



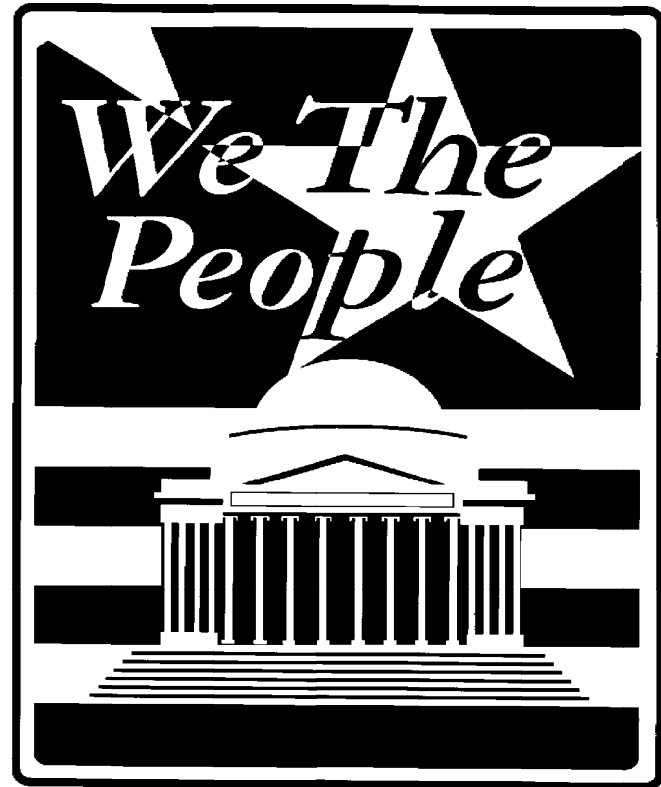
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Department  
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Internal  
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Service

# Exemptions, Standard Deduction, and Filing Information

For use in preparing  
**1994** Returns



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## Important Changes for 1994

**Exemption amount.** The amount you may deduct as an exemption has increased from \$2,350 in 1993 to \$2,450 in 1994.

**Exemption phaseout.** In 1994 you will lose all or part of the benefit of your exemptions if your adjusted gross income goes above a certain level. The income level ranges from \$83,850 (for married filing separately) to \$167,700 (for married filing jointly) depending upon your filing status. See *Phaseout of Exemptions*, later.

**Standard deduction.** The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is higher in 1994 than it was in 1993. The amount depends upon your filing status. The *1994 Standard Deduction Tables* are shown later as Tables 6, 7, and 8.

**Itemized deductions.** The amount you may deduct for itemized deductions is limited if your adjusted gross income is more than \$111,800 (\$55,900 if you are married filing separately). See *Who Should Itemize*, later.

## Important Reminders

**Election to claim child's unearned income on parent's return.** You may be able to include your child's interest and dividend income on your tax return by using Form 8814, *Parents' Election To Report Child's Interest and Dividends*. If you choose to do this, your child will not file a return.

**Child under age 14.** Part of a child's investment income may be subject to tax at the parent's tax rate if the child was under age 14 and the investment income was more than \$1,200. If you do not or cannot choose to include your child's income on your return, figure the child's tax on Form 8615, *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,200*.

**Social security numbers for dependents.** If you claim a dependent on a tax return, you have to list the dependent's social security number if he or she is age **one or older**. If you do not provide a dependent's social security number when it is required, or if you list an incorrect number, you may be subject to a \$50 penalty.

**Change of address.** If you change your mailing address, be sure to notify the IRS using Form 8822, *Change of Address*. Mail it to the Internal Revenue Service Center for your old address. (Addresses for the Service Centers are on the back of the form.)

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## Introduction

This publication discusses some tax laws that affect every person who may have to file a federal income tax return. It provides answers to some basic questions: who must file; who should file; what filing status to choose; how many exemptions to claim; and the amount of the standard deduction.

The first section of this publication explains **who must file** an income tax return. If you have little or no gross income, reading this section will help you decide if you need to file a return.

The second section is about **who should file** a return. Reading this section will help you decide if you should file, even if you are not required to file.

The third section helps you determine what **filing status** you can use. Filing status is important in determining your filing requirements, your standard deduction, and your tax rate. It also helps determine what credits you may be entitled to.

The fourth section discusses **exemptions** and the **social security number requirement** for dependents. It also covers rules for multiple support agreements and rules for divorced or separated parents.

The fifth section gives the rules and dollar amounts for the **standard deduction** — a benefit for taxpayers who do not itemize their deductions. This section also discusses the standard deduction for nonitemizing taxpayers who are blind or age 65 or older, and special rules for dependents. In addition, this section may help you decide which method — taking a standard deduction or itemizing deductions — is better for you.

The last section covers special rules for taxpayers who take care of **foster children or adults**. You may have to include certain payments in income but may have deductible expenses too.

This publication discusses filing information for U.S. citizens and resident aliens only. If you are a resident alien for the entire year, you must file a tax return following the same rules that apply to U.S. citizens. The rules to determine if you are a resident or nonresident alien are discussed in Chapter 1 of Publication 519, *U.S. Tax Guide for Aliens*.

**Nonresident aliens.** If you are a nonresident alien, the rules and tax forms that apply to you

may be different from those that apply to U.S. citizens. See Chapter 5 of Publication 519.

## Useful Items

You may want to see:

### Publication

- 54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 519** U.S. Tax Guide for Aliens
- 520** Scholarships and Fellowships
- 533** Self-Employment Tax
- 555** Federal Tax Information on Community Property
- 559** Survivors, Executors, and Administrators
- 596** Earned Income Credit
- 929** Tax Rules for Children and Dependents

### Form (and Instructions)

- 1040X** Amended U.S. Individual Income Tax Return
- 2848** Power of Attorney and Declaration of Representative
- 8615** Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,200
- 8814** Parents' Election To Report Child's Interest and Dividends
- 8822** Change of Address
- Schedule SE (Form 1040)** Self-Employment Tax

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**Ordering publications and forms.** To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). If you have access to TDD equipment, you can call 1-800-829-4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

**Asking tax questions.** You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call toll-free 1-800-829-1040 (1-800-829-4059 for TDD users).

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## Who Must File

If you are a citizen or resident of the United States, or a resident of Puerto Rico, you must file a federal income tax return if you meet the filing requirements (legal requirements to file a tax return) for one of the categories listed below:

- Individuals — In General
- Dependents
- Special Situations

The filing requirements apply even if you owe no tax. Failure to file when required may result in penalties. **Willful failure to file** when required to do so may result in criminal prosecution.

For information on what form to use — Form 1040EZ, Form 1040A, or Form 1040 — see the instructions in your tax package.

## Individuals — In General

If you are a U.S. citizen or resident, your filing requirement depends upon your gross income, your filing status, and your age. However, you may meet one of the exceptions or other categories discussed later under *Special Situations*.

**Gross income.** Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. If you are married and live with your spouse in a community property state, half of any income described by state law as community income may be considered yours. For a list of community property states, see *Community property states*, under *Separate Returns*, later.

**Self-employed persons.** If you are self-employed in a business that provides services (where products are not a factor), gross income is gross receipts from that business. If you are self-employed in a business involving manufacturing, merchandising, or mining, gross income is total sales from that business less cost of goods sold. To this figure you add any income from investments and from incidental or outside operations or sources.

You must file Form 1040 if you owe any self-employment tax. *Self-employment tax* is discussed later under *Special Situations*.

**Marital status.** Your marital status is determined as of the last day of your tax year, which is December 31 for most taxpayers. Your filing status generally depends upon whether you are single or married and whether you maintained a household for at least half the year for yourself and one other person. Filing status and dependents are discussed in detail later in this publication.

**Age.** Age is a factor in determining if you must file a return only if you are 65 or older at the end of your tax year. You are considered to be age 65 for 1994 if your 65th birthday is on or before January 1, 1995.

## Filing Requirements for Most Taxpayers

You must file a 1994 return if your gross income was at least the amount shown in *Table 1*. Dependents should see *Dependents*, later.

## Deceased Persons

You must file an income tax return for a decedent (a person who died) if:

- 1) You are the surviving spouse, executor, administrator, or legal representative, and
- 2) The decedent met the filing requirements at the time of his or her death.

**Table 1. 1994 Filing Requirements Chart for Most Taxpayers**

Marital Status	Filing Status	Age*	Gross Income
Single (including divorced and legally separated)	Single	under 65 65 or older	\$6,250 \$7,200
	Head of household	under 65 65 or older	\$8,050 \$9,000
Married with a child and living apart from your spouse during the last 6 months of 1994	Head of household	under 65 65 or older	\$8,050 \$9,000
Married and living with your spouse at end of 1994 (or on the date your spouse died)	Married, joint return	under 65 (both spouses) 65 or older (one spouse)	\$11,250 \$12,000
		65 or older (both spouses)	\$12,750
	Married, separate return	any age	\$2,450
Married, not living with your spouse at the end of 1994 (or on the date your spouse died)	Married, joint or separate return	any age	\$2,450
Widowed before 1994 and not remarried in 1994	Single	under 65 65 or older	\$6,250 \$7,200
	Head of household	under 65 65 or older	\$8,050 \$9,000
	Qualifying widow(er) with dependent child	under 65 65 or older	\$8,800 \$9,550

\* If you were age 65 on January 1, 1995, you are considered to be age 65 at the end of 1994.

For more information, see *Final Return for Decedent* in Publication 559, *Survivors, Executors, and Administrators*.

### U.S. Citizens Living Abroad

If you are a U.S. citizen living outside the United States, part or all of your income earned abroad may not be subject to federal tax. However, you must include all income earned abroad as gross income to determine whether you must file. For more information on special tax rules that may apply to you, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

### Sale of Residence

If you are 55 or older and sold a home in 1994, part or all of your gain may not be subject to federal tax. However, you must include your entire gain as gross income to determine whether you must file.

### Residents of Puerto Rico

Generally, if you are a U.S. citizen and a resident of Puerto Rico, you must file a U.S. income tax return if you meet the income requirements. This is in addition to any legal requirement you may have to file an income tax return for Puerto Rico.

If you are a resident of Puerto Rico for the whole year, your U.S. gross income does not include income from sources within Puerto Rico. However, include in your U.S. gross income any income received for your services as an employee of the United States or any U.S. agency. If you receive income from Puerto Rican sources that is not subject to U.S. tax, you must make a special adjustment for your standard deduction to arrive at the income level for your requirement to file a U.S. income tax return.

For more information, see Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*.

## Dependents

A person who can be claimed as a dependent by another taxpayer may have to file a return. This depends on whether the dependent has earned income, unearned income, or both. It also depends on whether one of the other special situations applies. See *Table 2* and the discussion on *Special Situations* later in this publication.

**Earned income.** This is salaries, wages, professional fees, and other amounts received as pay for work you actually perform. Earned income (only for purposes of filing requirements and the standard deduction) also includes any part of a scholarship that you must include in your gross income. See Publication 520, *Scholarships and Fellowships*, for more information on taxable and nontaxable scholarships.

**Unearned income.** This is income such as interest, dividends, and capital gains. Trust distributions of interest, dividends, capital gains, and survivor annuities are considered unearned income also.

**Election to claim child's unearned income on parents' return.** You may be able to include your child's interest and dividend income on your tax return. If you choose to do this, your child is not required to file a return. However, **all** of the following conditions must be met.

- 1) Your child was under age 14 on January 1, 1995.
- 2) Your child had gross income only from interest and dividends (including Alaska Permanent Fund Dividends).
- 3) The interest and dividend income was more than \$500 and less than \$5,000.
- 4) No estimated tax payment was made for 1994 and no 1993 overpayment was applied to 1994 under your child's name and social security number.
- 5) No federal income tax was withheld from your child's income under the backup withholding rules.
- 6) You are the parent whose return must be used when making the election to claim your child's unearned income.

For more information, see *Parent's Election to Report Child's Unearned Income* in Publication 929, *Tax Rules for Children and Dependents*, and Form 8814.

**Dependents who are age 65 or older, or blind.** These persons may find the following worksheet helpful in determining if they must file a return.

