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Internal Revenue Service

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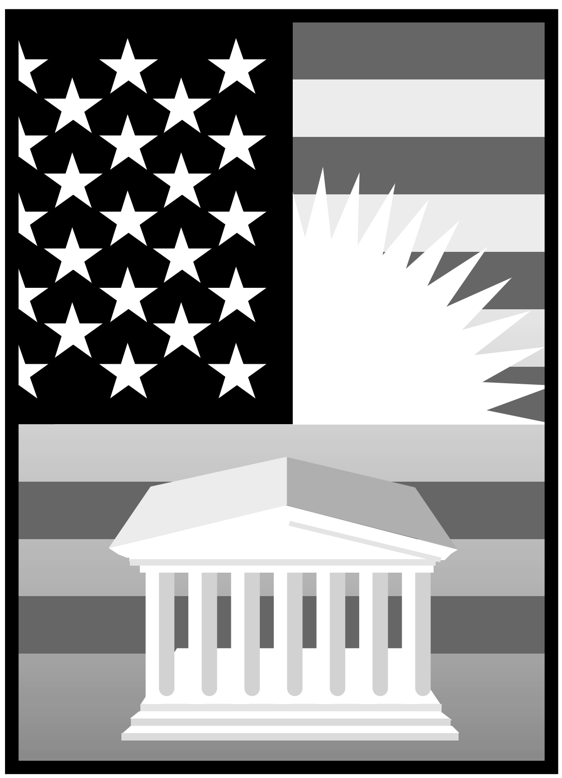
Tax Guide for Individuals With Income From U.S. Possessions

For use in preparing

1999 Returns



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See *How To Get More Information* in this publication.

Contents

Important Change for 1999

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1–800–THE–LOST (1–800–843–5678)** if you recognize a child.

Important Reminders

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN to a nonresident or resident alien who does not have and is not eligible to get a social security number (SSN). To apply for an ITIN, Form W–7 must be filed with the IRS. It usually takes about 30 days to get an ITIN. The ITIN is entered wherever an SSN is requested on a tax return. If you are required to include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

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

Change of address. If you change your mailing address, be sure to notify the Internal Revenue Service 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).

Introduction

This publication discusses how to treat income received in U.S. possessions on your U.S. tax return.

It also discusses whether you are required to file a return with the possession. American

Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, and Puerto Rico have their own independent tax departments. If you have income from one of these possessions, you may have to file a U.S. tax return only, a possession tax return only, or both returns. This generally depends on whether you are considered a resident of one of the possessions. In some cases, you may have to file a U.S. return, but be able to exclude income earned in a possession from U.S. tax.

If you need additional information on U.S. taxation, write to:

Internal Revenue Service
Assistant Commissioner (International)
Attention: OP:IN:D:CS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

If you need additional information on your tax obligations in a U.S. possession, write to the tax department of that possession. Their addresses are provided under the individual headings for each possession.

Useful Items

You may want to see:

Publication

- ☐ **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- ☐ **514** Foreign Tax Credit for Individuals

Form (and Instructions)

- ☐ **1040–SS** U.S. Self-Employment Tax Return
- ☐ **1116** Foreign Tax Credit
- ☐ **4563** Exclusion of Income for Bona Fide Residents of American Samoa
- ☐ **5074** Allocation of Individual Income Tax to Guam or the Commonwealth of the Northern Mariana Islands (CNMI)
- ☐ **8689** Allocation of Individual Income Tax to the Virgin Islands

See *How To Get More Information* near the end of this publication for information about getting these publications and forms. You can get any necessary possession tax forms at the appropriate possession tax office. The office addresses are given later.

Office of Taxpayer Advocate. If you have a problem with the Internal Revenue Service that has not been resolved by your previous contacts with the Service, the Taxpayer Advocate's Office may be able to help you. This office has been established to assist taxpayers who have problems with the Service that have not been resolved through normal channels.

You can reach this office by writing the Taxpayer Advocate in your IRS District or Service Center. If you are outside the United States, contact:

Internal Revenue Service
Assistant Commissioner (International)
Attention: IN:N:TA
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

You can reach this office by calling the following numbers:

- In the U.S., call (202) 874–1930.
- In Puerto Rico or Virgin Islands, call (877) 777–4778.
- In all other possessions, call (787) 759–4501.

The Taxpayer Advocate's Office will ensure that your problem receives proper attention. Although this office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Possession Exclusion

For 1999, the possession exclusion applies only to individuals who are bona fide residents of American Samoa.

Individuals in the following U.S. possessions or territories are ***not*** eligible for the possession exclusion discussed here.

- Baker Island
- Commonwealth of Northern Mariana Islands (CNMI)
- Guam
- Howland Islands
- Jarvis Island
- Johnston Island
- Kingman Reef
- Midway Islands
- Palmyra
- Puerto Rico
- Virgin Islands
- Wake Island

Special filing requirements apply to individuals in the CNMI, Guam, Puerto Rico, and the Virgin Islands. See *Filing Requirements for Individuals in U.S. Possessions,* later. Individuals in the other possessions listed above should see *If You Do Not Qualify,* later.

Qualifications

To qualify for the possession exclusion, you must be a ***bona fide resident*** of American Samoa for the entire tax year. For example, if your tax year is the calendar year, you must be a bona fide resident from January 1 through December 31. In addition to this time requirement, the following factors may be considered in determining bona fide residence.

- Your intent to be a resident of American Samoa, as shown by the circumstances.
- The establishment of a permanent home for you and members of your family in American Samoa for an indefinite period of time.
- Your social, cultural, and economic ties to American Samoa.
- Your physical presence for the year.

Other factors that may be considered are the nature, extent, and reasons for temporary absences; assumption of economic burdens and payment of taxes to American Samoa; existence of other homes outside of American Samoa; and place of employment.

CAUTION *If you were not a bona fide resident of American Samoa for all of 1999, you cannot claim the possession exclusion. See* If You Do Not Qualify, *later.*

What Income Can Be Excluded

If you qualify as a bona fide resident of American Samoa for 1999, you can exclude income from sources in American Samoa, Guam, or the CNMI and income effectively connected with your trade or business in these possessions.

Possession source income. Excludable income from sources within the possessions includes the following.

1) Wages, salaries, and other kinds of pay for personal services performed in the possessions. (But see *U.S. Government wages,* later, for an exception.)
2) Dividends received from possession sources, including those paid by:
   a) U.S. corporations that do business in the possessions and elect the Puerto Rico and possession tax credit, and
   b) Possession and foreign corporations that do business mainly in the possessions.
3) Interest on deposits paid by banks that do business mainly in the possessions, including interest paid on deposits with the possession branches of:
   a) Domestic banks with commercial banking business in the possessions, and
   b) Savings and loan associations chartered under federal or state laws.
4) Gains from the sale of securities, such as stock certificates, are from sources in the possessions if the seller's residence is in a possession and the sale is not attributable to an office or other fixed place of business maintained by the seller in the United States.

U.S. Government wages. For purposes of the possession exclusion, possession source income does ***not*** include wages, salaries, etc., paid by the U.S. Government or any of its agencies to individuals who are its civilian or military employees.

Scholarships and fellowships. The source of a payment made as a scholarship or fellowship grant is generally the residence of the payer. The result is the same if payments are made by an agency acting on behalf of the payer.

Examples. The following examples illustrate the sources of income. Assume that corporations chartered in American Samoa (American Samoan corporations) do business only in American Samoa, and that the U.S. and foreign corporations do not carry on business in the possessions.

Example 1. Frank Harris, who is single, is an engineer who went to work in American Samoa for a private construction company on August 3, 1998, and lived there for all of 1999. He is a bona fide resident of American Samoa for 1999.

During 1999, he received the following amounts of income.

