefits (such as housing and education) are sourced on a geographical basis. For more information, see Regulations section 1.861-1 on page 429 of Internal Revenue Bulletin 2005-35 at www.irs.gov/pub/irs-irb/irb05-35.pdf.

New exception from the filing requirement for nonresident alien individuals. Generally, the requirement to file a return has been eliminated for nonresident aliens who earn wages effectively connected with a U.S. trade or business that are less than the amount of one personal exemption ($3,300 for 2006). For more information, see Notice 2005-77, 2005-46 I.R.B. 951. You can find Notice 2005-77 on page 951 of Internal Revenue Bulletin 2005-46 at www.irs.gov/pub/irs-irb/irb05-46.pdf.

Reminder
Former U.S. citizens and former U.S.-long-term residents. If you renounced your U.S. citizenship or terminated your long-term resident status after June 3, 2004, you will continue to be treated for federal tax purposes as a citizen or long-term resident of the United States until you provide notice of your expatriating act or termination of residency (with the requisite intent to relinquish citizenship or terminate such status) to the Department of State or the Department of Homeland Security, and (b) provide an initial expatriation statement (Form 8854) to the IRS. Additionally, if you are subject to the expatriation tax rules of section 877(a), you are required to file an annual expatriation information statement (Form 8854) with the IRS for the current tax year. For more details, see Pub. 519, U.S. Tax Guide for Aliens.

Purpose of Form
Form 1040-C is used by aliens who intend to leave the United States to:

• Report income received or expected to be received for the entire tax year, and
• If required, to pay the expected tax liability on that income.

Form 1040-C must be filed before an alien leaves the United States. For more information, see How To Get the Certificate on page 3.

If you are a nonresident alien, use the 2005 Instructions for Form 1040NR, U.S. Nonresident Alien Income Tax Return, to help you complete Form 1040-C.

If you are a resident alien, use the 2005 Instructions for Form 1040, U.S. Individual Income Tax Return, to help you complete Form 1040-C.

You can get tax forms, instructions, and publications from the Internal Revenue Service (IRS). See Additional Information on page 2.

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. However, 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 alien by reason of a tax treaty. These tests and the exception are discussed in the instructions for Part I on page 4.

Additional information. For more information on taxation of resident and nonresident aliens, residency tests, and other special rules, see the following:

• Pub. 901, U.S. Tax Treaties.

In the United States, you can get tax forms, instructions, and publications from the IRS by calling 1-800-829-3676. You can also download them from the IRS website at www.irs.gov.

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 may have to file Form 8933, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), with your final U.S. income tax return. See Pub. 519 for more information.

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 a U.S. citizen or resident alien on the last day of the year, you should file Form 1040 reporting your worldwide income. If you are not a U.S. citizen or resident alien on the last day of the year, you should generally file Form 1040NR or, if eligible, Form 1040NR-EZ, U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents. However, certain individuals who were resident aliens at the beginning of the tax year but nonresident aliens at the end of the tax year must file a “dual-status” return. See Dual-Status tax year on page 4.

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. If it is later determined that you owe more tax, 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 Field Assistance Area Director on Form 1040-C or Form 2063, U.S. Departing Alien Income Tax Statement, unless you meet one of the Exceptions on this page.

You may file the shorter Form 2063 if you have filed all U.S. income tax returns you were required to file, you paid any tax due, and either (1) or (2) below applies.

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 taxable income for the preceding year or for the year of departure, but the Area Director has decided that your leaving will not hinder collecting the tax.