**Filing Requirements Worksheet for Dependents Who Are 65 or Older or Blind**

- Enter dependent's **earned** income ..... \_\_\_\_\_
- Minimum amount ..... \$ 600
- Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts ..... \_\_\_\_\_
- Enter the appropriate amount from the following table ..... \_\_\_\_\_

Filing Status	Amount
Single	\$3,800
Married	3,175

- Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts ..... \_\_\_\_\_
- Enter the amount from the following table that applies to the dependent's filing status and situation ..... \_\_\_\_\_

Filing Status	Amount
Single	
Either 65 or older <b>or</b> blind	\$ 950
65 or older <b>and</b> blind	1,900
Married	
Either 65 or older <b>or</b> blind	\$ 750
65 or older <b>and</b> blind	1,500

- Add the amounts on lines 5 and 6. Enter the total ..... \_\_\_\_\_
  - Enter the dependent's total income ..... \_\_\_\_\_
- If the amount on line 8 is more than the amount on line 7, the dependent **must** file an income tax return.

**Special Situations**

Some persons must file a tax return even though their gross income is less than the amount shown earlier for their filing status. See *Table 2* and *Table 3* for other situations when you must file.

If you are a U.S. citizen who lived in a U.S. possession or had income from a U.S. possession, different rules apply. Get Publication 570, *Tax Guide for Individuals With Income from U.S. Possessions*.

**Self-employment tax.** If you are self-employed, you must file a return and pay self-employment tax if you had net earnings from self-employment of \$400 or more. The \$400 net earnings figure applies to self-employed persons of any age. You must include your self-employment income in your gross income for income tax purposes even if your net self-employment income is less than \$400.

You are self-employed if you carry on a trade or business as a sole proprietor, are an independent contractor or a member of a partnership, or are otherwise in business for yourself. You can be self-employed even if the work you do is part time or in addition to your regular job.

Net earnings from self-employment generally is the net income (gross income minus deductible business expenses) from your business or profession. The self-employment tax you must pay is comparable to the social security and Medicare taxes withheld from an employee's wages.

If you are self-employed, report your self-employment tax on Schedule SE (Form 1040), *Self-Employment Tax*, and attach it to your

**Table 2. 1994 Filing Requirements Chart for Dependents**

See *Exemptions for Dependents*, later, to find out if someone can claim you as a dependent.

<p>If your parent (or someone else) can claim you as a dependent, and any of the four situations listed below applies to you, you must file a return.</p> <p>In this chart, <b>unearned income</b> includes taxable interest and dividends. <b>Earned income</b> includes wages, tips, and taxable scholarship and fellowship grants.</p> <p><b>Caution:</b> If your gross income was \$2,450 or more, you generally cannot be claimed as a dependent unless you were under 19 <b>or</b> under 24 and a full-time student. For details, see <i>Gross Income Test</i> under <i>Dependency Tests</i>, later.</p>		
<p><b>1. Single dependents under 65 and not blind.</b>—You must file a return if—</p>		
<b>Your unearned income was:</b>	<b>and</b>	<b>the total of that income plus your earned income was:</b>
\$1 or more		more than \$600
\$0		more than \$3,800
<p><b>2. Single dependents 65 or older or blind.</b>—You must file a return if—</p> <ul style="list-style-type: none"> <li>• Your <b>earned income</b> was more than \$4,750 (\$5,700 if 65 or older <b>and</b> blind), or</li> <li>• Your <b>unearned income</b> was more than \$1,550 (\$2,500 if 65 or older <b>and</b> blind), or</li> <li>• Your <b>gross income</b> was more than the <b>total</b> of your earned income (up to \$3,800) <b>or</b> \$600, whichever is larger, <b>plus</b> \$950 (\$1,900 if 65 or older <b>and</b> blind).</li> </ul>		
<p><b>3. Married dependents under 65 and not blind.</b>—You must file a return if—</p> <ul style="list-style-type: none"> <li>• Your <b>earned income</b> was more than \$3,175, or</li> <li>• You had any <b>unearned income</b> and your gross income was more than \$600, or</li> <li>• Your <b>gross income</b> was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.</li> </ul>		
<p><b>4. Married dependents 65 or older or blind.</b>—You must file a return if—</p> <ul style="list-style-type: none"> <li>• Your <b>earned income</b> was more than \$3,925 (\$4,675 if 65 or older <b>and</b> blind), or</li> <li>• Your <b>unearned income</b> was more than \$1,350 (\$2,100 if 65 or older <b>and</b> blind), or</li> <li>• Your <b>gross income</b> was more than the <b>total</b> of your earned income (up to \$3,175) <b>or</b> \$600, whichever is larger, <b>plus</b> \$750 (\$1,500 if 65 or older <b>and</b> blind), or</li> <li>• Your <b>gross income</b> was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.</li> </ul>		

Form 1040. See Publication 533, *Self-Employment Tax*, for more information.

2) You qualify for the earned income credit. See Publication 596, *Earned Income Credit*, for more information.

**Nonresident alien and dual-status alien.** If you were a resident alien and a nonresident alien during the same tax year, you are a dual-status alien. Different rules apply for the part of the year you were a resident of the United States and the part of the year you were a nonresident alien. If you were a nonresident alien for any part of the year, see Publication 519.

**Who Should File**

Even if you do not meet any of the filing requirements discussed earlier, you **should** file a tax return if one of the following applies.

- 1) You had income tax withheld from your pay. By filing a return, you can get a refund even if another taxpayer can claim you as a dependent.

**Filing Status**

Your filing status is used in determining your filing requirements, standard deduction, and correct tax. It is also important in determining whether you are eligible to claim certain other deductions and credits. See *Standard Deduction* later for more information. Your correct tax is determined by using the Tax Rate Schedule or the column in the Tax Table that applies to your filing status.

In general, your filing status depends on whether you are considered single or married. There are five filing statuses:

- Single
- Married Filing Jointly
- Married Filing Separately

**Table 3. Other Situations When You Must File a 1994 Return**

<p>If any of the four conditions listed below applied to you for 1994, you must file a return.</p> <ol style="list-style-type: none"> <li>You owe any special taxes, such as: <ul style="list-style-type: none"> <li>Social security and Medicare tax on tips you did not report to your employer.</li> <li>Uncollected social security and Medicare or RRTA tax on tips you reported to your employer.</li> <li>Uncollected social security and Medicare or RRTA tax on group-term life insurance.</li> <li>Alternative minimum tax.</li> <li>Tax on a qualified retirement plan, including an individual retirement arrangement (IRA).</li> <li>Tax from recapture of investment credit, low-income housing credit, federal mortgage subsidy, or qualified electric vehicle credit.</li> </ul> </li> <li>You received any advance earned income credit (AEIC) payments from your employer. These payments should be shown in box 9 of your Form W-2.</li> <li>You had net earnings from self-employment of at least \$400.</li> <li>You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.</li> </ol>
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**Head of Household**

**Qualifying Widow(er) With Dependent Child**

If more than one filing status applies to you, choose the one that will give you the lowest tax.

If you file Form 1040 or Form 1040A, indicate your filing status by checking the appropriate box on lines 1 through 5.

**Single taxpayers.** You are considered single for the whole year if, on the last day of your tax year, you are unmarried or separated from your spouse by a divorce or a separate maintenance decree.

**Divorced persons.** State law governs whether you are married, divorced, or legally separated under a decree of separate maintenance. If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year.

**Exception.** If you obtain a divorce in one year for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intended to and did remarry each other in the next tax year, you and your spouse must file as married individuals.

**Annulled marriages.** If you obtain a court decree of annulment, which holds that no valid marriage ever existed, and you do not remarry, you must file as single or head of household, whichever applies, for that tax year. You must also file amended returns (Form 1040X, *Amended U.S. Individual Income Tax Return*) claiming single or head of household status for all tax years affected by the annulment that are not closed by the statute of limitations for filing a tax return. The statute of limitations generally does not expire until 3 years after your original return was filed.

**Head of household or qualifying widow(er) with dependent child.** If you are considered

single, you may be able to file as a head of household or as a qualifying widow(er) with a dependent child. See *Head of Household and Qualifying Widow(er) With Dependent Child* to see if you qualify.

**Married taxpayers.** You and your spouse may be able to file a joint return, or you may file separate returns.

**Considered married.** You are considered married for the whole year if on the last day of your tax year you are either:

- Married and living together as husband and wife,
- Living together in a **common law marriage** that is recognized in the state where you now live or in the state where the common law marriage began,
- Married and living apart, but not legally separated under a decree of divorce or separate maintenance, or
- Separated under an interlocutory (not final) decree of divorce. For purposes of filing a joint return you are not considered divorced.

**Spouse died during the year.** If your spouse died during the year, you are considered married for the whole year for filing status purposes.

If you did not remarry before the end of the tax year, you may file a joint return for yourself and your deceased spouse. For the next 2 years, you may be entitled to the special benefits described later under *Qualifying Widow(er) With Dependent Child*.

If you remarried before the end of the tax year, you may file a joint return with your new spouse. Your deceased spouse's filing status is married filing separately for that year.

**Married persons living apart.** If you live apart from your spouse and meet certain tests, you may be **considered unmarried**. Therefore, you may file as head of household even

though you are not divorced or legally separated. If you qualify to file as head of household instead of as married filing separately, your standard deduction will be higher. Also, your tax may be lower, and you may be able to claim the earned income credit. See *Head of Household*, later.

**Single**

Your filing status is **single** if you are unmarried or separated from your spouse by a divorce or a separate maintenance decree, and you do not qualify for another filing status. However, if you were considered married for part of the year and lived in a community property state (listed under *Separate Returns*), special rules may apply in determining your income and expenses. See Publication 555, *Federal Tax Information on Community Property*, for more information.

Your filing status may be single if you were widowed before January 1, 1994 and did not remarry in 1994. However, you might be able to use another filing status that will give you a lower tax. See *Head of Household and Qualifying Widow(er) With Dependent Child* to see if you qualify.

You may file Form 1040EZ (if you have no dependents and are under 65 and not blind), Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show your filing status as single by checking the box on line 1. Use the *Single* column of the Tax Table, or *Schedule X* of the Tax Rate Schedules, to figure your tax.

**Married Filing Jointly**

You may choose **married filing jointly** as your filing status if you are married and both you and your spouse agree to file a joint return. On a joint return, you report your combined income and deduct your combined allowable expenses.

If you and your spouse decide to file a joint return, your tax may be lower than your combined tax for the other filing statuses. Also, your standard deduction (if you do not itemize deductions) may be higher, and you may qualify for tax benefits that do not apply to other filing statuses. You may file a joint return even if one of you had no income or deductions. If you and your spouse each have income, you may want to figure your tax both on a joint return and on separate returns (using the filing status of married filing separately). Choose the method that gives you the lower tax.

If you file as married filing jointly, you may use Form 1040EZ, Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show this filing status by checking the box on line 2. Use the *Married filing jointly* column of the Tax Table, or *Schedule Y-1* of the Tax Rate Schedules, to figure your tax.

**Spouse died during the year.** If your spouse died during the year, you are considered married for the whole year for filing status purposes.

**Divorced persons.** If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year.

## Filing a Joint Return

Both you and your spouse must include all of your income, exemptions, and deductions on your joint return.

**Accounting period.** Both of you must use the same accounting period, but you may use different accounting methods.

**Joint responsibility.** Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. One spouse may be held responsible for all the tax due even though all the income was earned by the other spouse.

**Exception.** Under certain circumstances, you may not have to pay the tax, interest, and penalties on a joint return. You must establish that you did not know, and had no reason to know, that there was a substantial understatement of tax that resulted because your spouse:

- 1) Omitted a gross income item, or
- 2) Claimed a deduction, credit, or property basis in an amount for which there is no basis in fact or law.

When the facts and circumstances are considered, it also must be unfair to hold you liable for the tax due. One consideration in determining your responsibility for any tax, interest, and penalties is whether you significantly benefitted from the substantial understatement of tax. Normal support received from your spouse is not a significant benefit. Being later divorced or deserted by your spouse may be another consideration.

This exception applies only if your spouse's action resulted in an understatement of tax of more than \$500. In addition, if the tax understatement resulted from claiming a deduction, credit, or basis, the exception applies only if the additional tax, interest, and penalties are more than:

- 1) 10% of your adjusted gross income (AGI) for the preadjustment year, if your AGI was \$20,000 or less, or
- 2) 25% of your AGI for the preadjustment year, if your AGI was more than \$20,000.

Your preadjustment year is your most recent tax year ending before a deficiency notice was mailed. If you were married to a different person at the end of the preadjustment year, your AGI includes your new spouse's income, whether or not you filed a joint return for that year.

For purposes of this exception, community property rules do not apply to items of gross income (other than gross income from property).

