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Exemptions, Standard Deduction, and Filing Information

For use in preparing
2002 Returns



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Important Changes

Who must file. Generally, the amount of income you can receive before you must file a return has increased. *Table 1* shows the filing requirements for most taxpayers.

Exemption amount. The amount you can deduct for each exemption has increased from \$2,900 in 2001 to \$3,000 in 2002.

Exemption phaseout. You lose all or part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which this phaseout begins depends on your filing status. For 2002, the phaseout begins at \$103,000 for married persons filing separately; \$137,300 for single individuals; \$171,650 for heads of household; and at \$206,000 for married persons filing jointly. See *Phaseout of Exemptions*, later.

Standard deduction. The standard deduction for most taxpayers who do not itemize deductions on Schedule A of Form 1040 is higher in 2002 than it was in 2001. The amount depends on your filing status. The *2002 Standard Deduction Tables* are shown near the end of this publication as *Tables 7, 8, and 9*.

Itemized deductions. Some of your itemized deductions may be limited if your adjusted gross income is more than \$137,300 (\$68,650 if you are married filing separately). See *Who Should Itemize*, later.

Important Reminders

Kidnapped child. A child who has been kidnapped may still qualify you for:

- Head of household or qualifying widow(er) with dependent child filing status, and
- The child's dependency exemption.

For details, see *Filing Status* and *Exemptions for Dependents*, later.

Social security number for dependents. You must list either the social security number (SSN), individual taxpayer identification number (ITIN), or adoption taxpayer identification number (ATIN) of **every** person for whom you claim an exemption.

If you do not list the dependent's SSN, ITIN, or ATIN, the exemption may be disallowed. See *Social Security Numbers for Dependents*, later.

Election to report 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 have to file a return.

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.

Introduction

This publication discusses some tax rules that affect every person who may have to file a federal income tax return. It answers some basic questions: who must file; who should file; what filing status to use; 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 have 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 a return, even if you are not required to do so.

The third section helps you determine which **filing status** to use. Filing status is important in determining whether you must file a return, your standard deduction, and your tax rate. It also helps determine what credits you may be entitled to.

The fourth section discusses **exemptions**, which reduce your taxable income. The discussions include the **social security number requirement** for dependents, the rules for multiple support agreements, and the 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 taxpayers who are blind or age 65 or older, and special rules for dependents. In addition, this section should help you decide whether you would be better off taking the standard deduction or itemizing your deductions.

The last section explains how to get tax help from the IRS.

This publication is for U.S. citizens and resident aliens only. If you are a resident alien for the entire year, you must follow the same tax 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 were a nonresident alien at any time during the year, the rules and tax forms that apply to you may be different from those that apply to U.S. citizens. See Publication 519.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Publication

- 559** Survivors, Executors, and Administrators
- 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
- 8332** Release of Claim to Exemption for Child of Divorced or Separated Parents
- 8814** Parents' Election To Report Child's Interest and Dividends

Who Must File

If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent. For details, see *Table 1* and *Table 2*. You must also file if one of the situations described in *Table 3* applies. The filing requirements apply even if you owe no tax.

You may have to pay a penalty if you are required to file a return but fail to. If you willfully fail to file a return, you may be subject to criminal prosecution.

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

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 defined by state law as community income may be considered yours. For a list of community property states, see *Community property states* under *Married Filing Separately*, later.

Self-employed persons. If you are self-employed in a business that provides services (where products are not a factor), your gross income from that business is the gross receipts. If you are self-employed in a business involving manufacturing, merchandising, or mining, your gross income from that business is the

Table 1. 2002 Filing Requirements Chart for Most Taxpayers

IF your filing status is...	AND at the end of 2002 you were... [*]	THEN file a return if your gross income was at least... ^{**}
Single	under 65	\$7,700
	65 or older	\$8,850
Head of household	under 65	\$9,900
	65 or older	\$11,050
Married, filing jointly ^{***}	under 65 (both spouses)	\$13,850
	65 or older (one spouse)	\$14,750
	65 or older (both spouses)	\$15,650
Married, filing separately	any age	\$3,000
Qualifying widow(er) with dependent child	under 65	\$10,850
	65 or older	\$11,750

^{*} If you turned age 65 on January 1, 2003, you are considered to be age 65 at the end of 2002.

^{**} Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States (even if you may exclude part or all of it). **Do not** include social security benefits unless you are married filing a separate return and you lived with your spouse at any time during 2002.

^{***} If you didn't live with your spouse at the end of 2002 (or on the date your spouse died) and your gross income was at least \$3,000, you must file a return regardless of your age.

Table 2. 2002 Filing Requirements for Dependents

See Exemptions for Dependents to find out if you are a dependent.

If your parent (or someone else) can claim you as a dependent, use this table to see if you must file a return.

In this table, **unearned income** includes taxable interest, ordinary dividends, and capital gain distributions. **Earned income** includes wages, tips, and taxable scholarship and fellowship grants. **Gross income** is the total of your unearned and earned income.

Caution: If your gross income was \$3,000 or more, you usually cannot be claimed as a dependent unless you were under age 19 or a full-time student under age 24. For details, see **Gross Income Test** under **Dependency Tests**.

Single dependents— Were you *either* age 65 *or* older or blind?

- No.** You must file a return if *any* of the following apply.
 - 1) Your unearned income was more than \$750.
 - 2) Your earned income was more than \$4,700.
 - 3) Your gross income was more than the larger of —
 - a) \$750, or
 - b) Your earned income (up to \$4,450) plus \$250.

- Yes.** You must file a return if *any* of the following apply.
 - 1) Your unearned income was more than \$1,900 (\$3,050 if 65 or older *and* blind).
 - 2) Your earned income was more than \$5,850 (\$7,000 if 65 or older *and* blind).
 - 3) Your gross income was more than —
 - a) The larger of \$750, or your earned income (up to \$4,450) plus \$250, plus
 - b) \$1,150 (\$2,300 if 65 or older *and* blind).

Married dependents— Were you *either* age 65 or older *or* blind?

- No.** You must file a return if *any* of the following apply.
 - 1) Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - 2) Your unearned income was more than \$750.
 - 3) Your earned income was more than \$3,925.
 - 4) Your gross income was more than the larger of —
 - a) \$750, or
 - b) Your earned income (up to \$3,675) plus \$250

- Yes.** You must file a return if *any* of the following apply.
 - 1) Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - 2) Your unearned income was more than \$1,650 (\$2,550 if 65 or older *and* blind).
 - 3) Your earned income was more than \$4,825 (\$5,725 if 65 or older *and* blind).
 - 4) Your gross income was more than —
 - a) The larger of \$750 or your earned income (up to \$3,675) plus \$250, plus
 - b) \$900 (\$1,800 if 65 or older *and* blind).

total sales minus the 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.

Filing status. Your filing status generally depends on whether you are single or married. In some cases, it depends on other factors as well. Whether you are single or married is determined as of the last day of your tax year, which is December 31 for most taxpayers. Filing status is 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 2002 if your 65th birthday is on or before January 1, 2003.

Filing Requirements for Most Taxpayers

You must file a return if your gross income for the year was at least the amount shown on the appropriate line in *Table 1*. Dependents should see *Table 2* instead.

Deceased Persons

You must file an income tax return for a decedent (a person who died) if both of the following are true.

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

For more information, see *Final Return for Decedent* in Publication 559.

U.S. Citizens or Residents Living Abroad

For purposes of determining whether you must file a return, you must include in your gross income all of the income you earned abroad, including any income you can exclude under the foreign earned income exclusion. 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*.

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 with 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 you 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 reduce your standard deduction. This also reduces the amount of income you can have before you must file a U.S. income tax return.