Exceptions. You do not need a certificate of compliance if:
1. 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 for official services is exempt from U.S. taxes and who has no other U.S. source income, or a member of the employee’s household who was not paid by U.S. sources. However, if you signed a waiver of nonimmigrants’ privileges as a condition of holding both your job and your status as an immigrant, this exception does not apply, and you must get a certificate.
2. You are a student, industrial trainee, or exchange visitor, or the spouse or child of such an individual. To qualify for this exception, you must have an F-1, F-2, H-3, H-4, J-1, J-2, or Q visa. Additionally, you must not have received any income from sources in the United States other than:
   a. Allowances covering expenses incidental to your study or training in the United States (including expenses for travel, maintenance, and tuition),
   b. The value of any services or accommodations furnished incident to such study or training,
   c. Income from employment authorized under U.S. immigration laws, or
g. Interest on deposits, but only if that interest is not effectively connected with a U.S. trade or business.
3. 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:
   a. Income from employment authorized under U.S. immigration laws, or
g. Interest on deposits, but only if that interest is not effectively connected with a U.S. trade or business.
4. Any of the following apply:
   a. You are on a pleasure trip and have a B-2 visa.
   b. You are on a business trip, have a B-1 visa or a combined B-1/ B-2 visa, and do not stay in the United States or any of its possessions for more than 90 days during the tax year.
   c. You are passing through the United States or any of its possessions, including travel on a C-1 visa or under a contract, such as a bond agreement, between a transportation line and the U.S. Attorney General.
   d. You are admitted on a border-crossing identification card.
   e. You do not need to carry passports, visas, or border-crossing identification cards because you are (i) visiting for pleasure or (ii) visiting for business and do not stay in the United States or any of its possessions for more than 90 days during the tax year.
   f. You are a resident of Canada or Mexico who commutes frequently to the United States to work and your wages are subject to income tax withholding.
   g. You are a military trainee admitted for instruction under the Department of Defense and you will leave the United States on official military travel orders.
   h. However, exception 4 does not apply if the Area Director believes you had taxable income during the tax year, up through your departure
date, or during the preceding tax year and that your leaving the United States would hinder collecting the tax.

How To Get 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 or Form 1040-C and any other tax returns that have not yet been filed or required. The certificate cannot 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 other documents that prove your deductions, business expenses, and dependents claimed on the returns.
5. A statement from each employer you worked for this year showing wages paid and tax withheld. If you are self-employed, you must bring a statement of income and expenses up to the date you plan to leave.
6. Proof of any payments of estimated tax for the past year and the current year.
7. Documents showing any gain or loss from the sale of personal and/or real property, including capital assets and liens.
8. Documents concerning scholarship or fellowship grants, such as: (a) verification of the grantor, source, and purpose of the grant; (b) copies of the application for, and approval of, the grant; (c) a statement of the amount paid, and your duties and obligations under the grant; and (d) a list of any previous grants.
9. Documents indicating qualification for special tax treaty benefits.
10. Document verifying your date of departure from the United States, such as an airplane ticket.
11. Document verifying your U.S. taxpayer identification number, such as a social security card or an IRS-issued CP 565 showing your individual taxpayer identification number (ITIN).

Note. If you are married and reside in a community property state, also bring the above-listed documents for your spouse. This applies whether or not your spouse requires a certificate.

If you are filing Form 1040-C, file an original and one copy for the tax year in which you plan to leave. If the Area Director has made a termination assessment against you, include on your Form 1040-C any income you expect to receive through the departure date during the tax year. If you receive a termination assessment and then received additional income during the current tax year, the Area Director may make additional assessments. If the Area Director has not made a termination assessment against you, include on your Form 1040-C any income you have received and expect to receive during the entire tax year of departure.

Generally, a compliance certificate on Form 1040-C will be issued without your paying tax or posting bond if you have not received a termination assessment. This certificate applies to all of your departures during the current tax year, subject to revocation on any later departure if the Area Director believes your leaving would hinder collecting the tax.

If you owe income tax and the Area Director determines that your departure will jeopardize the collection of the tax, a compliance certificate on Form 1040-C will be issued only when you pay the tax due or post bond, and the certificate will apply only to the departure for which it is issued.

If you go to the departure point without a certificate or proof that you do not need one, you may be subject to an income tax examination by an IRS employee. You will then have to complete the returns and any other required documents and either pay any income tax due or post bond.

Specific Instructions
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 close of the tax period for which the return is made.
2. If the tax period of the alien is terminated, the tax period of his or her spouse is terminated at the same time.