Samoan wages		$23,300
Nonpossession source income:		
Dividends (U.S.)	400	
Dividends (foreign)	100	
Interest (U.S.)	1,300	1,800
Total income		$25,100

Frank's possession source income eligible for the exclusion is $23,300. Frank's remaining income ($1,800) is not possession source income and is not eligible for the exclusion.

Example 2. Oliver Hunter was employed by a private employer in American Samoa from June 16, 1998, through December 31, 1999. He is a bona fide resident of American Samoa for 1999.

During 1999, he received the following amounts of income.

Possession source income:		
Samoan wages	$16,000	
Guam interest	500	
		$16,500
Nonpossession source income:		
U.S. dividends	2,000	
Short-term capital gain from sale of U.S. stock	4,000	6,000
Total income		$22,500

Oliver's possession source income of $16,500 is eligible for the exclusion. Oliver's remaining income ($6,000) is not possession source income and is not eligible for the exclusion.

Deductions and Credits

You can neither deduct nor claim a credit for items connected to your possession income that you exclude from gross income on your U.S. income tax return. See *Filing Tax Returns,* later, to find out if you have to file a U.S. income tax return.

Items that do not apply to a particular type of income must be divided between your excluded income from possession sources and income from all other sources to find the amount you can deduct on your U.S. tax return. Examples of these items are medical expenses, real estate taxes, mortgage interest on your home, and charitable contributions.

Figuring the deduction. To figure the amount of an item you can deduct on your U.S. income tax return, multiply the amount by the following fraction.

$$\frac{\text{Gross income from sources outside the possessions}}{\text{Total gross income from all sources (including excluded possession income)}}$$

Standard deduction. The standard deduction does not apply to a particular type of income. It must be divided between your excluded income and income from other sources. This division must be made before you can determine if you must file a U.S. tax return, because the minimum income level at which you must file a return is based, in part, on the standard deduction for your filing status.

Example. Barbara Jones, a U.S. citizen, is single, under 65, and a bona fide resident of American Samoa. During 1999, she received $20,000 of income from Samoan sources and $5,000 of income from sources outside the possessions. She does not itemize her deductions. Her allowable standard deduction for 1999 is figured as follows:

$$\frac{\$5{,}000}{\$25{,}000} \times \$4{,}300 \text{ (standard deduction)} = \$860$$

Foreign tax credit. If you must report possession source income on your U.S. tax return, you can claim a foreign tax credit, figured on Form 1116 for income taxes paid in the possessions on that income. You cannot claim a foreign tax credit for taxes paid on excluded possession income.

If you have income, such as U.S. Government wages, that is not excludable, and you have income from possession sources that is excludable, you must figure the credit by reducing your foreign taxes paid or accrued by the taxes based on the excluded income. You must make this reduction for each separate income category. To find the amount of this reduction, use the following formula for each income category.

$$\frac{\text{Excluded income from possession sources less deductible expenses based on that income}}{\text{Total income subject to possession tax less deductible expenses based on that income}} \times \text{Tax paid or accrued to possessions} = \text{Reduction in foreign taxes}$$

For more information on foreign tax credit, get Publication 514.

Personal exemptions. Personal exemptions are allowed in full. They are not divided.

Moving expenses. If you are claiming expenses for a move to a U.S. possession from the United States, or from a U.S. possession to the United States, use Form 3903, *Moving Expenses.* These are not considered foreign moves. Get Publication 521, *Moving Expenses,* for more information.

If You Do Not Qualify

If you do not qualify for the possession exclusion because you are not a bona fide resident of American Samoa (as explained earlier), or not a bona fide resident of American Samoa for the entire year, figure your tax liability in the usual manner. Report all your taxable income, including income from foreign and possession sources, and claim all allowable exemptions, deductions, and credits, following the instructions for Form 1040.

You can take a credit against your U.S. tax liability if you paid income taxes to a foreign country or a possession and reported income from sources outside the United States on your U.S. tax return. The amount of foreign or possession income taxes paid that you can claim as a credit is figured on Form 1116, which must be attached to your Form 1040. For more information, see Publication 514.

Filing Tax Returns

If you do not qualify for the possession exclusion, you must generally file a U.S. income tax return if your gross income was at least the amount shown below.

Filing status:	Gross income of at least:
Single	$ 7,050
Married, filing jointly	12,700
Married, filing separately	2,750
Head of household	9,100
Qualifying widow(er)	9,950

If you were age 65 or over at the end of 1999, and you do not qualify for the possession exclusion, the minimum income levels for filing a return increase. For these amounts, see the instructions for Form 1040.

Some persons (such as those who can be claimed as a dependent on another person's return) must file a tax return even though their gross income is less than the amount shown above for their filing status. For more information, see the instructions for Form 1040.

Bona fide residents of American Samoa. If you qualify for the possession exclusion and all of your income is from sources in American Samoa, Guam, or the CNMI, or is effectively connected with your trade or business in these possessions, you do not have to file a U.S. income tax return.

If you qualify for the possession exclusion and you have income from sources outside American Samoa, Guam, or the CNMI, you must file a U.S. income tax return if your gross income is at least the amount shown on line 3 of the following worksheet.

1. Enter the allowable standard deduction you figured earlier under *Deductions and Credits.* .... ______
2. Personal exemption. (If your filing status is married filing jointly, enter $5,500. Otherwise, enter $2,750.) .... ______
3. Add lines 1 and 2. You must file a U.S. income tax return if your gross income from sources outside American Samoa, Guam, and the CNMI is at least this amount. .... ______

Example. Regina Gray, a U.S. citizen, uses a calendar tax year. She was employed in American Samoa from July 2, 1998, to January 1, 2000. Her 1999 income consisted of her salary from her job plus interest of $500 on deposits in a U.S. bank.

Regina does not have to file a U.S. income tax return for 1999 because she can claim the possession exclusion, and her U.S. income is below the amount that would require her to file a U.S. tax return.

Form 4563. If you must file a U.S. income tax return and you qualify for the possession exclusion, claim the exclusion by attaching Form 4563 to Form 1040. Form 4563 ***cannot*** be filed by itself. There is an example of a filled-in Form 4563 at the end of this publication.

When and Where To File

If you file on a calendar year basis, the due date for filing your U.S income tax return is April 15 following the end of your tax year. If you use a fiscal year (a year ending on the last day of a month other than December), the due date is the 15th day of the 4th month after the end of your fiscal year. If any due date falls on a Saturday, Sunday, or legal holiday, your tax return is due on the next business day.

TIP *Federal tax returns mailed by taxpayers in foreign countries are filed on time if they bear an official postmark dated by midnight of the due date, including any extensions. The postmark can be foreign.*

Extensions of time to file. If you live outside the United States and Puerto Rico and have your main place of business or post of duty outside the United States and Puerto Rico on the regular due date of your return, you are automatically granted a 2-month extension to file your return. If you file on a calendar year basis, you have until June 15. This extension is also available if you are on military duty outside the United States and Puerto Rico. Your assigned tour of duty outside the United States and Puerto Rico must include the entire due date of your return.

If you use this automatic 2-month extension, you must attach a statement to your return showing that you qualify for it. You must pay interest on any unpaid tax from the original due date (April 15 if you file a calendar year return) to the date you pay the tax.

Married persons. If you and your spouse file a joint return, only one of you needs to meet the qualifications discussed above to take advantage of the automatic extension to June 15 for filing your tax return.

If you file separate returns instead of a joint return, only the spouse who meets the qualifications can use the automatic extension.

Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* You can get an automatic 4-month extension of time to file your tax return by filing Form 4868 or by paying the estimated income tax due using a credit card. This 4-month extension is not in addition to the automatic 2-month extension explained earlier. The 4 months and the 2 months both begin on April 15. You must file Form 4868 by the due date for filing your return. If you qualify for the 2-month automatic extension, you do not have to file Form 4868 until June 15. Print “Taxpayer Abroad” across the top of Form 4868.

In filling out Form 4868, you must estimate your tax liability for the year and you should pay any balance due with the application. You will be charged interest on any tax not paid by the regular due date of your return, and you may be charged a penalty for the late payment.

