

54 FEDERAL INCOME TAX TIPS

Below are several tax tips for publishing in post bulletins during the 2000 tax filing season.

1. **TAX TIP:** In calculating whether I qualify for the earned income credit, what entitlements must I include? You must add "earned income" (wages, salaries, tips, and other employee compensation) with your quarters allowance (minimum BAH) (whether or not actually received), subsistence (BAS) and combat pay. You do not include VHA or COLA.
2. **TAX TIP:** When should I receive my W-2 forms from my employers? Not later than 31 January 2000. By federal law, employers have until this date to furnish you your W-2 forms.
3. **TAX TIP:** When should I receive my statements of dividends and interest from my financial institutions? Not later than 31 January 2000. By federal law, financial institutions have until this date to furnish you these statements.
4. **TAX TIP:** What should I do if I don't receive a W-2 from my employer or statements of dividends/interest from my financial institutions by 31 January 2000? Write the employer and if this fails, write the IRS Center that services the employer/institution and complain to them. Contact the Legal Assistance Office for the IRS Center address.
5. **TAX TIP:** The W-2 income report I received in the mail has a huge computer error. It shows I earned \$200,000 rather than \$20,000. Can I just ignore the extra zero? Only if you want to hear from the IRS. Since your employer sent the same W-2 to the IRS, they will expect tax on \$200,000. You should contact your employer and ask for a revised W-2.
6. **TAX TIP:** When do I have to make a contribution to an Individual Retirement Account (IRA) for a deduction on my 1999 tax return? Stateside and overseas taxpayers have until 15 April 2000. Soldiers stationed in a combat zone who have not already filed their federal income tax return may have a longer period and should contact a military attorney if they need tax advice on IRA contributions.
7. **TAX TIP:** Can I claim an IRA deduction on my tax return although I've not actually created one yet? Yes, if you in fact create one not later than 15 April 2000.
8. **TAX TIP:** What is the filing date for taxpayers overseas? If you primarily live and work outside the U.S. and Puerto Rico on 15 April 2000, you have until 15 June 2000 to file your return. Simply put on the outside of your envelope: "Outside the U.S. on 15 April 2000," to take advantage of the automatic extension. NOTE: Taxpayers who are merely traveling outside the U.S. or Puerto Rico on 15 April 2000 are not entitled to an automatic two-month filing extension.
9. **TAX TIP:** If my move to a new assignment began in 1999 and ended in 2000, when do I file my moving expenses? You have two choices - file them all on your 1999 tax return, or file

your 1999 expenses on your 1999 return and your 2000 expenses on your 2000 return. Moving expenses are now an adjustment to gross income and no longer include certain indirect moving expenses.

10. TAX TIP: What form do I use to file for my moving expenses? Form 3903 if your move was to or within the U.S., and Form 3903F if your move was outside the U.S. or its possessions.

11. TAX TIP: How long do I have to reinvest my gain from the sale of my old personal residence into a new personal residence if I sold a home before 07 May 1997? Civilians have two years (four years if overseas), and military members have four years (stateside or overseas). This replacement period is suspended while military members are stationed outside the United States. NOTE, however, that the replacement period, plus any period of suspension, cannot last more than eight years after the sale of the home.

12. TAX TIP: How much of a charitable contribution can I deduct without itemizing? None, you can only take charitable contribution deductions by itemizing on the Schedule A, Form 1040.

13. TAX TIP: How can I claim the out-of-pocket expenses I incur in traveling from place to place during my work day? You use the Form 2106, Employee Business Expenses, and Schedule A, Itemized Deductions, and list your actual travel expenses or apply a flat 32.5 cents per mile if you use your POV.

14. TAX TIP: How do I report the Employee Business Expense deduction for 1998 tax returns? You must itemize (i.e., use the Form 2106 and the Schedule A) to claim these expenses.

15. TAX TIP: Where do I mail my tax return if I am an overseas taxpayer? You should send your return to Internal Revenue Service Center, Philadelphia, Pennsylvania 19255.

16. TAX TIP: Can I deduct my non-reimbursed travel expenses in using my POV to do charity work? Yes, you can deduct your actual expenses or use a flat rate of 14 cents per mile (plus tolls and parking fees). There are, however, restrictions if your travel involves being away from your home (e.g., taking a trip to another state to do charitable services). There must be no significant element of personal pleasure, recreation, or vacation in the travel. Finally, you can only take charitable contribution deductions by itemizing, using the Schedule A.

17. TAX TIP: Did Congress pass any new laws changing the tax on capital gains? Yes. The Taxpayer Relief Act of 1997 reduced the maximum capital gains rate and the IRS Restructuring and Reform Act of 1998 reduced the holding period for long term capital gains. Assets sold after 1 January 1999 that are held for 12 months or longer are taxed at a maximum rate of 20%. If you are in the 15% tax bracket, the sale of these assets is taxed at a 10% rate.

18. TAX TIP: If I am renting out a home, over how many years can I depreciate the structure? It depends on when you purchased it and when you started renting it out. Depending on these issues, the answer to this question is 15, 18, 19, or 27.5 years. Homes rented out for the first time after 1986 are depreciated over 27.5 years.