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

Identifying number. You are generally required to enter your social security number (SSN). To apply for this number, get Form SS-5, Application for a Social Security Card, from your local Social Security Administration (SSA) office or call the SSA at 1-800-772-1213. You can also download Form SS-5 from the SSA’s website at www.socialsecurity.gov/online/ss-5.html. You must visit an SSA office in person and submit your Form SS-5 along with original documentation showing your age, identity, immigration status, and authority to work in the United States. If you are an F-1 or M-1 student, you must also show your Form I-20. If you are a J-1 exchange visitor, you will also need to show your Form DS-2019. Generally, you will receive your card about 2 weeks after the SSA has all of the necessary information.

If you do not have an SSN and are not eligible to get one, you must apply for an individual taxpayer identification number (ITIN). For details on how to do so, see Form W-7 and its instructions. It usually takes about 4–6 weeks to get an ITIN. If you already have an ITIN, enter it wherever your SSN is requested on your tax 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.

Note. An ITIN is for tax use only. It does not entitle you to social security benefits or change your employment or immigration status under U.S. law.

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.

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 2006. You are considered a nonresident alien for the year if you do not meet either of these tests. For more information on resident and nonresident alien status, see Pub. 519.

Green card test. You are a resident alien if you meet the green card test. If you are a lawful permanent resident of the United States at any time during 2006, you are a resident alien for the year. You are not a resident alien if you have been granted the privilege, under U.S. immigration laws, of residing permanently in the United States as an immigrant. You generally have this status if the U.S. Citizenship and Immigration Services (USCIS) or 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 resident alien for tax purposes if you meet the substantial presence test for 2006. You must meet this test if you were physically present in the United States for at least:

• 31 days during 2006, and
• 183 days during the period 2006, 2005, and 2004, counting all the days of physical presence in 2006, ⅓ of the number of days of presence in 2005, and ⅙ of the number of days in 2004.

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 while you were traveling between two places outside the United States.
• 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 intended, but were unable, to leave the United States because of a medical condition or medical problem that arose while you were in the United States.
• Days you were an exempt individual. In general, an exempt individual is: (a) a foreign government-related individual, (b) a teacher or trainee, (c) a student, or (d) a 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 having met that test for 2006 if you: (a) were present in the United States for fewer than 183 days during 2006, (b) establish that during 2006 you had a tax home in a foreign country, and (c) establish that during 2006 you had a closer connection to one foreign country in which you had a tax home than to the United States unless you had a closer connection to two foreign countries.

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

Residence determined by tax treaty. Even though you would otherwise meet the substantial presence test, you are not treated as having met that test if you qualify as a resident of another country within the meaning of the tax treaty between the United States and that other country.

Dual-status tax year. Generally, if you are a resident alien and 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 the form 1040NR instructions for details.

Note. Certain resident aliens who leave the United States during the year with no intent to return may owe tax under section 877. These resident aliens must take into account any amounts due for 2006 under section 877 when completing Form 1040-C. See Expatriation Tax in Pub. 519 for more information.

Income effectively connected with a U.S. trade or business—nonresident aliens. If you are a nonresident alien, the tax on your income effectively connected with 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 resident and the United States have a treaty setting lower rates. See Pub. 901 for more details.

For a list of the types of income not considered effectively connected with a U.S. trade or business, see the instructions for Schedules A and B beginning on page 5. If you are a nonresident alien in the United States to study or train, 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.

If you are a nonresident alien engaged in a trade or business in the United States and you are a U.S. national (American citizen or a Northern Mariana Islander who chose to be a U.S. national) or a resident of Canada, India, Mexico, or the Republic of Korea (South Korea), you may claim the same number of exemptions you 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 claim any personal exemptions for income that
Part III—Figuring Your Income Tax

Read the descriptions on line 1 of Form 1040-C, to figure the tax. See the instructions for Form 1040-C to figure your tax. You must generally pay this tax. See the Form 1040 instructions or the Form 1040NR instructions.

A. Self-employment tax. This tax applies only to resident aliens. See Schedule SE (Form 1040), Form 1040-PR, or Form 1040-SS to figure your self-employment tax. The self-employment tax rate for 2006 is 15.3%. This includes a 2.9% Medicare tax and a 12.4% social security tax. For 2006, the maximum amount of self-employment income subject to social security tax is $94,200. There is no limit on the amount of self-employment income subject to the Medicare tax.