Any payment you made with the application for extension should be entered on line 61 of Form 1040.

Note. You cannot ask the Internal Revenue Service to figure your tax if you use the extension of time to file.

Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return.* Further extensions of the time to file are granted only under very unusual circumstances. If you need additional time to file, apply for the extension either in a letter or by filing Form 2688. Extensions beyond the 4-month automatic extension are not granted as a matter of course. You must show reasonable cause.

Except in undue hardship cases, an application for extension on Form 2688 will not be accepted until you have taken advantage of the automatic 4-month extension.

Where to file. If you have to file Form 1040 with the United States, and you use Form 4563 to exclude income from American Samoa, Guam, and the CNMI, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255–0215. If you do not qualify for the possession exclusion, mail your return to the address shown for the possession or state in which you reside in the Form 1040 instructions.

Self-Employment Tax

A U.S. citizen who is self-employed must pay self-employment tax on net self-employment earnings of $400 or more. This rule applies whether or not the earnings are excludable from gross income (or whether or not a U.S. income tax return must otherwise be filed).

Your payments of self-employment tax contribute to your coverage under the social security system. Social security coverage provides you with old age, survivor, and disability benefits and hospital insurance.

The self-employment tax rate is 15.3% (12.4% social security tax plus 2.9% Medicare tax). The maximum amount of earnings subject to social security (old age, survivor, and disability insurance) tax is $72,600 for 1999. All earnings are subject to Medicare (hospital insurance) tax.

Self-employment tax form. If you have to file Form 1040 with the United States, figure your self-employment tax on Schedule SE (Form 1040) and attach it to Form 1040.

If you are a resident of American Samoa, Guam, the CNMI, Puerto Rico, or the Virgin Islands who has net self-employment income, and you do not have to file Form 1040 with the United States, use Form 1040–SS, *U.S. Self-Employment Tax Return,* to figure your self-employment tax.

TIP *If you are a resident of Puerto Rico, you can file Form 1040–PR instead of Form 1040–SS. Form 1040–PR is the Spanish-language equivalent of Form 1040–SS.*

These forms must be filed with the Internal Revenue Service Center, Philadelphia, PA 19255.

Self-employment tax deduction. You can deduct one-half of your self-employment tax on line 27 of Form 1040 in figuring adjusted gross income. This is an income tax deduction only; it is not a deduction in figuring net earnings from self-employment.

If you are a bona fide resident of American Samoa or Puerto Rico, and you exclude your self-employment income from gross income, you cannot take the deduction on line 27 of Form 1040 because the deduction is related to excluded income.

If part of your self-employment income is excluded, only the part of the deduction that is based on the nonexcluded income is allowed. This would happen if, for instance, you have two businesses, and only the income from one of them is excludable.

Figure the tax on the nonexcluded income by multiplying your total self-employment tax (from Schedule SE) by the following fraction.

$$\frac{\text{Self-employment income that is not excluded}}{\text{Total self-employment income (including excluded income)}}$$

The result is your self-employment tax on nonexcluded income. You can deduct one-half of this amount on line 27 of Form 1040.

Credit for Excess FICA Employee Tax Withheld

If you had more than one employer for 1999, and your total wages were over $72,600, your employers may have withheld too much social security tax. If so, you can take a credit for the excess amount on line 62 of Form 1040.

If you do not file Form 1040, you can claim a refund of the excess amount withheld by filing Form 843, *Claim for Refund and Request for Abatement.* Residents of Puerto Rico, the Virgin Islands, American Samoa, Guam, and the CNMI should file Form 843 with the Internal Revenue Service Center, Philadelphia, PA 19255.

If any one employer withheld more than $4,501.20 of social security tax, you must ask your employer to refund the excess to you. You cannot claim it on your return.

Double Taxation

A mutual agreement procedure exists to settle issues where there is an inconsistency between the tax treatment by the IRS and the taxing authorities of the following possessions.

- American Samoa.
- Guam.
- Puerto Rico.
- The Virgin Islands.

These issues usually involve allocations of income, deductions, credits, or allowances between related persons, determinations of residency, and determinations of the source of income and related expenses.

Send your written request for assistance under this procedure to:

Internal Revenue Service
Assistant Commissioner (International)
Attn: Tax Treaty Division
P.O. Box 23598
Washington, DC 20026–3598

Your request must contain a statement that assistance is requested under the mutual agreement procedure with the possession. It must also contain all the facts and circumstances relating to your particular case. It must be signed and dated. To avoid unnecessary delays, make sure you include all of the following information.

1) Your name, address, and social security number.
2) The name, address, and social security number of the related person in the possession (if one is involved).
3) The tax year(s) in question and the Internal Revenue Service Center where your return was filed.
4) If income tax is involved, the type of income, a description of the transaction, activities, or other pertinent circum-

stances, and the positions taken by you and the possession tax agency.

5) The amount of the item (income, deduction, or credit) involved and the amount of tax the possession assessed or proposed to assess.

6) A description of the control and business relationships between you and the related person in the possession, if that applies.

7) The status of your tax liability for the year(s) in question and, if it applies, the status of the tax liability of the related person in the possession.

8) Whether you or the related person, if one is involved, is entitled to any possession tax incentive or subsidy program benefits for the year(s) in question.

9) Copies of any correspondence received from the possession tax agency and copies of any material you provided to them.

10) Copy of the possession tax return(s) for the year(s) in question.

11) Whether a foreign tax credit was claimed on your federal tax return for all or part of the possession tax paid or accrued on the item in question.

12) Whether your federal return or the return of the related person, if there is one, was examined, or is being examined.

13) A separate document signed and dated by you that you consent to the disclosure to the designated possession tax official of any or all of the items of information set forth in, or enclosed with, the request for assistance under this procedure.

Credit or refund. In addition to the tax assistance request, if you seek a credit or refund of any overpayment of United States tax paid on the income in question, you should file a claim on Form 1040X, *Amended U.S. Individual Income Tax Return.* Indicate on the form that a request for assistance under the mutual agreement procedure with the possession has been filed. Attach a copy of the request to the form.

You should take whatever steps must be taken under the possession tax code to prevent the expiration of the statutory period for filing a claim for credit or refund of a possession tax.

Filing Requirements for Individuals in U.S. Possessions

An individual who has income from Guam, the CNMI, American Samoa, the Virgin Islands, or Puerto Rico will probably have to file a tax return with one of the possessions' tax departments. It is possible that you may have to file two annual tax returns: one with the possession's tax department and the other with the U.S. Internal Revenue Service.

You should ask for forms and advice about the filing of possession tax returns from that possession's tax department and not the Internal Revenue Service. In some situations you may have to determine if you are a resident or a nonresident of a certain possession. Contact the tax department of that possession for advice about this point.

The following discussions cover the general rules for filing returns in Guam, the CNMI, American Samoa, the Virgin Islands, and Puerto Rico.

CAUTION *A U.S. person who becomes a resident of American Samoa, Guam, or the CNMI may be subject to U.S. tax on U.S. source income, including gain from sales of certain U.S. assets, during the 10-year period beginning when the person becomes a resident. The U.S. person will be subject to U.S. tax on any gain from the disposition of U.S. property (including appreciated stock issued by a U.S. corporation) during this period.*

Guam

Guam has its own tax system based on the same tax laws and tax rates that apply in the United States.

Requests for advice about Guam residency and tax matters should be addressed to:

Department of Revenue and Taxation
Government of Guam
P.O. Box 23607
GMF, GU 96921

Telephone number (671) 472–7471
Fax number (671) 472–2643

If you are a U.S. citizen with income from sources in Guam and the United States, you must file your income tax return as explained below with either Guam or the United States, but not both. You are not liable for any income tax to the jurisdiction with which you do not have to file.