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

Table 3. Other Situations When You Must File a 2002 Return

If any of the four conditions listed below applied to you for 2002, you must file a return.

1. You owe any special taxes, such as:
 - Social security or Medicare tax on tips you did not report to your employer. (See Publication 531, *Reporting Tip Income*.)
 - Uncollected social security, Medicare, or railroad retirement tax on tips you reported to your employer or on group-term life insurance. (See Publication 531 and the Form 1040 instructions for line 61.)
 - Alternative minimum tax. (See the Form 1040 instructions for line 43.)
 - Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. (See Publication 590, *Individual Retirement Arrangements (IRAs)*, and Publication 969, *Medical Savings Accounts (MSAs)*.) But if you are filing a return only because you owe this tax, you can file Form 5329 by itself.
 - Recapture taxes. (See the Form 1040 instructions for lines 42 and 61.)
2. You received any advance earned income credit (EIC) payments from your employer. These payments should be shown in box 9 of your Form W-2. (See Publication 596, *Earned Income Credit*.)
3. You had net earnings from self-employment of at least \$400. (See Publication 533, *Self-Employment Tax*.)
4. 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. (See Publication 533.)

Individuals With Income From U.S. Possessions

If you had income from Guam, the Commonwealth of Northern Mariana Islands, American Samoa, or the Virgin Islands, special rules may apply when determining whether you must file a U.S. federal income tax return. In addition, you may have to file a return with the individual island government. See Publication 570 for more information.

Dependents

A person who is a dependent may still have to file a return. This depends on the amount of the dependent's earned income, unearned income, and gross income. For details, see *Table 2*. A dependent may also have to file if one of the situations described in *Table 3* applies.

Responsibility of parent. If a dependent child who must file an income tax return cannot file it for any reason, such as age, a parent, guardian, or other legally responsible person must file it for the child. If the child cannot sign the return, the parent or guardian must sign the child's name followed by the words "By (signature), parent (or guardian), for minor child."

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.

Child's earnings. Amounts a child earns by performing services are his or her gross income. This is true even if under local law the child's

parents have the right to the earnings and may actually have received them. If the child does not pay the tax due on this income, the parent is liable for the tax.

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 report 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. If you choose to do this, your child will not have to file a return. However, **all** of the following conditions must be met.

- 1) Your child was under age 14 at the end of 2002. A child born on January 1, 1989, is considered to be age 14 at the end of 2002.
- 2) Your child is required to file a return for 2002 unless you make this election.
- 3) Your child had gross income only from interest and dividends (including Alaska Permanent Fund Dividends).
- 4) The interest and dividend income was less than \$7,500.
- 5) No estimated tax payment was made for 2002 and no 2001 overpayment was applied to 2002 under your child's name and social security number.
- 6) No federal income tax was withheld from your child's income under the backup withholding rules.
- 7) You are the parent whose return must be used when making the election to report your child's unearned income.

For more information, see *Parent's Election To Report Child's Interest and Dividends* in Publication 929, and Form 8814.

Other Situations

You may have to file a tax return even if your gross income is less than the amount shown in *Table 1* or *Table 2* for your filing status. See *Table 3* for those other situations when you must file.

Who Should File

Even if you do not have to file, you **should** file a tax return to get money back if one of the following applies.

- 1) You had income tax withheld from your pay.
- 2) You qualify for the earned income credit. See Publication 596, *Earned Income Credit (EIC)*, for more information.
- 3) You qualify for the additional child tax credit. See the instructions in your tax forms package for more information on this credit.

Filing Status

You must determine your filing status before you can determine your filing requirements, standard deduction (discussed later), and correct tax. You figure your correct tax by using the Tax Rate Schedule or the column in the Tax Table that applies to your filing status.

You also use your filing status in determining whether you are eligible to claim certain other deductions and credits.

There are five filing statuses:

- Single,
- Married Filing Jointly,
- Married Filing Separately,
- Head of Household, and
- 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.

Marital Status

In general, your filing status depends on whether you are considered unmarried or married. A marriage means only a legal union between a man and a woman as husband and wife.

Unmarried persons. You are considered unmarried for the whole year if, on the last day of your tax year, you are unmarried or legally separated from your spouse under a divorce or a separate maintenance decree.

State law governs whether you are married or legally separated under a divorce or separate maintenance decree.

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.

Divorce and remarriage. 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, you are considered unmarried even if you filed joint returns for earlier years. You must file amended returns (Form 1040X) 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 unmarried, 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 persons. If you are considered married for the whole year, you and your spouse can file a joint return, or you can file separate returns.

Considered married. You are considered married for the whole year if on the last day of your tax year you and your spouse meet any one of the following tests.

- 1) You are married and living together as husband and wife.
- 2) You are 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.
- 3) You are married and living apart, but not legally separated under a decree of divorce or separate maintenance.
- 4) You are 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 can 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 can 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**. If this applies to you, you can 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, on the last day of the year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree, and you do not qualify for another filing status. To determine your marital status on the last day of the year, see *Marital Status*, earlier.

Your filing status may be single if you were widowed before January 1, 2002, and did not remarry in 2002. 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*, later, to see if you qualify.

How to file. You can file Form 1040EZ (if you have no dependents, are under 65 and not blind, and meet other requirements), 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 can 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. You can file a joint return even if one of you had no income or deductions.

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.



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 the two of you the lower combined tax.

How to file. If you file as married filing jointly, you can use Form 1040 or Form 1040A. If you have no dependents, are under 65 and not blind, and meet other requirements, you can file Form 1040EZ. If you file Form 1040 or Form 1040A, 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 and can choose married filing jointly as your filing status. See *Spouse died during the year*, earlier.

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 and you cannot choose married filing jointly as your filing status.

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 can 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 if all the income was earned by the other spouse.

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 may apply even if your divorce decree states that your former spouse will be responsible for any amounts due on previously filed joint returns.

Relief from joint responsibility. In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint return for items of the other spouse which were incorrectly reported on the joint return. You can ask for relief no matter how small the liability.

There are three types of relief available.

- 1) **Innocent spouse relief**, which applies to all joint filers.
- 2) **Separation of liability**, which applies to joint filers who are divorced, widowed, legally separated, or who have not lived together for the 12 months ending on the date election of this relief is filed.
- 3) **Equitable relief**, which applies to all joint filers who do not qualify for innocent spouse relief or separation of liability and to married couples filing separate returns in community property states.

You must file Form 8857, *Request for Innocent Spouse Relief*, to request any of these kinds of relief. Publication 971, *Innocent Spouse Relief*, explains these kinds of relief and who may qualify for them.

Signing a joint return. For a return to be considered a joint return, both husband and wife must generally 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 as executor or administrator, you can sign the return for your spouse and print "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 injury or disease and tells you to sign, you can 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 can sign the return for your spouse as guardian.

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, Yugoslavia, or Afghanistan), or a qualified hazardous duty area (such as Bosnia and Herzegovina, Croatia, and Macedonia), and you do not have a power of attorney or other statement, you can sign for your spouse. Attach a signed statement to your return that explains that your spouse is serving in a combat zone. For more information on special tax rules for persons who are serving in a combat zone, or who are in missing status as a result of serving in a combat zone, get Publication 3, *Armed Forces' Tax Guide*.

Other reasons spouse cannot sign. If your spouse cannot sign the joint return for any other reason, you can 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 (or a copy of it) to your tax return. You can use **Form 2848**.

Nonresident alien or dual-status alien. A joint return generally cannot be filed if either spouse is a nonresident alien at any time during the tax year. However, if one spouse was a nonresident alien or dual-status alien who was married to a U.S. citizen or resident at the end of the year, the spouses can choose to file a joint return. If you do file a joint return, you and your spouse are both treated as U.S. residents for the entire tax year. See chapter 1 of Publication 519.