**Divorced taxpayer.** You may be held jointly and individually responsible for any tax, interest, and penalties due on a joint return filed before your divorce. This responsibility applies even if your divorce decree states that your

former spouse will be responsible for any amounts due on previously filed joint returns.

**Signing a joint return.** For a return to be considered a joint return, both husband and wife must sign the return.

**Spouse died before signing.** If your spouse died before signing the return, the executor or administrator must sign the return for your spouse. If neither you nor anyone else has yet been appointed, you may sign the return for your spouse and write "Filing as surviving spouse" in the area where you sign the return.

**Spouse away from home.** If your spouse is away from home, you should prepare the return, sign it, and send it to your spouse to sign so that it can be filed on time.

**Injury or disease prevents signing.** If your spouse cannot sign because of disease or injury and tells you to sign, you may sign your spouse's name in the proper space on the return followed by the words "By (your name), Husband (or Wife)." Be sure to also sign in the space provided for your signature. Attach a dated statement, signed by you, to the return. The statement should include the form number of the return you are filing, the tax year, the reason your spouse cannot sign, and that your spouse has agreed to your signing for him or her.

**Signing as guardian of spouse.** If you are the guardian of your spouse who is mentally incompetent, you may sign the return for your spouse as guardian.

**Other reasons spouse cannot sign.** If your spouse cannot sign the joint return for any other reason, you may sign for your spouse only if you are given a valid power of attorney (a legal document giving you permission to act for your spouse). Attach the power of attorney to your tax return. You may use Form 2848, *Power of Attorney and Declaration of Representative*.

**Spouse in combat zone.** If your spouse is unable to sign the return because he or she is serving in a combat zone, such as the Persian Gulf Area, and you do not have a power of attorney or other statement, you may sign your joint return if you attach your own signed, written statement to your return that explains that your spouse is serving in the combat zone. When you file, write "*Desert Storm*" at the top of your return and on the envelope in which you mail it. For more information on special tax rules for persons who are serving in a combat zone, get Publication 3, *Tax Information for Military Personnel*.

**Nonresident alien or dual-status alien.** A joint return generally cannot be made if either spouse is a nonresident alien at any time during the tax year. However, if at the end of the year one spouse was a nonresident alien or dual-status alien married to a U.S. citizen or resident, both spouses may choose to file a joint return. If you do file a joint return, you and your spouse are both taxed as U.S. citizens or residents for the entire tax year. See *Nonresident Spouse Treated as a Resident* in Chapter 1 of Publication 519.

## Married Filing Separately

You may choose **married filing separately** as your filing status if you are married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return. If you and your spouse do not agree to file a joint return, you may have to use this filing status.

If you live apart from your spouse and meet certain tests, you may be **considered unmarried** and may file as head of household. This is true, even though you are not divorced or legally separated. If you qualify to file as head of household, instead of as married filing separately, your tax may be lower, you may be able to claim the earned income credit, and your standard deduction will be higher. The head of household filing status allows you to choose the standard deduction even if your spouse chooses to itemize deductions. See *Head of Household*, later, for more information.

Unless you are required to file separately, you may want to figure your tax both ways (on a joint return and on separate returns). Do this to make sure you are using the method that results in the lower combined tax. However, you will generally pay more combined tax on separate returns than you would on a joint return because the tax rate is higher for married persons filing separately.

If you file a separate return, you generally report only your own income, exemptions (you may not split an exemption), credits, and deductions on your individual return. You may file a separate return and claim an exemption for your spouse if your spouse had no gross income and was not the dependent of another person. However, if your spouse had any gross income or was the dependent of someone else, you may not claim an exemption for him or her on your separate return.

If you file as married filing separately, you may use Form 1040A or Form 1040. Select this filing status by checking the box on line 3 of either form. You must also write your spouse's social security number and full name in the spaces provided. Use the *Married filing separately* column of the Tax Table or *Schedule Y-2* of the Tax Rate Schedules, to figure your tax.

## Separate Returns

Special rules apply if you file a separate return.

**Community property states.** If you live in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin and file separately, your income may be considered separate income or community income for income tax purposes. See Publication 555.

### If you file a separate return:

- 1) Your spouse should itemize deductions if you itemize deductions because he or she cannot claim the standard deduction. However, see *Married persons living apart*, earlier, and *Standard Deduction*, later.

- 2) You cannot take the credit for child and dependent care expenses in most instances.
- 3) You cannot take the earned income credit.
- 4) You cannot exclude any interest income from Series EE U.S. Savings Bonds that you used for higher education expenses.
- 5) You cannot take the credit for the elderly or the disabled unless you lived apart from your spouse for all of 1994.
- 6) You may have to include in income more of your social security benefits (including any equivalent railroad retirement benefits) you received in 1994 than you would on a joint return.

**Individual Retirement Arrangements (IRAs).** If you make contributions to your Individual Retirement Account, your IRA deduction may be subject to a phaseout rule. The phaseout rules apply if either you or your spouse was covered by an employer retirement plan, you and your spouse file separate returns, and you lived together during the year. See *Deductible Contributions* in Publication 590, *Individual Retirement Arrangements (IRAs)*.

**Rental activity losses.** If your rental of real estate is a passive activity, you may generally offset a loss of up to \$25,000 against your nonpassive income if you actively participate in the activity. However, married persons filing separate returns who lived together at any time during the year may not claim this offset. Married persons filing separate returns who lived apart at all times during the year are each allowed a \$12,500 maximum offset for passive real estate activities. See *Rental Activities* in Publication 925, *Passive Activity and At-Risk Rules*.

### Joint Return After Separate Returns

You may change your filing status by filing an amended return using Form 1040X.

If you or your spouse (or each of you) file a separate return, you may change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by you or your spouse claiming married filing separately, single, or head of household filing status. If the amount paid on your separate returns is less than the total tax shown on the joint return, you must pay the additional tax due on the joint return when you file it. See *Changing your mind* under *Standard Deduction*, later.

### Separate Returns After Joint Return

Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return.

**Exception.** A personal representative for a decedent may change from a joint return elected by the surviving spouse to a separate

return for the decedent. The personal representative has one year from the due date of the return to make the change. See Publication 559 for more information on filing income tax returns for a decedent.

## Head of Household

You may be able to file as **head of household** if you are unmarried or considered unmarried on the last day of the year. In addition, you must have paid more than half the cost of keeping up a home for you and a qualifying person for more than half the year.

If you qualify to file as head of household, your tax rate will be lower than the rates for single or married filing separately. You will also receive a higher standard deduction than if you file as single or married filing separately. (You can claim the standard deduction only if you do not itemize deductions.)

If you file as head of household, you may use either Form 1040A or Form 1040. Indicate your choice of this filing status by checking the box on line 4 of either form. Use the *Head of a household* column of the Tax Table or *Schedule Z* of the Tax Rate Schedules, to figure your tax.

**Considered unmarried.** You are considered unmarried on the last day of the tax year if you meet **all** of the following tests.

- 1) You file a separate return.
- 2) You paid more than half the cost of keeping up your home for the tax year.
- 3) Your spouse did not live in your home during the last 6 months of the tax year.
- 4) Your home was, for more than half the year, the main home of your child, stepchild, adopted child, or foster child whom you can claim as a dependent. However, you can still meet this test if you cannot claim your child as a dependent only because:
  - a) You state in writing to the noncustodial parent that he or she may claim an exemption for the child, or
  - b) The noncustodial parent provides at least \$600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.

The rules to claim an exemption for a dependent are explained later under *Exemptions for Dependents*.

**Note.** If you were considered married for part of the year and lived in a community property state (listed earlier under *Separate Returns*), special rules may apply in determining your income and expenses. See Publication 555 for more information.

### Qualifying Person

Each of the following individuals is considered a qualifying person.

- 1) Your child, grandchild, stepchild, or adopted child who is:

- a) Single. This child does not have to be your dependent. However, a foster child must be your dependent. See *Claiming an exemption*, later, under *Foster Child or Adult*.
- b) Married. This child must qualify as your dependent. However, if your married child's other parent claims him or her as a dependent under the special rules for a *Noncustodial parent* discussed later under *Support Test for Divorced or Separated Parents*, the child does not have to be your dependent.

If the qualifying person is a child but not your dependent, enter that child's name in the space provided on line 4 of Form 1040 or Form 1040A.

- 2) Any relative listed below whom you claim as a dependent. However, if your dependent parent does not live with you, a special rule applies. See *Father or mother*, later.

Parent	Brother-in-law
Grandparent	Sister-in-law
Brother	Son-in-law
Sister	Daughter-in-law, or
Stepbrother	If related by blood:
Stepsister	Uncle
Stepmother	Aunt
Stepfather	Nephew
Mother-in-law	Niece
Father-in-law	
Half brother	
Half sister	

You are related by blood to an uncle or aunt if he or she is the brother or sister of your mother or father.

You are related by blood to a nephew or niece if he or she is the child of your brother or sister.

**Note.** A dependent can qualify only one taxpayer to use the head of household filing status for any tax year.

**Dependents.** If the person you support is required to be your dependent, you do not qualify as a head of household if you can only claim the dependent under a multiple support agreement. See *Multiple Support Agreement*, discussed later.

**Father or mother.** You may be eligible to file as head of household even if your dependent parent does not live with you. You must pay more than half the cost of keeping up a home that was the main home for the **entire year** for your father or mother. You are keeping up a main home for your dependent father or mother if you pay more than half the cost of keeping your parent in a rest home or home for the elderly.

**Temporary absences.** You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances

include those due to illness, education, business, vacation, and military service. It must be reasonable to assume that you or the other person will return to the household after the temporary absence, and you must continue to maintain a household in anticipation of the return.

**Death or birth.** If the individual who qualifies you to use head of household filing status is born or dies during the year, you still may be able to claim that filing status. You must have provided more than half of the cost of keeping up a home that was the individual's main home for more than half of the year, or, if less, the period during which the individual lived.

**Example.** You are unmarried. Your mother lived in an apartment by herself. She died on September 2, 1994. The cost of the upkeep of her apartment for the year until her death was \$6,000. You paid \$4,000 and your brother paid \$2,000. Your brother made no other payments towards your mother's support. Your mother had no income. Since you paid more than half of the cost of keeping up the apartment for your mother from January 1, 1994, until her death, and she qualifies as your dependent, you may file as a head of household.

**Nonresident alien spouse.** You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year and you do not choose to treat your nonresident spouse as a resident alien. Your spouse is not considered your relative. You must have another qualifying relative and meet the other tests to be eligible to file as a head of household. However, you are considered married if you have chosen to treat your spouse as a resident alien. See *Nonresident Spouse Treated as a Resident* in Chapter 1 of Publication 519.

**Dual-status and nonresident alien taxpayers.** These taxpayers may not claim head of household status.

### Keeping Up a Home

You are keeping up a home only if **you pay more than half** of the cost of its upkeep. You may determine whether you paid more than half of the cost of keeping up a home by using the *Cost of Maintaining a Household* worksheet, later.

**Costs you include.** Include such costs as rent, mortgage interest, taxes, insurance on the home, repairs, utilities, and food eaten in the home.

**Costs you do not include.** Do not include the cost of clothing, education, medical treatment, vacations, life insurance, transportation, or the rental value of a home you own. Also, do not include the value of your services or those of a member of your household.

**State AFDC (Aid to Families with Dependent Children).** State AFDC payments you use to keep up your home do not count as amounts you paid. They are amounts paid by

others that you must include in the total cost of keeping up your home to figure if you paid more than half.

<u>Cost of Maintaining a Household</u>		
	Amount You Paid	Total Cost
Property taxes	\$ _____	\$ _____
Mortgage interest expense	_____	_____
Rent	_____	_____
Utility charges	_____	_____
Upkeep and repairs	_____	_____
Property insurance	_____	_____
Food consumed on the premises	_____	_____
Other household expenses	_____	_____
Totals	\$ _____	\$ _____
Minus total amount you paid		( _____ )
Amount others paid		\$ _____

If you paid more than others paid, you meet the requirement of maintaining a household.

## Qualifying Widow(er) With Dependent Child

If your spouse died in 1994, you may use married filing jointly as your filing status for 1994 if you would otherwise qualify. See *Married Filing Jointly*, earlier.

You may be eligible to use **qualifying widow(er) with dependent child** as your filing status for 2 years following the year of death of your spouse. For example, if your spouse died in 1993 and you have not remarried, you may be able to use this filing status for 1994 or 1995. The rules to file as a qualifying widow(er) with dependent child are explained in more detail later.