If you are a resident of Guam on the last day of your tax year, you should file your return with the:

Department of Revenue and Taxation
Government of Guam
P.O. Box 23607
GMF, GU 96921

Include income from worldwide sources on the Guam return. Include any balance of tax due with your tax return.

Example. Gary Barker was a resident of Guam during the entire year. He received wages of $20,000 paid by a private employer and dividends of $4,000 from U.S. corporations that carry on business mainly in the United States.

He must file a 1999 income tax return with the Government of Guam. He reports his total income of $24,000 on the Guam return.

If you are a resident of the United States on the last day of your tax year, you should file your return with the:

Internal Revenue Service
Philadelphia, PA
19255–0215

Include income from worldwide sources on the U.S. return. Include any balance of tax due with your tax return.

If you are neither a resident of Guam nor a resident of the United States at the end of your tax year, you should file with Guam if you are a citizen of Guam but not otherwise a citizen of the United States (born or naturalized in Guam). If you are a U.S. citizen or resident but not otherwise a citizen or resident of Guam, you should file with the United States.

Example. William Berry, a U.S. citizen, was employed by a private company in Guam from June 1 through December 31, 1999. He received a salary of $20,000 during that period for his work in Guam, $4,000 in dividends from U.S. corporations that carry on business mainly in the United States, and $1,000 in interest from deposits in U.S. banks. William was advised by the Guam Department of Revenue and Taxation that he was not a resident of Guam. He must file a U.S. tax return. On his U.S. tax return, he reports the $4,000 of dividends, the $1,000 of interest, and the $20,000 Guam salary in addition to any income he had in 1999 before June 1.

Joint return. If you file a joint return, you should file it (and pay the tax) with the jurisdiction where the spouse who has the greater adjusted gross income would have to file (if you were filing separately). If the spouse with the greater adjusted gross income is a resident of Guam at the end of the tax year, file the joint return with Guam. If the spouse with the greater adjusted gross income is a resident of the United States at the end of the tax year, file the joint return with the United States. For this purpose, income is determined without regard to community property laws.

Example. Bill White, a U.S. citizen, was a resident of the United States, and his wife, a citizen of Guam, was a resident of Guam at the end of the year. Bill earned $25,000 as an engineer in the United States. His wife earned $15,000 as a teacher in Guam. Mr. and Mrs. White will file a joint return. Because Bill has the greater adjusted gross income, they must file their return with the United States and report the entire $40,000 on that return.

U.S. military employees. If you are a member of the U.S. Armed Forces stationed on Guam, you are not considered a resident of Guam and you must file your return with the United States. However, if you are a member of the military and a citizen of Guam, or if you are a civilian employee of the military, you are subject to the same rules described in the previous paragraphs.

Income tax withheld. Take into account tax withheld by both jurisdictions in determining if there is tax due or an overpayment.

Payment of estimated tax. If you have to pay estimated tax, make your payment to the jurisdiction where you would file your income tax return if your tax year were to end on the date your estimated tax payment is first due. Generally, you should make your quarterly payments of estimated tax to the jurisdiction where you made your original estimated tax payment. However, estimated tax payments to either jurisdiction will be treated as payments to the jurisdiction with which you file the tax return.

If you make a joint payment of estimated tax, make your payment to the jurisdiction where the spouse who has the greater estimated adjusted gross income would have to pay (if a separate payment were made). For this purpose, income is determined without regard to community property laws.

Example. Bill West is single and files his return on a calendar-year basis. He is a resident of the United States at the time that he must make his first payment of estimated income tax for the year. Since Bill does not expect to be a resident of Guam at the end of the year, he pays his estimated tax to the United States by April 15. Later in the year, however, Bill becomes a resident of Guam and receives income from Guam sources that causes him to refigure his estimated tax payments. The quarterly estimated tax payments must be made to the United States because he was a U.S. resident when his first payment of estimated tax was due. Because Bill is a resident of Guam at the end of his tax year, he must file his income tax return with Guam. On that return, he claims credit for the estimated tax payments made to the United States.

Early payment of estimated tax. If you make your first payment of estimated tax early and you do not send it to the jurisdiction to which you would have sent it if you had not made it early, make all later payments to the other jurisdiction.

Example. Peg Post is single and files her return on a calendar year basis. On March 1, Peg was a resident of the United States and made an early first payment of estimated income tax to the United States. Before the due date of her first payment of estimated tax (April 15), she becomes a resident of Guam for the rest of the year. Peg must make the rest of her payments of estimated tax to Guam because she is a resident of Guam on the date that her first payment of estimated tax is otherwise due. At the end of the year, Peg will file her tax return with Guam and claim credit for all estimated tax payments on that return.

Estimated tax form. If your estimated income tax obligation is to the United States, use the worksheet in the Form 1040–ES package to figure your estimated tax, including self-employment tax. You can use the payment vouchers in the Form 1040–ES package for your payments, or you can pay by credit card.

If your estimated income tax obligation is to Guam, use their forms to figure your estimated income tax and make your payments. You will have to separately figure your estimated self-employment tax (you can use the Form 1040–ES package) and make payments with the payment vouchers to the address given in the Form 1040–ES instructions.

Information return. If your adjusted gross income from all sources is at least $50,000, your gross income consists of at least $5,000 from sources in Guam, and you file a U.S. income tax return, attach Form 5074 to Form 1040. You can get Form 5074 from most Internal Revenue Service offices.

Note. Guam and the United States have entered into an implementing agreement. ***The effective date of the agreement, however, has been indefinitely postponed.*** Under the agreement, Guam may enact its own laws for taxing residents of Guam as well as for taxing income sourced in Guam (or income effectively connected with a trade or business in Guam) and paid to a nonresident. Individuals who are bona fide residents of Guam and have income sourced outside Guam, the CNMI, or American Samoa may have to file a U.S. tax return. Individuals who are bona fide residents of Guam and have income sourced in any of the three possessions may be able to treat that income as exempt from U.S. income tax under the possession exclusion rules.

Double taxation. A mutual agreement procedure exists to settle cases of double taxation between the United States and Guam. See *Double Taxation* under *Filing Tax Returns,* earlier.

The Commonwealth of the Northern Mariana Islands

The Commonwealth of the Northern Mariana Islands (CNMI) has its own tax system based partly on the same tax laws and tax rates that apply to the United States and partly on local taxes imposed by the CNMI government.

Requests for advice about CNMI residency and tax matters should be addressed to:

Division of Revenue and Taxation
Commonwealth of the Northern
Mariana Islands
P. O. Box 5234, CHRB
Saipan, MP 96950

If you are a U.S. citizen with income from the CNMI and the United States, you must file your income tax return with either the CNMI or the United States as explained below. Do not file with both. You are not liable for tax to the jurisdiction with which you do not have to file.

If you are a resident of the CNMI on the last day of your tax year, you should file your return with the Division of Revenue and Taxation at the address above.

Include income from worldwide sources on the CNMI return. Include any balance of tax due with your tax return.

If you are a resident of the United States on the last day of your tax year, you should file your return with the Internal Revenue Service Center, Philadelphia, PA 19255–0215.

Include income from worldwide sources on the U.S. return. Include any balance of tax due on your tax return.

If you are neither a resident of the CNMI nor a resident of the United States at the end of your tax year, but you are a citizen of the CNMI, you should file with the Division of Revenue and Taxation. File with the Internal Revenue Service Center if you are a citizen of the United States.

Joint return. If you file a joint return, you should file it (and pay the tax) with the jurisdiction where the spouse who has the greater adjusted gross income would have to file (if you were filing separately). If the spouse with the greater adjusted gross income is a resident of the CNMI at the end of the tax year, file the joint return with the CNMI. If the spouse with the greater adjusted gross income is a resident of the United States at the end of the tax year, file the joint return with the United States. For this purpose, income is determined without regard to community property laws.

Income tax withheld. Take into account tax withheld by both jurisdictions in determining if there is tax due or an overpayment.

