

1040

NOTE: THIS BOOKLET DOES NOT CONTAIN TAX FORMS

INSTRUCTIONS

Including Instructions for Schedules A, B, C, D, E, F, J, L, M, and SE

2009



makes doing your taxes faster and easier.



is the easy, fast, and free way to electronically file for those who qualify.

Get a faster refund, reduce errors, and save paper. For more information on **IRS e-file** and Free File, see **page 5** or click on **IRS e-file** at www.irs.gov.

MAKING WORK PAY CREDIT

It pays to work. You may be able to take this credit if you have earned income from work.

UNEMPLOYMENT COMPENSATION

You do not have to pay tax on unemployment compensation of up to \$2,400 per recipient. Amounts over \$2,400 per recipient are still taxable.

CREDIT FOR NONBUSINESS ENERGY PROPERTY

You may be able to take this credit for certain energy-saving improvements to your main home.

DEDUCTION FOR MOTOR VEHICLE TAXES

You may be able to deduct state or local sales or excise taxes you paid on the purchase of a new motor vehicle after February 16, 2009.

For details on these and other changes, see pages 6 and 7.



Department of the Treasury Internal Revenue Service www.irs.gov

A Message From the Commissioner

Dear Taxpayer,

As another tax season begins, the IRS wants to make filing and paying your taxes as quick and easy as possible. We are trying to see things from your perspective so we can improve the quality and kinds of service we provide you. We want to help you successfully navigate a highly complex tax code and pay what you owe under the law—not a penny more, or a penny less.

The American people who play by the rules every day further expect the IRS to vigorously enforce the tax law. Rest assured, we are pursuing those trying to evade paying their taxes.

I also want to take this opportunity to make a pitch for *e-file*. If you received this 1040 package in the mail, the odds are that you are not enjoying the benefits of *e-file*. However, filing your taxes online was never easier. *E-file* is fast, secure, accurate, and taxpayers electing direct deposit can get their refunds in as little as 10 days. Therefore, you might want to give *e-file* a second look.

For lower-income taxpayers and the elderly who don't have access to a home computer and the Internet, there are thousands of convenient volunteer sites across the nation standing ready to prepare your return for free and *e-file* it to the IRS. Call our toll-free number at 1-800-829-1040 to find the one nearest to you.

It is also important that taxpayers receive every tax credit for which they are eligible. This could mean extra money in your pocket as the American Recovery and Reinvestment Act created a number of new credits and expanded some existing ones.

For example, qualifying taxpayers who bought a home in 2009 can claim a credit of up to \$8,000 on either their 2008 or 2009 return. And the American Opportunity Tax Credit provides financial assistance of up to \$2,500 to help offset tuition costs and other expenses for individuals pursuing a college education.

In addition, the Earned Income Tax Credit was increased for families with three or more children, while the marriage penalty was reduced. Eligibility for the Additional Child Tax Credit also increased, meaning millions more low-income earners can claim it.

If you need any more information or have questions about taxes or tax credits, please visit us online at www.irs.gov, or call us toll-free at 1-800-829-1040. We are here to help you.

Sincerely,



Douglas H. Shulman

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.



Table of Contents

Department
of the
Treasury

Internal
Revenue
Service

Contents	Page	Contents	Page
IRS Customer Service Standards	4	Payments	46
Help With Unresolved Tax Issues (Taxpayer Advocate Service)	4	2009 Earned Income Credit (EIC) Table	55
Suggestions for Improving the IRS (Taxpayer Advocacy Panel)	4	Refund	72
IRS <i>e-file</i>	5	Amount You Owe	74
What's New	6	Third Party Designee	75
Filing Requirements	7	Sign Your Return	75
Do You Have To File?	7	Assemble Your Return	76
When and Where Should You File?	8	2009 Tax Table	77
Where To Report Certain Items From 2009 Forms W-2, 1098, and 1099	10	2009 Tax Computation Worksheet	89
Tax Return Page Reference	12	General Information	90
Line Instructions for Form 1040	14	Refund Information	93
Name and Address	14	What Is TeleTax?	93
Social Security Number (SSN)	14	Calling the IRS	95
Presidential Election Campaign Fund	14	Quick and Easy Access to Tax Help and Tax Products	96
Filing Status	14	Disclosure, Privacy Act, and Paperwork Reduction Act Notice	97
Exemptions	16	Order Form for Forms and Publications	99
Income	21	Major Categories of Federal Income and Outlays For Fiscal Year 2008	100
Adjusted Gross Income	29	2009 Tax Rate Schedules	101
Tax and Credits	35	Index	102
Other Taxes	45		

IRS Customer Service Standards

At the IRS, our goal is to continually improve the quality of our services. To achieve that goal, we have developed customer service standards in the following areas.

- Access to information.
- Accuracy.
- Prompt refunds.

- Canceling penalties.
- Resolving problems.
- Simpler forms.
- Easier filing and payment options.

If you would like information about the IRS standards and a report of our accomplishments, see Pub. 2183.

Help With Unresolved Tax Issues

Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving problems with the IRS, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

1. TAS is your voice at the IRS.
2. Our service is free, confidential, and tailored to meet your needs.
3. You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just is not working as it should.
4. TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
5. TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.

6. TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

7. You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low Income Taxpayer Clinics (LITCs)

The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or for a small fee. If an individual's native language is not English, some clinics can provide information in certain other languages about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Suggestions for Improving the IRS

Taxpayer Advocacy Panel

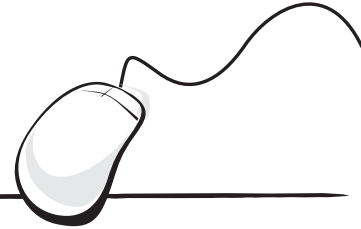
The Taxpayer Advocacy Panel (TAP) is a diverse group of citizen volunteers who listen to taxpayers, identify taxpayers' issues, and make suggestions for improving IRS service and customer satisfaction. The panel is

demographically and geographically diverse, with at least one member from each state, the District of Columbia, and Puerto Rico. To learn more about the TAP, go to www.improveirs.org or call 1-888-912-1227 toll-free.

Three Options for e-filing your returns—quickly, safely and easily.

Last year more than 92 million Americans filed their returns electronically. Why?

- *Faster refunds*—in as little as 10 days with Direct Deposit.
- *Easier filing* since there are no paper returns to mail.
- *Quick notification* of receipt of your return.
- *Confidence* since the IRS uses the most secure technology available to safeguard your personal information.
- *Freedom* to file now and pay later.
- *Help the environment* by saving paper.
- *Available 24/7*.



In addition to the benefits above, you'll also get *greater accuracy* since returns are checked for common errors—in fact, *e-file* averages a 1% or less error rate—far lower than the 20% associated with paper returns.

e-file is available through a network of trusted providers—including popular types of off-the-shelf tax preparation software (you'll find a listing at www.irs.gov/efile)—as well as professional tax preparers. *e-filing* your return can be free so be sure to shop around before choosing a preparer or tax software. Find out more at www.irs.gov. Many states also offer *e-filing*.



If your adjusted gross income was \$57,000 or less in 2009, you can electronically file your taxes at no cost by using Free File.

If you qualify, Free File gives you all the benefits of *e-file* and it's available in English and Spanish.

To use Free File, simply log on to www.irs.gov.

Free File Fillable Forms

If you've filed paper returns in the past without the help of a tax preparer, then Free File Fillable Forms may be for you.

With Free File Fillable Forms:

- There are no income requirements so everyone is eligible,
- It is easy to use since it offers the most commonly filed IRS forms,
- It performs basic math calculations, and
- It is available only at www.irs.gov and only for a federal tax return.

The VITA Program offers free tax help for low to moderate income (under \$49,000 in adjusted gross income) taxpayers who cannot prepare their own returns. The Tax Counseling for the Elderly (TCE) program provides free tax help to people age 60 and older.

www.irs.gov is the gateway to all electronic services offered by the IRS, as well as the spot to download forms if you should choose to file a paper return.

What's New

What's New for 2009

Making work pay credit. If you have earned income from work, you may be able to take this credit. It is 6.2% of your earned income but cannot be more than \$400 (\$800 if married filing jointly). See page 47.

Government retiree credit. You may be able to take this credit if you get a government pension or annuity, but it reduces any making work pay credit. See page 47.

Economic recovery payment. Any economic recovery payment you received is not taxable for federal income tax purposes, but it reduces any making work pay credit or government retiree credit. See pages 29 and 47.

Cash for clunkers. A \$3,500 or \$4,500 voucher or payment made for such a voucher under the CARS "cash for clunkers" program to buy or lease a new fuel-efficient automobile is not taxable for federal income tax purposes.

Buying U.S. Series I Savings Bonds with your refund. You can now receive up to \$5,000 of U.S. Series I Savings Bonds as part of your income tax refund without setting up a TreasuryDirect® account in advance. For more details, see Form 8888.

Unemployment compensation. You do not have to pay tax on unemployment compensation of up to \$2,400 per recipient. Amounts over \$2,400 are still taxable. See page 27.

COBRA subsidy. The 65% subsidy for payment of COBRA health care coverage continuation premiums is not taxable for federal income tax purposes.

Home mortgage principal reductions. Any Pay-for-Performance Success Payments that reduce the principal balance of your home mortgage under the Home Affordable Modification Program are not taxable.

American opportunity credit. The maximum Hope education credit has increased to \$2,500 for most taxpayers. The increased credit is now called the American opportunity credit. Part of the credit is now refundable for most taxpayers. Claim that part on line 66. Claim any other education credits on line 49. See pages 40 and 72.

Alternative minimum tax (AMT) exemption amount increased. The AMT exemption amount has increased to \$46,700 (\$70,950 if married filing jointly or a qualifying widow(er); \$35,475 if married filing separately).

IRA deduction expanded. You may be able to take an IRA deduction if you were covered by a retirement plan and your 2009 modified adjusted gross income (AGI) is less than \$65,000 (\$109,000 if married fil-

ing jointly or qualifying widow(er)). If your spouse was covered by a retirement plan, but you were not, you may be able to take an IRA deduction if your 2009 modified AGI is less than \$176,000. See pages 31 and 32 for details and exceptions.

Deduction for motor vehicle taxes. If you bought a new motor vehicle after February 16, 2009, you may be able to deduct any state or local sales or excise taxes on the purchase. In states without a sales tax, you may be able to deduct certain other taxes or fees instead. Take the deduction on Schedule A if you are itemizing deductions and are not electing to deduct state and local general sales taxes. If you are not itemizing deductions, these taxes increase your standard deduction and are claimed on Schedule L. See the instructions for line 40a beginning on page 35.

First-time homebuyer credit. The credit increases to as much as \$8,000 (\$4,000 if married filing separately) for homes bought after 2008 and before May 1, 2010 (before July 1, 2010, if you entered into a written binding contract before May 1, 2010). You can choose to claim the credit on your 2009 return for a home you bought in 2010 that qualifies for the credit. See page 72.