This filing status entitles you to use joint return tax rates and the highest standard deduction amount (if you do not itemize deductions). This status does not authorize you to file a joint return.

Indicate your filing status by checking the box on line 5 of either Form 1040A or Form 1040 (you may not file Form 1040EZ). Write the year your spouse died in the space provided on line 5. Use the *Married filing jointly* column of the Tax Table or *Schedule Y-1* of the Tax Rate Schedules, to figure your tax.

**Eligibility rules for filing as a qualifying widow(er) with dependent child.** You are eligible to file as a qualifying widow(er) with dependent child if you meet all of the following tests.

- 1) You were entitled to file a joint return with your spouse for the year your spouse died (it does not matter whether you actually filed a joint return).
- 2) You did not remarry before the end of the tax year.

- 3) You have a child, stepchild, adopted child, or foster child who qualifies as your dependent for the year.
- 4) You paid more than half of the cost of keeping up a home that is the main home for you and that child for the entire year, except for temporary absences. See *Temporary absences* and *Keeping Up a Home*, discussed earlier, under *Head of Household*.

**Note.** As mentioned earlier, this filing status is only available for 2 years following the year of death of your spouse.

**Example.** John Reed's wife died in 1992. John has not remarried. He has continued during 1993 and 1994 to keep up a home for himself and his dependent child. For 1992 he was entitled to file a joint return for himself and his deceased wife. For 1993 and 1994 he may file as qualifying widower with a dependent child. After 1994 he may file as head of household if he qualifies.

**Death or birth.** If the dependent who qualifies you to use qualifying widow(er) with dependent child filing status is born or dies during the year, you still may be able to claim that filing status. You must have provided more than half of the cost of keeping up a home that was the dependent's main home during the entire part of the year he or she was alive.

## Exemptions

Exemptions reduce your taxable income. Each exemption you claim in 1994 is worth \$2,450. If you are entitled to two exemptions for 1994, you would deduct \$4,900 ( $\$2,450 \times 2$ ).

There are two types of exemptions: personal exemptions and dependency exemptions. While these are both worth the same amount, different rules, discussed later, apply to each type.

You usually may claim exemptions for yourself, your spouse, and each person you can claim as a dependent. If you are entitled to claim an exemption for a dependent (such as your child), that dependent cannot claim a personal exemption on his or her own tax return.

You may lose the benefit of part or all of your exemptions if you have a high taxable income. See *Phaseout of Exemptions*, later.

**How to claim exemptions.** How you claim an exemption on your tax return depends on which form you file.

**Form 1040EZ filers.** If you file Form 1040EZ, you are allowed an exemption for yourself (and your spouse if married filing a joint return), unless someone else can claim your exemption (or your spouse's exemption if married filing a joint return). The exemption amount is combined with the standard deduction and entered on line 4.

**Form 1040A filers.** If you file Form 1040A, complete lines 6a through 6e. Follow the Form 1040A instructions. The total number of exemptions you can claim is the total in the box



on line 6e. Also complete line 21 by multiplying the number in the box on line 6e by \$2,450.

**Form 1040 filers.** If you file Form 1040, complete lines 6a through 6e. Follow the Form 1040 instructions. On line 36, multiply the total exemptions shown in the box on line 6e by \$2,450 and enter the result.

**Caution.** If your adjusted gross income is \$83,850 or more, see *Phaseout of Exemptions*, later.

**U.S. citizen or resident.** If you are a U.S. citizen or resident, or a resident of Canada or Mexico, you may qualify for any of the exemptions discussed here.

**Nonresident aliens.** Generally, if you are a nonresident alien (other than a resident of Canada or Mexico, or certain residents of India, Japan, or Korea), you may qualify for only one personal exemption for yourself. You may not claim exemptions for a spouse or dependents.

These restrictions do not apply if you are a nonresident alien married to a citizen or resident of the United States and have chosen to be treated as a resident of the United States.

For information on exemptions if you are a nonresident alien, see Chapter 5 in Publication 519.

**Dual-status taxpayers.** If you have been both a nonresident alien and a resident alien in the same tax year, you should get Publication 519 for information on determining your exemptions.

## Personal Exemptions

You are generally allowed one exemption for yourself and, if you are married, one exemption for your spouse. These are called personal exemptions.

### Your Own Exemption

You may take one exemption for yourself unless you can be claimed as a dependent by another taxpayer.

**Single persons.** If another taxpayer is entitled to claim you as a dependent, you may not take an exemption for yourself. This is true even if the other taxpayer does not actually claim your exemption.

**Married persons.** If you file a joint return, you can take your own exemption. If you file a separate return, you may take your own exemption only if another taxpayer is not entitled to claim you as a dependent.

### Your Spouse's Exemption

Your spouse is never considered your dependent. You may be able to take one exemption for your spouse only because you are married.

**Joint return.** If your spouse had **any gross income**, you may claim his or her exemption only if you file a joint return.

**Separate return.** If you file a separate return, you may claim the exemption for your spouse only if your spouse had **no gross income** and was not the dependent of another taxpayer. This is true even if the other taxpayer does not actually claim your spouse's exemption. This is also true if your spouse is a nonresident alien.

**Death of spouse.** If your spouse died during the year, you may generally claim your spouse's exemption under the rules just explained in *Joint return* and *Separate return*.

If you remarried during the year, you may not take an exemption for your deceased spouse.

If you are a surviving spouse without gross income and you remarry, you may be claimed as an exemption on both the final separate return of your deceased spouse and the separate return of your new spouse whom you married in the same year. If you file a joint return with your new spouse, you may be claimed as an exemption only on that return.

**Final decree of divorce or separate maintenance during the year.** If you obtained a final decree of divorce or separate maintenance by the end of the year, you may not take your former spouse's exemption. This rule applies even if you provided all of your former spouse's support.

## Exemptions for Dependents

You are allowed one exemption for each person you can claim as a dependent. This is called a dependency exemption.

A person is your dependent if **all five** of the dependency tests, discussed later, are met. You may take an exemption for your dependent even if your dependent files a return. But that dependent cannot claim his or her personal exemption if you are entitled to do so. However, see *Joint Return Test*, later.

**Child born alive.** If your child was born alive during the year, and the dependency tests are met, you can take the full exemption. This is true even if the child lived only for a moment. Whether your child was born alive depends on state or local law. There must be proof of a live birth shown by an official document, such as a birth certificate. You may not claim an exemption for a stillborn child.

**Death of dependent.** If your dependent died during the year and otherwise qualified as your dependent, you can take his or her exemption.

**Example.** Your dependent mother died on January 15. You can take a full exemption for her on your return.

**Housekeepers, maids, or servants.** If these people work for you, you cannot claim them as dependents.

## Dependency Tests

The following five tests must be met for you to claim a dependency exemption for a person:

1. Member of Household or Relationship Test
2. Citizenship Test
3. Joint Return Test
4. Gross Income Test
5. Support Test

### 1. Member of Household or Relationship Test

To meet this test, a person must live with you for the entire year as a member of your household or be related to you. If at any time during the year the person was your spouse, you cannot claim that person as a dependent. See *Personal Exemptions*, earlier.

**Temporary absences.** You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances include those due to illness, education, business, vacation, and military service.

If the person is placed in a nursing home for an indefinite period of time to receive constant medical care, the absence is considered temporary.

**Death or birth.** A person who died during the year, but was a member of your household until death, will meet the member of household test. The same is true for a child who was born during the year and was a member of your household for the rest of the year. The test is also met if a child would have been a member except for any required hospital stay following birth.

**Test not met.** A person does not meet the member of household test if at any time during your tax year the relationship between you and that person violates local law.

**Relatives not living with you.** A person related to you in any of the following ways does not have to live with you for the entire year as a member of your household to meet this test.

Your child, grandchild, great grandchild, etc. (a legally adopted child is considered your child)

Your stepchild

Your brother, sister, half brother, half sister, stepbrother, or stepsister

Your parent, grandparent, or other direct ancestor, but not foster parent

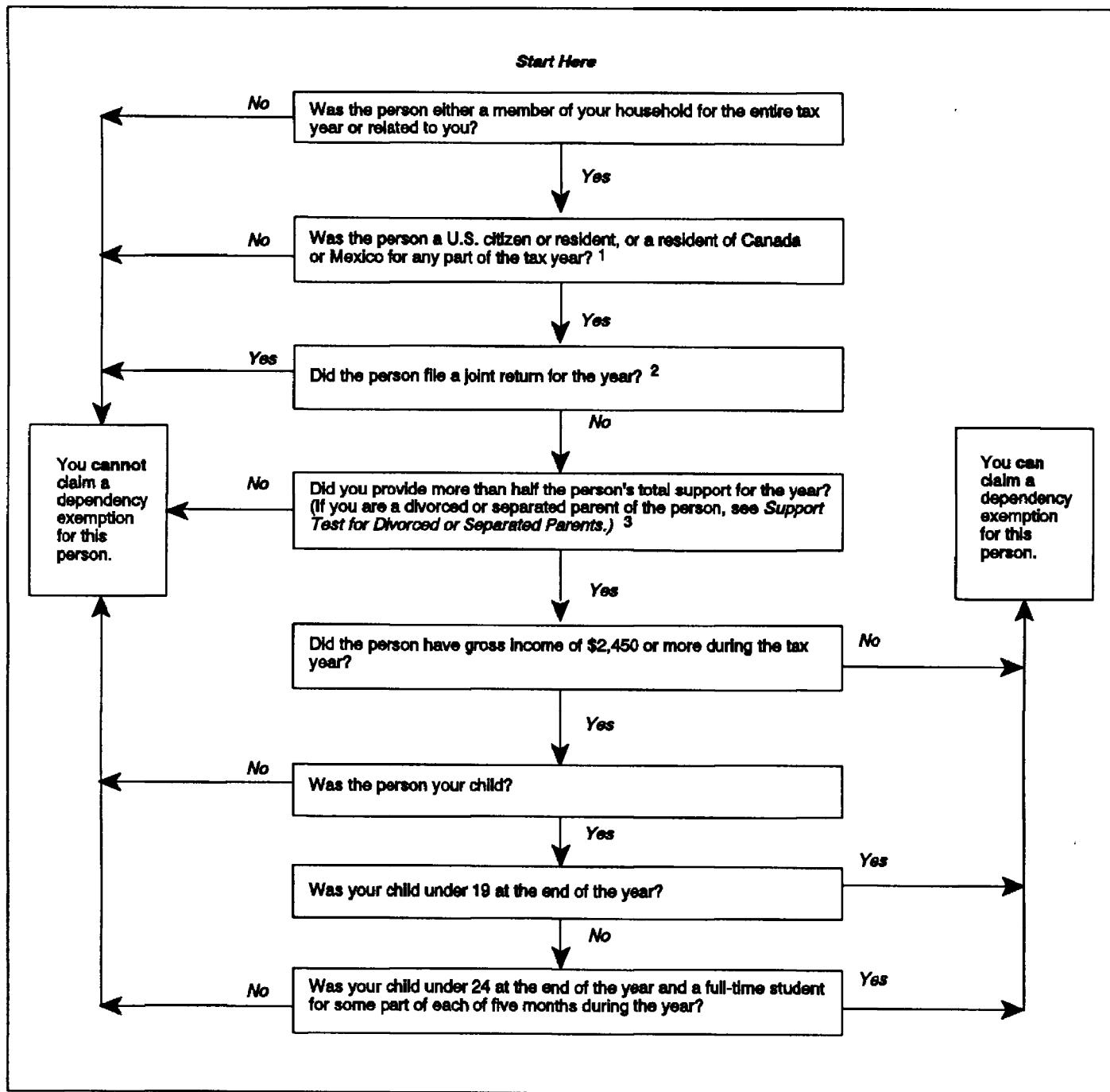
Your stepfather or stepmother

A brother or sister of your father or mother

A son or daughter of your brother or sister

Your father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law

**Figure A. Can You Claim a Dependency Exemption?**



<sup>1</sup> If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.

<sup>2</sup> If neither the person nor the person's spouse is required to file a return but they file a joint return to claim a refund of tax withheld, you may answer "no" to this question.

<sup>3</sup> Answer "yes" to this question if you meet the multiple support requirements under *Multiple Support Agreement*.

Any of these relationships that were established by marriage are not ended by death or divorce.

**Adoption.** Before legal adoption, a child is considered to be your child if he or she was placed with you for adoption by an authorized agency. Also, the child must have been a member of your household. If the child was not placed with you by such an agency, the child will meet this test only if he or she was a member of your household for your entire tax year.