Married Filing Separately

You can 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 be able to file as head of household. This can apply to you even if 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 certain other credits, 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 should figure your tax both ways (on a joint return and on separate returns). This way you can make sure you are using the method that results in the lowest 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.

How to file. If you file a separate return, you generally report only your own income, exemptions, credits, and deductions on your individual return. You can 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 cannot claim an exemption for him or her on your separate return.

If you file as married filing separately, you can use Form 1040A or Form 1040. Select this filing status by checking the box on line 3 of either form. You must also enter 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.

Special Rules

Special rules apply if your filing status is married filing separately.

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, *Community Property*.

Deductions, credits, and certain income. If your filing status is married filing separately:

- 1) You should itemize deductions if your spouse itemizes deductions, because you cannot claim the standard deduction.
- 2) You cannot deduct interest paid on a qualified student loan.
- 3) You cannot take the credit for child and dependent care expenses in most cases, and the amount that you can exclude from income under an employer's dependent care assistance program is limited to \$2,500 (instead of \$5,000 if you filed a joint return). For more information about these expenses, the credit, and the exclusion, see Publication 503, *Child and Dependent Care Credit*.
- 4) You cannot take the earned income credit.
- 5) You cannot exclude any interest income from qualified U.S. savings bonds that you used for higher education expenses.
- 6) You cannot take the credit for the elderly or the disabled unless you lived apart from your spouse for the entire year.
- 7) You cannot take the education credits (the Hope credit and the lifetime learning credit).
- 8) You cannot take the exclusion or credit for adoption expenses in most cases.
- 9) You will become subject to the limit on the child tax credit, the limit on itemized deductions, and the phaseout of the deduction for personal exemptions at income levels that are half of those for a joint return.
- 10) You may have to include in income more of your social security benefits (or any equivalent railroad retirement benefits)

than you would on a joint return. For information on social security and railroad retirement benefits, see Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

- 11) You cannot roll over amounts from a traditional IRA into a Roth IRA during the year, unless you did not live with your spouse at any time during the year.
- 12) Your capital loss deduction limit is \$1,500 (instead of \$3,000 if you filed a joint return).
- 13) You cannot claim the credit for contributions to certain qualified plans, including IRAs (discussed next), if your adjusted gross income is more than \$25,000 (instead of \$50,000 if you filed a joint return).

Individual retirement arrangements (IRAs).

You may not be able to deduct all or part of your contributions to a traditional IRA if you or your spouse were covered by an employee retirement plan at work during the year. Your deduction is reduced or eliminated if your income is more than a certain amount. This amount is much lower for married individuals who file separately and lived together at any time during the year. For more information, see *How Much Can I Deduct?* in Chapter 1 of Publication 590, *Individual Retirement Arrangements (IRAs)*. For more information on the credit for contributions to an IRA, see Chapter 5 of Publication 590.

Rental activity losses. If you actively participated in a passive rental real estate activity that produced a loss, you generally can deduct the loss from your nonpassive income up to \$25,000. This is called a special allowance. However, married persons filing separate returns who lived together at any time during the year cannot claim this special allowance. Married persons filing separate returns who lived apart at all times during the year are each allowed a \$12,500 maximum special allowance for losses from passive real estate activities. See *Rental Activities* in Publication 925, *Passive Activity and At-Risk Rules*.

Joint Return After Separate Returns

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

If you or your spouse (or both of you) file a separate return, you generally can 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.

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 can change from a joint return elected by the surviving spouse to a separate return for the decedent. The personal representative has

Table 4. Who Is a Qualifying Person for Filing as Head of Household?¹

IF the person is your . . .	AND . . .	THEN that person is . . .
parent, grandparent, brother, sister, stepbrother, stepsister, stepmother, stepfather, mother-in-law, father-in-law, half brother, half sister, brother-in-law, sister-in-law, son-in-law, or daughter-in-law	you can claim an exemption for him or her ²	a qualifying person.
	you cannot claim an exemption for him or her	NOT a qualifying person.
uncle, aunt, nephew, or niece	he or she is related to you by blood <u>and</u> you can claim an exemption for him or her ^{2, 3}	a qualifying person.
	he or she is not related to you by blood ³	NOT a qualifying person.
	you cannot claim an exemption for him or her	
child, grandchild, stepchild, or adopted child	he or she is single	a qualifying person. ⁴
	he or she is married, <u>and</u> you can claim an exemption for him or her ²	a qualifying person.
	he or she is married, <u>and</u> you cannot claim an exemption for him or her	NOT a qualifying person. ⁵
foster child ⁶	the child lived with you all year, <u>and</u> you can claim an exemption for him or her ²	a qualifying person.
	the child did not live with you all year, <u>or</u> you cannot claim an exemption for him or her	NOT a qualifying person.

¹A person cannot qualify more than one taxpayer to use the head of household filing status for the year.

²If you can claim an exemption for a person only because of a multiple support agreement, that person cannot be a qualifying person. See *Multiple Support Agreement*.

³You 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 or your brother or sister.

⁴This child is a qualifying person even if you cannot claim an exemption for the child.

⁵This child is a qualifying person if you could claim an exemption for the child except that the child's other parent claims the exemption under the special rules for a noncustodial parent discussed under *Support Test for Child of Divorced or Separated Parents*.

⁶The term "foster child" is defined under *Exemptions for Dependents*.

1 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 meet all of the following requirements.

- 1) You are unmarried or considered unmarried on the last day of the year.
- 2) You paid more than half the cost of keeping up a home for the year.
- 3) A qualifying person lived with you in the home for more than half the year (except for temporary absences, such as school). However, your dependent parent does not have to live with you. See *Special rule for parent*, later, under *Qualifying Person*. A foster child must live with you all year.

TIP If you qualify to file as head of household, your tax rate usually 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.

How to file. If you file as head of household, you can 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. Your spouse is considered to live in your home even if he or she is temporarily absent due to special circumstances. See *Temporary absences*, later.

4) Your home was the main home of your child, stepchild or adopted child for more than half the year or was the main home of your foster child for the entire year. (See *Home of qualifying person*, later, for rules applying to a child's birth, death, or temporary absence during the year.)

5) You must be able to claim an exemption for the child. However, you can still meet this test if you cannot claim the exemption only because of one of the three situations described under *Exception* on page 15. The general rules for claiming an exemption for a dependent are explained later under *Exemptions for Dependents*.



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

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. However, your spouse is not a qualifying person for head of household purposes. You must have another qualifying person and meet the other tests to be eligible to file as a head of household.

Earned income credit. Even if you are considered unmarried for head of household purposes because you are married to a nonresident alien, you are still considered married for purposes of the earned income credit (unless you meet the five tests listed earlier). You are not entitled to the credit unless you file a joint return with your spouse and meet other qualifications. See Publication 596 for more information.

Choice to treat spouse as resident. You are considered married if you choose to treat your spouse as a resident alien. See chapter 1 of Publication 519.

Keeping Up a Home

To qualify for head of household status, you must pay more than half of the cost of keeping up a home for the year. You can determine whether you paid more than half of the cost of keeping up a home by using the *Cost of Keeping Up a Home* worksheet, below.

Cost of Keeping Up a Home



	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 the total amount you paid is more than the amount others paid, you meet the requirement of paying more than half the cost of keeping up the home.

Costs you include. Include in the cost of upkeep expenses such as rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities, and food eaten in the home.

Costs you do not include. Do not include in the cost of upkeep expenses such as clothing, education, medical treatment, vacations, life insurance, or transportation. Also, do not include the rental value of a home you own or the value

of your services or those of a member of your household.