You generally must repay any credit you claimed for 2008 if you sold your home in 2009 or the home ceased to be your main home in 2009. See the instructions for line 60 on page 46.

Credit for nonbusiness energy property. You may be able to take this credit for qualifying energy saving items for your home placed in service in 2009. See the instructions for line 52 on page 45.

Credits increased. The following credits have increased for some people.

- Additional child tax credit (line 65). See Form 8812.
- Residential energy efficient property credit (line 52). See Form 5695.

Standard mileage rates. The 2009 rate for business use of your vehicle is 55 cents a mile. The 2009 rate for use of your vehicle to get medical care or to move is 24 cents a mile.

Personal casualty and theft loss limit. Each personal casualty or theft loss is limited to the excess of the loss over \$500 for 2009. In addition, the 10% of AGI limit generally continues to apply to the net loss.

Earned income credit (EIC). The EIC has increased for people with three or more children and for some married couples filing jointly. You may be able to take the EIC if:

- Three or more children lived with you and you earned less than \$43,279 (\$48,279 if married filing jointly),

- Two children lived with you and you earned less than \$40,295 (\$45,295 if married filing jointly),

- One child lived with you and you earned less than \$35,463 (\$40,463 if married filing jointly), or

- A child did not live with you and you earned less than \$13,440 (\$18,440 if married filing jointly).

The maximum AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you. The maximum investment income you can have and still get the credit has increased to \$3,100. See page 48.

Divorced or separated parents. A noncustodial parent claiming an exemption for a child can no longer attach certain pages from a divorce decree or separation agreement instead of Form 8332 if the decree or agreement was executed after 2008. The noncustodial parent must attach Form 8332 or a similar statement signed by the custodial parent and whose only purpose is to release a claim to exemption. See page 18.

Qualifying child definition revised. The following changes to the definition of a qualifying child apply.

- To be your qualifying child, a child must be younger than you unless the child is permanently and totally disabled.

- A child cannot be your qualifying child if he or she files a joint return, unless the return was filed only as a claim for refund.

- If the parents of a child can claim the child as a qualifying child but no parent so claims the child, no one else can claim the child as a qualifying child unless that person's AGI is higher than the highest AGI of any parent of the child.

- Your child is a qualifying child for purposes of the child tax credit only if you can and do claim an exemption for him or her.

Tax on child's investment income. The amount of taxable investment income a child can have without it being subject to tax at the parent's rate has increased to \$1,900. See Form 8615 on page 38.

Elective salary deferrals. The maximum amount you can defer under all plans is generally limited to \$16,500 (\$11,500 if you have only SIMPLE plans; \$19,500 for section 403(b) plans if you qualify for the 15-year rule). The catch-up contribution limit for individuals age 50 or older at the end of the year has increased to \$5,500 (except for section 401(k)(11) plans and SIMPLE plans, for which this limit remains unchanged).

Limit on exclusion of gain on sale of main home. In certain cases, gain from the sale of your main home is no longer excludable from income if it is allocable to periods after 2008 when neither you nor your spouse (or your former spouse) used the property as a main home. See Pub. 523.

Electric vehicle credits. You may be able to take a credit for:

- A plug-in electric drive motor vehicle placed in service in 2009 (see Form 8936),
- A plug-in electric vehicle bought after February 17, 2009 (see Form 8834), or
- Conversion of a vehicle to a plug-in electric drive motor vehicle placed in service after February 17, 2009 (see Form 8910).

Certain tax benefits for Midwestern disaster areas expired. Certain tax benefits for Midwestern disaster areas have expired, including special charitable contribution rules and the election to use your 2007 earned income to figure your 2008 EIC and additional child tax credit. See Pub. 4492-B.

Recovery rebate credit expired. This credit has expired and does not apply for 2009.

Mailing your return. You may be mailing your return to a different address this year because the IRS has changed the filing location for several areas. If you received an envelope with your tax package, please use it. Otherwise, see *Where Do You File?* on the back cover.

What's New for 2010

Earned income credit (EIC). You may be able to take the EIC if:

- Three or more children lived with you and you earned less than \$43,352 (\$48,362 if married filing jointly),
- Two children lived with you and you earned less than \$40,363 (\$45,373 if married filing jointly),
- One child lived with you and you earned less than \$35,535 (\$40,545 if married filing jointly), or

- A child did not live with you and you earned less than \$13,460 (\$18,470 if married filing jointly).

The maximum AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you. The maximum investment income you can have and still get the credit is still \$3,100.

IRA deduction expanded. You may be able to take an IRA deduction if you were covered by a retirement plan and your 2010 modified AGI is less than \$66,000 (\$109,000 if married filing jointly or qualifying widow(er)). If your spouse was covered by a retirement plan, but you were not, you may be able to take an IRA deduction if your 2010 modified AGI is less than \$177,000.

Recapture of first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you bought in 2008, you generally must begin repaying it in 2010. See Form 5405 for details.

Roth IRAs. Half of any income that results from a rollover or conversion to a Roth IRA from another retirement plan in 2010 is included in income in 2011, and the other half in 2012, unless you elect to include all of it in 2010. In addition, for any tax year beginning after 2009, you can make a qualified rollover contribution to a Roth IRA regardless of the amount of your modified AGI.

Alternative minimum tax (AMT) exemption amount. The AMT exemption amount is scheduled to decrease to \$33,750 (\$45,000 if married filing jointly or a qualifying widow(er); \$22,500 if married filing separately).

Domestic production activities income. The percentage rate for 2010 increases to 9%. However, the deduction is reduced if you have oil-related qualified production activities income.

Personal casualty and theft loss limit reduced. Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of \$500).

Expiring tax benefits. The following benefits are scheduled to expire and will not be available for 2010.

- Deduction for educator expenses in figuring AGI.
- Tuition and fees deduction in figuring AGI.
- Increased standard deduction for real estate taxes or net disaster loss.
- Itemized deduction or increased standard deduction for state or local sales or excise taxes on the purchase of a new motor vehicle.
- Deduction for state and local sales taxes.
- The exclusion from income of up to \$2,400 in unemployment compensation.
- The exclusion from income of qualified charitable distributions.
- Government retiree credit.
- District of Columbia first-time homebuyer credit (for homes purchased after 2009).
- Extra \$3,000 IRA deduction for employees of bankrupt companies.
- Certain tax benefits for Midwestern disaster areas, including the additional exemption amount if you provided housing for a person displaced by the Midwestern storms, tornadoes, or flooding.

Personal exemption and itemized deduction phaseouts ended. For 2010, taxpayers with AGI above a certain amount will no longer lose part of their deduction for personal exemptions and itemized deductions.

Allowance of certain personal credits against the AMT. The allowance of the following personal credits against the AMT has expired.

- Credit for child and dependent care expenses.
- Credit for the elderly or the disabled.
- Lifetime learning credit.
- Mortgage interest credit.
- Credit for nonbusiness energy property.
- District of Columbia first-time homebuyer credit.

Filing Requirements

These rules apply to all U.S. citizens, regardless of where they live, and resident aliens.



Have you tried IRS e-file? It's the fastest way to get your refund and it's free if you are eligible. Visit www.irs.gov for details.

Do You Have To File?

Use Chart A, B, or C to see if you must file a return. U.S. citizens who lived in or had income from a U.S. possession should see Pub. 570. Residents of Puerto Rico can use TeleTax topic 901 (see page 94) to see if they must file.



Even if you do not otherwise have to file a return, you should file one to get a refund of any federal income tax withheld.

You should also file if you are eligible for any of the following credits.

- Making work pay credit.
- Government retiree credit.
- Earned income credit.
- Additional child tax credit.

- Refundable American opportunity credit.
- First-time homebuyer credit.
- Refundable credit for prior year minimum tax.
- Health coverage tax credit.

Exception for certain children under age 19 or full-time students. If certain conditions apply, you can elect to include on your return the income of a child who was

under age 19 at the end of 2009 or was a full-time student under age 24 at the end of 2009. To do so, use Form 8814. If you make this election, your child does not have to file a return. For details, use TeleTax topic 553 (see page 94) or see Form 8814.

A child born on January 1, 1986, is considered to be age 24 at the end of 2009. Do not use Form 8814 for such a child.

Resident aliens. These rules also apply if you were a resident alien. Also, you may qualify for certain tax treaty benefits. See Pub. 519 for details.

Nonresident aliens and dual-status aliens. These rules also apply if you were a nonresident alien or a dual-status alien and both of the following apply.

- You were married to a U.S. citizen or resident alien at the end of 2009.
- You elected to be taxed as a resident alien.

See Pub. 519 for details.



Specific rules apply to determine if you are a resident alien, nonresident alien, or dual-status alien. Most nonresident aliens and dual-status aliens have different filing requirements and may have to file Form 1040NR or Form 1040NR-EZ. Pub. 519 discusses these requirements and other information to help aliens comply with U.S. tax law, including tax treaty benefits and special rules for students and scholars.

When and Where Should You File?

File Form 1040 by **April 15, 2010**. If you file after this date, you may have to pay interest and penalties. See page 92.

If you were serving in, or in support of, the U.S. Armed Forces in a designated combat zone or contingency operation, you can file later. See Pub. 3 for details.

See the back cover for filing instructions and addresses.

What if You Cannot File on Time?

You can get an automatic 6-month extension if, no later than the date your return is due, you file Form 4868. For details, see Form 4868.



An automatic 6-month extension to file does not extend the time to pay your tax. See Form 4868.

If you are a U.S. citizen or resident alien, you may qualify for an automatic extension of time to file without filing Form 4868. You qualify if, on the due date of your return, you meet one of the following conditions.

- You live outside the United States and Puerto Rico and your main place of business or post of duty is outside the United States and Puerto Rico.
- You are in military or naval service on duty outside the United States and Puerto Rico.

This extension gives you an extra 2 months to file and pay the tax, but interest

will be charged from the original due date of the return on any unpaid tax. You must attach a statement to your return showing that you meet the requirements. If you are still unable to file your return by the end of the 2-month period, you can get an additional 4 months if, no later than June 15, 2010, you file Form 4868. This 4-month extension of time to file does not extend the time to pay your tax. See Form 4868.

Private Delivery Services

You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.



Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Chart A—For Most People

IF your filing status is . . .	AND at the end of 2009 you were* . . .	THEN file a return if your gross income** was at least . . .
Single	under 65 65 or older	\$9,350 10,750
Married filing jointly***	under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	\$18,700 19,800 20,900
Married filing separately (see page 15)	any age	\$3,650
Head of household (see page 15)	under 65 65 or older	\$12,000 13,400
Qualifying widow(er) with dependent child (see page 16)	under 65 65 or older	\$15,050 16,150

*If you were born on January 1, 1945, you are considered to be age 65 at the end of 2009.

****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 or from the sale of your main home (even if you can exclude part or all of it). Do not include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time in 2009 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the instructions for lines 20a and 20b to figure the taxable part of social security benefits you must include in gross income.

***If you did not live with your spouse at the end of 2009 (or on the date your spouse died) and your gross income was at least \$3,650, you must file a return regardless of your age.