**Foster individual.** A foster child or adult must live with you as a member of your household for the entire year to qualify as your dependent. See *Foster Child or Adult*, later in this publication.

**Cousin.** Your cousin will meet this test only if he or she lives with you as a member of your household for the entire year. A cousin is a descendant of a brother or sister of your father or mother and does not qualify under the relationship test.

**Joint return.** If you file a joint return, you do not need to show that a dependent is related to both you and your spouse. You also do not need to show that a dependent is related to the spouse who provides support.

For example, your spouse's uncle who receives more than half of his support from you may be your dependent, even though he does not live with you. However, if you and your spouse file **separate returns**, your spouse's uncle can be your dependent only if he is a member of your household and lives with you for your entire tax year.

## 2. Citizenship Test

To meet the citizenship test, a person must be a U.S. citizen or resident, or a resident of Canada or Mexico, for some part of the calendar year in which your tax year begins.

**Children's place of residence.** Children usually are citizens or residents of the country of their parents.

If you were a U.S. citizen when your child was born, the child may be a U.S. citizen although the other parent was a nonresident alien and the child was born in a foreign country. If so, and the other dependency tests are met, the child is your dependent and you may take the exemption. It does not matter if the child lives abroad with the nonresident alien parent.

If you are a U.S. citizen who has legally adopted a child who is not a U.S. citizen or resident, and the other dependency tests are met, the child is your dependent and you may take the exemption if your home is the child's main home and the child is a member of your household for your entire tax year.

**Foreign students' place of residence.** Foreign students brought to this country under a qualified international education exchange program and placed in American homes for a temporary period generally are not U.S. residents and do not meet the citizenship test.

They may not be claimed as dependents. However, if you provided a home for a foreign student, you may be able to take a charitable contribution deduction. See *Expenses Paid for Student Living With You* in Publication 526, *Charitable Contributions*.

## 3. Joint Return Test

Even if the other dependency tests are met, you are generally not allowed an exemption for your dependent if he or she files a joint return.

**Example.** You supported your daughter for the entire year while her husband was in the Armed Forces. The couple files a joint return. Even though all the other tests are met, you may not take an exemption for your daughter.

**Exception.** If the other dependency tests are met, you may take an exemption for your married dependent who files a joint return if:

- 1) Neither your dependent nor your dependent's spouse is required to file a return,
- 2) Neither your dependent nor your dependent's spouse would have a tax liability if they filed separate returns, and
- 3) They only file a joint return in order to get a refund of tax withheld.

**Example.** Your son and his wife each had less than \$2,000 of wages and no unearned income. Neither is required to file a tax return. Taxes were withheld from their income, so they filed a joint return to get a refund. You are allowed exemptions for your son and daughter-in-law if the other dependency tests are met.

## 4. Gross Income Test

Generally, you may not take an exemption for a dependent if that person had gross income of \$2,450 or more for the year. This test does not apply if the person is your child and is either under age 19, or a student under age 24, as discussed later.

If you file on a fiscal year basis, the gross income test applies to the calendar year in which your fiscal year begins.

**Gross income.** All income in the form of money, property, and services that is not exempt from tax is gross income.

In a manufacturing, merchandising, or mining business, gross income is the total net sales minus the cost of goods sold, plus any miscellaneous income from the business.

Gross receipts from rental property are gross income. Do not deduct taxes, repairs, etc., to determine the gross income from rental property.

Gross income includes a partner's share of the gross (not a share of the net) partnership income.

Gross income also includes all unemployment compensation and certain scholarship and fellowship grants. Scholarships received by degree candidates that are used for tuition, fees, supplies, books, and equipment required for particular courses are not included in gross

income. For more information, see Publication 520.

Tax-exempt income, such as certain social security payments, is not included in gross income.

For this gross income test, gross income does not include income received by a permanently and totally disabled individual at a sheltered workshop. The availability of medical care must be the main reason the individual is at the workshop. Also, the income must come solely from activities at the workshop that are incident to this medical care. A sheltered workshop is a school operated by certain tax-exempt organizations, or by a state, a U.S. possession, a political subdivision of a state or possession, the United States, or the District of Columbia, that provides special instruction or training designed to alleviate the disability of the individual.

**Child defined.** For purposes of the gross income test, your child is your son, stepson, daughter, stepdaughter, a legally adopted child, or a child who was placed with you by an authorized placement agency for your legal adoption. A foster child who was a member of your household for your entire tax year is also considered your child. See *Foster Child or Adult*, discussed later.

**Child under age 19.** If your child is under 19 at the end of the year, the gross income test does not apply. Your child may have any amount of income and still be your dependent, if the other dependency tests are met.

**Example.** Marie Grey, 18, earned \$2,700. Her father provided more than half her support. He can claim her as a dependent because the gross income test does not apply and the other dependency tests were met.

**Student under age 24.** If your child is a student, the gross income test does not apply if the child is under age 24 at the end of the calendar year. The other dependency tests must still be met.

**Student defined.** To qualify as a student, your child must be, during some part of each of 5 calendar months during the calendar year (not necessarily consecutive):

- 1) A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or
- 2) A student taking a full-time, on-farm training course given by a school described in (1) above or a state, county, or local government.

**Full-time student defined.** A full-time student is a person who is enrolled for the number of hours or courses the school considers to be full-time attendance.

**School defined.** The term "school" includes elementary schools, junior and senior high schools, colleges, universities, and technical, trade, and mechanical schools. It does **not** include on-the-job training courses, correspondence schools, and night schools.

**Example.** James Clay, 22, attends college as a full-time student. During the summer, James earned \$2,700, which he spent for his support. His parents provided more than \$2,700 toward his support and the other dependency tests were met. On their return, they can take the exemption for James as a dependent.

**Vocational high school students.** People who work on "co-op" jobs in private industry as a part of the school's prescribed course of classroom and practical training are considered full-time students.

**Night school.** Your child is not a full-time student while attending school only at night. However, full-time attendance at a school may include some attendance at night as part of a full-time course of study.

## 5. Support Test

You must provide more than half of a person's total support during the calendar year to meet the support test. You figure whether you have provided more than half by comparing the amount you contributed to the person's support with the entire amount of support the person received from all sources. This amount includes the person's own funds used for support. You may not include in your contribution any part of your child's support that is paid for by the child with the child's own wages, even if you pay the wages. See *Total Support* and *Table 4*, later. For exceptions to the support test, see *Multiple Support Agreement* and *Support Test for Divorced or Separated Parents*, later.

A person's own funds are not support unless they are actually spent for support.

**Example.** Your mother received \$2,400 in social security benefits and \$300 in interest. She paid \$2,000 for lodging, \$400 for recreation, and \$300 for life insurance premiums.

Even though your mother received a total of \$2,700, she spent only \$2,400 for her own support. Life insurance premiums are not support items. If you spent more than \$2,400 for her support and no other support was received, you have provided more than half of her support.

**Cost determines support.** The total cost, not the period of time you provide the support, determines whether you provide more than half of the support.

**Year support is provided.** The year you provide the support is the year you pay for it, even if you do so with borrowed money that you repay in a later year.

If you use a fiscal year to report your income, you must provide more than half of the dependent's support for the calendar year in which your fiscal year begins.

**Armed Forces dependency allotments.** Both the part of the allotment contributed by the government and the part withheld from your military pay are considered provided by you in figuring whether you provide more than half of the support. If your allotment is used to support persons other than those you name,

you may take the exemptions for them if they otherwise qualify as dependents.

**Example.** You are in the Armed Forces. You authorize an allotment for your widowed mother that she uses for the support of herself and your sister. If it provides more than half of their support, you may take an exemption for each of them, even though you authorize the allotment only for your mother.

**Tax-exempt military quarters allowances.** These allowances are treated the same way as dependency allotments in figuring support. Both the allotment of pay and the tax-exempt basic allowance for quarters are considered as provided by you for support.

**Tax-exempt income.** In figuring a person's total support, include tax-exempt income, savings, and borrowed amounts used to support that person. Tax-exempt income includes certain social security benefits, welfare benefits, nontaxable life insurance proceeds, Armed Forces family allotments, nontaxable pensions, and tax-exempt interest.

**Example 1.** You provide \$2,000 toward your mother's support during the year. She has taxable income of \$600, nontaxable social security benefit payments of \$1,800, and tax-exempt interest of \$200. She uses all these for her support. You may not claim your mother as a dependent because the \$2,000 you provide is not more than half of her total support of \$4,600.

**Example 2.** Your daughter takes out a student loan of \$2,500 and uses it to pay her college tuition. She is personally responsible for the loan. You provide \$2,000 toward her total support. You may not claim your daughter as a dependent because you provide less than half of her support.

**Social security benefit payments.** If a husband and wife each receive payments that are paid by one check made out to both of them, half of the total paid is considered to be for the support of each spouse, unless they can show otherwise.

If a child receives social security benefits and uses them toward his or her own support, the payments are considered as provided by the child.

**State benefit payments (welfare, food stamps, housing, etc.).** These types of payments are considered as support provided by the state. They are included in determining the total support of the recipient. For example, AFDC (Aid to Families with Dependent Children) is support provided by the state. However, payments based on the needs of the recipient will not be considered as used entirely for that person's support if it is shown that part of the payments were not used for that purpose.

**Home for the aged.** If you make a lump-sum advance payment to a home for the aged to take care of your relative for life and the payment is based on that person's life expectancy, the amount of your support each year is the lump-sum payment divided by the relative's life expectancy. Your support also includes

any other amounts that you provided during the year.

## Total Support

To figure if you provided more than half of the support of a person, you must first determine the total support provided for that person. Total support includes amounts spent to provide food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities.

Generally, the amount of an item of support is the amount of the expense incurred in providing that item. Expenses that are not directly related to any one member of a household, such as the cost of food for the household, must be divided among the members of the household. If the item is lodging, the amount of such item is its fair rental value.

**Example 1.** Grace Brown, mother of Mary Miller, lives with Frank and Mary Miller and their two children. Grace gets a fully taxable pension of \$1,500, which she spends for clothing and recreation. Grace has no other income. Frank and Mary's total food expense for the household is \$5,000. They pay Grace's medical and drug expenses of \$300. The fair rental value of the lodging provided for Grace is \$960 a year, based on the cost of similar rooming facilities. Figure Grace's total support as follows:

Fair rental value of lodging .....	\$ 960
Clothing and recreation .....	1,500
Medical expenses .....	300
Share of food (1/5 of \$5,000) .....	1,000
<b>Total support</b> .....	<u>\$3,760</u>

Because the support Frank and Mary provide (\$960 lodging + \$300 medical expenses + \$1,000 food = \$2,260) is more than half of Grace's \$3,760 total support, and Grace meets the other dependency tests, they can claim her as a dependent by entering the necessary information on their return.

**Example 2.** Your parents live with you, your spouse, and your two children in a house you own. The fair rental value of your parents' share of the lodging is \$2,000 a year, which includes furnishings and utilities. Your father receives a nontaxable pension of \$4,200, which he spends equally between your mother and himself for items of support such as clothing, transportation, and recreation. Your total food expense for the household is \$6,000. Your heat and utility bills amount to \$1,200. Your mother has hospital and medical expenses of \$600, which you pay during the year. Figure your parents' total support as follows:

	Support provided	
	Father	Mother
Fair rental value of lodging .....	\$1,000	\$1,000
Pension spent for their support ...	2,100	2,100
Share of food (1/6 of \$6,000) .....	1,000	1,000
Medical expenses for mother .....		600
<b>Parents' total support</b> .....	<u>\$4,100</u>	<u>\$4,700</u>

You must figure the dependency status of each parent separately. You provide \$2,000

**Table 4. Worksheet for Determining Support**

<b>Income</b>	
1) Did the person you supported receive any income, such as wages, interest, dividends, pensions, rents, social security, or welfare? (If yes, complete lines 2, 3, 4, and 5)	<input type="checkbox"/> Yes <input type="checkbox"/> No
2) Total income received	\$
3) Amount of income used for support	\$
4) Amount of income used for other purposes	\$
5) Amount of income saved	\$
(The total of lines 3, 4, and 5 should equal line 2)	
<b>Expenses for Entire Household</b> (where the person you supported lived)	
6) Lodging (Complete item a or b)	
a) Rent paid	\$
b) If not rented, show fair rental value of home. If the person you supported owned the home, include this amount in line 20.	\$
7) Food	\$
8) Utilities (heat, light, water, etc. not included in line 6a or 6b)	\$
9) Repairs (not included in line 6a or 6b)	\$
10) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance.	\$
11) Total household expenses (Add lines 6 through 10)	\$
12) Total number of persons who lived in household	
<b>Expenses for the Person You Supported</b>	
13) Each person's part of household expenses (line 11 divided by line 12)	\$
14) Clothing	\$
15) Education	\$
16) Medical, dental	\$
17) Travel, recreation	\$
18) Other (specify)	
	\$
19) Total cost of support for the year (Add lines 13 through 18)	\$
20) Amount the person provided for own support (line 3, plus line 6b if the person you supported owned the home)	\$
21) Amount others provided for the person's support. Include amounts provided by state, local, and other welfare societies or agencies. Do not include any amounts included on line 2.	\$
22) Amount you provided for the person's support (line 19 minus lines 20 and 21)	\$
23) 50% of line 19	\$
If line 22 is more than line 23, you meet the support test for the person. If the person meets the other dependency tests, you may claim an exemption for that person. If line 23 is more than line 22, you may still be able to claim an exemption for that person under a multiple support agreement. See <i>Multiple Support Agreement</i> later in this publication.	