Payment of estimated tax. If you must pay estimated tax, make your payment to the jurisdiction where you would file your income tax return if your tax year were to end on the date your first payment of estimated tax is due. Generally, you should make your quarterly payments of estimated tax to the jurisdiction where you made your first payment of estimated tax. However, estimated tax payments to either jurisdiction will be treated as payments to the jurisdiction with which you file the tax return.

If you make a joint payment of estimated tax, make the payment to the jurisdiction where the spouse who has the greater estimated adjusted gross income would have to file (if a separate declaration were filed). For this purpose, income is determined without regard to community property laws.

Early payment of estimated tax. If you make your first payment of estimated tax early and you do not send it to the jurisdiction to which you should have made it, make all later payments to the jurisdiction to which the first payment should have been made had you not made it early.

Estimated tax form. If your estimated income tax obligation is to the United States, use the worksheet in the Form 1040–ES package to figure your estimated tax, including self-employment tax. You can use the payment vouchers in the Form 1040–ES package for your payments, or you can pay by credit card.

If your estimated income tax obligation is to the CNMI, use their forms to figure your estimated income tax and make your payments. You will have to separately figure your estimated self-employment tax (you can use the Form 1040–ES package) and make payments with the payment vouchers to the address given in the Form 1040–ES instructions.

Information return. If your adjusted gross income from all sources is at least $50,000, your gross income consists of at least $5,000 from sources in the CNMI, and you file a U.S. income tax return, attach Form 5074 to Form 1040. You can get Form 5074 from most Internal Revenue Service offices.

Note. When the CNMI and the United States enter into an implementing agreement, the CNMI may enact its own laws for taxing residents of the CNMI as well as for taxing income sourced in the CNMI (or income effectively connected with a trade or business in the CNMI) and paid to a nonresident. Individuals who are bona fide residents of the CNMI and have income sourced outside the CNMI, Guam, or American Samoa may have to file a U.S. tax return. Individuals who are bona fide residents of the CNMI and have income sourced in any of the three possessions may be able to exclude that income under the possession exclusion rules when an implementing agreement is in effect.

American Samoa

American Samoa has its own separate and independent tax system. Although its tax laws are modeled on the U.S. Internal Revenue Code, there are certain differences.

Requests for advice about matters connected with Samoan taxation should be sent to:

Tax Division
Government of American Samoa
Pago Pago, American Samoa 96799

Residents of American Samoa. If you are a U.S. citizen and a resident of American Samoa, you must report your gross income from worldwide sources on your Samoan tax return. If you report non-Samoan source income on your Samoan tax return, you can claim a credit against your Samoan tax liability for income taxes paid on that income to the United States, a foreign country, or another possession.

If you are a resident of American Samoa for part of the tax year and you then leave American Samoa, you must file a tax return with American Samoa for the part of the year you were present in American Samoa.

Bona fide residents of American Samoa include military personnel whose official home of record is American Samoa.

Nonresidents of American Samoa. If you are a nonresident of American Samoa, you should report only income from Samoan sources on your Samoan tax return. U.S. citizens residing in American Samoa are considered residents of American Samoa for income tax purposes.

U.S. Government employees. If you are employed in American Samoa by either the U.S. Government or any of its agencies, or by the Government of American Samoa, you are subject to tax by American Samoa on your pay from either government. Whether you are subject to tax by American Samoa on your non-Samoan source income depends on your status as a resident or nonresident.

Wages and salaries paid by the Governments of the United States and American Samoa to their employees are also subject to U.S. federal income tax. These payments do not qualify for the possession exclusion, discussed earlier.

If you report government wages on both your U.S. and Samoan tax returns, you can take a credit on your U.S. tax return for income taxes paid or accrued to American Samoa. Figure that credit on Form 1116, and attach that form to your U.S. tax return, Form 1040. Show your wages paid for services performed in American Samoa on line 1 of Form 1116 as income from sources in a possession.

Estimated tax. If your estimated income tax obligation is to the United States, use the worksheet in the Form 1040–ES package to figure your estimated tax, including self-employment tax. You can use the payment vouchers in the Form 1040–ES package for your payments, or you can pay by credit card.

Double taxation. A mutual agreement procedure exists to settle cases of double taxation between the United States and American Samoa. See *Double Taxation,* earlier under *Filing Tax Returns.*

The Virgin Islands

An important factor in Virgin Islands taxation is whether, on the last day of the tax year, you are a bona fide resident of the Virgin Islands. If you are a temporary worker on the last day of the tax year, you may or may not be a bona fide resident of the Virgin Islands. You should contact the Virgin Islands Bureau of Internal Revenue for more information.

Resident of the Virgin Islands. If you are a bona fide resident of the Virgin Islands on the last day of the tax year, you must file your tax return on Form 1040 with the Government of the Virgin Islands and pay the entire tax due to the Virgin Islands. You do not have to file with the IRS for any tax year in which you are a bona fide resident of the Virgin Islands on the last day of the year, provided you report and pay tax on your income from all sources to the Virgin Islands and identify the source(s) of the income on the return. If you have non-Virgin Islands source income, you must also file Virgin Islands Form 1040 INFO, *Non-Virgin Islands Source Income of Virgin Islands Residents,* with the Virgin Islands Bureau of Internal Revenue.

You can get Form 1040 INFO by contacting:

Virgin Islands Bureau of Internal Revenue
9601 Estate Thomas
Charlotte Amalie
St. Thomas, U.S. Virgin Islands 00802

Telephone number (340) 774–5865
Fax number (340) 714–9345

Example. Mr. and Mrs. Maple left the United States on June 15, 1999, and arrived in the Virgin Islands on the same day. They qualified as bona fide residents of the Virgin Islands on the last day of their tax year, December 31, 1999.

Mr. and Mrs. Maple file Form 1040 with the Government of the Virgin Islands and attach a Form 1040 INFO. The Maples report their worldwide income and pay the entire tax for the year to the Virgin Islands. Even though they lived in the United States part of the year, their income tax obligations for that year are completely satisfied by filing their return with, and paying their tax to, the Virgin Islands Bureau of Internal Revenue.

Non-Virgin Islands resident with Virgin Islands income. If you are not a bona fide resident of the Virgin Islands on the last day of your tax year, you must file identical tax returns with the United States and the Virgin Islands if you have:

1) Income from sources in the Virgin Islands, or,
2) Income effectively connected with the conduct of a trade or business in the Virgin Islands.

File the original return with the United States and file a copy of the U.S. return (including all attachments, forms, and schedules) with the Virgin Islands Bureau of Internal Revenue by the due date for filing Form 1040.

The amount of tax you must pay to the Virgin Islands is figured as follows:

$$\text{Total tax on U.S. return (after certain adjustments)} \times \frac{\text{V.I. AGI}}{\text{worldwide AGI}}$$

Form 8689 is used for this computation. You must complete this form and attach it to each copy of your return. You should pay any tax due to the Virgin Islands when you file your return with the Virgin Islands Bureau of Internal Revenue. You receive credit for taxes paid to the Virgin Islands by including the amount on Form 8689, line 32, in the total on Form 1040, line 64. On the dotted line next to line 64, write “Form 8689” and show the amount.

Do not enter the amount from Form 8689, line 36 on Form 1040.

See the illustrated example at the end of this publication.

Where to file. If you are not a bona fide resident of the Virgin Islands but you have income from the Virgin Islands, you must file Form 1040 and all attachments with the Internal Revenue Service Center, Philadelphia, PA 19255–0215, and with the Virgin Islands Bureau of Internal Revenue.

If you are a bona fide resident of the Virgin Islands you should file your return with:

Virgin Islands Bureau of Internal Revenue
9601 Estate Thomas
Charlotte Amalie
St. Thomas, U.S. Virgin Islands 00802

Contact that office for information about filing your Virgin Islands tax return.