Qualifying Person

See *Table 4* to see who is a qualifying person. Any person not described in *Table 4* is not a qualifying person.

Home of qualifying person. Generally, the qualifying person must live with you for more than half of the year.

Special rule for parent. You may be eligible to file as head of household even if the parent for whom you can claim an exemption 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 father or mother if you pay more than half the cost of keeping your parent in a rest home or home for the elderly.

Death or birth. You may be eligible to file as head of household if the individual who qualifies you for this filing status is born or dies during the year. 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, for whom you can claim an exemption, lived in an apartment by herself. She died on September 2. 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. Because you paid more than half of the cost of keeping up your mother's apartment from January 1 until her death, and you can claim an exemption for her, you can file as a head of household.

Temporary absences. You and your qualifying person are considered to live together even if one or both of you are temporarily absent from your home due to special circumstances such as illness, education, business, vacation, or military service. It must be reasonable to assume that the absent person will return to the home after the temporary absence. You must continue to keep up the home during the absence.

Kidnapped child. You may be eligible to file as head of household, even if the child who is your qualifying person has been kidnapped. You can claim head of household filing status if all of the following statements are true.

- 1) The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family.
- 2) In the year of the kidnapping, the child lived with you for more than half the part of the year before the kidnapping.
- 3) You would have qualified for head of household filing status if the child had not been kidnapped.

This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

- 1) The year there is a determination that the child is dead, or
- 2) The year the child would have reached age 18.

Qualifying Widow(er) With Dependent Child

If your spouse died in 2002, you can use married filing jointly as your filing status for 2002 if you otherwise qualify to use that status. The year of death is the last year for which you can file jointly with your deceased spouse. 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 2001 and you have not remarried, you may be able to use this filing status for 2002 and 2003. The rules for using this filing status are explained in detail here.

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 entitle you to file a joint return.

How to file. If you file as a qualifying widow(er) with dependent child, you can use either Form 1040A or Form 1040. Indicate your filing status by checking the box on line 5 of either form. 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. You are eligible to file your 2002 return 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 2002.
- 3) You have a child, stepchild, adopted child, or foster child for whom you can claim an exemption.
- 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*.

Example. John Reed's wife died in 2000. John has not remarried. He has continued during 2001 and 2002 to keep up a home for himself and his child for whom he can claim an exemption. For 2000 he was entitled to file a joint return for himself and his deceased wife. For 2001 and 2002 he can file as a qualifying widower with a dependent child. After 2002 he can file as head of household if he qualifies.

Death or birth. You may be eligible to file as a qualifying widow(er) with dependent child if the child who qualifies you for this filing status is born or dies during the year. You must have provided more than half of the cost of keeping up a home that was the child's main home during the entire part of the year he or she was alive.

Kidnapped child. You may be eligible to file as a qualifying widow(er) with dependent child, even if the child who qualifies you for this filing status has been kidnapped. You can claim qualifying widow(er) with dependent child filing status if all of the following statements are true.

- 1) The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family.
- 2) In the year of the kidnapping, the child lived with you for more than half the part of the year before the kidnapping.
- 3) You would have qualified for qualifying widow(er) with dependent child filing status if the child had not been kidnapped.



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

Exemptions

Exemptions reduce your taxable income. Generally, you can deduct \$3,000 for each exemption you claim in 2002. If you are entitled to two exemptions for 2002, you would deduct \$6,000 (\$3,000 × 2). But you may lose the benefit of part or all of your exemptions if your adjusted gross income is above a certain amount. See *Phaseout of Exemptions*, later.

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

You usually can 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.

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, the exemption amount is combined with the standard deduction and entered on line 5.

Form 1040A filers. If you file Form 1040A, complete lines 6a through 6d. The total number of exemptions you can claim is the total in the box on line 6d. Also complete line 26 by multiplying the number in the box on line 6d by \$3,000.

Form 1040 filers. If you file Form 1040, complete lines 6a through 6d. On line 40, multiply the total exemptions shown in the box on line 6d by \$3,000 and enter the result. If your adjusted gross income is more than \$103,000, 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 can qualify for only one personal exemption for yourself. You cannot 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 can 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 cannot 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 can 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. On a joint return, you can claim one exemption for yourself and one for your spouse.

Separate return. If you file a separate return, you can 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 can generally claim your spouse's exemption under the rules just explained in *Joint return* and *Separate return*.

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

If you are a surviving spouse without gross income and you remarry in the year your spouse died, you can be claimed as an exemption on both the final separate return of your deceased

spouse and the separate return of your new spouse for that year. If you file a joint return with your new spouse, you can be claimed as an exemption only on that return.

Divorced or separated spouse. If you obtained a final decree of divorce or separate maintenance by the end of the year, you cannot 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.

To claim the exemption for a dependent, you must meet **all five** of the dependency tests discussed later. You can claim 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.

Kidnapped children. You may be eligible to claim the exemption for a child even if the child has been kidnapped. Both of the following statements must be true.

- 1) The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family.
- 2) The child must have qualified as your dependent for the part of the year before the kidnapping.

If both statements are true, the child is treated as your dependent and you qualify to claim the exemption.

This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

- 1) The year there is a determination that the child is dead, or
- 2) The year the child would have reached age 18.

Child born alive. If your child was born alive during the year, and the dependency tests are met, you can claim the exemption. This is true even if the child lived only for a moment. State or local law must treat the child as having been born alive. There must be proof of a live birth shown by an official document, such as a birth certificate.

Stillborn child. You cannot claim an exemption for a stillborn child.

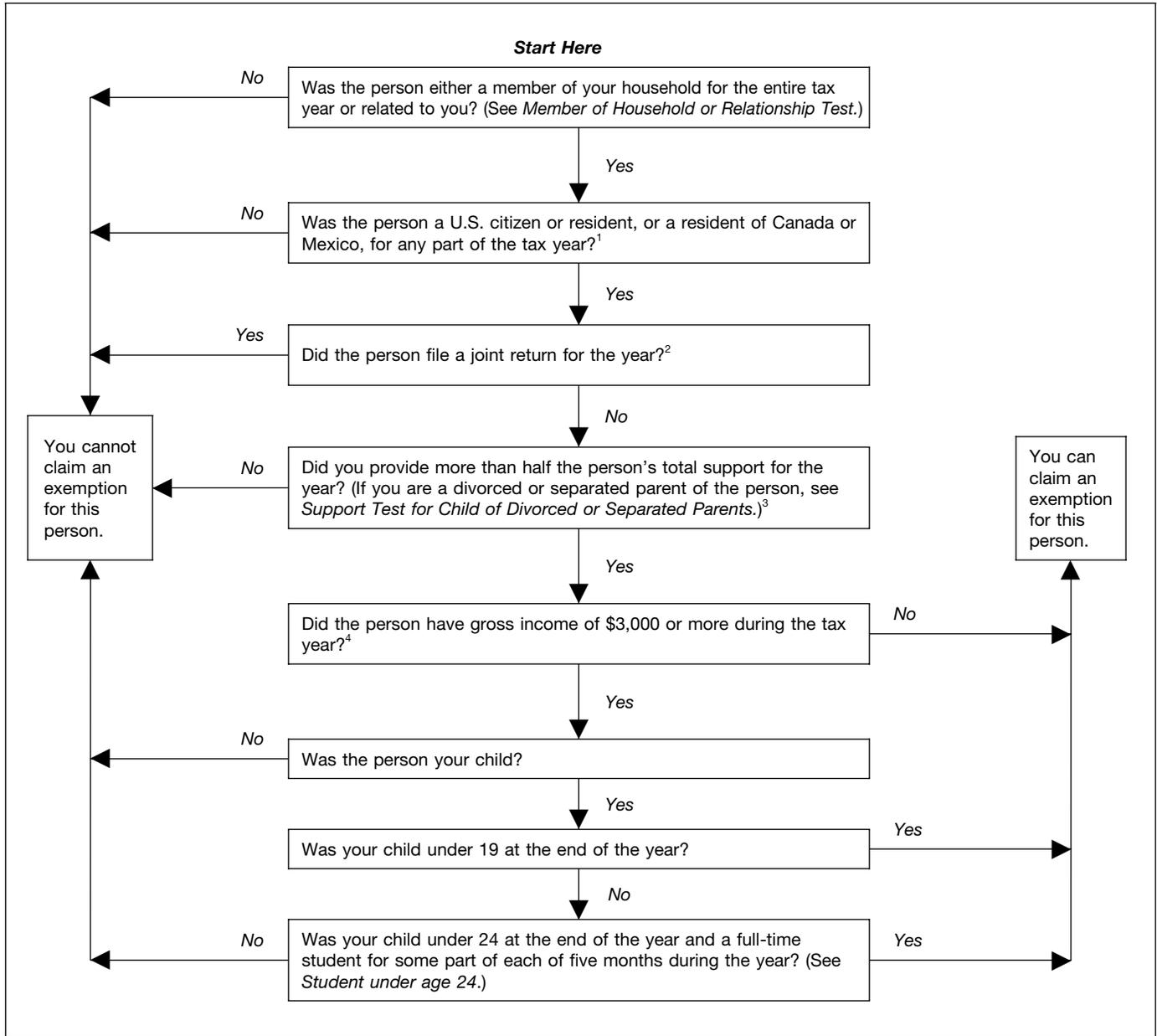
Death of dependent. If your dependent died during the year and otherwise met the dependency tests, you can claim the exemption for your dependent.