(\$1,000 lodging, \$1,000 food) of your father's total support of \$4,100 — less than half. You provide \$2,600 to your mother (\$1,000 lodging, \$1,000 food, \$600 medical) — more than half of her total support of \$4,700. You may claim your mother as a dependent, but not your father. Heat and utility costs are included in the fair rental value of the lodging, so these are not considered separately.

**Lodging defined.** Lodging is the fair rental value of the room, apartment, or house in which the person lives. It includes a reasonable allowance for the use of furniture and appliances, and for heat and other utilities.

**Fair rental value defined.** This is the amount you could reasonably expect to receive from a stranger for the same kind of lodging. It is used in place of rent or taxes, interest, depreciation, paint, insurance, utilities, cost of furniture and appliances, etc. In some cases, fair rental value may be equal to the rent paid.

If you are considered to provide the total lodging, determine the fair rental value of the room the person uses, or a share of the fair rental value of the entire dwelling if the person has use of your entire home. If you do not provide the total lodging, the total fair rental value must be divided depending on how much of the total lodging you provide. If you provide only a part and the person supplies the rest, the fair rental value must be divided between the two of you according to the amount each of you provides.

**Example.** Your parents live rent free in a house you own. It has a fair rental value of \$5,400 a year furnished, which includes a fair rental value of \$3,600 for the house and \$1,800 for the furniture. This does not include heat and utilities. The house is completely furnished with furniture belonging to your parents. You pay \$600 for their utility bills. Utilities are not usually included in rent for houses in the area where your parents live. Therefore, you consider the total fair rental value of the lodging to be \$6,000 (\$3,600 fair rental value of the unfurnished house, \$1,800 allowance for the furnishings provided by your parents, and \$600 cost of utilities) of which you are considered to provide \$4,200 (\$3,600 + \$600).

**Person living in his or her own home.** The total fair rental value of a person's home that he or she owns is considered support contributed by that person.

If you help to keep up the home by paying interest on the mortgage, real estate taxes, fire insurance premiums, ordinary repairs, or other items directly related to the home, or give someone cash to pay those expenses, reduce the total fair rental value of the home by those amounts in figuring that person's own contribution.

**Example.** You provide \$6,000 cash for your father's support during the year. He lives in his own home, which has a fair rental value of \$6,600 a year. He uses \$800 of the money you give him to pay his real estate taxes. Your father's contribution for his own lodging is \$5,800 (\$6,600 – \$800 for taxes).

**Living with someone rent free.** If you live with a person rent free in his or her home, you

must reduce the amount you provide for support by the fair rental value of lodging he or she provides you.

**Property.** Property provided as support is measured by its fair market value.

**Capital expenses.** Capital items, such as furniture, appliances, and cars, that are bought for a person during the year may be included in total support under certain circumstances.

The following examples show when a capital item is or is not support.

**Example 1.** You buy a \$200 power lawn mower for your 13-year-old child. The child is given the duty of keeping the lawn trimmed. Because a lawn mower is ordinarily an item you buy for personal and family reasons that benefits all members of the household, you cannot include the cost of the lawn mower in the support of your child.

**Example 2.** You buy a \$150 television set as a birthday present for your 12-year-old child. The television set is placed in your child's bedroom. You include the cost of the television set in the support of your child.

**Example 3.** You pay \$5,000 for a car and register it in your name. You and your 17-year-old daughter use the car equally. Because you own the car and do not give it to your daughter but merely let her use it, you cannot include the cost of the car in your daughter's total support. However, you can include in your daughter's support your out-of-pocket expenses of operating the car for her benefit.

**Example 4.** Your 17-year-old son, using personal funds, buys a car for \$4,500. You provide all the rest of your son's support — \$4,000. Since the car is bought and owned by your son, the car's fair market value (\$4,500) must be included in his support. The \$4,000 support you provide is less than half of his total support of \$8,500. You cannot claim your son as a dependent.

**Medical insurance premiums.** Medical insurance premiums you pay, including premiums for supplementary Medicare coverage, are included in the total support you provide.

**Medical insurance benefits.** These benefits, including basic and supplementary Medicare benefits, are not part of support.

**Tuition payments and allowances under the GI Bill.** Amounts veterans receive under the GI Bill for tuition payments and allowances while they attend school are included in total support.

**Example.** During the year, your son receives \$2,200 from the government under the GI Bill. He uses this amount for his education. You provide the rest of his support — \$2,000. Because GI benefits are included in total support, your son is not your dependent.

**Other support items.** Other items may be considered as support depending on the facts in each case. For example, if you pay someone to provide child care or disabled dependent care, you may include these payments as support, even if you claim a credit for them. For

information on the credit, see Publication 503, *Child and Dependent Care Expenses*.

## Do Not Include in Total Support

The following items are not included in total support:

- 1) Federal, state, and local income taxes paid by persons from their own income.
- 2) Social security and Medicare taxes paid by persons from their own income.
- 3) Life insurance premiums.
- 4) Funeral expenses.
- 5) Scholarships received by your child if your child is a full-time student. (If a child is committed to a state training school because of antisocial behavior, the value of the room, board, and education provided is not a scholarship. It must be included in support.)
- 6) Survivors' and Dependents' Educational Assistance payments used for the support of the child who receives them.

## Multiple Support Agreement

Sometimes no one provides more than half of the support of a person. Instead, two or more persons, each of whom would be able to take the exemption but for the support test, together provide more than half of the person's support.

When this happens, you may agree that any one of you who individually provides more than 10% of the person's support, but **only one**, may claim an exemption for that person. Each of the others must sign a written statement agreeing not to claim the exemption for that year. The statements must be filed with the income tax return of the person who claims the exemption. **Form 2120, Multiple Support Declaration**, is used for this purpose.

**Example 1.** You, your sister, and your two brothers provide the entire support of your mother for the year. You provide 45%, your sister 35%, and your two brothers each provide 10%. Either you or your sister may claim an exemption for your mother. The other must sign a Form 2120 or a written statement agreeing not to take an exemption for her. Because neither brother provides more than 10% of the support, neither can take the exemption. Your brothers do not have to sign a Form 2120 or the written statement.

**Example 2.** You and your brother each provide 20% of your mother's support for the year. The remaining 60% of her support is provided equally by two persons who are not related to her. She does not live with them. Because more than half of her support is provided by persons who cannot claim her as a dependent, no one may take the exemption.

**Example 3.** Your father lives with you and receives 25% of his support from social security, 40% from you, 24% from his brother, and 11% from a friend. Either you or your uncle may take the exemption for your father. A Form 2120 or a written statement from the one not taking the exemption must be attached to the return of the one who takes the exemption.

## Support Test for Divorced or Separated Parents

The support test for a child of divorced or separated parents is based on special rules that apply only if:

- 1) The parents are divorced or legally separated under a decree of divorce or separate maintenance, or separated under a written separation agreement, or lived apart at all times during the last 6 months of the calendar year,
- 2) One or both parents provide more than half of the child's total support for the calendar year, and
- 3) One or both parents have custody of the child for more than half of the calendar year.

"Child" is defined earlier under the *Gross Income Test*.

**Exceptions.** This discussion does not apply in any of the following situations:

- 1) A third party, such as a relative or friend, provides half of the child's support or more,
- 2) The child is in the custody of a person other than the parents for half of the year or more,
- 3) The support of the child is determined under a multiple support agreement, as discussed earlier, or
- 4) The parents are separated under a written separation agreement or are living apart, but they file a joint return for the tax year.

**Custodial parent.** The parent who has custody of the child for the greater part of the year (the custodial parent) is generally treated as the parent who provides more than half of the child's support. It does not matter whether the custodial parent actually provided more than half of the support. The noncustodial parent is the parent who has custody of the child for the shorter part of the year or who does not have custody at all.

**Custody.** Custody is usually determined by the terms of the most recent decree of divorce or separate maintenance, or a later custody decree. If there is no decree, use the written separation agreement. If neither a decree nor agreement establishes custody, then the parent who has the physical custody of the child for the greater part of the year is considered to have custody of the child. This also applies if the validity of a decree or agreement awarding custody is uncertain because of legal proceedings pending on the last day of the calendar year.

If the parents are divorced or separated during the year and had joint custody of the child before the separation, the parent who has custody for the greater part of the rest of the year is considered to have custody of the child for the tax year.

**Example 1.** Under the terms of your divorce, you have custody of your child for 10 months of the year. Your former spouse has

custody for the other 2 months. You and your former spouse provide the child's total support. You are considered to have provided more than half of the support of the child. However, see *Noncustodial parent*, below.

**Example 2.** You and your former spouse provided your child's total support for 1994. You had custody of your child under your 1991 divorce decree, but on August 31, 1994, a new custody decree granted custody to your former spouse. Because you had custody for the greater part of the year, you are considered to have provided more than half of your child's support.

**Noncustodial parent.** The noncustodial parent will be treated as providing more than half of the child's support if:

- 1) The custodial parent signs a written declaration that he or she will not claim the exemption for the child, and the noncustodial parent attaches this written declaration to his or her return,
- 2) A decree or agreement went into effect after 1984 and it unconditionally states that the noncustodial parent can claim the child as a dependent, or
- 3) A decree or agreement executed before 1985 provides that the noncustodial parent is entitled to the exemption, and he or she provides at least \$600 for the child's support during the year, unless the pre-1985 decree or agreement is modified after 1984 to specify that this provision will not apply.

**Example.** Under the terms of your 1982 divorce decree, your former spouse has custody of your child. The decree specifically states that you are entitled to the exemption. You provide at least \$600 in child support during the calendar year. You are considered to have provided more than half of the child's support.

**Written declaration.** The custodial parent should use **Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents**, or a similar statement, to make the written declaration to release the exemption to the noncustodial parent. The noncustodial parent must attach the form or statement to his or her tax return.

The exemption may be released for a single year, for a number of specified years (for example, alternate years), or for all future years, as specified in the declaration. If the exemption is released for more than one year, the original release must be attached to the return of the noncustodial parent for the first year of such release, and a copy of the release must be attached to the return for each succeeding taxable year for which the noncustodial parent claims the exemption.

**Children who didn't live with you.** If you are claiming a child who didn't live with you under the rules for children of divorced or separated parents, enter the number of children who did not live with you (or who lived with their other parent for the greater part of the year) on the line to the right of line 6c of Form

1040 or Form 1040A labeled "No. of your children on 6c who didn't live with you due to divorce or separation."

Then you must either:

- 1) Check the box on line 6d of your Form 1040 or Form 1040A if your divorce decree or written separation agreement was in effect before 1985 and it states that you can claim the child as your dependent, or
- 2) Attach Form 8332 or a similar statement to your return. If your divorce decree or separation agreement went into effect after 1984 and it unconditionally states that you can claim the child as your dependent, you may attach a copy of the following pages from the decree or agreement instead of Form 8332:
  - a) Cover page (write the other parent's social security number on this page),
  - b) The page that unconditionally states you can claim the child as your dependent, and
  - c) Signature page showing the date of the agreement.

Enter the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "Dependents on 6c not entered above." Include your dependent children who were not U.S. citizens and who lived in Canada or Mexico during 1994.

**Child support.** All child support payments actually received from the noncustodial parent are considered used for the support of the child.