B. Social security and Medicare tax on nonresident alien income effectively connected with a U.S. trade or business. You cannot take any adjustments. However, if you are entitled to a lower rate or an exemption from tax because of a treaty between your country and the United States, attach a statement showing your computation. Also include the applicable treaty and article(s).

C. Additional tax on IRAs, other qualified retirement plans, etc. Use Form 5350 to figure the tax. This includes a 2.9% Medicare tax and a 12.4% social security tax. For 2006, the maximum amount of self-employment income subject to social security tax is $94,200. There is no limit on the amount of self-employment income subject to the Medicare tax.

D. Excess social security and RRTA tax withheld. If you had two or more employers in 2006 who together paid you more than $94,200 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 2006, the maximum social security tax and tier 1 RRTA tax is $5,840.40.

E. 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. 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.

If an agent (including your spouse) signs for you, your authorization of the signature must be filed with the return.

Paid preparers must sign. Generally, anyone you pay to prepare your return must sign it in the space provided. 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 (a). Enter amounts shown as federal income tax withheld on your Forms W-2, 1099, 1042-S, etc. Be sure to enter the amount withheld on the same line on which the related income is reported.

Line 1, column (c). Enter nonresident alien income effectively connected with a U.S. trade or business. Nonresident aliens should include income that would be included on page 1 of Form 1040NR or Form 1040NR-EZ. This includes:

• Salaries and wages (generally shown in box 1 of Form W-2).
• The taxable part of a scholarship or fellowship grant.
• Business income or loss (income that could be included on Schedule C (Form 1040) or Schedule C-EZ (Form 1040) as an attachment to Form 1040NR), and

• Other payments to include income that would be included on Schedule C (Form 1040) or Schedule C-EZ (Form 1040) as an attachment to Form 1040NR), and

• Other tax paid if you previously departed the United States during this tax period.

• Excess social security and RRTA tax withheld. If you had two or more employers in 2006 who together paid you more than $94,200 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 2006, the maximum social security tax and tier 1 RRTA tax is $5,840.40.

• Credit for federal tax paid on fuels. Use Form 4136 to figure the credit.
• Any other income considered to be effectively connected with a U.S. trade or business. See the Instructions for Form 1040NR for details.

Line 1, column (f). Enter nonresident alien income from U.S. sources that is 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.
• 85% of the U.S. social security benefits you receive. 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.

Line 5. Include on line 5, column (d), (e), or (f), all income you received during the year that is exempt by Code (see examples below). Also include on line 5 income that is exempt by treaty, but only if the income is reportable in column (d) or (e). Attach a statement that shows the basis for the treaty exemption (including treaty and article(s)).

Note. Do not include on line 5 income reportable in column (f) that is exempt by treaty. Instead report these amounts on line 1 of column (f) and explain on the statement required for Part III, line 24, the basis for the reduced rate or exemption (see page 6).

Be sure to include on line 5, column (c), any amount withheld on exempt income you are reporting on line 5, column (d), (e), or (f). For example, include amounts that were withheld by a withholding agent that was required to withhold due to lack of documentation. However, do not include amounts reimbursed by the withholding agent.

Do not include on lines 1 through 4 any amount that is reportable on line 5.

Exempt income for nonresident aliens. The following income received by nonresident aliens is effectively connected 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.
2. Your personal service income if:
   a. You were in the United States 90 days or less during the tax year.
   b. You received $3,000 or less for your services, and
   c. You 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. Exception: 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 you were a resident of the Ryukyu Islands (including Okinawa) or the Trust Territory of the Pacific Islands (Caroline and Marshall Islands).
5. Annuities you received from qualified annuity plans or trusts if both of the following conditions apply:
   a. The work that entitles you to the annuity was performed either (1) in the United States for a foreign employer and you met the conditions under 2 earlier, or (2) outside the United States, and
   b. When the first amount was paid as an annuity, at least 90% of the employees covered by the plan (or by the plan or plans that included the trust) were U.S. citizens or residents.
6. The following dividends from a mutual fund if they are not effectively connected with your U.S. trade or business:
   a. Interest-related dividends.
   b. Short-term capital gain dividends if you are present in the United States for less than 183 days during the tax year.
7. U.S. source dividends paid by certain foreign corporations if they are not effectively connected with your U.S. trade or business. See Second exception under Dividends in chapter 2 of Pub. 519 for the definition of foreign corporation and how to figure the amount of excludable dividends. 