Example. Your dependent mother died on January 15. The five dependency tests are met. You can claim the exemption for her on your return.

Housekeepers, maids, or servants. If these people work for you, you cannot claim exemptions for them.

Child tax credit. You may be entitled to a child tax credit for each of your qualifying children for

Figure A. **Can You Claim an Exemption for a Dependent?**



¹If 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.

²If neither the person nor the person’s spouse is required to file a return, but they file a joint return only to claim a refund of tax withheld, answer “no” to this question.

³Answer “yes” to this question if you meet the multiple support requirements under *Multiple Support Agreement*.

⁴Gross income for this purpose does not include income received by a permanently disabled individual at a sheltered workshop. (See *Disabled dependents*.)

whom you can claim an exemption. For more information, see the instructions in your tax forms package.

Dependency Tests

The following five tests must be met for you to claim an exemption for a dependent.

1. Member of Household or Relationship Test.
2. Citizen or Resident 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 either:

- 1) Live with you for the entire year as a member of your household, or
- 2) Be related to you in one of the ways listed later under *Relatives who do not have to live with you*.

If at any time during the year the person was your spouse, that person cannot be your dependent. However, see *Personal Exemptions*, earlier.

Temporary absences. A person lives with you as a member of your household even if either (or both) of you are temporarily absent

due to special circumstances. Temporary absences due to special circumstances include absences because of illness, education, business, vacation, or 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.

Local law violated. 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 who do not have to live 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.

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

Adoption. Even if your adoption of a child is not yet final, the child is considered to be your child if he or she was placed with you for legal adoption by an authorized placement agency. Also, the child must have been a member of your household. An authorized placement agency includes any person authorized by state law to place children for legal adoption. If the child was not placed with you by an authorized placement agency, the child will meet this test only if he or she was a member of your household for your entire tax year.

Foster child. A foster child must live with you as a member of your household for the entire year to qualify as your dependent. For this test, a foster child is one who is in your care that you care for as your own child. It does not matter how the child became a member of the household.

Cousin. You can claim an exemption for your cousin 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.

Joint return. If you file a joint return, you do not need to show that a person is related to both you and your spouse. You also do not need to show that a person 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. Citizen or Resident Test

To meet the citizen or resident 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, you can 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, you can 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 citizen or resident test. You cannot claim an exemption for them. 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 cannot take an exemption for your daughter.

Exception. The joint return test does not apply if a joint return is filed by the dependent and his or her spouse merely as a claim for refund and no tax liability would exist for either spouse on separate returns.

Example. Your son and his wife each had less than \$3,000 of wages and no unearned income. Neither is required to file a tax return. Taxes were taken out of their pay, so they filed a joint return to get a refund. You are allowed to take exemptions for your son and daughter-in-law if the other dependency tests are met, even though they can also claim their personal exemptions on their joint return.

4. Gross Income Test

Generally, you cannot take an exemption for a dependent if that person had gross income of \$3,000 or more for 2002. This test does not apply if the person is your child and is either:

- 1) Under age 19 at the end of the year, or

- 2) A student under age 24 at the end of the year.

The exceptions for children under age 19 and students under age 24 are discussed in detail 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 defined. 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.

Disabled dependents. For this gross income test, gross income does not include income received by a permanently and totally disabled individual for services performed 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.

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 can have any amount of income and you can still claim an exemption if the other dependency tests, including the support test, are met.

Example. Marie, 18, earned \$4,000. Her father provided more than half her support. Because Marie is under 19, the gross income test does not apply. If the other dependency tests were met, Marie's father can claim an exemption for her.

Student under age 24. The gross income test does not apply if your child is a student who is

Table 5. **Worksheet for Determining Support**

Funds Belonging to the Person You Supported	
1) Total funds belonging to the person you supported, including income received (taxable and nontaxable) and amounts borrowed during the year, plus the amount in savings and other accounts at the beginning of the year	\$
2) Amount used for support	\$
3) Amount used for other purposes	\$
4) Amount in savings and other accounts at the end of the year	\$
(The total of lines 2, 3, and 4 should equal line 1)	\$
Expenses for Entire Household (where the person you supported lived)	
5) 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 19.	\$
6) Food	\$
7) Utilities (heat, light, water, etc. not included in line 5a or 5b)	\$
8) Repairs (not included in line 5a or 5b)	\$
9) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance.	\$
10) Total household expenses (Add lines 5 through 9)	\$
11) Total number of persons who lived in household	
Expenses for the Person You Supported	
12) Each person's part of household expenses (line 10 divided by line 11)	\$
13) Clothing	\$
14) Education	\$
15) Medical, dental	\$
16) Travel, recreation	\$
17) Other (specify)	\$
18) Total cost of support for the year (Add lines 12 through 17)	\$
Did You Provide More Than Half?	
19) Amount the person provided for own support (line 2, plus line 5b if the person you supported owned the home)	\$
20) 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 1.	\$
21) Amount you provided for the person's support (line 18 minus lines 19 and 20)	\$
22) 50% of line 18	\$
Is line 21 more than line 22? Yes. You meet the support test for the person. If the other exemption tests are met, you may claim an exemption for the person. No. You do not meet the support test for the person. You cannot claim an exemption for the person unless you can do so under a multiple support agreement. See <i>Multiple Support Agreement</i> later in this publication.	

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, 22, attends college as a full-time student. During the summer, James earned \$4,000. If the other dependency tests are met, his parents can take the exemption for James.

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 can include some attendance at night as part of a full-time course of study.

5. Support Test

Generally, you must provide more than half of a person's total support during the calendar year to meet the support test. However, there are special rules that apply in the following two situations.

- 1) Two or more persons provide support, but no one person provides more than half of a person's total support. See *Multiple Support Agreement*, later.
- 2) The person supported is the child of divorced or separated parents. See *Support Test for Child of Divorced or Separated Parents*, later.