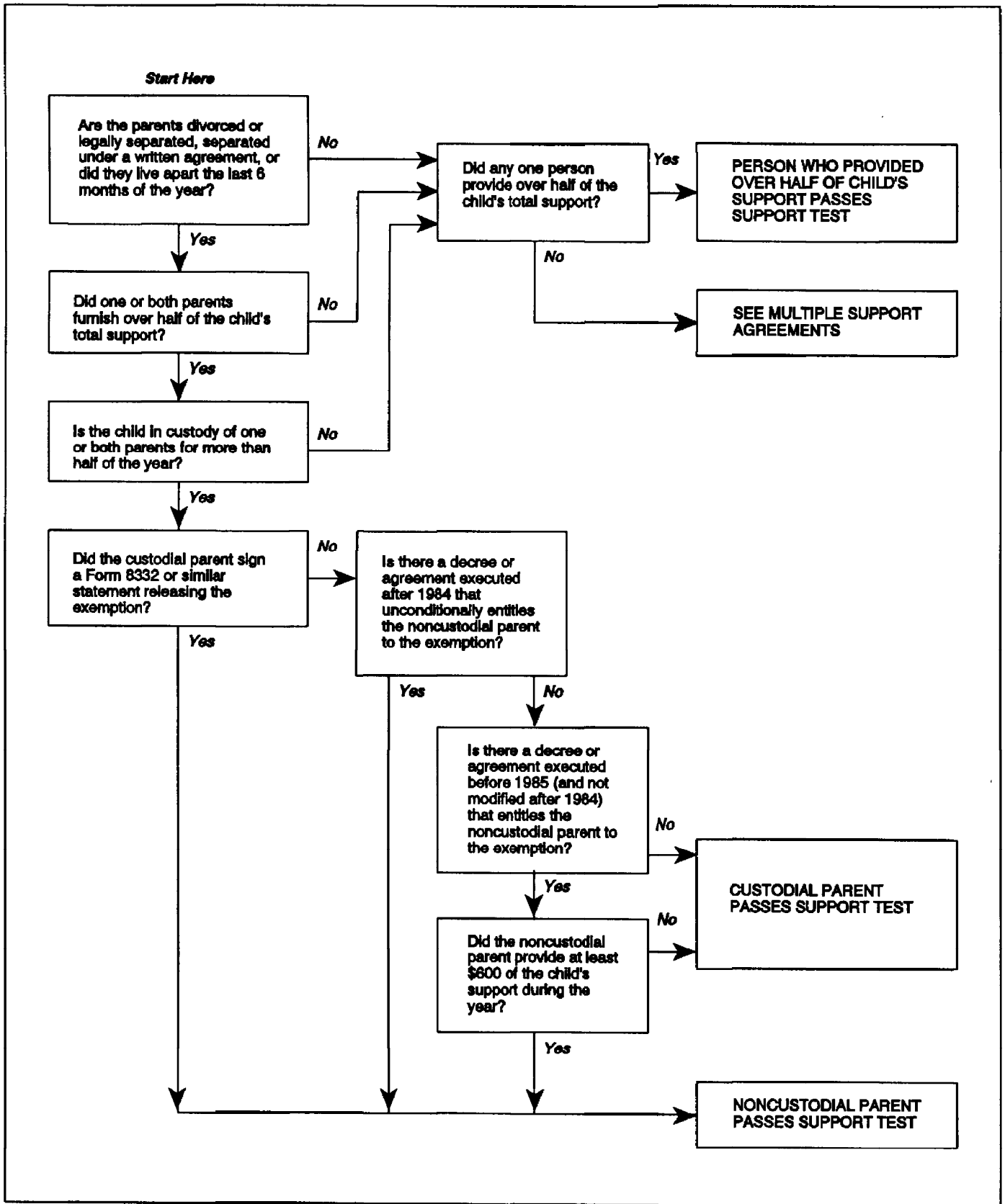
**Example.** The noncustodial parent provides \$1,200 for the child's support. This amount is considered as support provided by the noncustodial parent even if the \$1,200 was actually spent on things other than support.

**Support payments for an earlier year.** If support payments made this year are not more than the amount required of the noncustodial parent, the amount of support provided by that parent is not reduced by any payment of support that parent owed for an earlier year. If the support payments are more than the amount required for this year, any payment for an earlier year is not support provided by the noncustodial parent for either the earlier year or for this year. It is reimbursement to the custodial parent for amounts paid for the support of the children in an earlier year.

**Example.** Under your divorce decree, you must pay \$400 a month to your former spouse for the support of your two children. Last year you paid \$4,000 instead of \$4,800 ( $\$400 \times 12$  months) due for the year. This year, if you pay the full amount, the entire \$4,800 is considered support that you provided. If you also pay any part of the \$800 you owe from last year, that amount is not included as support provided by you in either year.

**Third-party support.** Support provided by a third party for a divorced or separated parent is not included as support provided by that parent. However, see *Remarried parent*, below.

**Figure B. Support Test for Children of Divorced or Separated Parents**





**Example.** You are divorced. During the entire year you and your child live with your mother in a house she owns. The fair rental value of the lodging provided by your mother for your child is \$1,000. The home provided by your mother is not included in the amount of support you provide.

**Remarried parent.** If you remarry, the support provided by your new spouse is treated as provided by you.

**Example.** You have two children from a former marriage who live with you. You have remarried and are living in a home owned by your present spouse. The fair rental value of the home provided to the children by your present spouse is treated as provided by you.

**Home jointly owned.** If you and your former spouse have the right to use and live in the home, each of you is considered to provide half of your child's lodging. However, if the divorce decree gives only you the right to use and live in the home, you are considered to provide your child's entire lodging. It does not matter if the legal title to the home remains in the names of both parents.

## Phaseout of Exemptions

The amount you can claim as a deduction for exemptions is phased out once your adjusted gross income (AGI) goes above a certain level for your filing status. These levels are as follows:

Filing Status	AGI Level Which Reduces Exemption Amount
Married filing separately	\$ 83,850
Single	111,800
Head of household	139,750
Married filing jointly	167,700
Qualifying widow(er)	167,700

You must reduce the dollar amount of your exemptions by 2% for each \$2,500, or part of \$2,500, (\$1,250 if you are married filing separately), that your AGI exceeds the amount shown above for your filing status. If your AGI exceeds the amount shown above by more than \$122,500 (\$61,250 if married filing separately), the amount of your deduction for exemptions is reduced to zero.

If your AGI exceeds the level for your filing status, use *Table 5* to figure the amount of your deduction for exemptions.

## Social Security Numbers for Dependents

If you claim a dependent who is at least **one year old** by the end of your tax year, you must list the dependent's social security number (SSN) on your Form 1040 or Form 1040A. If you do not list the dependent's SSN when required or if you list an incorrect SSN, you may be subject to a \$50 penalty. This penalty may be waived if you can show reasonable cause for not providing your dependent's SSN.

**No social security number.** If a person whom you expect to claim as a dependent on your return does not have an SSN, either you or that person should apply for an SSN as

**Table 5. Deduction for Exemptions Worksheet**

Use this worksheet **only** if the amount on Form 1040, line 32, is more than the dollar amount shown on line 3 below for your filing status. If the amount on Form 1040, line 32, is equal to or less than the dollar amount shown on line 3, multiply \$2,450 by the total number of exemptions claimed on Form 1040, line 6e, and enter the result on line 36.

- Multiply \$2,450 by the total number of exemptions claimed on Form 1040, line 6e ..... 1. \_\_\_\_\_
- Enter the amount from Form 1040, line 32 ..... 2. \_\_\_\_\_
- Enter on line 3 the amount shown below for your filing status:
  - Married filing separately, enter \$83,850
  - Single, enter \$111,800
  - Head of household, enter \$139,750
  - Married filing jointly or Qualifying widow(er), enter \$167,700
 ..... 3. \_\_\_\_\_
- Subtract line 3 from line 2. If zero or less, **stop here**; enter the amount from line 1 above on Form 1040 line 36 ..... 4. \_\_\_\_\_  
**Note:** If line 4 is more than \$122,500 (more than \$61,250 if married filing separately), **stop here**; you may **not** take a deduction for exemptions. Enter -0- on Form 1040, line 36.
- Divide line 4 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 ..... 5. \_\_\_\_\_
- Multiply line 5 by 2% (.02), and enter the result as a decimal amount. .... 6. \_\_\_\_\_
- Multiply line 1 by line 6 ..... 7. \_\_\_\_\_
- Deduction for exemptions.** Subtract line 7 from line 1. Enter the result here and on Form 1040, line 36 ..... 8. \_\_\_\_\_

soon as possible by filing Form SS-5, *Application for a Social Security Card*, with the Social Security Administration (SSA). Information about applying for an SSN and Form SS-5 is available at your local SSA office.

It usually takes about 2 weeks to get an SSN.

### Dependents living in Mexico or Canada.

Taxpayers who claim dependents living in Mexico or Canada must have SSNs for these dependents.

To obtain SSNs for these dependents, complete Form SS-5 and check the "Other" box for line 3, Citizenship. Attach a statement to explain that the SSN is needed for income tax purposes for a dependent living in Mexico or Canada.

A dependent living in **Mexico** may apply for an SSN at the U.S. Embassy in Mexico City or at any U.S. Consulate in Mexico. If you claim a dependent who lives in Mexico, enter "MX" instead of a number in column (5) of line 6c of your Form 1040 or Form 1040A.

A dependent living in **Canada** may apply for an SSN at the American Embassy in Ottawa or at a consulate. Those living near the U.S. border may also apply at a Social Security Administration office in a nearby American city. If you claim a dependent who lives in Canada, enter "CN" instead of a number in column (5) of line 6c of your Form 1040 or Form 1040A.

**Required documents.** When applying for an SSN, your dependent must have at least two documents showing proof of his or her age, identity, and citizenship. These documents must be originals or certified copies.

## Standard Deduction

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. The standard deduction is a dollar amount that reduces the amount of income on which you are taxed. It is a benefit that reduces the need for many taxpayers to itemize actual deductions, such as medical expenses, charitable contributions, or taxes, on Schedule A of Form 1040. The benefit is higher for taxpayers who are 65 or older or blind. If you have a choice, you should use the method that gives you the lower tax.

You benefit from the standard deduction if your standard deduction is more than the total of your allowable itemized deductions.

**Persons not eligible for the standard deduction.** Your standard deduction is **zero** and you should itemize any deductions you have if:

- 1) You are married and filing a separate return, and your spouse itemizes deductions,
- 2) You are filing a tax return for a short tax year, or

- 3) You are a nonresident or dual-status alien during the year. You are considered a dual-status alien if you were both a nonresident and resident alien during the year.

**Note.** If you are a nonresident alien who is married to a U.S. citizen or resident at the end of 1994, you can choose to be treated as a U.S. resident for 1994. (See Publication 519.) You may take the standard deduction that applies to you.

**Dependents may have a limited standard deduction.** If you can be claimed as a dependent on another person's return (such as your parents' return), your standard deduction may be limited. See *Standard Deduction for Dependents* later in this section.

**Standard deduction amount.** The standard deduction amounts for most taxpayers are shown in *Table 6*.

The amount of the standard deduction for a decedent's final tax return is the same as it would have been had the decedent continued to live. However, if the decedent was not 65 or older at the time of death, the higher standard deduction for age cannot be claimed.

**Higher standard deduction for age (65 or older).** If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. You are considered 65 on the day before your 65th birthday. Therefore, you may take a higher standard deduction for 1994 if your 65th birthday was on or before January 1, 1995.

Use *Table 7* to figure the standard deduction amount you are entitled to.

**Higher standard deduction for blindness.** If you are blind on the last day of the year and you do not itemize deductions, you are entitled to a higher standard deduction. Use *Table 7*. You qualify for this benefit if you are totally or partly blind.

**Totally blind.** If you are totally blind, attach a statement to this effect to your return.

**Partly blind.** If you are partly blind, you must submit with your return each year a certified statement from an eye physician or registered optometrist that:

- 1) You cannot see better than 20/200 in the better eye with glasses or contact lenses, or
- 2) Your field of vision is not more than 20 degrees.

If your eye condition will never improve beyond these limits, you can avoid having to get a new certified statement each year by having the examining eye physician include this fact in the certification you attach to your return. In later years just attach a statement referring to the certification. You should keep a copy of the certification in your records.

If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you may take the higher standard deduction for blindness if you otherwise qualify.

