2003 Instructions for Schedules A & B (Form 1040)

Instructions for Schedule A, Itemized Deductions

Medical and Dental Expenses

You may deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 35.

Pub. 502 discusses the types of expenses that you may and may not deduct. It also explains when you may deduct capital expenses and special care expenses for disabled persons.

If you received a distribution from an MSA in 2003, see Pub. 960 to figure your deduction.

Examples of Medical and Dental Payments You May Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

• Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see Limit on Long-Term Care Premiums You May Deduct on this page. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 29.

Note. If, during 2003, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation pension recipient, you must reduce your insurance premiums by any amounts used to figure the health coverage tax credit. See the instructions for line 1 on page A-2.

You cannot deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your Form(s) W-2.

• Prescription medicines or insulin.
• Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
• Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
• Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.
• Hospital care (including meals and lodging), clinic costs, and lab fees.
• Qualified long-term care services (see Pub. 502).
• The supplemental part of Medicare insurance (Medicare B).
• A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.
• A weight-loss program as treatment for a specific disease (including obesity) diagnosed by a doctor.
• Medical treatment at a center for drug or alcohol addiction.
• Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.
• Surgery to improve defective vision, such as laser eye surgery or radial keratotomy.
• Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. Do not deduct more than $50 a night for each eligible person.
• Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care: or you may claim 12 cents a mile. Add parking and tolls to the amount you claim under either method.

Note. Certain medical expenses paid out of a deceased taxpayer’s estate may be claimed on the deceased taxpayer’s final return. See Pub. 502 for details.

Limit on Long-Term Care Premiums You May Deduct. The amount you may deduct for qualified long-term care contracts (as defined in Pub. 502) depends on the age, at the end of 2003, of the person for whom the premiums were paid. See the following chart for details.

IF the person was, at the end of 2003, age . . . THEN the most you may deduct is . . .

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Deduction Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 or under</td>
<td>$ 250</td>
</tr>
<tr>
<td>41 – 50</td>
<td>$ 470</td>
</tr>
<tr>
<td>51 – 60</td>
<td>$ 940</td>
</tr>
<tr>
<td>61 – 70</td>
<td>$ 2,510</td>
</tr>
<tr>
<td>71 or older</td>
<td>$ 3,130</td>
</tr>
</tbody>
</table>
Examples of Medical and Dental Payments You May Not Deduct

- The basic cost of Medicare insurance (Medicare A).

If you were 65 or older but not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.

- The cost of diet food.
- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.
- Life insurance or income protection policies.
- The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes.
- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 45.
- Illegal operations or drugs.
- Nonprescription medicines (including nicotine gum and certain nicotine patches).
- Travel your doctor told you to take for rest or a change.
- Funeral, burial, or cremation costs.

Line 1 Medical and Dental Expenses

Enter the total of your medical and dental expenses (see page A-1), after you reduce these expenses by any payments received from insurance or other sources. See Reimbursements below.

Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed health insurance deduction on Form 1040, line 29, reduce the premiums by the amount on line 29.

Note. If, during 2003, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation pension recipient, you must complete Form 8885 before completing Schedule A, line 1. When figuring the amount of insurance premiums you can deduct on Schedule A, do not include any health coverage tax credit advance payments shown in box 1 of Form 1099-H. Also, subtract the amount shown on line 4 of Form 8885 (reduced by any advance payments shown on line 6 of that form) from the total insurance premiums you paid.

Whose Medical and Dental Expenses Can You Include? You may include medical and dental bills you paid for:
- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained in Pub. 501 for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return if that person had not received $3,050 or more of gross income or had not filed a joint return.
- Exemptions. You provided over half of your mother’s support but may not claim her as a dependent because she received wages of $3,050 in 2003. You may include on line 1 any medical and dental expenses you paid in 2003 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 only the amount you paid. If you received a reimbursement in 2003 for medical or dental expenses you paid in 2003, reduce your 2003 expenses by this amount. If you received a reimbursement in 2003 for prior year medical or dental expenses, do not reduce your 2003 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include.

Cafeteria Plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your Form(s) W-2. Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your Form(s) W-2.

Line 5 State and Local Income Taxes

Include on this line the state and local income taxes listed below.
- State and local income taxes withheld from your salary during 2003. Your Form(s) W-2 will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.
- State and local income taxes paid in 2003 for a prior year, such as taxes paid with your 2002 state or local income tax return. Do not include penalties or interest.
- State and local estimated tax payments made during 2003, including any part of a prior year refund that you chose to have credited to your 2003 state or local income taxes.
- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen’s Compensation Fund. Do not reduce your deduction by any:
- State or local income tax refund or credit you expect to receive for 2003 or
- Refund of, or credit for, prior year state and local income taxes you actually received in 2003. Instead, see the instructions for Form 1040, line 10.