Chart B—For Children and Other Dependents (See the instructions for line 6c that begin on page 17 to find out if someone can claim you as a dependent.)

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

In this chart, **unearned income** includes taxable interest, ordinary dividends, and capital gain distributions. It also includes unemployment compensation, taxable social security benefits, pensions, annuities, and distributions of unearned income from a trust. **Earned income** includes salaries, wages, tips, professional fees, and taxable scholarship and fellowship grants. **Gross income** is the total of your unearned and earned income.

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

- No.** You must file a return if **any** of the following apply.
- Your unearned income was over \$950.
 - Your earned income was over \$5,700.
 - Your gross income was more than the **larger** of—
 - \$950, or
 - Your earned income (up to \$5,400) plus \$300.
- Yes.** You must file a return if **any** of the following apply.
- Your unearned income was over \$2,350 (\$3,750 if 65 or older **and** blind).
 - Your earned income was over \$7,100 (\$8,500 if 65 or older **and** blind).
 - Your gross income was more than the **larger** of—
 - \$2,350 (\$3,750 if 65 or older **and** blind), or
 - Your earned income (up to \$5,400) plus \$1,700 (\$3,100 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.
- Your unearned income was over \$950.
 - Your earned income was over \$5,700.
 - Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - Your gross income was more than the **larger** of—
 - \$950, or
 - Your earned income (up to \$5,400) plus \$300.
- Yes.** You must file a return if **any** of the following apply.
- Your unearned income was over \$2,050 (\$3,150 if 65 or older **and** blind).
 - Your earned income was over \$6,800 (\$7,900 if 65 or older **and** blind).
 - Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - Your gross income was more than the **larger** of—
 - \$2,050 (\$3,150 if 65 or older **and** blind), or
 - Your earned income (up to \$5,400) plus \$1,400 (\$2,500 if 65 or older **and** blind).

Chart C—Other Situations When You Must File

You must file a return if any of the four conditions below apply for 2009.

1. You owe any special taxes, including any of the following.
 - a. Alternative minimum tax.
 - b. Additional tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file **Form 5329** by itself.
 - c. Household employment taxes. But if you are filing a return only because you owe this tax, you can file **Schedule H** by itself.
 - d. Social security and Medicare tax on tips you did not report to your employer or on wages you received from an employer who did not withhold these taxes.
 - e. Write-in taxes, including uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance and additional taxes on health savings accounts. See the instructions for line 60 on page 46.
 - f. Recapture taxes. See the instructions for line 44, that begin on page 37, and line 60, on page 46.
2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in Form W-2, box 9.
3. You had net earnings from self-employment of at least \$400.
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.

Where To Report Certain Items From 2009 Forms W-2, 1098, and 1099



IRS e-file takes the guesswork out of preparing your return. You may also be eligible to use Free File to file your federal income tax return. Visit www.irs.gov/efile for details.

If any federal income tax withheld is shown on these forms, include the tax withheld on Form 1040, line 61. If you itemize your deductions and any state or local income tax withheld is shown on these forms, include the tax withheld on Schedule A, line 5, unless you elect to deduct state and local general sales taxes.

Form	Item and Box in Which It Should Appear	Where To Report if Filing Form 1040
W-2	Wages, tips, other compensation (box 1) Allocated tips (box 8) Advance EIC payment (box 9) Dependent care benefits (box 10) Adoption benefits (box 12, code T) Employer contributions to an Archer MSA (box 12, code R) Employer contributions to a health savings account (box 12, code W)	Form 1040, line 7 See <i>Wages, Salaries, Tips, etc.</i> on page 21 Form 1040, line 59 Form 2441, Part III Form 8839, line 22 Form 8853, line 1 Form 8889, line 9
W-2G	Gambling winnings (box 1)	Form 1040, line 21 (Schedule C or C-EZ for professional gamblers)
1098	Mortgage interest (box 1) Points (box 2) Refund of overpaid interest (box 3) Mortgage insurance premiums (box 4)	Schedule A, line 10* Form 1040, line 21, but first see the instructions on Form 1098* See the instructions for Schedule A, line 13*
1098-C	Contributions of motor vehicles, boats, and airplanes	Schedule A, line 17
1098-E	Student loan interest (box 1)	See the instructions for Form 1040, line 33, on page 34*
1098-T	Qualified tuition and related expenses (box 1)	See the instructions for Form 1040, line 34, on page 35, or Form 1040, line 49, on page 40, but first see the instructions on Form 1098-T*
1099-A	Acquisition or abandonment of secured property	See Pub. 4681
1099-B	Stocks, bonds, etc. (box 2) Bartering (box 3) Aggregate profit or (loss) (box 11)	See the instructions on Form 1099-B See Pub. 525 Form 6781, line 1
1099-C	Canceled debt (box 2)	See Pub. 4681
1099-DIV	Total ordinary dividends (box 1a) Qualified dividends (box 1b) Total capital gain distributions (box 2a) Unrecaptured section 1250 gain (box 2b) Section 1202 gain (box 2c) Collectibles (28%) gain (box 2d) Nondividend distributions (box 3) Investment expenses (box 5) Foreign tax paid (box 6)	Form 1040, line 9a See the instructions for Form 1040, line 9b, on page 22 Form 1040, line 13, or, if required, Schedule D, line 13 See the instructions for Schedule D, line 19, that begin on page D-8 See <i>Exclusion of Gain on Qualified Small Business (QSB) Stock</i> in the instructions for Schedule D on page D-4 See the instructions for Schedule D, line 18, on page D-8 See the instructions for Form 1040, line 9a, on page 22 Schedule A, line 23 Form 1040, line 47, or Schedule A, line 8. But first see the instructions for line 47 on page 40.
1099-G	Unemployment compensation (box 1) State or local income tax refunds, credits, or offsets (box 2) ATAA payments (box 5) Taxable grants (box 6) Agriculture payments (box 7) Market gain (box 9)	See the instructions for Form 1040, line 19, on page 27. See the instructions for Form 1040, line 10, that begin on page 23. If box 8 on Form 1099-G is checked, see the box 8 instructions. Form 1040, line 21 Form 1040, line 21* See the Instructions for Schedule F or Pub. 225* See the Instructions for Schedule F

* If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.

Form	Item and Box in Which It Should Appear	Where To Report if Filing Form 1040
1099-INT	Interest income (box 1) Early withdrawal penalty (box 2) Interest on U.S. savings bonds and Treasury obligations (box 3) Investment expenses (box 5) Foreign tax paid (box 6) Tax-exempt interest (box 8) Specified private activity bond interest (box 9)	See the instructions for Form 1040, line 8a, on page 22 Form 1040, line 30 See the instructions for Form 1040, line 8a, on page 22 Schedule A, line 23 Form 1040, line 47, or Schedule A, line 8. But first see the instructions for line 47 on page 40. Form 1040, line 8b Form 6251, line 13
1099-LTC	Long-term care and accelerated death benefits	See Pub. 525 and the Instructions for Form 8853
1099-MISC	Rents (box 1) Royalties (box 2) Other income (box 3) Nonemployee compensation (box 7) Excess golden parachute payments (box 13) Other (boxes 5, 6, 8, 9, 10, and 15b)	See the Instructions for Schedule E* Schedule E, line 4 (for timber, coal, and iron ore royalties, see Pub. 544)* Form 1040, line 21* Schedule C, C-EZ, or F. But if you were not self-employed, see the instructions on Form 1099-MISC. See the instructions for Form 1040, line 60, on page 46 See the instructions on Form 1099-MISC
1099-OID	Original issue discount (box 1) Other periodic interest (box 2) } Early withdrawal penalty (box 3) Original issue discount on U.S. Treasury obligations (box 6) Investment expenses (box 7)	See the instructions on Form 1099-OID Form 1040, line 30 See the instructions on Form 1099-OID Schedule A, line 23
1099-PATR	Patronage dividends and other distributions from a cooperative (boxes 1, 2, 3, and 5) Domestic production activities deduction (box 6) Credits (boxes 7, 8, and 10) Patron's AMT adjustment (box 9) Deduction for small refiner capital costs or qualified refinery property (box 10)	Schedule C, C-EZ, or F or Form 4835, but first see the instructions on Form 1099-PATR Form 8903, line 21 See the instructions on Form 1099-PATR Form 6251, line 28 Schedule C, C-EZ, or F
1099-Q	Qualified education program payments	See the instructions for Form 1040, line 21, on page 29
1099-R	Distributions from IRAs** Distributions from pensions, annuities, etc. Capital gain (box 3)	See the instructions for Form 1040, lines 15a and 15b, that begin on page 24 See the instructions for Form 1040, lines 16a and 16b, that begin on page 25 See the instructions on Form 1099-R
1099-S	Gross proceeds from real estate transactions (box 2) Buyer's part of real estate tax (box 5)	Form 4797, Form 6252, or Schedule D. But if the property was your home, see the Instructions for Schedule D to find out if you must report the sale or exchange. Report an exchange of like-kind property on Form 8824 even if no gross proceeds are reported on Form 1099-S. See the instructions for Schedule A, line 6, on page A-5*
1099-SA	Distributions from health savings accounts (HSAs) Distributions from MSAs***	Form 8889, line 14a Form 8853
<p>* If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.</p> <p>** This includes distributions from Roth, SEP, and SIMPLE IRAs.</p> <p>*** This includes distributions from Archer and Medicare Advantage MSAs.</p>		

Tax Return Page Reference

Questions about what to put on a line? Help is on the page number in the circle.

Form **1040**

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 2009

(99) IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0074

Label

(See instructions on page 14.)

Use the IRS label.

Otherwise, please print or type.

14 For the year Jan. 1–Dec. 31, 2009, or other tax year beginning _____, 2009, ending _____, 20

Your first name and initial _____ Last name _____

If a joint return, spouse's first name and initial _____ Last name _____

FOR REFERENCE ONLY—DO NOT FILE

Home address (number and street). If you have a P.O. box, see page 14. _____ Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14. _____

Your social security number

14

Spouse's social security number

14

▲ You must enter your SSN(s) above. ▲

Checking a box below will not change your tax or refund.

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) You Spouse

Filing Status

- 1 Single **14**
- 2 Married filing jointly (even if only one had income) **15**
- 3 Married filing separately. Enter spouse's SSN above and full name here. **16**
- 4 Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. **16**
- 5 Qualifying widow(er) with dependent child (see page 16)

Check only one box.