19. TAX TIP: Can military personnel avoid reporting housing allowances and yet still take deductions for their mortgage interest payments and real estate taxes? Yes. The Tax Reform Act of 1986 created a specific statutory right for military taxpayers to do this.
20. TAX TIP: How much money earned overseas from U.S. Government sources is excludable as Foreign Earned Income (FEI)? None. FEI is income you earn while overseas, which is not earned from the U.S. Government.
21. TAX TIP: How can I get forms and publications? Forms and publications are available on the internet at <http://www.irs.ustreas.gov>. You can also call the IRS toll-free order number 1-800-TAX-FORM (1-800-829-3676). You can also get them by visiting your installation Tax Center.
22. TAX TIP: Is money I earn as a child care provider in an overseas area excludable as Foreign Earned Income? Yes. If you meet the residency or physical presence test requirements, you can exclude the money you've earned from your income.
23. TAX TIP: Is money I earn while teaching a course overseas excludable as Foreign Earned Income? Usually, yes. You are probably an independent contractor and not an employee of the U.S. Government. Therefore, if you meet the residency test or physical presence test requirements, you can exclude the money you've earned from your income.
24. TAX TIP: What are the rules for claiming the child tax credit? Taxpayers can claim a child tax credit of \$400 for each "qualifying child" under the age of 17. The amount of the child tax credit is subject to limitations based upon the taxpayer's modified adjusted gross income (MAGI). For most taxpayers, the credit is nonrefundable and subject to other limitations based upon tax liabilities. However, special rules apply for families with three or more qualifying children. Families with three or more qualifying children may be able to take the credit as a refundable amount.
25. TAX TIP: I sold a house last year. Do I have to pay taxes on the gain? It depends. If you lived in it for two of the previous five years, you do not have to pay any gain on the sale (provided the gain was under \$250,000, if single, or \$500,000, if married filing jointly). If you sold your home prior to 7 May 1997, you do not have to pay any taxes on the sale (provided the home was your principal residence and you purchase a replacement home of equal or greater value during the replacement period).
26. TAX TIP: What do I do with an overweight charge I received in 1999 for a previous year's PCS move? You deduct it from your 1999 tax return using the Form 3903 or 3903F and a Schedule A. You do not amend the tax return of the year you had the PCS move.
27. TAX TIP: Is the cost of a finder's fee to locate a new personal residence when I PCS a deductible moving expense? Not any more. The Omnibus Budget Reconciliation Act of 1993 narrowed moving expenses to only the direct costs of moving your household goods and you and your family.

28. TAX TIP: What are the rules for proving employee business expenses? You need adequate written records of your expenditures. Ideally, they should be prepared as near to the time of the expense as possible. The IRS tends to view records created later, when there is less likelihood of accurate recall, with disfavor.
29. TAX TIP: What is the maximum deductible IRA contribution that may be made by a couple filing jointly, where both spouses have earned income? \$4,000 (no more than \$2,000 in either spouse's IRA). This may be limited, however, if adjusted gross income exceeds \$50,000.
30. TAX TIP: What is the maximum IRA contribution that can be made by a couple filing jointly if one spouse has no income? A maximum of \$4,000 can be contributed in 1999. Again, no more than \$2,000 can be deposited into either spouse's IRA. The ability to deduct this contribution is limited, however, if adjusted gross income exceeds \$50,000 for a married taxpayer or \$35,000 for a single taxpayer. A different phase limitation applies to a spouse that is not a participant in a pension plan (\$160,000).
31. TAX TIP: Can I exclude Foreign Earned Income, and still take the Child Care Credit for child care costs attributable to the Foreign Earned Income? No.
32. TAX TIP: Can I exclude Foreign Earned Income and take a Foreign Tax Credit for the foreign taxes attributable to the Foreign Earned Income? No.
33. TAX TIP: Where do I claim the annual fee for my safe-deposit box? Assuming you keep investment or tax-related documents in the box, the cost is considered a miscellaneous expense. Include it with other expenses in this category and deduct the amount by which the total exceeds 2% of your adjusted- gross-income using Schedule A (Form 1040).
34. TAX TIP: Are foreign sales taxes deductible from your income for federal income tax purposes? Usually no, only if you are in a business where you pay taxes on your supplies, might they be deductible.
35. TAX TIP: Are state and local sales taxes deductible anymore? No, the Tax Reform Act of 1986 rescinded this deduction.
36. TAX TIP: I am stationed overseas and would like my spouse to file on my behalf. Can she prepare the joint return and sign my name to it? Yes, if she has a power of attorney authorizing her to do so. The IRS will accept a general power of attorney for this purpose if it specifically mentions tax matters. Your local Legal Assistance Office can prepare an appropriate power of attorney for you.
37. TAX TIP: Jane earned \$2,300 providing child care for fellow Americans in Korea last year. How much of it is subject to income tax? None -- if she meets either the residency test or physical presence test requirements, she can exclude the money she earned from her income using the Foreign Earned Income exclusion. By filing Form 2555 (or Form 2555EZ), Jane can exclude it from her taxable income. Note, however, that the earnings may be subject to self-employment tax.