Line 6 Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you owned that was not used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. Pub. 530 explains the deductions homeowners may take.

Do not include the following amounts on line 6.
- Itemized charges for services to specific property or persons (for example, a $20 monthly charge per house for trash collection, a $5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).
- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an
existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you may deduct only the amount the mortgage company actually paid to the taxing authority in 2003.

If you sold your home in 2003, any real estate tax charged to the buyer should be shown on your settlement statement and in box 5 of any Form 1099-S you received. This amount is considered a refund of real estate taxes. See Refunds and Rebates below. Any real estate taxes you paid at clos- ing should be shown on your settlement statement.

Refunds and Rebates. If you received a refund or rebate in 2003 of real estate taxes you paid in 2003, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 2003 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. See Recoveries in Pub. 525 for details on how to figure the amount to include in income.

Line 7
Personal Property Taxes
Enter personal property tax you paid, but only if it is based on value alone and it is charged on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car’s value and part was based on its weight. You may deduct only the part of the fee that was based on the car’s value.

In general, if you paid interest in 2003 that applies to any period after 2003, you may deduct only amounts that apply for 2003.

Lines 10 and 11
Home Mortgage Interest
A home mortgage is any loan that is se- cured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mort- gages.

A home may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living ac- commodations including sleeping space, toilet, and cooking facilities.

Limit on Home Mortgage Interest. If you took out any mortgages after October 13, 1987, your deduction may be limited. Any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date are treated as a mortgage taken out after October 13, 1987. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mort- gage taken out after October 13, 1987.

See Pub. 936 to figure your deduction if either 1 or 2 below applies. If you had more than one home at the same time, the dollar amounts in 1 and 2 apply to the total mortgages on both homes.

1. You took out any mortgages after Oc- tober 13, 1987, and used the proceeds for purposes other than to buy, build, or im- prove your home, and all of these mort- gages totaled over $100,000 at any time during 2003. The limit is $50,000 if mar- ried filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

2. You took out any mortgages after Oc- tober 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over $1 million at any time during 2003. The limit is $500,000 if married filing separately.

If the total amount of all mort- gages is more than the fair mar- ket value of the home, additional limits apply. See Pub. 936.

Line 10
Enter on line 10 mortgage interest and points reported to you on Form 1098. If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21.

If you paid more interest to the recipient than is shown on Form 1098, see Pub. 936 to find out if you can deduct the additional interest. If you can, attach a statement ex- plaining the difference and enter “See at- tached” to the right of line 10.

Note. If you are claiming the mortgage interest credit (see the instructions for Form 1040, line 51), subtract the amount shown on line 3 of Form 8396 from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11
If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recip- ient, be sure to show that recipient’s name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a $50 pen- alty.

If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your re- turn showing the name and address of that person. To the right of line 11, enter “See attached.”

Line 12
Points Not Reported on Form 1098
Points are shown on your settlement state- ment. Points you paid only to borrow money are generally deductible over the life of the loan. See Pub. 936 to figure the amount you may deduct. Points paid for other purposes, such as for a lender’s serv- ices, are not deductible.

Refinancing. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to im- prove your main home, you may be able to deduct the part of the points related to the improvement in the year paid. See Pub. 936 for details.

If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.
Line 13
Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach Form 4952 to figure your deduction.

Exception. You do not have to file Form 4952 if all three of the following apply:

1. Your investment interest expense is not more than your investment income from interest and ordinary dividends minus any qualified dividends.
2. You have no other deductible investment expenses.
3. You have no disallowed investment interest expense from 2002.

Contributions You May Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you may take 14 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

Gifts From Which You Benefit. If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you may generally only deduct the amount that is more than the value of the benefit. But this rule does not apply to certain membership benefits provided in return for an annual payment of $75 or less. For details, see Pub. 526.

Example. You paid $70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was $40. You may deduct only $30.

Gifts of $250 or More. You may deduct a gift of $250 or more only if you have a statement from the charitable organization showing the information in 1 and 2 below. In figuring whether a gift is $250 or more, do not combine separate donations. For example, if you gave your church $25 each week for a total of $1,300, treat each $25 payment as a separate gift. See Pub. 526 if you made a separate gift of $250 or more through payroll deductions, treat each deduction from each paycheck as a separate gift.

1. The amount of any money contributed and a description (but not value) of any property donated.
2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.

You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.

Limit on the Amount You May Deduct. See Pub. 526 to figure the amount of your deduction if any of the following apply:

• Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 35.
• Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 35.
• You gave gifts of property that increased in value or gave gifts of the use of property.