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

Schedule B—Certain 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 information on these types of income, see Pub. 519 and the Instructions for Form 1040NR.

1. Capital gains. Capital gains in excess of capital losses if you were in the United States at least 183 days during the year.

Note. 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, column (e).

2. Income other than capital gains.
• Gains on the disposal 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.

Schedule C—Itemized Deductions

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

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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 1040NR) instructions. If you do not have income effectively connected with a U.S. trade or business, you cannot take any deductions.

Note. Residents of India who were students or business apprentices may be considered as their contents may become subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. However, section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. commonwealths or possessions, and certain foreign governments to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. 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. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<table>
<thead>
<tr>
<th>Time Estimate</th>
<th>Average Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Items 1-3</td>
<td>2 hr., 4 min.</td>
</tr>
<tr>
<td>Item 4</td>
<td>20 min.</td>
</tr>
<tr>
<td>Item 5</td>
<td>20 min.</td>
</tr>
<tr>
<td>Items 10-12</td>
<td>59 min.</td>
</tr>
</tbody>
</table>

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 Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the tax form to this address. Instead, see How To Get the Certificate on page 3.
Deduction for Exemptions Worksheet (keep for your records)

1. Is the amount on Schedule D, line 1 or line 9, more than the amount shown on line 4 below for your filing status?
   No. Stop. Multiply $3,300 by the total number of exemptions claimed on Form 1040-C, line 14d, and enter the result on Schedule D, line 4 or line 12, whichever applies.
   Yes. Go to line 2.

2. Multiply $3,300 by the total number of exemptions claimed on Form 1040-C, line 14d. 

3. Enter the amount from Schedule D, line 1 or line 9. 

4. Enter the amount shown below for your filing status.
   - Single, enter $150,500
   - Married filing jointly or Qualifying widow(er), enter $225,750
   - Married filing separately, enter $112,875
   - Head of household, enter $188,150

5. Subtract line 4 from line 3 and enter here. 

6. Is line 5 more than $122,500 ($61,250 if married filing separately)?
   No. Multiply $3,300 by the total number of exemptions claimed on Form 1040-C, line 14d, and enter the result on Schedule D, line 4 or line 12, whichever applies.
   Yes. Go to line 2.

7. Multiply line 6 by 2% (.02) and enter the result as a decimal, but not more than 1.0. 

8. Multiply line 2 by line 7. 

9. Divide line 8 by 1.5. 

10. Deduction for exemptions. Subtract line 9 from line 2. Enter the result here and on Schedule D, line 4 or line 12, whichever applies. 

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2006 Tax Rate Schedules (Groups I and II)

<table>
<thead>
<tr>
<th>Schedule X—Single Taxpayers (Groups I and II)</th>
<th>Schedule Y—Married Taxpayers and Qualifying Widows and Widowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the amount on Schedule D, line 5 or 13, is:</td>
<td>If the amount on Schedule D, line 5 or 13, is:</td>
</tr>
<tr>
<td>The tax is:</td>
<td>The tax is:</td>
</tr>
<tr>
<td>Over— but not over—</td>
<td>Over— but not over—</td>
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<tr>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>7,550</td>
<td>$7,550 $755.00 + 15%</td>
</tr>
<tr>
<td>30,650</td>
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<tr>
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<tr>
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<tr>
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<td>97,653.00 + 25% + 25%</td>
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<tr>
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<tr>
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<tr>
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<td>171,650 + 25% + 25% + 25%</td>
</tr>
<tr>
<td>336,550 + 25%</td>
<td>336,550 + 25% + 25% + 25%</td>
</tr>
</tbody>
</table>

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CAUTION

Do not use these Tax Rate Schedules to figure your 2005 taxes. Use only to figure your 2006 taxes.