Extensions of time to file. You can get an automatic 4-month extension of time to file your tax return by filing Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* Bona fide residents of the Virgin Islands must file this form with the Virgin Islands Bureau of Internal Revenue. Non-Virgin Islands residents should file separate Forms 4868 with the IRS and the Virgin Islands Bureau of Internal Revenue and make any payments due to the respective jurisdictions. However, the Virgin Islands Bureau of Internal Revenue will honor an extension request that was timely filed with the IRS.

If you need more time after filing Form 4868, file Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return.* For more information, see the Form 2688 instructions.

Double taxation. A mutual agreement procedure exists to settle cases of double taxation between the United States and the Virgin Islands. See *Double Taxation* under *Filing Tax Returns,* earlier.

The Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico has its own separate and independent tax system. Although it is modeled after the U.S. system, there are differences in law and tax rates. If you are a U.S. citizen with income from Puerto Rico, you may be liable for Puerto

Rican taxes. You may also be liable for filing a U.S. tax return.

Requests for information about the filing of Puerto Rican tax returns should be addressed to the Bureau of Income Tax at the following address:

Negociado de Asistencia
Contributiva y Legislacion
Departmento de Hacienda
P.O. Box 565
San Juan, Puerto Rico 00902–6265

The telephone number is (787) 721–2020, extension 3611. To obtain Puerto Rican tax forms, contact the Forms and Publications Division Office at the above address or call (787) 721–2020, extensions 2643, 2645, or 2646.

Residents of Puerto Rico. If you are a U.S. citizen and also a resident of the Commonwealth of Puerto Rico for the entire tax year, you generally must include income from worldwide sources on your Puerto Rican return. Wages and cost-of-living allowances paid by the U.S. Government for working in Puerto Rico are subject to Puerto Rican tax. Advice about possible tax benefits under the Puerto Rican investment incentive programs is available from the Puerto Rican tax authorities. If you report U.S. source income on your Puerto Rican tax return, you can claim a credit against your Puerto Rican tax, up to the amount allowable, for income taxes paid to the United States.

Nonresidents of Puerto Rico. If you are a U.S. citizen and are not a resident of Puerto Rico, include only your income from Puerto Rican sources on your Puerto Rican return. Wages for services performed in Puerto Rico for the U.S. Government or for private employers is income from Puerto Rican sources.

U.S. taxation. As a U.S. citizen, you must report gross income from worldwide sources, regardless of where you live. However, a special rule applies if you are a bona fide resident of Puerto Rico for an entire tax year, or have been a bona fide resident of Puerto Rico for at least 2 years and later change your residence from Puerto Rico during a tax year.

Income. Income you receive from Puerto Rican sources during your residence in Puerto Rico is exempt from U.S. tax. This includes income for the period of Puerto Rican residence in the year you change your residence from Puerto Rico if you resided there at least 2 years before the change. However, income you receive for services performed in Puerto Rico as an employee of the United States is not exempt from U.S. income tax.

Deductions and credits. Deductions and credits that specifically apply to your exempt Puerto Rican income are not allowable on your U.S. income tax return.

Deductions that do not specifically apply to any particular type of income must be divided between your income from Puerto Rican sources and income from all other sources to find the part that you can deduct on your U.S. tax return. Examples of deductions that do not specifically apply to a particular type of income are alimony payments, the standard deduction, and certain itemized deductions (such as medical expenses, charitable contributions, and real estate taxes and mortgage interest on your home).

To find the part of a deduction that is allowable, multiply the deduction by the following fraction.

$$\frac{\text{Gross income subject to U.S. tax}}{\text{Gross income from all sources (including exempt Puerto Rican income)}}$$

Example. You and your spouse are both under 65 and U.S. citizens who are bona fide residents of Puerto Rico for the entire year. You file a joint income tax return. During 1999, you earned $15,000 from Puerto Rican sources and your spouse earned $25,000 from the U.S. Government. You have $16,000 of itemized deductions that do not apply to any specific type of income. These are medical expenses of $4,000, real estate taxes of $5,000, home mortgage interest of $6,000, and charitable contributions of $1,000 (cash contributions). You determine the amount of each deduction that you can claim on your Schedule A (Form 1040), by multiplying the deduction by the following fraction:

$$\frac{\text{Gross income subject to U.S. tax}}{\text{Gross income from all sources (including exempt Puerto Rican income)}}$$

SCHEDULE A – Itemized deductions should be modified as shown below:

Medical Expenses

$\frac{\$25{,}000}{\$40{,}000} \times \$4{,}000 = \$2{,}500$ (enter on line 1 of Schedule A)

Real Estate Taxes

$\frac{\$25{,}000}{\$40{,}000} \times \$5{,}000 = \$3{,}125$ (enter on line 6 of Schedule A)

Home Mortgage Interest

$\frac{\$25{,}000}{\$40{,}000} \times \$6{,}000 = \$3{,}750$ (enter on line 10 or 11 of Schedule A)

Charitable Contributions (cash contributions)

$\frac{\$25{,}000}{\$40{,}000} \times \$1{,}000 = \$625$ (enter on line 15 of Schedule A)

Enter on Schedule A (Form 1040) only the allowable portion of each deduction.

Personal exemptions are allowed in full and need not be divided.

Standard deduction. The standard deduction does not specifically apply to any particular type of income. To find the amount you can claim on line 36 of Form 1040, multiply your standard deduction by the fraction given earlier. In the space above line 36, write “Standard deduction modified due to exempt income under section 933.”

TIP *Make this computation before you determine if you must file a U.S. tax return, because the minimum income level at which you must file a return is based, in part, on the standard deduction for your filing status.*

Example. James and Joan Brown, both under 65, are U.S. citizens and bona fide residents of Puerto Rico. They file a joint income tax return. During 1999, they received $15,000 of income from Puerto Rican sources and $8,000 of income from sources outside Puerto Rico. They do not itemize their deductions. Their allowable standard deduction for 1999 is figured as follows:

$\frac{\$8{,}000}{\$23{,}000} \times \$7{,}200$ (standard deduction) $= \$2{,}504$

The Browns do not have to file a U.S. income tax return because their gross income ($8,000) is less than their allowable standard deduction plus their exemptions ($2,504 + $5,500 = $8,004).

Foreign tax credit. If you are a U.S. citizen and your Puerto Rican income is not exempt, you must report that income on your U.S. tax return along with income from sources outside Puerto Rico. However, you can claim a foreign tax credit, figured on Form 1116, for income taxes paid to Puerto Rico on the Puerto Rican income that is not exempt.

You cannot claim a foreign tax credit for taxes paid on exempt income. If you have income from Puerto Rican sources, such as U.S. Government wages, that is not exempt, and you have income from Puerto Rican sources that is exempt, you must figure the credit by reducing your foreign taxes paid or accrued by the taxes based on the exempt income. You make this reduction for each separate income category. To find the amount of this reduction, use the following formula for each income category.

$$\frac{\text{Exempt income from P.R. sources less deductible expenses based on that income}}{\text{Total income subject to Puerto Rican tax less deductible expenses based on that income}} \times \text{Tax paid or accrued to Puerto Rico} = \text{Reduction in foreign taxes}$$

You enter the amount of the reduction on line 12 of Form 1116.

Example. John and Mary Reddy are U.S. citizens and were bona fide residents of Puerto Rico during all of 1999. They file a joint tax return. The following table shows their exempt and taxable income for U.S. federal income tax purposes.

	Taxable	Exempt
John's wages from U.S. Government	$25,000	
Mary's wages from a Puerto Rican corp.		$15,000
Dividend from Puerto Rican corp. doing business in P.R.		200
Dividend from U.S. corp. doing business in U.S.*	1,000	
Totals	$26,000	$15,200

*Income from sources outside Puerto Rico is taxable.