Contributions You May Not Deduct

• Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
• Political contributions.
• Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.
• Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 27. See page A-6 for details.
• Cost of tuition. But you may be able to deduct this expense on line 20 (see page A-5) or take a credit for this expense (see Form 8863).
• Value of your time or services.
• Value of blood given to a blood bank.
• The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
• Gifts to individuals and groups that are run for personal profit.
• Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See Pub. 526 for details.
• Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See Internal Revenue Code section 170(f)(9).
• Gifts to groups whose purpose is to lobby for changes in the laws.
• Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.
• Value of benefits received in connection with a contribution to a charitable organization. See Pub. 526 for exceptions.

For more details, see Pub. 550.

For details, see Pub. 526.

Gifts to Charity

You may deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. Examples of these organizations are:

• Churches, mosques, synagogues, temples, etc.
• Boy Scouts, Girls and Boys Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
• Fraternal orders, if the gifts will be used for the purposes listed above.
• Veterans’ and certain cultural groups.
• Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.
• Federal, state, and local governments if the gifts are solely for public purposes.

To verify an organization’s charitable status, you can:

• Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
• See Pub. 78 for a list of most qualified organizations. You can access Pub. 78 on the IRS website at www.irs.gov under Charities and Non-Profits.

Call our Tax Exempt/Government Entities Customer Account Service at 1-877-829-5500. Assistance is available Monday through Friday from 8:00 a.m. to 6:30 p.m. EST.

TIP

You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.

Note. Alaska Permanent Fund dividends, included those reported on Form 8814, are not investment income.

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
Line 15
Gifts by Cash or Check
Enter the total contributions you made in cash or by check (including out-of-pocket expenses).

Casualty and Theft Losses

Line 19
Complete and attach Form 4684 to figure the amount of your loss to enter on line 19. You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that:

• The amount of each separate casualty or theft loss is more than $100
• The total amount of all losses during the year is more than 10% of the amount on Form 1040, line 35.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 and its instructions for details.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For information on Federal disaster area losses, see Pub. 547.

Job Expenses and Most Other Miscellaneous Deductions

You may deduct only the part of these expenses that exceeds 2% of the amount on Form 1040, line 35. Pub. 529 discusses the types of expenses that may and may not be deducted.

Examples of Expenses You May Not Deduct

• Political contributions.
• Personal legal expenses.
• Loss or misplaced cash or property.
• Expenses for meals during regular or extra work hours.
• The cost of entertaining friends.
• Commuting expenses. See Pub. 529 for the definition of commuting.

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted lines next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

TIP
If you used your own vehicle and item 2 does not apply, you may be able to file Form 2106 or 2106-EZ.

Examples of other expenses to include on line 20 are:

• Safety equipment, small tools, and supplies needed for your job.
• Uniforms required by your employer that are not suitable for ordinary wear.
• Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
• Physical examinations required by your employer.
• Dues to professional organizations and chambers of commerce.
• Subscriptions to professional journals.
• Fees to employment agencies and other persons to look for a new job in your present occupation, even if you do not get a new job.
• Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 11 of
the Form 1040 instructions) or see Pub. 587:

- Certain educational expenses. For de-
tails, use TeleTax topic 513 (see page 11 of
the Form 1040 instructions) or see Pub.
976. Reduce your educational expenses by
any tuition and fees deduction you claimed
on Form 1040, line 26.

You may be able to take a credit for
your educational expenses
instead of a deduction. See
Form 8863 for details.

Line 21

Tax Preparation Fees

Enter the fees you paid for preparation of
your tax return, including fees paid for fil-
ing your return electronically. If you paid
your tax by credit card, do not include the
convenience fee you were charged.

Line 22

Other Expenses

Enter the total amount you paid to produce
or collect taxable income and manage or
protect property held for earning income,
but do not include any personal expenses.
List the type and amount of each expense
on the dotted lines next to line 22. If you
need more space, attach a statement show-
ing the type and amount of each expense.
Enter one total on line 22.

Examples of expenses to include on line
22 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account)
fees.
- Your share of the investment ex-
penses of a regulated investment company.
- Certain losses on nonfederally insured
deposits in an insolvent or bankrupt finan-
cial institution. For details, including limits
that apply, see Pub. 529.
- Casualty and theft losses of property
used in performing services as an employee
from Form 4684, lines 32 and 38b, or
Form 4797, line 18b(1).
- Deduction for repayment of amounts
under a claim of right if $3,000 or less.
- Certain unrecovered investment in a
pension.
- Impairment-related work expenses of
a disabled person.
- Certain educational expenses. For de-
tails, use TeleTax topic 513 (see page 11 of
the Form 1040 instructions) or see
Pub. 529.