You figure whether you have provided more than half of a person's total support by comparing the amount you contributed to that person's support with the entire amount of support that person received from all sources. This includes support the person provided from his or her own funds.

You may find *Table 5* helpful in figuring whether you provided more than half of a person's support.

Person's own funds not used for support.

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 and \$400 for recreation.

Even though your mother received a total of \$2,700, she spent only \$2,400 for her own support. 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.

Child's wages used for own support. You cannot include in your contribution to your child's support any support that is paid for by the child with the child's own wages, even if you paid the wages.

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. The part of the allotment contributed by the government and the part taken out of your military pay are both 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 can take the exemptions for them if they otherwise qualify.

Example. You are in the Armed Forces. You authorize an allotment for your widowed mother that she uses to support herself and your sister. If the allotment provides more than half of their support, you can take an exemption for each of them, if they otherwise qualify, 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. The allotment of pay and the tax-exempt basic allowance for quarters are both 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 \$4,000 toward your mother's support during the year. She has earned income of \$600, nontaxable social security benefit payments of \$4,800, and tax-exempt interest of \$200. She uses all these for her support. You cannot claim an exemption for your mother because the \$4,000 you provide is not more than half of her total support of \$9,600.

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 cannot claim an exemption for your daughter 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.

Support provided by the state (welfare, food stamps, housing, etc.). Benefits provided by the state to a needy person generally are considered to be used for support. 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.

Foster care payments and expenses. Payments you receive for the support of a foster child from a child placement agency are considered support provided by the agency. Similarly, payments you receive for the support of a foster child from a state or county are considered support provided by the state or county.

If you are not in the trade or business of providing foster care and your unreimbursed out-of-pocket expenses in caring for a foster child were mainly to benefit an organization qualified to receive deductible charitable contributions, the expenses are deductible as charitable contributions, but are not considered support you provided. For more information about the deduction for charitable contributions, see Publication 526. If your unreimbursed expenses are not deductible as charitable contributions, they are considered support you provided.

If you are in the trade or business of providing foster care, your unreimbursed expenses are not considered support provided by you.

Example. Lauren, a foster child, lived with Mr. and Mrs. Smith. The Smiths cared for Lauren because they wanted to adopt her, not as a trade or business or to benefit the agency that placed her in their home. The Smiths' unreimbursed expenses are not deductible as charitable contributions, but are considered support they provided for Lauren.

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 support you provide each year is the lump-sum payment divided by the relative's life expectancy. The amount of support you provide 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. For lodging, the amount of support is the fair rental value of the lodging.

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.

Example 1. Grace Brown, mother of Mary Miller, lives with Frank and Mary Miller and their two children. Grace gets social security benefits of \$2,400, which she spends for clothing, transportation, and recreation. Grace has no other income. Frank and Mary's total food expense for the household is \$5,200. They pay Grace's medical and drug expenses of \$1,200. The fair rental value of the lodging provided for Grace is \$1,800 a year, based on the cost of similar rooming facilities. Figure Grace's total support as follows:

Fair rental value of lodging	\$ 1,800
Clothing, transportation and recreation	2,400
Medical expenses	1,200
Share of food (1/5 of \$5,200)	1,040
Total support	<u>\$6,440</u>

Because the support Frank and Mary provide (\$1,800 lodging + \$1,200 medical expenses + \$1,040 food = \$4,040) is more than half of Grace's \$6,440 total support, and Grace meets the other dependency tests, they can claim an exemption for her.

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
Parents' total support	<u>\$4,100</u>	<u>\$4,700</u>

You must apply the support test separately to each parent. You provide \$2,000 (\$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 meet the support test for your mother, 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 provide the total lodging, the amount of support you provide is 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 both of you according to the amount each 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.

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. Fair market value is the price that property would sell for on the open market. It is the price that would be agreed upon between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

Capital expenses. Capital items, such as furniture, appliances, and cars, that are bought for a person during the year can 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 can 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 an exemption for your son.

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

Medical insurance benefits. Medical insurance 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 can 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.
- 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 can agree that any one of you who individually provides more than 10% of the person's support, but **only one**, can claim an exemption for that person. Each of the others must sign a statement agreeing not to claim the exemption for that year. The person who claims the exemption must keep these signed statements for his or her records. A multiple support declaration identifying each of the others who agreed not to claim the exemption must be attached to the return of the person claiming the exemption. **Form 2120, Multiple Support Declaration**, can be 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 can claim an exemption for your mother. The other must sign a statement agreeing not to take an exemption for your mother. The one who claims the exemption must attach Form 2120, or a similar declaration, to his or her return and must keep the statement signed by the other for his or her records. Because neither brother provides more than 10% of the support, neither can take the exemption and neither has to sign a 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 an exemption for her, no one can 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 can take the exemption for your father if the other signs a statement agreeing not to. The one who takes the exemption must attach Form 2120, or a similar declaration, to his return and must keep for his records the signed statement from the one agreeing not to take the exemption.

Support Test for Child of Divorced or Separated Parents

The support test for a child of divorced or separated parents is based on the special rules explained here and shown in *Figure B*. However, these special rules apply only if all of the following are true.

- 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.
- 3) One or both parents have custody of the child for more than half of the calendar year.

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

This discussion does not apply if the support of the child is determined under a multiple support agreement, discussed earlier.

General rule. 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.

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 *Exception*, later.

Example 2. You and your former spouse provided your child's total support for 2002. For the first 8 months of the year, you had custody of your child under your 1994 divorce decree (the most recent decree at the time). On August 31, 2002, 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, unless the exception described next applies.

Exception. 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, discussed later, 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) The custodial parent signed a decree or agreement executed after 1984 stating that he or she will not claim the exemption for the child, and that the noncustodial parent can claim an exemption for the child without regard to any condition such as

payment of support, and the noncustodial parent attaches to his or her return the documentation described later under *Divorce decree or separation agreement made after 1984*, 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.

Noncustodial parent. 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.

Example. Under the terms of your 1984 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 may use either **Form 8332** or a similar statement (containing the information required by the form) 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 can 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, and a copy must be attached for each later year.

Divorce decree or separation agreement made after 1984. If your divorce decree or separation agreement was executed after 1984, the noncustodial parent does not have to attach Form 8332 if both of the following requirements are met.

- 1) The decree or agreement is signed by the custodial parent and states all of the following.
 - a) The custodial parent will not claim the child as a dependent for the year.
 - b) The noncustodial parent can claim the child as a dependent **without regard to any condition**, such as payment of support.
 - c) The years for which the noncustodial parent, rather than the custodial parent, can claim the child as a dependent.
- 2) The noncustodial parent attaches a copy of the following pages of the decree or agreement to his or her tax return.
 - a) The cover page (write the other parent's social security number on this page).
 - b) The pages that contain the information shown in item (1).