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a.

b Spouse

Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 17)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see page 17 and check here **17**

Boxes checked on 6a and 6b

No. of children on 6c who:
 • lived with you
 • did not live with you due to divorce or separation (see page 18)

Dependents on 6c not entered above **18**

Add numbers on lines above

d Total number of exemptions claimed **19**

Income

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	21
8a	Taxable interest. Attach Schedule B if required	8a	22
b	Tax-exempt interest. Do not include on line 8a	8b	22
9a	Ordinary dividends. Attach Schedule B if required	9a	22
b	Qualified dividends (see page 22)	9b	22
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10	23
11	Alimony received	11	24
12	Business income or (loss). Attach Schedule C or C-EZ	12	24
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	24
14	Other gains or (losses). Attach Form 4797	14	24
15a	IRA distributions	15a	24
b	Taxable amount (see page 24)	15b	24
16a	Pensions and annuities	16a	25
b	Taxable amount (see page 25)	16b	25
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation in excess of \$2,400 per recipient (see page 27)	19	27
20a	Social security benefits	20a	27
b	Taxable amount (see page 27)	20b	27
21	Other income. List type and amount (see page 29)	21	29
22	Add the amounts in the far right column for lines 7 through 21. This is your total income	22	29

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. **76**

If you did not get a W-2, see page 22. **22**

Enclose, but do not attach, any payment. Also, please use Form 1040-V. **74**

Adjusted Gross Income

23	Educator expenses (see page 29)	23	29
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	30
25	Health savings account deduction. Attach Form 8889	25	30
26	Moving expenses. Attach Form 3903	26	30
27	One-half of self-employment tax. Attach Schedule SE	27	30
28	Self-employed SEP, SIMPLE, and qualified plans	28	30
29	Self-employed health insurance deduction (see page 30)	29	30
30	Penalty on early withdrawal of savings	30	31
31a	Alimony paid	31a	31
b	Recipient's SSN	31b	31
32	IRA deduction (see page 31)	32	31
33	Student loan interest deduction (see page 34)	33	34
34	Tuition and fees deduction. Attach Form 8917	34	35
35	Domestic production activities deduction. Attach Form 8903	35	35
36	Add lines 23 through 31a and 32 through 35	36	35
37	Subtract line 36 from line 22. This is your adjusted gross income	37	35

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 97.

Cat. No. 11320B

Form **1040** (2009)

Tax Return Page Reference

Questions about what to put on a line? Help is on the page number in the circle.

Tax and Credits	38 Amount from line 37 (adjusted gross income) 38 39a Check <input type="checkbox"/> You were born before January 2, 1945, <input type="checkbox"/> Blind. } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1945, <input type="checkbox"/> Blind. } checked ▶ 39a 35 b If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here ▶ 39b <input type="checkbox"/> 35 40a Itemized deductions (from Schedule A) or your standard deduction (see left margin) 40a b If you are increasing your standard deduction by certain real estate taxes, new motor vehicle taxes, or a net disaster loss, attach Schedule L and check here (see page 35) ▶ 40b <input type="checkbox"/> New 41 Subtract line 40a from line 38 41 42 Exemptions. If line 38 is \$125,100 or less and you did not provide housing to a Midwestern displaced individual, multiply \$3,650 by the number on line 6d. Otherwise, see page 37 42 (37) 43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- 43 44 Tax (see page 37). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 44 (37) 45 Alternative minimum tax (see page 40). Attach Form 6251 45 (40) 46 Add lines 44 and 45 46 47 Foreign tax credit. Attach Form 1116 if required 47 (40) 48 Credit for child and dependent care expenses. Attach Form 2441 48 (40) 49 Education credits from Form 8863, line 29 49 (40) 50 Retirement savings contributions credit. Attach Form 8880 50 (40) 51 Child tax credit (see page 42) 51 (42) 52 Credits from Form: a <input type="checkbox"/> 8396 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 5695 52 (45) 53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> 53 (45) 54 Add lines 47 through 53. These are your total credits 54 55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- 55	
Other Taxes	56 Self-employment tax. Attach Schedule SE 56 57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 57 (45) 58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required 58 (45) 59 Additional taxes: a <input type="checkbox"/> AEIC payments b <input type="checkbox"/> Household employment taxes. Attach Schedule H 59 (46) 60 Add lines 55 through 59. This is your total tax 60 (46)	
Payments	61 Federal income tax withheld from Forms W-2 and 1099 61 (46) 62 2009 estimated tax payments and amount applied from 2008 return 62 (47) 63 Making work pay and government retiree credits. Attach Schedule M 63 (47) New 64a Earned income credit (EIC) 64a (48) b Nontaxable combat pay election 64b (50) 65 Additional child tax credit. Attach Form 8812 65 (72) 66 Refundable education credit from Form 8863, line 16 66 New (72) 67 First-time homebuyer credit. Attach Form 5405 67 (72) 68 Amount paid with request for extension to file (see page 72) 68 (72) 69 Excess social security and tier 1 RRTA tax withheld (see page 72) 69 (72) 70 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 4136 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885 70 (72) 71 Add lines 61, 62, 63, 64a, and 65 through 70. These are your total payments 71	
Refund	72 If line 71 is more than line 60, subtract line 60 from line 71. This is the amount you overpaid 72 (72) 73a Amount of line 72 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/> 73a (73) b Routing number ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number 74 Amount of line 72 you want applied to your 2010 estimated tax ▶ 74 (74)	
Amount You Owe	75 Amount you owe. Subtract line 71 from line 60. For details on how to pay, see page 74 75 (74) 76 Estimated tax penalty (see page 74) 76 (74)	

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see page 75)? **Yes.** Complete the following. **No**

Designee's name **(75)** Phone no. ▶ Personal identification number (PIN) ▶

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See page 15. Keep a copy for your records. ▶

Your signature (75)	Date	Your occupation	Daytime phone number (75)
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

Paid Preparer's Use Only

Preparer's signature **(75)** Date Check if self-employed Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ EIN Phone no.

Line Instructions for Form 1040



IRS *e-file* takes the guesswork out of preparing your return. You may also be eligible to use Free File to file your federal income tax return. Visit www.irs.gov/efile for details.

Section references are to the Internal Revenue Code.

Name and Address

Use the Peel-Off Label

Using your peel-off name and address label on the back of this booklet will speed the processing of your return. It also prevents common errors that can delay refunds or result in unnecessary notices. Put the label on your return after you have finished it. Cross out any incorrect information and print the correct information. Add any missing items, such as your apartment number.

Address Change

If the address on your peel-off label is not your current address, cross out your old address and print your new address. If you plan to move after filing your return, use Form 8822 to notify the IRS of your new address.

Name Change

If you changed your name because of marriage, divorce, etc., be sure to report the change to your local Social Security Administration office before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. See page 90 for more details. If you received a peel-off label, cross out your former name and print your new name.

What if You Do Not Have a Label?

Print or type the information in the spaces provided. If you are married filing a separate return, enter your spouse's name on line 3 instead of below your name.



If you filed a joint return for 2008 and you are filing a joint return for 2009 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2008 return.

P.O. Box

Enter your box number only if your post office does not deliver mail to your home.

Foreign Address

Enter the information in the following order: City, province or state, and country. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

Death of a Taxpayer

See page 91.

Social Security Number (SSN)

An incorrect or missing SSN can increase your tax or reduce your refund. To apply for an SSN, fill in Form SS-5 and return it, along with the appropriate evidence documents, to the Social Security Administration (SSA). You can get Form SS-5 online at www.socialsecurity.gov, from your local SSA office, or by calling the SSA at 1-800-772-1213. It usually takes about 2 weeks to get an SSN once the SSA has all the evidence and information it needs.

Check that your SSN on your Forms W-2 and 1099 agrees with your social security card. If not, see page 90 for more details.

IRS Individual Taxpayer Identification Numbers (ITINs) for Aliens

If you are a nonresident or resident alien and you do not have and are not eligible to get an SSN, you must apply for an ITIN. For details on how to do so, see Form W-7 and its instructions. It takes 6 to 10 weeks to get an ITIN.

If you already have an ITIN, enter it wherever your SSN is requested on your tax return.

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

Nonresident Alien Spouse

If your spouse is a nonresident alien, he or she must have either an SSN or an ITIN if:

- You file a joint return,
- You file a separate return and claim an exemption for your spouse, or

- Your spouse is filing a separate return.

Presidential Election Campaign Fund

This fund helps pay for Presidential election campaigns. The fund reduces candidates' dependence on large contributions from individuals and groups and places candidates on an equal financial footing in the general election. If you want \$3 to go to this fund, check the box. If you are filing a joint return, your spouse can also have \$3 go to the fund. If you check a box, your tax or refund will not change.

Filing Status

Check only the filing status that applies to you. The ones that will usually give you the lowest tax are listed last.

- Married filing separately.
- Single.
- Head of household.
- Married filing jointly or qualifying widow(er) with dependent child.



More than one filing status can apply to you. Choose the one that will give you the lowest tax.

Line 1 Single

You can check the box on line 1 if any of the following was true on December 31, 2009.

- You were never married.
- You were legally separated, according to your state law, under a decree of divorce or separate maintenance.
- You were widowed before January 1, 2009, and did not remarry before the end of 2009. But if you have a dependent child, you may be able to use the qualifying widow(er) filing status. See the instructions for line 5 on page 16.

Line 2

Married Filing Jointly

You can check the box on line 2 if any of the following apply.

- You were married at the end of 2009, even if you did not live with your spouse at the end of 2009.
- Your spouse died in 2009 and you did not remarry in 2009.
- You were married at the end of 2009, and your spouse died in 2010 before filing a 2009 return.

For federal tax purposes, a marriage means only a legal union between a man and a woman as husband and wife. A husband and wife filing jointly report their combined income and deduct their combined allowable expenses on one return. They can file a joint return even if only one had income or if they did not live together all year. However, both persons must sign the return. Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return.

Joint and several tax liability. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. However, see *Innocent Spouse Relief* on page 90.

Nonresident aliens and dual-status aliens. Generally, a husband and wife cannot file a joint return if either spouse is a nonresident alien at any time during the year. However, if you were a nonresident alien or a dual-status alien and were married to a U.S. citizen or resident alien at the end of 2009, you may elect to be treated as a resident alien and file a joint return. See Pub. 519 for details.

Line 3

Married Filing Separately

If you are married and file a separate return, you will usually pay more tax than if you use another filing status for which you qualify. Also, if you file a separate return, you cannot take the student loan interest deduction, the tuition and fees deduction, the education credits, or the earned income credit. You also cannot take the standard deduction if your spouse itemizes deductions.

Generally, you report only your own income, exemptions, deductions, and credits. Different rules apply to people in community property states. See page 21.

Be sure to enter your spouse's SSN or ITIN on Form 1040 unless your spouse does not have and is not required to have an SSN or ITIN.



TIP You may be able to file as head of household if you had a child living with you and you lived apart from your spouse during the last 6 months of 2009. See Married persons who live apart on this page.

Line 4

Head of Household



TIP Special rules may apply for people who had to relocate because of the Midwestern storms, tornadoes, or flooding. For details, see Pub. 4492-B.

This filing status is for unmarried individuals who provide a home for certain other persons. (Some married persons who live apart are considered unmarried. See *Married persons who live apart* on this page. If you are married to a nonresident alien, you may also be considered unmarried. See *Nonresident alien spouse* on page 16.) You can check the box on line 4 only if you were unmarried or legally separated (according to your state law) under a decree of divorce or separate maintenance at the end of 2009 and either *Test 1* or *Test 2* below applies.

Test 1. You paid over half the cost of keeping up a home that was the main home for all of 2009 of your parent whom you can claim as a dependent, except under a multiple support agreement (see page 19). Your parent did not have to live with you.