John and Mary must file 1999 income tax returns with both Puerto Rico and the United States. They have gross income of $26,000 for U.S. tax purposes. They paid taxes to Puerto Rico of $4,000. The tax on the wages is $3,980 and the tax on the dividend from the Puerto Rican corporation is $20. They figure their foreign tax credit on two Forms 1116, which they must attach to their U.S return. They fill out one Form 1116 for wages and one Form 1116 for the dividend. John and Mary figure the Puerto Rican taxes on exempt income as follows.

Wages: $15,000 ÷ $40,000 × $3,980 = $1,493

Dividend: $200 ÷ $200 × $20 = $20

They enter $1,493 on line 12 of the Form 1116 for wages and $20 on line 12 of the Form 1116 for the dividend.

Earned income credit. Even if you maintain a household in Puerto Rico that is your principal home and the home of your qualifying child, you cannot claim the earned income credit on your U.S. tax return. This credit is available only if you maintain the household in the United States or you are serving on extended active duty in the Armed Forces of the United States.

Estimated tax. If your estimated income tax obligation is to the United States, use the worksheet in the Form 1040–ES package to figure your estimated tax, including self-employment tax. You can use the payment vouchers in the Form 1040–ES package for your payments, or you can pay by credit card.

Double taxation. A mutual agreement procedure exists to settle cases of double taxation between the United States and the Commonwealth of Puerto Rico. See *Double Taxation* under *Filing Tax Returns,* earlier.

Illustrated Example of Form 4563

John Black is a U.S. citizen and was a bona fide resident of American Samoa during all of 1999. He has to file Form 1040 because his gross income from sources outside the possessions ($8,000 of dividends from U.S. corporations) is at least the total of his personal exemption and allowable standard deduction. (See *Filing Tax Returns,* earlier.) Because he has to file Form 1040, he fills out Form 4563 to determine the amount of possession income he can exclude.

Line 1. John enters the date his bona fide residence began in American Samoa, June 2, 1998. Because he is still a bona fide resident, he writes "not ended" in the second blank space.

Line 2. He checks the box labeled "Rented house or apartment" to describe his type of living quarters in American Samoa.

Lines 3a and 3b. He checks "No" on line 3a because no family members lived with him. He leaves line 3b blank.

Lines 4a and 4b. He checks "No" on line 4a because he did not maintain a home outside American Samoa. He leaves line 4b blank.

Line 5. He enters the name and address of his employer, Samoa Products Co. It is a private Samoan corporation.

Line 6. He enters the dates of his 2-week vacation to New Zealand from November 11 to November 25. That was his only trip outside American Samoa during the year.

Line 7. He enters the $24,000 in wages he received from Samoa Products Co.

Line 9. He received dividends of $100 from a CNMI corporation and $220 from a Samoan corporation. He enters the total of those amounts. He does not enter his dividends from U.S. corporations because they do not qualify for the possession exclusion.

Line 15. John totals the amounts on lines 7 and 9 to get the amount he can exclude from his gross income in 1999.

Illustrated Example of Form 8689

Bill and Jane Smith live and work in the United States. In 1999, they received $14,400 in income from the rental of a condominium they own in the Virgin Islands. The rental income was deposited in a bank in the Virgin Islands and they received $500 of interest on this income. They were not bona fide residents of the Virgin Islands at the end of the year.

The Smiths complete Form 1040, reporting their income from all sources. They report their wages, interest income, and the income and expenses from their Virgin Islands rental property (Schedule E, Form 1040).

The Smiths also complete Form 8689, to determine how much of their U.S. tax shown on line 56 of Form 1040 (with certain adjustments) is due to the Virgin Islands. This is the amount the Smiths must pay to the Virgin Islands.

The Smiths file their Form 1040, attaching Form 8689 and all other schedules, with the Internal Revenue Service.

At the same time, they send a copy of their Form 1040 with all schedules, including Form 8689, to the Virgin Islands Bureau of Internal Revenue. This copy will be processed as their original Virgin Islands return.

Completing Form 8689. Bill and Jane enter their names, present home address, and social security numbers at the top of the form.

Part I. The Smiths enter their income from the Virgin Islands in Part I. The interest income is entered on line 2 and the net rental income of $6,200 ($14,400 of rental income minus $8,200 of rental expenses) is entered on line 11. The Smiths' total Virgin Islands income of $6,700 is entered on line 16.

Part II. The Smiths have no adjustments to their Virgin Islands income, so they enter zero (–0–) on line 25, and $6,700 on line 26. Their Virgin Islands adjusted gross income is $6,700.

Part III. On line 27, the Smiths enter the amount from line 56, Form 1040 ($5,554). The amount on Form 8689, line 27, is before any credit for taxes paid to the Virgin Islands.

The Smiths enter their worldwide adjusted gross income, $49,737, (line 34, Form 1040) on line 30. They divide their Virgin Islands adjusted gross income, $6,700 (from line 26), by line 30. They multiply this decimal, .135, by the amount on line 29 to find the amount of tax due to the Virgin Islands (line 32). The Smiths include this amount ($750) in the total on Form 1040, line 64. On the dotted line next to line 64, they write "Form 8689" and show the amount. The Smiths do not complete Form 1116.

Part IV. Part IV is used to show payments of income tax to the Virgin Islands only. The Smiths had no tax withheld by the Virgin Islands, but made estimated tax payments to the Virgin Islands of $700, which are shown on lines 34 and 36. The income tax the Smiths owe to the Virgin Islands ($50) is shown on line 40. They must pay their Virgin Islands tax at the same time they file the copy of their return with the Virgin Islands.

Form **4563** (Rev. December 1998) Department of the Treasury Internal Revenue Service

Exclusion of Income for Bona Fide Residents of American Samoa

▶ **Attach to Form 1040.** ▶ **See instructions below and on back.**

OMB No. 1545-0173

Attachment Sequence No. **68**

Name(s) shown on Form 1040: JOHN BLACK

Your social security number: 111 00 1111

Part I **General Information**

1 Date bond fide residence began ▶ 6-2-98, and ended ▶ not ended

2 Type of living quarters in American Samoa ▶ ☐ Rented room ☐ Quarters furnished by employer ☒ Rented house or apartment ☐ Purchased home

3a Did any of your family live with you in American Samoa during any part of the tax year? ☐ Yes ☒ No

b If "Yes," who and for what period? ▶

4a Did you maintain any home(s) outside American Samoa? ☐ Yes ☒ No

b If "Yes," show address of your home(s), whether it was rented, the name of each occupant, and his or her relationship to you. ▶

5 Name and address of employer (state if self-employed) ▶ Samoa Products Co , Pago Pago , American Samoa

6 Complete columns (a) through (d) below for days absent from American Samoa during the tax year.

(a) Date left	**(b)** Date returned	**(c)** Number of days absent	**(d)** Reason for absence
11-11-99	11-25-99	14	Vacation to New Zealand

Part II **Figure Your Exclusion.** Include **only** income that qualifies for the exclusion. See instructions.

7 Wages, salaries, tips, etc.	7	24,000	
8 Taxable interest	8		
9 Ordinary dividends	9	320	
10 Business income	10		
11 Capital gain	11		
12 Rental real estate, royalties, etc.	12		
13 Farm income	13		
14 Other income. List type and amount ▶	14		
15 Add lines 7 through 14. This is the amount you may exclude from your gross income this tax year ▶	15	24,320	

Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

If you qualify, use Form 4563 to figure the amount of income you may exclude from your gross income.

Who Qualifies

You qualify for the exclusion if you were a bona fide resident of American Samoa for the entire tax year. See **Bona Fide Residence Test** on this page.

TIP *In future years, bona fide residents of Guam and the Commonwealth of the Northern Mariana Islands (CNMI) may also qualify for the exclusion. They will not qualify, however, unless implementation agreements are in effect with the United States. At the time this form went to print, the CNMI had not entered into an implementation agreement. Also, the effective date of the agreement between the United States and Guam had not been determined.*

Bona Fide Residence Test

To qualify under this test, you must be a bona fide resident of American Samoa for an uninterrupted period that includes a complete tax year (January 1–December 31 if you file a calendar year return).