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

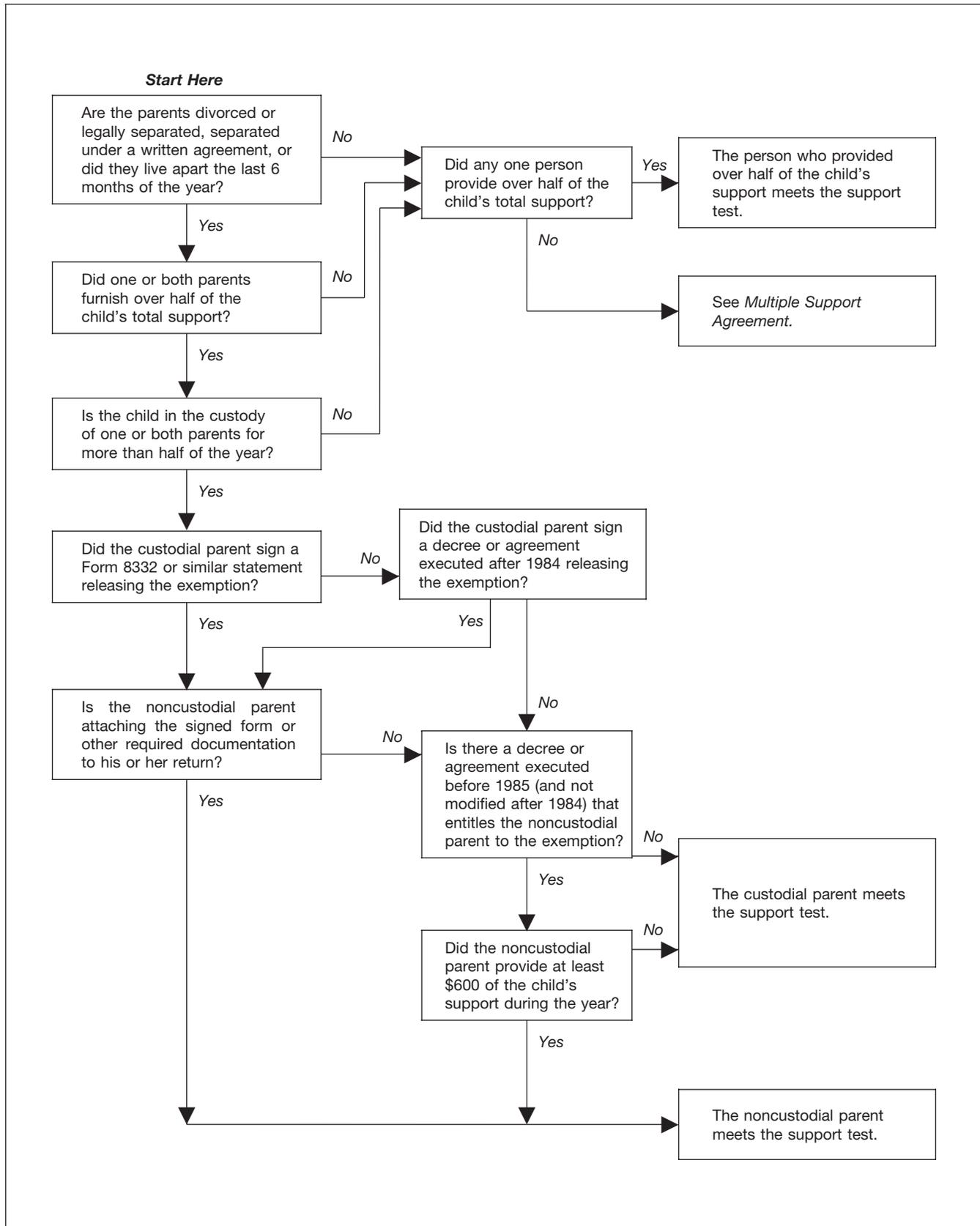




Table 6. Deduction for Exemptions Worksheet

1. Is the amount on Form 1040, line 35, more than the amount shown on line 4 below for your filing status?
No. Stop. Multiply \$3,000 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 40.
Yes. Complete the worksheet below to figure your deduction for exemptions.

2. Multiply \$3,000 by the total number of exemptions claimed on Form 1040, line 6d 2. _____

3. Enter the amount from Form 1040, line 35 3. _____

4. Enter the amount shown below for your filing status:
 ● Married filing separately, enter \$103,000
 ● Single, enter \$137,300
 ● Head of household, enter \$171,650
 ● Married filing jointly or Qualifying widow(er), enter \$206,000 } 4. _____

5. Subtract line 4 from line 3. If zero or less, **stop here**; enter the amount from line 2 above on Form 1040, line 40 5. _____
Note: If line 5 is more than \$122,500 (more than \$61,250 if married filing separately), **stop here**; you **cannot** take a deduction for exemptions. Enter -0- on Form 1040, line 40.

6. Divide line 5 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, round it **UP** to the next higher whole number 6. _____

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

8. Multiply line 2 by line 7 8. _____

9. **Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 40 9. _____

than half the support of your child or enter into a multiple support agreement, as discussed earlier, to satisfy the support test.

Example. You never married the father of your child and do not live with him, but he provides the home you and your child live in. The fair rental value of the lodging he provides to your child is \$3,000 a year. You provide the rest of your child's support for the year, which is \$1,200. The special rules for a child of divorced or separated parents do not apply because you and the child's father never married. As a result, you cannot claim an exemption for your child because you did not provide more than half of the child's support.

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	\$103,000
Single	137,300
Head of household	171,650
Married filing jointly	206,000
Qualifying widow(er)	206,000

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 6 to figure the amount of your deduction for exemptions.

Social Security Numbers for Dependents

You must list the social security number (SSN) of **any** person for whom you claim an exemption in column (2) of line 6c of your Form 1040 or Form 1040A.

CAUTION If you do not list the dependent's SSN when required or if you list an incorrect SSN, the exemption may be disallowed.

Note. If your dependent does not have and cannot get an SSN, you must list the individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) instead of an SSN. See *Taxpayer identification numbers for aliens* or *Taxpayer identification number for adoptees*, later.

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

c) The signature page with the other parent's signature and the date of the agreement.

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.

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 \$3,000. 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 new spouse. The fair rental value of the home provided to the children by your new 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.

Parents who never married. These special rules for divorced or separated parents do not apply to parents who never married each other. If this is your situation, you must provide more



If these requirements are not met, the noncustodial parent must attach to his or her return Form 8332 or a similar statement from the custodial parent releasing the exemption.

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 support provided by the noncustodial parent even if the \$1,200 was actually spent on things other than support.

Paid in a later year. If you fail to pay child support in the year it is due, but pay it in a later year, your payment of the overdue amount is not considered paid for the support of your child either for the year the payment was due or for the year it is paid. It is payment of an amount you owed to the custodial parent, but it is not considered paid by you for the support of your child.

Example. You owed but failed to pay child support last year. This year, you pay all of the amount owed from last year and the full amount due for this year. Your payment of this year's child support counts as your support for this year, but payment of the amount owed from last year does not count as support either for this year or for last year.

2002 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 7. Standard Deduction Chart for Most People*

IF Your Filing Status is . . .	Your Standard Deduction is . . .
Single	\$4,700
Married filing joint return or Qualifying widow(er) with dependent child	7,850
Married filing separate return	3,925
Head of household	6,900

*DO NOT use this chart if you were 65 or older or blind, OR if someone else can claim an exemption for you (or your spouse if married filing jointly). Use Table 8 or 9 instead.

Table 8. Standard Deduction Chart for People Age 65 or Older or Blind*

Check the correct number of boxes below. Then go to the chart. 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"/> Total number of boxes you checked <input type="checkbox"/>		
IF Your Filing Status is . . .	AND the Number in the Box Above is . . .	THEN your Standard Deduction is . . .
Single	1	\$5,850
	2	7,000
Married filing joint return or Qualifying widow(er) with dependent child	1	8,750
	2	9,650
	3	10,550
	4	11,450
Married filing separate return	1	4,825
	2	5,725
	3	6,625
	4	7,525
Head of household	1	8,050
	2	9,200

*If someone else can claim an exemption for you (or your spouse if married filing jointly), use Table 9, instead.