Test 2. You paid over half the cost of keeping up a home in which you lived and in which one of the following also lived for more than half of the year (if half or less, see *Exception to time lived with you* on this page).

1. Any person whom you can claim as a dependent. But do not include:

a. Your qualifying child (as defined in Step 1 on page 17) whom you claim as your dependent based on the rule for *Children of divorced or separated parents* that begins on page 18,

b. Any person who is your dependent only because he or she lived with you for all of 2009, or

c. Any person you claimed as a dependent under a multiple support agreement. See page 19.

2. Your unmarried qualifying child who is not your dependent.

3. Your married qualifying child who is not your dependent only because you can be claimed as a dependent on someone else's 2009 return.

4. Your child who is neither your dependent nor your qualifying child because of the rule for *Children of divorced or separated parents* that begins on page 18.

If the child is not your dependent, enter the child's name on line 4. If you do not enter the name, it will take us longer to process your return.

Dependent. To find out if someone is your dependent, see the instructions for line 6c that begin on page 17.

Exception to time lived with you. Temporary absences by you or the other person for special circumstances, such as school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time lived in the home. Also see *Kidnapped child* on page 19, if applicable.

If the person for whom you kept up a home was born or died in 2009, you can still file as head of household as long as the home was that person's main home for the part of the year he or she was alive.

Keeping up a home. To find out what is included in the cost of keeping up a home, see Pub. 501.

If you used payments you received under Temporary Assistance for Needy Families (TANF) or other public assistance programs to pay part of the cost of keeping up your home, you cannot count them as money you paid. However, you must include them in the total cost of keeping up your home to figure if you paid over half the cost.

Married persons who live apart. Even if you were not divorced or legally separated at the end of 2009, you are considered unmarried if all of the following apply.

- You lived apart from your spouse for the last 6 months of 2009. Temporary absences for special circumstances, such as for business, medical care, school, or military service, count as time lived in the home.

- You file a separate return from your spouse.

- You paid over half the cost of keeping up your home for 2009.

- Your home was the main home of your child, stepchild, or foster child for more than half of 2009 (if half or less, see *Exception to time lived with you* above).

- You can claim this child as your dependent or could claim the child except that the child's other parent can claim him or her under the rule for *Children of divorced or separated parents* that begins on page 18.

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.

Foster child. A foster child is any child placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Nonresident alien spouse. You are considered unmarried for head of household filing status if your spouse was a nonresident alien at any time during the year and you do not choose to treat him or her as a resident alien. To claim head of household filing status, you must also meet *Test 1* or *Test 2* on page 15.

Line 5

Qualifying Widow(er) With Dependent Child



Special rules may apply for people who had to relocate because of the Midwestern storms, tornadoes, or flooding.

For details, see Pub. 4492-B.

You can check the box on line 5 and use joint return tax rates for 2009 if all of the following apply.

- Your spouse died in 2007 or 2008 and you did not remarry before the end of 2009.
- You have a child or stepchild whom you claim as a dependent. This does not include a foster child.
- This child lived in your home for all of 2009. If the child did not live with you for the required time, see *Exception to time lived with you* on this page.
- You paid over half the cost of keeping up your home.
- You could have filed a joint return with your spouse the year he or she died, even if you did not actually do so.

If your spouse died in 2009, you cannot file as qualifying widow(er) with dependent child. Instead, see the instructions for line 2 on page 15.

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.

Dependent. To find out if someone is your dependent, see the instructions for line 6c that begin on page 17.

Exception to time lived with you. Temporary absences by you or the child for special circumstances, such as school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time lived in the home. Also see *Kidnapped child* on page 19, if applicable.

A child is considered to have lived with you for all of 2009 if the child was born or died in 2009 and your home was the child's home for the entire time he or she was alive.

Keeping up a home. To find out what is included in the cost of keeping up a home, see Pub. 501.

If you used payments you received under Temporary Assistance for Needy Families (TANF) or other public assistance programs to pay part of the cost of keeping up your home, you cannot count them as money you paid. However, you must include them in the total cost of keeping up your home to figure if you paid over half the cost.

Exemptions

You usually can deduct \$3,650 on line 42 for each exemption you can take. You may also be able to take an additional exemption amount on line 42 if you provided housing to a person displaced by the Midwestern storms, tornadoes, or flooding.

Line 6b Spouse

Check the box on line 6b if either of the following applies.

1. Your filing status is married filing jointly and your spouse cannot be claimed as a dependent on another person's return.
2. You were married at the end of 2009, your filing status is married filing separately or head of household, and both of the following apply.
 - a. Your spouse had no income and is not filing a return.
 - b. Your spouse cannot be claimed as a dependent on another person's return.

If your filing status is head of household and you check the box on line 6b, enter the name of your spouse on the dotted line next to line 6b. Also, enter your spouse's social security number in the space provided at the top of your return.

Line 6c—Dependents

Dependents and Qualifying Child for Child Tax Credit

Follow the steps below to find out if a person qualifies as your dependent, qualifies you to take the child tax credit, or both. If you have more than four dependents, check the box to the left of line 6c and attach a statement to your return with the information required in columns (1) through (4).



Special rules may apply for people who had to relocate because of the Midwestern storms, tornadoes, or flooding. For details, see Pub. 4492-B.

Step 1 Do You Have a Qualifying Child?

A qualifying child is a child who is your...

Son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)

AND

was ...

Under age 19 at the end of 2009 and younger than you (or your spouse, if filing jointly)

or

Under age 24 at the end of 2009, a student (see page 20), and younger than you (or your spouse, if filing jointly)

or

Any age and permanently and totally disabled (see page 19)

AND

Who did not provide over half of his or her own support for 2009 (see Pub. 501)

AND

Who is not filing a joint return for 2009 (or is filing a joint return for 2009 only as a claim for refund)

AND

Who lived with you for more than half of 2009. If the child did not live with you for the required time, see *Exception to time lived with you* on page 19.



If the child meets the conditions to be a qualifying child of any other person (other than your spouse if filing jointly) for 2009, see Qualifying child of more than one person on page 19.

- Do you have a child who meets the conditions to be your qualifying child?
 - Yes.** Go to Step 2.
 - No.** Go to Step 4 on page 18.

Step 2 Is Your Qualifying Child Your Dependent?

- Was the child a U.S. citizen, U.S. national, U.S. resident alien, or a resident of Canada or Mexico? (See Pub. 519 for the definition of a U.S. national or U.S. resident alien. If the child was adopted, see *Exception to citizen test* on page 19.)
 - Yes.** Continue
 - No.** You cannot claim this child as a dependent. Go to Form 1040, line 7.
- Was the child married?
 - Yes.** See *Married person* on page 19.
 - No.** Continue
- Could you, or your spouse if filing jointly, be claimed as a dependent on someone else's 2009 tax return? See Steps 1, 2, and 4.
 - Yes.** You cannot claim any dependents. Go to Form 1040, line 7.
 - No.** You can claim this child as a dependent. Complete Form 1040, line 6c, columns (1) through (3) for this child. Then, go to Step 3.

Step 3 Does Your Qualifying Child Qualify You for the Child Tax Credit?

- Was the child under age 17 at the end of 2009?
 - Yes.** Continue
 - No.** This child is not a qualifying child for the child tax credit. Go to Form 1040, line 7.
- Was the child a U.S. citizen, U.S. national, or U.S. resident alien? (See Pub. 519 for the definition of a U.S. national or U.S. resident alien. If the child was adopted, see *Exception to citizen test* on page 19.)
 - Yes.** This child is a qualifying child for the child tax credit. Check the box on Form 1040, line 6c, column (4).
 - No.** This child is not a qualifying child for the child tax credit. Go to Form 1040, line 7.

Step 4 **Is Your Qualifying Relative Your Dependent?**

A qualifying relative is a person who is your...

Son, daughter, stepchild, foster child, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, or a son or daughter of either of them (for example, your niece or nephew)

or

Father, mother, or an ancestor or sibling of either of them (for example, your grandmother, grandfather, aunt, or uncle)

or

Stepbrother, stepsister, stepfather, stepmother, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law

or

Any other person (other than your spouse) who lived with you all year as a member of your household if your relationship did not violate local law. If the person did not live with you for the required time, see *Exception to time lived with you* on page 19

AND

who was not...

A qualifying child (see Step 1) of any taxpayer for 2009. For this purpose, a person is not a taxpayer if he or she is not required to file a U.S. income tax return **and** either does not file such a return or files only to get a refund of withheld income tax

AND



who...



Had gross income of less than \$3,650 in 2009. If the person was permanently and totally disabled, see *Exception to gross income test* on page 19


AND


For whom you provided...

Over half of his or her support in 2009. But see the special rule for *Children of divorced or separated parents* that begins on this page, *Multiple support agreements* on page 19, and *Kidnapped child* on page 19.

1. Does any person meet the conditions to be your qualifying relative?
 Yes. Continue  **No.**  Go to Form 1040, line 7.

2. Was your qualifying relative a U.S. citizen, U.S. national, U.S. resident alien, or a resident of Canada or Mexico? (See Pub. 519 for the definition of a U.S. national or U.S. resident alien. If your qualifying relative was adopted, see *Exception to citizen test* on page 19.)
 Yes. Continue  **No.**  You cannot claim this person as a dependent. Go to Form 1040, line 7.

3. Was your qualifying relative married?
 Yes. See *Married person* on page 19. **No.** Continue 

4. Could you, or your spouse if filing jointly, be claimed as a dependent on someone else's 2009 tax return? See Steps 1, 2, and 4.
 Yes.  You cannot claim any dependents. Go to Form 1040, line 7. **No.** You can claim this person as a dependent. Complete Form 1040, line 6c, columns (1) through (3). Do not check the box on Form 1040, line 6c, column (4).

Definitions and Special Rules

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.

Adoption taxpayer identification numbers (ATINs). If you have a dependent who was placed with you for legal adoption and you do not know his or her SSN, you must get an ATIN for the dependent from the IRS. See Form W-7A for details. If the dependent is not a U.S. citizen or resident alien, apply for an ITIN instead, using Form W-7. See page 14.

Children of divorced or separated parents. A child will be treated as the qualifying child or qualifying relative of his or her noncustodial parent (defined on page 19) if all of the following conditions apply.

1. The parents are divorced, legally separated, separated under a written separation agreement, or lived apart at all times during the last 6 months of 2009 (whether or not they are or were married).
2. The child received over half of his or her support for 2009 from the parents (and the rules on *Multiple support agreements* on page 19 do not apply). Support of a child received from a parent's spouse is treated as provided by the parent.
3. The child is in custody of one or both of the parents for more than half of 2009.
4. Either of the following applies.
 - a. The custodial parent signs Form 8332 or a substantially similar statement that he or she will not claim the child as a dependent for 2009, and the noncustodial parent attaches a copy of the form or statement to his or her return. If the divorce decree or separation agreement went into effect after 1984 and before 2009, the noncustodial parent may be able to attach certain pages from the decree or agreement instead of Form 8332. See *Post-1984 and pre-2009 decree or agreement* and *Post-2008 decree or agreement* on page 19.