No specific rule determines if you are a bona fide resident of American Samoa. At the time this form went to print, regulations defining the bona fide residence test under section 931 had not been published. The following factors may be considered:

- Intent,
- Establishment of a permanent home,
- Assimilation into the social, cultural, and economic environment, and

Form **8689**

Department of the Treasury
Internal Revenue Service

Allocation of Individual Income Tax to the Virgin Islands

► **Attach to Form 1040.**

For calendar year 1999, or fiscal year ending , .

OMB No. 1545-1032

1999

Attachment Sequence No. **85**

Your first name and initial	Last name	Your social security number
Bill Smith		222 00 2222
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Jane Smith		222 00 2223

Present home address (number and street)	Apt. no.	City, town or post office, state or territory, and ZIP code
1040 Elm St.		Oldtown, VA 22000

Part I Income From the Virgin Islands

1	Wages, salaries, tips, etc.		1	
2	Taxable interest		2	500
3	Ordinary dividends		3	
4	Taxable refunds, credits, or offsets of local Virgin Islands taxes		4	
5	Alimony received		5	
6	Business income or (loss)		6	
7	Capital gain or (loss)		7	
8	Other gains or (losses)		8	
9	IRA distributions (taxable amount)		9	
10	Pensions and annuities (taxable amount)		10	
11	Rental real estate, royalties, partnerships, S corporations, trusts, etc.		11	6,200
12	Farm income or (loss)		12	
13	Unemployment compensation		13	
14	Social security benefits (taxable amount)		14	
15	Other income. List type and amount. ►		15	
16	Add lines 1 through 15. This is your **total income** ►		16	6,700

Part II Adjusted Gross Income From the Virgin Islands

17	IRA deduction	17		
18	Student loan interest deduction	18		
19	Medical savings account deduction	19		
20	Moving expenses	20		
21	One-half of self-employment tax	21		
22	Self-employed health insurance deduction	22		
23	Keogh and self-employed SEP and SIMPLE plans	23		
24	Penalty on early withdrawal of savings	24		
25	Add lines 17 through 24		25	-0-
26	Subtract line 25 from line 16. This is your **adjusted gross income** ►		26	6,700

Part III Allocation of Tax to the Virgin Islands

27	Enter amount from Form 1040, line 56		27	5,554
28	Enter the total of the amounts from Form 1040, lines 50, 52, 59a, and 60; any uncollected social security and Medicare or RRTA tax or tax on golden parachute payments included on line 56; and any amount from Form 5329, Parts III, IV, V, VI, or VII, included on line 53		28	
29	Subtract line 28 from line 27		29	5,554
30	Enter amount from Form 1040, line 34	30 49,737		
31	Divide line 26 above by line 30. Enter the result as a decimal (rounded to at least 3 places)		31	× .135
32	Multiply line 29 by line 31. This is your **tax allocated to the Virgin Islands.** Also, include this amount in the total on Form 1040, line 64. On the dotted line next to line 64, enter "Form 8689" and show the amount ►		32	750

Part IV Payments of Income Tax to the Virgin Islands

33	Income tax withheld by the Virgin Islands	33		
34	1999 estimated tax payments and amount applied from 1998 return	34	700	
35	Amount paid with Form 4868 (extension request)	35		
36	Add lines 33 through 35. These are your **total payments** ►		36	700
37	If line 36 is more than line 32, subtract line 32 from line 36. This is the amount you **OVERPAID** to the Virgin Islands		37	
38	Amount of line 37 you want **REFUNDED TO YOU** ►		38	
39	Amount of line 37 you want **APPLIED TO YOUR 2000 ESTIMATED TAX** ►	39		
40	If line 32 is more than line 36, subtract line 36 from line 32. This is the **AMOUNT YOU OWE** to the Virgin Islands ►		40	50

For Paperwork Reduction Act Notice, see back of form. Cat. No. 64603D Form **8689** (1999)

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov.**

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
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- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
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- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

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  Eastern Area Distribution Center
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  Richmond, VA 23261–5074

CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
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- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676.**

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Tax Publications for Individual Taxpayers

See *How To Get More Information* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- **1** Your Rights as a Taxpayer
- **17** Your Federal Income Tax (For Individuals)
- **225** Farmer's Tax Guide
- **334** Tax Guide for Small Business
- **509** Tax Calendars for 2000
- **553** Highlights of 1999 Tax Changes
- **595** Tax Highlights for Commercial Fishermen
- **910** Guide to Free Tax Services

Specialized Publications

- **3** Armed Forces' Tax Guide
- **378** Fuel Tax Credits and Refunds
- **463** Travel, Entertainment, Gift, and Car Expenses
- **501** Exemptions, Standard Deduction, and Filing Information
- **502** Medical and Dental Expenses
- **503** Child and Dependent Care Expenses
- **504** Divorced or Separated Individuals
- **505** Tax Withholding and Estimated Tax
- **508** Tax Benefits for Work-Related Education
- **514** Foreign Tax Credit for Individuals
- **516** U.S. Government Civilian Employees Stationed Abroad
- **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- **519** U.S. Tax Guide for Aliens
- **520** Scholarships and Fellowships
- **521** Moving Expenses
- **523** Selling Your Home
- **524** Credit for the Elderly or the Disabled
- **525** Taxable and Nontaxable Income
- **526** Charitable Contributions
- **527** Residential Rental Property
- **529** Miscellaneous Deductions
- **530** Tax Information for First-Time Homeowners
- **531** Reporting Tip Income
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- **534** Depreciating Property Placed in Service Before 1987
- **537** Installment Sales
- **541** Partnerships
- **544** Sales and Other Dispositions of Assets
- **547** Casualties, Disasters, and Thefts (Business and Nonbusiness)
- **550** Investment Income and Expenses
- **551** Basis of Assets
- **552** Recordkeeping for Individuals
- **554** Older Americans' Tax Guide
- **555** Community Property
- **556** Examination of Returns, Appeal Rights, and Claims for Refund
- **559** Survivors, Executors, and Administrators
- **561** Determining the Value of Donated Property
- **564** Mutual Fund Distributions
- **570** Tax Guide for Individuals With Income From U.S. Possessions
- **575** Pension and Annuity Income
- **584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- **587** Business Use of Your Home (Including Use by Day-Care Providers)
- **590** Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- **593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- **594** Understanding the Collection Process
- **596** Earned Income Credit (EIC)
- **721** Tax Guide to U.S. Civil Service Retirement Benefits
- **901** U.S. Tax Treaties
- **907** Tax Highlights for Persons with Disabilities
- **908** Bankruptcy Tax Guide
- **911** Direct Sellers
- **915** Social Security and Equivalent Railroad Retirement Benefits
- **919** How Do I Adjust My Tax Withholding?
- **925** Passive Activity and At-Risk Rules
- **926** Household Employer's Tax Guide
- **929** Tax Rules for Children and Dependents
- **936** Home Mortgage Interest Deduction
- **946** How To Depreciate Property
- **947** Practice Before the IRS and Power of Attorney
- **950** Introduction to Estate and Gift Taxes
- **967** IRS Will Figure Your Tax
- **968** Tax Benefits for Adoption
- **970** Tax Benefits for Higher Education
- **971** Innocent Spouse Relief
- **972** Child Tax Credit
- **1542** Per Diem Rates
- **1544** Reporting Cash Payments of Over $10,000
- **1546** The Taxpayer Advocate Service of the IRS

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **579SP** Cómo Preparar la Declaración de Impuesto Federal
- **594SP** Comprendiendo el Proceso de Cobro
- **596SP** Crédito por Ingreso del Trabajo
- **850** English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- **1544SP** Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C Profit or Loss From Business	11334
Sch C-EZ Net Profit From Business	14374
Sch D Capital Gains and Losses	11338
Sch D-1 Continuation Sheet for Schedule D	10424
Sch E Supplemental Income and Loss	11344
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