**Spouse 65 or older or blind.** You may take the higher standard deduction if your spouse is age 65 or older or blind and:

- 1) You file a joint return, or
- 2) You file a separate return, and your spouse had no gross income and could not be claimed as a dependent by another taxpayer.

**Note.** You may not claim the higher standard deduction for an individual other than yourself and your spouse.

**Example 1.** Larry, 46, and Donna, 43, are filing a joint return for 1994. Neither is blind. They decide not to itemize their deductions. They use *Table 6*. Their standard deduction is \$6,350.

**Example 2.** Assume the same facts as in Example 1, except that Larry is blind at the end of 1994. Larry and Donna use *Table 7*. Their standard deduction is \$7,100.

**Example 3.** Bill and Terry are filing a joint return for 1994. Both are over age 65. Neither is blind. If they do not itemize deductions, they use *Table 7*. Their standard deduction is \$7,850.

**How to report.** After you find your standard deduction amount, enter it on line 19 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, combine your standard deduction with your personal exemption(s) and check the appropriate box on line 4. If the total of your standard deduction and personal exemptions is more than \$6,250 (\$11,250 if married filing a joint return), you must file Form 1040A or Form 1040.

## Standard Deduction for Dependents

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of (a) \$600, or (b) the individual's earned income for the year (but not more than the regular standard deduction amount, generally \$3,800).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher.

If you are a dependent, use *Table 8* to determine your standard deduction.

**Earned income defined.** Earned income is salaries, wages, tips, professional fees and other amounts received as pay for work you actually perform.

For purposes of the standard deduction, earned income also includes any part of a **scholarship or fellowship grant** that you must include in your gross income. See Publication 520 for more information on what qualifies as a scholarship or fellowship grant.

**Where to report your standard deduction.** After you find your standard deduction amount, enter it on line 19 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, figure your standard deduction on the back of the form and check the appropriate box on line

4. If your standard deduction is more than \$3,800 (\$6,350 if married filing a joint return), you must file Form 1040A or Form 1040.

**Example 1.** Michael, who is single, is claimed as a dependent on his parents' 1994 tax return. He has interest income of \$700 and wages of \$150. He has no itemized deductions. Michael uses *Table 8* to find his standard deduction. It is \$600 because the greater of \$600 or his earned income (\$150) is \$600.

**Example 2.** Joe, a 22-year-old full-time college student, is claimed as a dependent on his parents' 1994 tax return. Joe is married and files a separate return. His wife does not itemize deductions on her separate return.

Joe has \$1,500 in interest income and wages of \$3,200. He has no itemized deductions. Joe finds his standard deduction by using *Table 8*. He enters his earned income, \$3,200, on line 1. On line 3 he enters \$3,200, the larger of his earned income (\$3,200) and \$600. Since Joe is married filing a separate return, he enters \$3,175 on line 4. On line 5a he enters \$3,175 as his standard deduction because it is smaller than \$3,200, his earned income.

**Example 3.** Amy, who is single, is claimed as a dependent on her parents' 1994 tax return. She is 18 years old and blind. She has interest income of \$1,300 and wages of \$3,000. She has no itemized deductions. Amy uses *Table 8* to find her standard deduction. She enters her wages of \$3,000 on line 1. On line 3 she enters \$3,000, the larger of her wages on line 1 and the \$600 on line 2. Since she is single, Amy enters \$3,800 on line 4. She enters \$3,000 on line 5a. This is the smaller of the amounts on lines 3 and 4. Because she checked one box in the top part of the worksheet, she enters \$950 on line 5b. She then adds the amounts on lines 5a and 5b and enters her standard deduction of \$3,950 on line 5c.

## Who Should Itemize

Some taxpayers should itemize their deductions because it will save them money. Others should itemize because they do not qualify for the standard deduction, as discussed earlier under *Persons not eligible for the standard deduction*.

**Persons who should itemize deductions.** If the total of your itemized deductions is more than the standard deduction to which you otherwise would be entitled, you should itemize your deductions. You should first figure your itemized deductions and compare that amount to your standard deduction to make sure you are using the method that gives you the greater benefit.

**Caution:** You may be subject to a limit on some of your itemized deductions if your adjusted gross income (AGI) is more than \$111,800 (\$55,900 if you are married filing separately). See the instructions for Schedule A (Form 1040), line 29, for more information on figuring the correct amount of your itemized deductions.

## 1994 Standard Deduction Tables

**Caution:** If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were 65 or older or blind.

Table 6. **Standard Deduction Chart for Most People\***

If Your Filing Status is:	Your Standard Deduction Is:
Single	\$3,800
Married filing joint return or Qualifying widow(er) with dependent child	6,350
Married filing separate return	3,175
Head of household	5,600

\* DO NOT use this chart if you were 65 or older or blind, OR if someone can claim you as a dependent.

Table 7. **Standard Deduction Chart for People Age 65 or Older or Blind\***

If Your Filing Status is:	And the Number in the Box Above is:	Your Standard Deduction is:
Single	1	\$4,750
	2	5,700
Married filing joint return or Qualifying widow(er) with dependent child	1	7,100
	2	7,850
	3	8,600
	4	9,350
Married filing separate return	1	3,925
	2	4,675
	3	5,425
	4	6,175
Head of household	1	6,550
	2	7,500

\* If someone can claim you as a dependent, use Table 8, instead.

**When to itemize.** You may benefit from itemizing your deductions on Schedule A of Form 1040 if you:

- Do not qualify for the standard deduction, or the amount you can claim is limited,
- Had large uninsured medical and dental expenses during the year,
- Paid interest and taxes on your home,
- Had large unreimbursed employee business expenses or other miscellaneous deductions,
- Had large casualty or theft losses not covered by insurance,
- Made large contributions to qualified charities, or
- Have total itemized deductions that are more than the highest standard deduction to which you otherwise are entitled.

If you decide to itemize your deductions, complete Schedule A and attach it to your Form 1040. Enter the amount from Schedule A, line 29, on Form 1040, line 34.

**Itemizing for state tax or other purposes.** If you choose to itemize even though your itemized deductions are less than the amount of your standard deduction, write "IE" (itemized elected) next to line 34 (Form 1040).

**Changing your mind.** If you do not itemize your deductions and later find that you should have itemized — or if you itemize your deductions and later find you should not have — you can change your return by filing Form 1040X, Amended U.S. Individual Income Tax Return.

**Married persons who filed separate returns.** You can change methods of taking deductions only if you and your spouse both

make the same changes. Both of you must file a consent to assessment for any additional tax either one may owe as a result of the change.

You and your spouse can use the method that gives you the lowest total tax, even though one of you may pay more tax than the other. You **both must use the same method** of claiming deductions. If one itemizes deductions, the other should itemize because he or she will not qualify for the standard deduction (see *Persons not eligible for the standard deduction*, earlier).

## Foster Child or Adult

If you receive qualified foster care payments during the year for caring for a qualified foster individual, do not include the payments in your

Table 8. **Standard Deduction Worksheet for Dependents\***

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.	
You	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
Your spouse, if claiming spouse's exemption	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
<b>Total number of boxes you checked</b> <input type="checkbox"/>	
<b>1.</b> Enter your <b>earned income</b> (defined below). If none, go on to line 3.	<b>1.</b> _____
<b>2.</b> Minimum amount	<b>2.</b> \$600
<b>3.</b> Compare the amounts on lines 1 and 2. Enter the <b>larger</b> of the two amounts here.	<b>3.</b> _____
<b>4.</b> Enter on line 4 the amount shown below for your filing status. • Single, enter \$3,800 • Married filing separate return, enter \$3,175 • Married filing jointly or Qualifying widow(er) with dependent child, enter \$6,350 • Head of household, enter \$5,600	<b>4.</b> _____
<b>5. Standard deduction.</b> <b>a.</b> Compare the amounts on lines 3 and 4. Enter the <b>smaller</b> of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b. <b>b.</b> If 65 or older or blind, multiply \$950 (\$750 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result here. <b>c.</b> Add lines 5a and 5b. This is your standard deduction for 1994.	<b>5a.</b> _____ <b>5b.</b> _____ <b>5c.</b> _____
<b>Earned income</b> includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.	

\* Use this worksheet ONLY if someone can claim you as a dependent.

income. However, if you receive such payments, you may not claim that person as a dependent. See *Claiming an exemption*, later. The payments you receive are reimbursements for expenses you incur on behalf of the agency responsible for the foster individual.

**Qualified foster individual.** This is an individual who is living in a foster family home and who was placed there by:

- An agency of a state or one of its political subdivisions, or
- A tax-exempt child placement agency licensed by a state, if the individual is under age 19.

**Qualified foster care payments.** These are amounts you receive from a state or one of its political subdivisions, or from a tax-exempt child placing agency for caring for a qualified foster individual in your home. A qualified foster care payment is also any payment you receive as a “difficulty of care payment.”

**Difficulty of care payments.** These are additional payments you receive for providing care to a qualified foster individual who is physically, mentally, or emotionally disabled. The state must have determined that there was a need for the additional payment, and it must be designated as a difficulty of care payment.

**Excess payments.** If you receive qualified foster care payments to care for more than 5 adults, or difficulty of care payments for more than 10 children or for more than 5 adults, you must include a portion of those payments in income. Report as income foster care or difficulty of care payments you receive for each adult after the fifth adult you are paid for. Also report as income difficulty of care payments you receive for each child after the tenth child you are paid for. For purposes of determining excess payments, a child is a person under age 19 and an adult is a person over age 18.

**Excess expenses.** If the expenses you incur to care for foster children or adults are more than the payments you receive, and you have no profit motive in providing foster care, you may take a charitable contribution for the excess expenses on Schedule A (Form 1040) if you itemize deductions. To claim a charitable

contribution, you should keep adequate records of the income and expenses of your foster care.

**Other payments for foster care.** If, in addition to or instead of receiving qualified foster care or difficulty of care payments, you are paid to maintain space in your home for foster care, you may be considered self-employed and engaged in a business.

You include in income all payments received to maintain space in your home. You also include in income payments for additional foster individuals as discussed earlier under *Excess payments*. Report them as business income on Schedule C or Schedule C-EZ (Form 1040).

You can deduct business expenses to care for more than 5 foster adults (or for more than 10 foster children if you receive difficulty of care payments) to maintain space in your home, or for costs you incurred to provide foster care services. If you receive qualified foster care or difficulty of care payments, you can deduct a portion of expenses only if you are required to report these payments as income.

**Example 1.** You receive qualified foster care payments to care for 10 foster children. Since you are not required to include the payments in income, you cannot deduct the excess expenses as business expenses. If you itemize deductions, you can, however, claim the excess expenses as a charitable contribution.

**Example 2.** You receive difficulty of care payments to care for 11 foster children. Since you are required to report as income the difficulty of care payment for the eleventh child, you can deduct a pro rata share of business expenses incurred to care for that child.

You cannot claim the child as a dependent because your reimbursed expenses are incurred for the child-placing agency. You incur any unreimbursed expenses in your business.

**Example 3.** You agreed to provide continuous 24-hour maintenance of three spaces in your home. The spaces are for the temporary and emergency care of children placed there by the local welfare department. You provide the items of support necessary to the children. These include room, board, clothing, personal

needs, and spending money. You ask any foster children who come into your home to help with household chores as are normally expected of children in a family. However, they do not perform these chores in return for your support. The welfare department inspects the home periodically to ensure that the foster children placed there receive proper care and gives advice and supervision to you as needed.

The welfare department pays you a monthly fee for each of the three spaces maintained for the children, whether or not the spaces are used.

You are in an independent business and are not an employee of the agency. A part of each payment you receive is for the space you keep available. You must include in income the part that is to provide space.

**Claiming an exemption.** You may be able to claim an exemption for a foster child or adult if you do not receive payments for caring for that individual. However, you must meet the five dependency tests as follows:

- 1) Member of household — the individual must be a member of your household for the entire year except for death and temporary absences,
- 2) Citizenship — the individual must be a U.S. citizen or resident, or a resident of Canada or Mexico for some part of the calendar year,
- 3) Joint return — the individual generally cannot file a joint return (but see *Joint Return Test*, earlier),
- 4) Gross income — the individual may not have gross income of \$2,450 or more for 1994 unless he or she is under age 19 or a full-time student under age 24, and
- 5) Support — you must provide over one-half of the individual's support for the year. To figure this, compare the amount you provided with the support received by this person from all sources. You may use *Table 4* in this publication for this purpose. However, if you receive payments from a foster care agency to care for this person, you may not claim his or her exemption.