- b. A pre-1985 decree of divorce or separate maintenance or written separation agreement between the parents provides that the noncustodial parent can claim the child as a dependent, and the noncustodial parent provides at least \$600 for support of the child during 2009.

If conditions (1) through (4) apply, only the noncustodial parent can claim the child for purposes of the dependency exemption (line 6c) and the child tax credits (lines 51 and 65). However, this special rule does not apply to head of household filing status, the credit for child and dependent care expenses, the exclusion for dependent care benefits, the earned income credit, or the health coverage tax credit. See Pub. 501 for details.

Custodial and noncustodial parents. The custodial parent is the parent with whom the child lived for the greater number of nights in 2009. The noncustodial parent is the other parent. If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income. For details and an exception for a parent who works at night, see Pub. 501.

Post-1984 and pre-2009 decree or agreement. The decree or agreement must state all three of the following.

1. The noncustodial parent can claim the child as a dependent without regard to any condition, such as payment of support.
2. The other parent will not claim the child as a dependent.
3. The years for which the claim is released.

The noncustodial parent must attach all of the following pages from the decree or agreement.

- Cover page (include the other parent's SSN on that page).
- The pages that include all the information identified in (1) through (3) above.
- Signature page with the other parent's signature and date of agreement.



You must attach the required information even if you filed it with your return in an earlier year.

Post-2008 decree or agreement. If the divorce decree or separation agreement went into effect after 2008, the noncustodial parent cannot attach pages from the decree or agreement instead of Form 8332. The custodial parent must sign, and the noncustodial parent must attach to his or her return, either Form 8332 or a substantially similar statement the only purpose of which is to release the custodial parent's claim to an exemption for a child.

Exception to citizen test. If you are a U.S. citizen or U.S. national and your adopted child lived with you all year as a member of your household, that child meets the citizen test.

Exception to gross income test. If your relative (including a person who lived with you all year as a member of your household) is permanently and totally disabled (defined on this page), certain income for services performed at a sheltered workshop may be excluded for this test. For details, see Pub. 501.

Exception to time lived with you. Temporary absences by you or the other person for special circumstances, such as school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time the person lived with you. Also see *Children of divorced or separated parents* that begins on page 18 or *Kidnapped child* below.

A person is considered to have lived with you for all of 2009 if the person was born or died in 2009 and your home was this person's home for the entire time he or she was alive.

Foster child. A foster child is any child placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Kidnapped child. If your child is presumed by law enforcement authorities to have been kidnapped by someone who is not a family member, you may be able to take the child into account in determining your eligibility for head of household or qualifying widow(er) filing status, the dependency exemption, the child tax credit, and the earned income credit (EIC). For details, see Pub. 501 (Pub. 596 for the EIC).

Married person. If the person is married, you cannot claim that person as your dependent if he or she files a joint return. But this rule does not apply if the return is filed only as a claim for refund and no tax liability would exist for either spouse if they had filed separate returns. If the person meets this exception, go to Step 2, question 3, on page 17 (for a qualifying child) or Step 4, question 4, on page 18 (for a qualifying relative). If the person does not meet this exception, you cannot claim this person as a dependent. Go to Form 1040, line 7.

Multiple support agreements. If no one person contributed over half of the support of your relative (or a person who lived with you all year as a member of your household) but you and another person(s) provided more than half of your relative's support, special rules may apply that would treat you as having provided over half of the support. For details, see Pub. 501.

Permanently and totally disabled. A person is permanently and totally disabled if, at any time in 2009, the person cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition has lasted or can be expected to last continuously for at least a year or can be expected to lead to death.

Qualifying child of more than one person. Even if a child meets the conditions to be the qualifying child of more than one person, only one person can claim the child as a qualifying child for all of the following tax benefits, unless the special rule for *Children of divorced or separated parents* beginning on page 18 applies.

1. Dependency exemption (line 6c).
2. Child tax credits (lines 51 and 65).
3. Head of household filing status (line 4).
4. Credit for child and dependent care expenses (line 48).
5. Exclusion for dependent care benefits (Form 2441, Part III).
6. Earned income credit (lines 64a and 64b).

No other person can take any of the six tax benefits listed above unless he or she has a different qualifying child. If you and any other person can claim the child as a qualifying child, the following rules apply.

- If only one of the persons is the child's parent, the child is treated as the qualifying child of the parent.
- If the parents do not file a joint return together but both parents claim the child as a qualifying child, the IRS will treat the child as the qualifying child of the parent with whom the child lived for the longer period of time in 2009. If the child lived with each parent for the same amount of time, the IRS will treat the child as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2009.
- If no parent can claim the child as a qualifying child, the child is treated as the qualifying child of the person who had the highest AGI for 2009.
- If a parent can claim the child as a qualifying child but no parent does so claim the child, the child is treated as the qualifying child of the person who had the highest AGI for 2009, but only if that person's AGI is higher than the highest AGI of any parent of the child.

Example. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your daughter does not meet the conditions to be a qualifying child of any other person, including her other parent. Under the rules above, you can claim your daughter as a qualifying child for all of the six tax benefits listed above for which you otherwise qualify. Your mother cannot claim any of the six tax benefits listed above unless she has a different qualifying child. However, if your mother's AGI is higher than yours and the other parent's and you do not claim your daughter as a qualifying child, your daughter is the qualifying child of your mother.

For more details and examples, see Pub. 501.

If you will be claiming the child as a qualifying child, go to Step 2 on page 17. Otherwise, stop; you cannot claim any benefits based on this child. Go to Form 1040, line 7.

Social security number. You must enter each dependent's social security number (SSN). Be sure the name and SSN entered agree

with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit) based on that dependent. If the name or SSN on the dependent's social security card is not correct, call the Social Security Administration at 1-800-772-1213. For details on how your dependent can get an SSN, see page 14. If your dependent will not have a number by the date your return is due, see *What if You Cannot File on Time?* on page 8.

If your dependent child was born and died in 2009 and you do not have an SSN for the child, enter "Died" in column (2) and attach

a copy of the child's birth certificate, death certificate, or hospital records. The document must show the child was born alive.

Student. A student is a child who during any part of 5 calendar months of 2009 was enrolled as a full-time student at a school, or took a full-time, on-farm training course given by a school or a state, county, or local government agency. A school includes a technical, trade, or mechanical school. It does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet.

Income

Foreign-Source Income

You must report unearned income, such as interest, dividends, and pensions, from sources outside the United States unless exempt by law or a tax treaty. You must also report earned income, such as wages and tips, from sources outside the United States.

If you worked abroad, you may be able to exclude part or all of your foreign earned income. For details, see Pub. 54 and Form 2555 or 2555-EZ.

Foreign retirement plans. If you were a beneficiary of a foreign retirement plan, you may have to report the undistributed income earned in your plan. However, if you were the beneficiary of a Canadian registered retirement plan, see Form 8891 to find out if you can elect to defer tax on the undistributed income.

Report distributions from foreign pension plans on lines 16a and 16b.

Foreign accounts and trusts. You must complete Part III of Schedule B if you:

- Had a foreign account, or
- Received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

Chapter 11 Bankruptcy Cases

If you are a debtor in a chapter 11 bankruptcy case, income taxable to the bankruptcy estate and reported on the estate's income tax return includes:

- Earnings from services you performed after the beginning of the case (both wages and self-employment income), and
- Income from property described in section 541 of title 11 of the U.S. Code that you either owned when the case began or that you acquired after the case began and before the case was closed, dismissed, or converted to a case under a different chapter.

Because this income is taxable to the estate, do not include this income on your own individual income tax return. The only exception is for purposes of figuring your self-employment tax. For that purpose, you must take into account all your self-employment income for the year from services performed both before and after the beginning of the case. Also, you (or the trustee, if one is appointed) must allocate between you and the bankruptcy estate the wages, salary, or other compensation and withheld income tax reported to you on Form W-2. A similar allocation is required for income and withheld income tax reported to you on Forms 1099. You must also attach a statement to your tax return that indicates you

filed a chapter 11 case and that explains how income and withheld income tax reported to you on Forms W-2 and 1099 are allocated between you and the estate. For more details, including acceptable allocation methods, see Notice 2006-83, 2006-40 I.R.B. 596, available at www.irs.gov/irb/2006-40_IRB/ar12.html.

Community Property States

Community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. If you and your spouse lived in a community property state, you must usually follow state law to determine what is community income and what is separate income. For details, see Pub. 555.

California domestic partners. A registered domestic partner in California must report all wages, salaries, and other compensation received for his or her personal services on his or her own return. Therefore, a registered domestic partner cannot report half the combined income earned by the individual and his or her domestic partner as a married person filing separately does in California.

Rounding Off to Whole Dollars

You can round off cents to whole dollars on your return and schedules. If you do round to whole dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3.

If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Line 7

Wages, Salaries, Tips, etc.

Enter the total of your wages, salaries, tips, etc. If a joint return, also include your spouse's income. For most people, the amount to enter on this line should be shown in box 1 of their Form(s) W-2. But the following types of income must also be included in the total on line 7.

- Wages received as a household employee for which you did not receive a Form W-2 because your employer paid you less than \$1,700 in 2009. Also, enter "HSH" and the amount not reported on Form W-2 on the dotted line next to line 7.
- Tip income you did not report to your employer. Also include allocated tips shown on your Form(s) W-2 unless you can prove that you received less. Allocated tips should be shown in box 8 of your Form(s)

W-2. They are not included as income in box 1. See Pub. 531 for more details.



You may owe social security and Medicare tax on unreported or allocated tips. See the instructions for line 57 on

page 45.

- Dependent care benefits, which should be shown in box 10 of your Form(s) W-2. But first complete Form 2441 to see if you can exclude part or all of the benefits.

- Employer-provided adoption benefits, which should be shown in box 12 of your Form(s) W-2 with code T. But see the Instructions for Form 8839 to find out if you can exclude part or all of the benefits. You may also be able to exclude amounts if you adopted a child with special needs and the adoption became final in 2009.

- Scholarship and fellowship grants not reported on Form W-2. Also, enter "SCH" and the amount on the dotted line next to line 7. However, if you were a degree candidate, include on line 7 only the amounts you used for expenses other than tuition and course-related expenses. For example, amounts used for room, board, and travel must be reported on line 7.

- Excess salary deferrals. The amount deferred should be shown in box 12 of your Form W-2, and the "Retirement plan" box in box 13 should be checked. If the total amount you (or your spouse if filing jointly) deferred for 2009 under all plans was more than \$16,500 (excluding catch-up contributions as explained below), include the excess on line 7. This limit is (a) \$11,500 if you only have SIMPLE plans, or (b) \$19,500 for section 403(b) plans if you qualify for the 15-year rule in Pub. 571. Although designated Roth contributions are subject to this limit, do not include the excess attributable to such contributions on line 7. They are already included as income in box 1 of your Form W-2.