Table 9. 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 Blind
 Your spouse, if claiming spouse's exemption 65 or older Blind
 Total number of boxes you checked

1. Enter your earned income (defined below). If none, enter -0-.	1. _____
2. Additional amount	2. <u> \$250 </u>
3. Add lines 1 and 2	3. _____
4. Minimum standard deduction	4. <u> \$750 </u>
5. Enter the larger of line 3 or line 4.	5. _____
6. Enter the amount shown below for your filing status. • Single, enter \$4,700 • Married filing separate return, enter \$3,925 • Married filing jointly or Qualifying widow(er) with dependent child, enter \$7,850 • Head of household, enter \$6,900	6. _____
7. Standard deduction. a. Enter the smaller of line 5 or line 6. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 7b. b. If 65 or older or blind, multiply \$1,150 (\$900 if married or qualifying widow(er) with dependent child) by the number in the box above. c. Add lines 7a and 7b. This is your standard deduction for 2002.	7a. _____ 7b. _____ 7c. _____

Earned income 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 else can claim an exemption for you (or your spouse if married filing jointly).

It usually takes about 2 weeks to get an SSN. If you do not have a required SSN by the filing due date, you can file Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, for an extension of time to file.

Born and died in 2002. If your child was born and died in 2002, and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead. If you do, enter "DIED" in column (2) of line 6c of your Form 1040 or Form 1040A.

Taxpayer identification numbers for aliens. If your dependent is a resident or non-resident alien who does not have and is not eligible to get an SSN, the IRS will issue your dependent an individual taxpayer identification number (ITIN) instead of an SSN. Write the number in column (2) of line 6c of your Form 1040 or Form 1040A. To apply for an ITIN, use

Form W-7, Application for IRS Individual Taxpayer Identification Number.

It usually takes about 30 days to get an ITIN.

Taxpayer identification number for adoptees. If you have a child who was placed with you by an authorized placement agency, you may be able to claim an exemption for the child. However, if you cannot get an SSN or an ITIN for the child, you must get an adoption taxpayer identification number (ATIN) for the child from the IRS. See **Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions**, for details.

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 eliminates the need for many taxpayers to itemize actual deductions, such as medical expenses, charitable contributions, and taxes, on Schedule A of Form 1040. The standard deduction 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.

TIP 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 because of a change in your annual accounting period, 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.

If you are a nonresident alien who is married to a U.S. citizen or resident at the end of the year, you can choose to be treated as a U.S. resident. (See Publication 519.) If you make this choice, you can take the standard deduction.



If an exemption for you can be claimed on another person's return (such as your parents' return), your standard deduction may be limited. See Standard Deduction for Dependents, later.

Standard Deduction Amount

The standard deduction amount depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another taxpayer. Generally, the standard deduction amounts are adjusted each year for inflation. The standard deduction amounts for most taxpayers for 2002 are shown in Table 7.

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 can take a higher standard deduction for 2002 if your 65th birthday was on or before January 1, 2003.

Use Table 8 to figure the standard deduction amount.

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 8. You qualify for this benefit if you are totally or partly blind.

Partly blind. If you are partly blind, you must get a certified statement from an eye doctor 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, the statement should include this fact. You must keep the statement 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 can take the higher standard deduction for blindness if you otherwise qualify.

Spouse 65 or Older or Blind

You can 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 can claim an exemption for your spouse because your spouse had no gross income and an exemption for your spouse could not be claimed by another taxpayer.



You cannot claim the higher standard deduction for an individual other than yourself and your spouse.

Examples

The following examples illustrate how to determine your standard deduction using Tables 7 and 8.

Example 1. Larry, 46, and Donna, 33, are filing a joint return for 2002. Neither is blind. They decide not to itemize their deductions. They use Table 7. Their standard deduction is \$7,850.

Example 2. Assume the same facts as in Example 1, except that Larry is blind at the end of 2002. Larry and Donna use Table 8. Their standard deduction is \$8,750.

Example 3. Bill and Terry are filing a joint return for 2002. Both are over age 65. Neither is blind. If they do not itemize deductions, they use Table 8. Their standard deduction is \$9,650.

Standard Deduction for Dependents

The standard deduction for an individual for whom an exemption can be claimed on another person's tax return is generally limited to the greater of:

- 1) \$750, or
- 2) The individual's earned income for the year plus \$250 (but not more than the regular standard deduction amount, generally \$4,700).

However, if the individual is 65 or older or blind, the standard deduction may be higher.

If an exemption for you (or your spouse if you are married filing jointly) can be claimed on someone else's return, use Table 9 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.

Example 1. Michael is single. His parents claim an exemption for him on their 2002 tax return. He has interest income of \$780 and wages of \$150. He has no itemized deductions. Michael uses Table 9 to find his standard deduction. He enters \$150 (his earned income) on line 1, \$400 (\$150 plus \$250) on line 3, \$750 (the larger of \$400 and \$750) on line 5, and \$4,700 on line 6. The amount of his standard deduction, on line 7a, is \$750 (the smaller of \$750 and \$4,700).

Example 2. Joe, a 22-year-old full-time college student, is claimed on his parents' 2002 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 \$3,800. He has no itemized deductions. Joe finds his standard deduction by using Table 9. He enters his earned income, \$3,800, on line 1. He adds lines 1 and 2 and enters \$4,050 on line 3. On line 5 he enters \$4,050, the larger of lines 3 and 4. Since Joe is married filing a separate return, he enters \$3,925 on line 6. On line 7a he enters \$3,925 as his standard deduction because it is smaller than \$4,050, the amount on line 5.

Example 3. Amy, who is single, is claimed on her parents' 2002 tax return. She is 18 years old and blind. She has interest income of \$1,300 and wages of \$2,900. She has no itemized deductions. Amy uses Table 9 to find her standard deduction. She enters her wages of \$2,900 on line 1. She adds lines 1 and 2 and enters \$3,150 on line 3. On line 5 she enters \$3,150, the larger of lines 3 and 4. Since she is single, Amy enters \$4,700 on line 6. She enters \$3,150 on line 7a. This is the smaller of the amounts on lines 5 and 6. Because she checked one box in the top part of the worksheet, she enters \$1,150 on line 7b. She then adds the amounts on lines 7a and 7b and enters her standard deduction of \$4,300 on line 7c.

Who Should Itemize

You should itemize deductions if your total deductions are more than the standard deduction amount. Also, you should itemize if you do not qualify for the standard deduction, as discussed earlier under *Persons not eligible for the standard deduction*.

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.



You may be subject to a limit on some of your itemized deductions if your adjusted gross income (AGI) is more than \$137,300 (\$68,650 if you are married filing separately). See the instructions for Schedule A (Form 1040), line 28, for more information on figuring the correct amount of your itemized deductions.

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

- 1) Do not qualify for the standard deduction, or the amount you can claim is limited,

- 2) Had large uninsured medical and dental expenses during the year,
- 3) Paid interest and taxes on your home,
- 4) Had large unreimbursed employee business expenses or other miscellaneous deductions,
- 5) Had large uninsured casualty or theft losses,
- 6) Made large contributions to qualified charities, or
- 7) Have total itemized deductions that are more than the 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 28, on Form 1040, line 38.

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 38 (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.

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 lower total tax, even though one of you may pay more tax than you would have paid by using the other method. 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).

How To Get Tax Help

You can get help with unresolved tax issues, 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.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.

- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

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:

- See answers to frequently asked tax questions or request help by e-mail.
- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- 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.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



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**.
- *Solving problems.* Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check

your local directory assistance or www.irs.gov for the numbers.

- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *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 use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience.



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.

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



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

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that 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 **<http://www.irs.gov/cdorders>**. The first release is available in early January and the final release is available in late February.



CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a busi-

ness. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in March. You can get a free copy by calling **1-800-829-3676** or by visiting the website at **www.irs.gov/smallbiz**.



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