Other Miscellaneous

Deductions

Line 27

Only the expenses listed next can be de-
ducted on this line. List the type and
amount of each expense on the dotted lines
next to line 27. If you need more space, attach a statement show-
ing the type and amount of each expense.
Enter one total on line 27.

Examples of expenses to include on line
27 are:

- Gambling losses, but only to the ex-
tent of gambling winnings reported on
Form 1040, line 21.
- Amortizable bond premium on bonds
deposits in an insolvent or bankrupt finan-
cial institution. For details, including limits
that apply, see Pub. 529.
- Deduction for repayment of amounts
under a claim of right if over $3,000. See
Pub. 525 for details.
- Certain losses on nonfederally insured
deposits in an insolvent or bankrupt finan-
cial institution. For details, including limits
that apply, see Pub. 529.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account)
fees.
- Your share of the investment ex-
penses of a regulated investment company.
- Certain losses on nonfederally insured
deposits in an insolvent or bankrupt finan-
cial institution. For details, including limits
that apply, see Pub. 529.
Instructions for Schedule B, Interest and Ordinary Dividends

You may list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer’s name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the “Amount” column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.

Part I. Interest

Line 1

Interest

Report on line 1 all of your taxable interest. Interest should be shown on your Forms 1099-INT, Forms 1099-OID, or substitute statements. Include interest from series EE and I U.S. savings bonds. List each payer’s name and show the amount.

Special Rules

Seller-Financed Mortgages

If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer’s name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer’s name, address, and SSN, or let the buyer know your SSN, you may have to pay a $50 penalty.

Nominees

If you received a Form 1099-INT that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, enter “Nominee Distribution” and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.

If you received interest as a nominee, you must give the actual owner a Form 1099-INT unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-INT with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 5498, and W-2G and Instructions for Forms 1099-INT and 1099-OID.

Accrued Interest

When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules earlier under Nominees to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as “Accrued Interest.”

Tax-Exempt Interest

If you received a Form 1099-INT for tax-exempt interest, follow the rules earlier under Nominees to see how to report the interest on Schedule B. But identify the amount to be subtracted as “Tax-Exempt Interest.”

Original Issue Discount (OID)

If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules earlier under Nominees to see how to report the OID on Schedule B. But identify the amount to be subtracted as “OID Adjustment.”

Amortizable Bond Premium

If you are reducing your interest income on a bond by the amount of amortizable bond premium, follow the rules earlier under Nominees to see how to report the interest on Schedule B. But identify the amount to be subtracted as “ABP Adjustment.”

Line 3

Excludable Interest on Series EE and I U.S. Savings Bonds Issued After 1989

If, during 2003, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See Form 8815 for details.

Part II. Ordinary Dividends

Note. You may have to file Form 5471 if, in 2003, you were an officer or director of a foreign corporation. You may also have to file Form 5471 if, in 2003, you owned 10% or more of the total value of a foreign corporation’s stock or (b) combined voting power of all classes of a foreign corporation’s stock with voting rights. For details, see Form 5471 and its instructions.

Line 5

Ordinary Dividends

Report on line 5 all of your ordinary dividends. This amount should be shown in box 1a of your Forms 1099-DIV or substitute statements. List each payer’s name and show the amount.

Nominees

If you received a Form 1099-DIV that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter “Nominee Distribution” and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.
If you received dividends as a nominee, you must give the actual owner a Form 1099-DIV unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-DIV with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 5498, and W-2G and Instructions for Form 1099-DIV.

Part III. Foreign Accounts and Trusts

Lines 7a and 7b
Foreign Accounts

Line 7a
Check the “Yes” box on line 7a if either 1 or 2 next applies.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

Note. Item 2 does not apply to foreign securities held in a U.S. securities account.

Exceptions. Check the “No” box if any of the following applies to you.

- The combined value of the accounts was $10,000 or less during the whole year.

- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer’s name; and you did not have a personal financial interest in the account.

- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than $1 million and 500 or more shareholders of record; the account was in your employer’s name; you did not have a personal financial interest in the account; and the corporation’s chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See Form TD F 90-22.1 to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). You can get Form TD F 90-22.1 by visiting the IRS website at www.irs.gov/pub/irs-pdf/f9022-1.pdf.

If you checked the “Yes” box on line 7a, file Form TD F 90-22.1 by June 30, 2004, with the Department of the Treasury at the address shown on that form. Do not attach it to Form 1040.

Line 7b
If you checked the “Yes” box on line 7a, enter the name of the foreign country or countries in the space provided on line 7b. Attach a separate statement if you need more space.

Line 8
Foreign Trusts
If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See Form 3520 for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 2003, you may have to file Form 3520.