A higher limit may apply to participants in section 457(b) deferred compensation plans for the 3 years before retirement age. Contact your plan administrator for more information.

If you were age 50 or older at the end of 2009, your employer may have allowed an additional deferral (catch-up contributions) of up to \$5,500 (\$2,500 for section 401(k)(11) and SIMPLE plans). This additional deferral amount is not subject to the overall limit on elective deferrals.



You cannot deduct the amount deferred. It is not included as income in box 1 of your Form W-2.

- Disability pensions shown on Form 1099-R if you have not reached the minimum retirement age set by your employer.

But see *Insurance Premiums for Retired Public Safety Officers* on page 25. Disability pensions received after you reach minimum retirement age and other payments shown on Form 1099-R (other than payments from an IRA*) are reported on lines 16a and 16b. Payments from an IRA are reported on lines 15a and 15b.

- Corrective distributions from a retirement plan shown on Form 1099-R of excess salary deferrals and excess contributions (plus earnings). But do not include distributions from an IRA* on line 7. Instead, report distributions from an IRA on lines 15a and 15b.

- Wages from Form 8919, line 6.

*This includes a Roth, SEP, or SIMPLE IRA.

Were You a Statutory Employee?

If you were, the “Statutory employee” box in box 13 of your Form W-2 should be checked. Statutory employees include full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers. If you have related business expenses to deduct, report the amount shown in box 1 of your Form W-2 on Schedule C or C-EZ along with your expenses.

Missing or Incorrect Form W-2?

Your employer is required to provide or send Form W-2 to you no later than February 1, 2010. If you do not receive it by early February, use TeleTax topic 154 (see page 93) to find out what to do. Even if you do not get a Form W-2, you must still report your earnings on line 7. If you lose your Form W-2 or it is incorrect, ask your employer for a new one.

Line 8a

Taxable Interest

Each payer should send you a Form 1099-INT or Form 1099-OID. Enter your total taxable interest income on line 8a. But you must fill in and attach Schedule B if the total is over \$1,500 or any of the other conditions listed at the beginning of the Schedule B instructions apply to you.

Interest credited in 2009 on deposits that you could not withdraw because of the bankruptcy or insolvency of the financial institution may not have to be included in your 2009 income. For details, see Pub. 550.



If you get a 2009 Form 1099-INT for U.S. savings bond interest that includes amounts you reported before 2009, see Pub. 550.

Line 8b

Tax-Exempt Interest

If you received any tax-exempt interest, such as from municipal bonds, each payer should send you a Form 1099-INT. Your tax-exempt interest, including any exempt-interest dividends from a mutual fund or other regulated investment company, should be included in box 8 of Form 1099-INT. Enter the total on line 8b. Do not include interest earned on your IRA, health savings account, Archer or Medicare Advantage MSA, or Coverdell education savings account.

Line 9a

Ordinary Dividends

Each payer should send you a Form 1099-DIV. Enter your total ordinary dividends on line 9a. This amount should be shown in box 1a of Form(s) 1099-DIV.

You must fill in and attach Schedule B if the total is over \$1,500 or you received, as a nominee, ordinary dividends that actually belong to someone else.

Nondividend Distributions

Some distributions are a return of your cost (or other basis). They will not be taxed until you recover your cost (or other basis). You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains on Schedule D. For details, see Pub. 550.



Dividends on insurance policies are a partial return of the premiums you paid. Do not report them as dividends. Include them in income on line 21 only if they exceed the total of all net premiums you paid for the contract.

Line 9b

Qualified Dividends

Enter your total qualified dividends on line 9b. Qualified dividends are also included in the ordinary dividend total required to be shown on line 9a. Qualified dividends are eligible for a lower tax rate than other ordinary income. Generally, these dividends are shown in box 1b of Form(s) 1099-DIV. See Pub. 550 for the definition of qualified dividends if you received dividends not reported on Form 1099-DIV.

Exception. Some dividends may be reported as qualified dividends in box 1b of Form 1099-DIV but are not qualified dividends. These include:

- Dividends you received as a nominee. See the Schedule B instructions.

- Dividends you received on any share of stock that you held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock is not entitled to receive the next dividend payment. When counting the number of days you held the stock, include the day you disposed of the stock but not the day you acquired it. See the examples on this page and page 23. Also, when counting the number of days you held the stock, you cannot count certain days during which your risk of loss was diminished. See Pub. 550 for more details.

- Dividends attributable to periods totaling more than 366 days that you received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When counting the number of days you held the stock, you cannot count certain days during which your risk of loss was diminished. See Pub. 550 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule on this page.

- Dividends on any share of stock to the extent that you are under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.

- Payments in lieu of dividends, but only if you know or have reason to know that the payments are not qualified dividends.

Example 1. You bought 5,000 shares of XYZ Corp. common stock on July 9, 2009. XYZ Corp. paid a cash dividend of 10 cents per share. The ex-dividend date was July 17, 2009. Your Form 1099-DIV from XYZ Corp. shows \$500 in box 1a (ordinary dividends) and in box 1b (qualified dividends). However, you sold the 5,000 shares on August 12, 2009. You held your shares of XYZ Corp. for only 34 days of the 121-day period (from July 10, 2009, through August 12, 2009). The 121-day period began on May 18, 2009 (60 days before the ex-dividend date), and ended on September 15, 2009. You have no qualified dividends from XYZ Corp. because you held the XYZ stock for less than 61 days.

Example 2. Assume the same facts as in Example 1 except that you bought the stock on July 16, 2009 (the day before the ex-dividend date), and you sold the stock on September 17, 2009. You held the stock for 63 days (from July 17, 2009, through September 17, 2009). The \$500 of qualified dividends shown in box 1b of Form 1099-DIV are all qualified dividends because you held the stock for 61 days of the 121-day period (from July 17, 2009, through September 15, 2009).

Example 3. You bought 10,000 shares of ABC Mutual Fund common stock on July 9, 2009. ABC Mutual Fund paid a cash dividend of 10 cents a share. The ex-dividend date was July 17, 2009. The ABC Mutual Fund advises you that the portion of the dividend eligible to be treated as qualified dividends equals 2 cents per share. Your Form 1099-DIV from ABC Mutual Fund shows total ordinary dividends of \$1,000 and qualified dividends of \$200. However, you sold the 10,000 shares on August 12, 2009. You have no qualified dividends from ABC Mutual Fund because you held the ABC Mutual Fund stock for less than 61 days.

that applies. See the instructions for line 44 that begin on page 37 for details.

2008 and you deducted state and local income taxes on line 5 of your 2008 Schedule A, use the worksheet below to see if any of your refund is taxable.

Line 10 Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

TIP None of your refund is taxable if, in the year you paid the tax, you either (a) did not itemize deductions, or (b) elected to deduct state and local general sales taxes instead of state and local income taxes.

Exception. See *Itemized Deduction Recoveries* in Pub. 525 instead of using the worksheet below if any of the following applies.

1. You received a refund in 2009 that is for a tax year other than 2008.
2. You received a refund other than an income tax refund, such as a general sales tax or real property tax refund, in 2009 of an amount deducted or credit claimed in an earlier year.
3. The amount on your 2008 Form 1040, line 42, was more than the amount on your 2008 Form 1040, line 41.
4. Your 2008 state and local income tax refund is more than your 2008 state and local income tax deduction minus the amount you could have deducted as your 2008 state and local general sales taxes.

TIP Be sure you use the *Qualified Dividends and Capital Gain Tax Worksheet* or the *Schedule D Tax Worksheet*, whichever applies, to figure your tax. Your tax may be less if you use the worksheet

If you received a refund, credit, or offset of state or local income taxes in 2009, you may receive a Form 1099-G. If you chose to apply part or all of the refund to your 2009 estimated state or local income tax, the amount applied is treated as received in 2009. If the refund was for a tax you paid in

State and Local Income Tax Refund Worksheet—Line 10

Keep for Your Records



Before you begin: ✓ Be sure you have read the Exception above to see if you can use this worksheet instead of Pub. 525 to figure if any of your refund is taxable.						
1.	Enter the income tax refund from Form(s) 1099-G (or similar statement). But do not enter more than the amount of your state and local income taxes shown on your 2008 Schedule A, line 5 1. <input style="width: 100px;" type="text"/>					
2.	Enter your total allowable itemized deductions from your 2008 Schedule A, line 29 2. <input style="width: 100px;" type="text"/>					
<p>Note. If the filing status on your 2008 Form 1040 was married filing separately and your spouse itemized deductions in 2008, skip lines 3 through 9, enter the amount from line 2 on line 10, and go to line 11.</p>						
3.	Enter the amount shown below for the filing status claimed on your 2008 Form 1040. <table style="margin-left: 20px; border: none;"> <tr> <td style="border: none;">• Single or married filing separately—\$5,450</td> <td rowspan="3" style="border: none; font-size: 3em; vertical-align: middle;">}</td> <td rowspan="3" style="border: none; width: 40px;"></td> </tr> <tr> <td style="border: none;">• Married filing jointly or qualifying widow(er)—\$10,900</td> </tr> <tr> <td style="border: none;">• Head of household—\$8,000</td> </tr> </table>	• Single or married filing separately—\$5,450	}		• Married filing jointly or qualifying widow(er)—\$10,900	• Head of household—\$8,000
• Single or married filing separately—\$5,450	}					
• Married filing jointly or qualifying widow(er)—\$10,900						
• Head of household—\$8,000						
4.	Did you fill in line 39a on your 2008 Form 1040? <table style="margin-left: 20px; border: none;"> <tr> <td style="border: none;"><input type="checkbox"/> No. Enter -0-.</td> <td rowspan="2" style="border: none; font-size: 3em; vertical-align: middle;">}</td> <td rowspan="2" style="border: none; width: 40px;"></td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Yes. Multiply the number in the box on line 39a of your 2008 Form 1040 by \$1,050 (\$1,350 if your 2008 filing status was single or head of household).</td> </tr> </table>	<input type="checkbox"/> No. Enter -0-.	}		<input type="checkbox"/> Yes. Multiply the number in the box on line 39a of your 2008 Form 1040 by \$1,050 (\$1,350 if your 2008 filing status was single or head of household).	
<input type="checkbox"/> No. Enter -0-.	}					
<input type="checkbox"/> Yes. Multiply the number in the box on line 39a of your 2008 Form 1040 by \$1,050 (\$1,350 if your 2008 filing status was single or head of household).						
5.	Enter any state or local real estate taxes shown on your 2008 Schedule A, line 6. Do not include foreign real estate taxes 5. <input style="width: 100px;" type="text"/>					
6.	Enter \$500 (\$1,000 if married filing jointly) 6. <input style="width: 100px;" type="text"/>					
7.	Enter the smaller of line 5 or line 6 7. <input style="width: 100px;" type="text"/>					
8.	Enter any net disaster loss from your 2008 Form 4684, line 18a 8. <input style="width: 100px;" type="text"/>					
9.	Add lines 3, 4, 7, and 8 9. <input style="width: 100px;" type="text"/>					
10.	Is the amount on line 9 less than the amount on line 2? <table style="margin-left: 20px; border: none;"> <tr> <td style="border: none;"><input type="checkbox"/> No. None of your refund is taxable.</td> <td rowspan="2" style="border: none; width: 40px;"></td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Yes. Subtract line 9 from line 2 10. <input style="width: 100px;" type="text"/></td> </tr> </table>	<input type="checkbox"/> No. None of your refund is taxable.		<input type="checkbox"/> Yes. Subtract line 9 from line 2 10. <input style="width: 100px;" type="text"/>		
<input type="checkbox"/> No. None of your refund is taxable.						
<input type="checkbox"/> Yes. Subtract line 9 from line 2 10. <input style="width: 100px;" type="text"/>						
11.	Taxable part of your refund. Enter the smaller of line 1 or line 10 here and on Form 1040, line 10 . . 11. <input style="width: 100px;" type="text"/>					

5. You made your last payment of 2008 estimated state or local income tax in 2009.

6. You owed alternative minimum tax in 2008.

7. You could not use the full amount of credits you were entitled to in 2008 because the total credits were more than the amount shown on your 2008 Form 1040, line 46.