38. TAX TIP: What is the maximum amount of moving expenses I can deduct for travel, meal, and lodging expenses in moving from the old to the new residence? The full amount of the travel and lodging expenses may be deducted, but only if they exceed all reimbursements (including dislocation allowances) that the taxpayer has received (This is unlikely in the military). Further, meal costs are not deductible as a moving expense.
39. TAX TIP: If stateside, and I can't make the 15 April 2000 filing deadline, or overseas and can't meet the 15 June 2000 deadline, what can I do? Fill out Form 4868 and receive an automatic extension to 15 August 2000 (for both stateside and overseas taxpayers). Pick up this form at your Legal Assistance Office. Note, however, that an extension of time to file does not extend the time to pay the tax. If, on filing the Form 4868, you underpay the tax owed, the IRS will charge interest on the unpaid amount from 15 April 2000.
40. TAX TIP: My 10-year-old son earned \$600 from a bank account in 1999. Must he file a return? No. Children under 14 must file a return if their income from investments exceeds a total of \$700 in 1998 or the total of their unearned income (e.g., interest and dividends) and any earned income (e.g., wages) exceeds \$700.
41. TAX TIP: May I deduct my credit card and car loan interest paid in 1999? No, interest paid on these personal loans is not deductible.
42. TAX TIP: How much is the "standard deduction" for 1999? For 1998, the standard deduction was \$4,250 if single, \$6,250 if Head of Household, \$7,100 if Married Filing Joint or Widow(er), and \$3,550 if Married Filing Separate. Persons 65 or older, or blind, have a special, higher standard deduction. It is expected that these amounts will increase slightly for tax year 2000. Look on your tax form 1040, 1040a or 1040ez to see the exact amounts for this tax season.
43. TAX TIP: How much is the personal exemption for 1999 tax returns? The personal exemption for 1998 was 2,700. It is expected to be \$2750 for the 1999 tax season.
44. TAX TIP: If you plan to claim an exemption for a dependent who was born during 1999, you must have a social security number for the dependent, and report it on your 1999 tax return.
45. TAX TIP: I received a house with a fair market value of over \$100,000 because of a divorce decree. Do I include this transfer on my 1999 tax return? No. Property transferred between spouses because of a divorce is not subject to tax upon transfer. You may be responsible for paying tax on the gain you realize when you sell the home.
46. TAX TIP: I own my own home and live alone. Since I'm the only person in the household, can I use the head-of-household tax rates? No. To qualify as an unmarried head of household, and benefit from rates lower than those that apply to single people, you must pay more than half the cost of maintaining a home where you live with a "qualifying individual" (e.g., child, stepchild, adopted child, foster child, or grandchild).

47. TAX TIP: I gave a check to my church at Christmas time, but it wasn't cashed until the following year. Can I deduct the amount for the year I gave the check, or do I have to wait? You can claim the deduction on the return for the year you gave the check.
48. TAX TIP: Has the investment interest limitation changed in 1999? No, as in last year, investment interest (that is, interest paid or accrued on debts incurred to buy or carry investment property) is deductible only up to net investment income.
49. TAX TIP: Who may qualify to file as "qualifying widow(er)?" If your spouse died in either 1997 or 1998, then for the purposes of your 1999 filing status, you are a qualifying widow(er) and you may use joint return rates on your 1999 return provided you meet all the following requirements: you did not remarry before 1999; a dependent child, stepchild, adopted child, or foster child lived with you during 1999 and you paid over half the cost of maintaining your home; and you were able to file jointly in the year of your spouse's death, even if you did not actually do so.
50. TAX TIP: How do I correct mistakes I made on my income tax return? Use Form 1040X, Amended U.S. Individual Income Tax Return, to correct Forms 1040, 1040A, 1040EZ, 1040NR, and 1040PC.
51. TAX TIP: When should I file Form 1040X? File Form 1040X only after you have filed your original Form 1040. Generally, Form 1040X must be filed within 3 years after the date the original return was filed or within 2 years after the date the tax was paid, whichever is later.
52. TAX TIP: Does the IRS recommend a method of record keeping? You must keep accurate records, but the IRS does not require a particular method. You should keep sales slips, invoices, receipts, canceled checks, and financial account statements in order to verify the deductions and credits shown on your return. Also keep Forms W-2, Wage and Tax Statement; Forms 1099 showing interest, dividends, distributions; stock brokerage statements; and any other documents that prove the amounts shown on your return as income.
53. TAX TIP: How do I get a copy of my return? You can request a copy of your return and all the attachments (including Form W-2) by sending Form 4506 to the IRS. There is a \$14 fee for a copy of your return, which must be paid with Form 4506; but there is no charge for only a copy of Form W-2.
54. TAX TIP: What records do I need to keep as a homeowner? You should keep records that show the basis of your property. The basis is usually the cost of your property. You must keep records of the purchase price of your home, any purchase expenses, the cost of any improvements, and any other basis adjustments, such as depreciation and deductible casualty losses. If you sold your old home and postponed tax on the gain from the sale, you should keep information from the old home, too.