8. You could be claimed as a dependent by someone else in 2008.

9. You had to use the Itemized Deductions Worksheet in the 2008 Instructions for Schedules A&B because your 2008 adjusted gross income was over \$159,950 (\$79,975 if married filing separately) and both of the following apply.

a. You could not deduct all of the amount on the 2008 Itemized Deductions Worksheet, line 1.

b. The amount on line 8 of that 2008 worksheet would be more than the amount on line 4 of that worksheet if the amount on line 4 were reduced by 80% of the refund you received in 2009.

Line 11

Alimony Received

Enter amounts received as alimony or separate maintenance. You must let the person who made the payments know your social security number. If you do not, you may have to pay a \$50 penalty. For more details, see Pub. 504.

Line 12

Business Income or (Loss)

If you operated a business or practiced your profession as a sole proprietor, report your income and expenses on Schedule C or C-EZ.

Line 13

Capital Gain or (Loss)

If you had a capital gain or loss, including any capital gain distributions or a capital loss carryover from 2008, you must complete and attach Schedule D.

Exception. You do not have to file Schedule D if both of the following apply.

- The only amounts you have to report on Schedule D are capital gain distributions from Form(s) 1099-DIV, box 2a, or substitute statements.

- None of the Form(s) 1099-DIV or substitute statements have an amount in box 2b (unrecaptured section 1250 gain), box 2c (section 1202 gain), or box 2d (collectibles (28%) gain).

If both of the above apply, enter your total capital gain distributions (from box 2a of Form(s) 1099-DIV) on line 13 and check

the box on that line. If you received capital gain distributions as a nominee (that is, they were paid to you but actually belong to someone else), report on line 13 only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Schedule B instructions for filing requirements for Forms 1099-DIV and 1096.



If you do not have to file Schedule D, use the Qualified Dividends and Capital Gain Tax Worksheet on page 39 to figure your tax. Your tax is usually less if you use this worksheet.

Line 14

Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the Instructions for Form 4797.

Lines 15a and 15b

IRA Distributions



Special rules may apply to your IRA distributions if your main home was in a Midwestern disaster area. For details, see Pub. 4492-B.

You should receive a Form 1099-R showing the amount of any distribution from your IRA. Unless otherwise noted in the line 15a and 15b instructions, an IRA includes a traditional IRA, Roth IRA, simplified employee pension (SEP) IRA, and a savings incentive match plan for employees (SIMPLE) IRA. Except as provided below, leave line 15a blank and enter the total distribution on line 15b.

Exception 1. Enter the total distribution on line 15a if you rolled over part or all of the distribution from one:

- IRA to another IRA of the same type (for example, from one traditional IRA to another traditional IRA),
- SEP or SIMPLE IRA to a traditional IRA, or
- IRA to a qualified plan other than an IRA.

Also, enter “Rollover” next to line 15b. If the total distribution was rolled over in a qualified rollover, enter -0- on line 15b. If the total distribution was not rolled over in a qualified rollover, enter the part not rolled over on line 15b unless *Exception 2* applies to the part not rolled over. Generally, a qualified rollover must be made within 60 days after the day you received the distribution. For more details on rollovers, see Pub. 590.

If you rolled over the distribution into a qualified plan other than an IRA or you made the rollover in 2010, attach a statement explaining what you did.

Exception 2. If any of the following apply, enter the total distribution on line 15a and see Form 8606 and its instructions to figure the amount to enter on line 15b.

1. You received a distribution from an IRA (other than a Roth IRA) and you made nondeductible contributions to any of your traditional or SEP IRAs for 2009 or an earlier year. If you made nondeductible contributions to these IRAs for 2009, also see Pub. 590.

2. You received a distribution from a Roth IRA. But if either (a) or (b) below applies, enter -0- on line 15b; you do not have to see Form 8606 or its instructions.

a. Distribution code T is shown in box 7 of Form 1099-R and you made a contribution (including a conversion) to a Roth IRA for 2004 or an earlier year.

b. Distribution code Q is shown in box 7 of Form 1099-R.

3. You converted part or all of a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2009.

4. You had a 2008 or 2009 IRA contribution returned to you, with the related earnings or less any loss, by the due date (including extensions) of your tax return for that year.

5. You made excess contributions to your IRA for an earlier year and had them returned to you in 2009.

6. You recharacterized part or all of a contribution to a Roth IRA as a traditional IRA contribution, or vice versa.

Exception 3. If the distribution is a qualified charitable distribution (QCD), enter the total distribution on line 15a. If the total amount distributed is a QCD, enter -0- on line 15b. If only part of the distribution is a QCD, enter the part that is not a QCD on line 15b unless *Exception 2* applies to that part. Enter “QCD” next to line 15b.

A QCD is a distribution made directly by the trustee of your IRA (other than an ongoing SEP or SIMPLE IRA) to an organization eligible to receive tax-deductible contributions (with certain exceptions). You must have been at least age 70½ when the distribution was made. Your total QCDs for the year cannot be more than \$100,000. (On a joint return, your spouse can also have a QCD of up to \$100,000.) The amount of the QCD is limited to the amount that would otherwise be included in your income. If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income. See Pub. 590 for details.



You cannot claim a charitable contribution deduction for any QCD not included in your income.

Exception 4. If the distribution is a qualified health savings account (HSA) funding distribution (HFD), enter the total distribution on line 15a. If the total amount distributed is an HFD and you elect to exclude it from income, enter -0- on line 15b. If only part of the distribution is an HFD and you elect to exclude that part from income, enter the part that is not an HFD on line 15b unless *Exception 2* applies to that part. Enter “HFD” next to line 15b.

An HFD is a distribution made directly by the trustee of your IRA (other than an ongoing SEP or SIMPLE IRA) to your HSA. If eligible, you generally can elect to exclude an HFD from your income once in your lifetime. You cannot exclude more than the limit on HSA contributions or more than the amount that would otherwise be included in your income. If your IRA includes nondeductible contributions, the HFD is first considered to be paid out of otherwise taxable income. See Pub. 969 for details.



The amount of an HFD reduces the amount you can contribute to your HSA for the year. If you fail to maintain eligibility for an HSA for the 12 months following the month of the HFD, you may have to report the HFD as income and pay an additional tax. See Form 8889, Part III.

See Pub. 590 for details.

More than one exception applies. If more than one exception applies, attach a statement showing the amount of each exception, instead of making an entry next to line 15b. For example: “Line 15b – \$1,000 Rollover and \$500 HFD.”

More than one distribution. If you (or your spouse if filing jointly) received more than one distribution, figure the taxable amount of each distribution and enter the total of the taxable amounts on line 15b. Enter the total amount of those distributions on line 15a.



You may have to pay an additional tax if you received an early distribution from your IRA and the total was not rolled over. See the instructions for line 58 on page 45 for details.

Lines 16a and 16b Pensions and Annuities



Special rules may apply if you received a distribution from a profit-sharing or retirement plan and your main home was

in a Midwestern disaster area. For details, see Pub. 4492-B.

You should receive a Form 1099-R showing the amount of your pension and annuity payments, including distributions from 401(k), 403(b), and governmental 457(b) plans. See page 27 for details on rollovers and lump-sum distributions. Do not include the following payments on lines 16a and 16b. Instead, report them on line 7.

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions (including any earnings) of excess salary deferrals or excess contributions to retirement plans. The plan must advise you of the year(s) the distributions are includible in income.



Attach Form(s) 1099-R to Form 1040 if any federal income tax was withheld.

Fully Taxable Pensions and Annuities

If your pension or annuity is fully taxable, enter it on line 16b; do not make an entry on line 16a. Your payments are fully taxable if (a) you did not contribute to the cost (see page 27) of your pension or annuity, or (b) you got your entire cost back tax free before 2009. But see *Insurance Premiums for Retired Public Safety Officers* on this page.

Fully taxable pensions and annuities also include military retirement pay shown on Form 1099-R. For details on military disability pensions, see Pub. 525. If you received a Form RRB-1099-R, see Pub. 575 to find out how to report your benefits.

Partially Taxable Pensions and Annuities

Enter the total pension or annuity payments you received in 2009 on line 16a. If your Form 1099-R does not show the taxable amount, you must use the General Rule explained in Pub. 939 to figure the taxable part to enter on line 16b. But if your annuity starting date (defined on this page) was after July 1, 1986, see *Simplified Method* on this page to find out if you must use that method to figure the taxable part.

You can ask the IRS to figure the taxable part for you for a \$500 fee. For details, see Pub. 939.

If your Form 1099-R shows a taxable amount, you can report that amount on line 16b. But you may be able to report a lower taxable amount by using the General Rule or the Simplified Method or if the exclusion for retired public safety officers, discussed next, applies.

Insurance Premiums for Retired Public Safety Officers

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for coverage by an accident or health plan or a long-term care insurance contract. You can do this only if you retired because of disability or because you reached normal retirement age. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be from a plan maintained by the employer from which you retired as a public safety officer. Also, the distribution must be made directly from the plan to the provider of the accident or health plan or long-term care insurance contract. You can exclude from income the smaller of the amount of the premiums or \$3,000. You can only make this election for amounts that would otherwise be included in your income.

An eligible retirement plan is a governmental plan that is:

- A qualified trust,
- A section 403(a) plan,
- A section 403(b) plan, or
- A section 457(b) plan.

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The amount shown in box 2a of Form 1099-R does not reflect the exclusion. Report your total distributions on line 16a and the taxable amount on line 16b. Enter “PSO” next to line 16b.

If you are retired on disability and reporting your disability pension on line 7, include only the taxable amount on that line and enter “PSO” and the amount excluded on the dotted line next to line 7.

Annuity Starting Date

Your annuity starting date is the later of the first day of the first period for which you received a payment or the date the plan’s obligations became fixed.

Simplified Method

You must use the Simplified Method if either of the following applies.

1. Your annuity starting date (defined above) was after July 1, 1986, and you used this method last year to figure the taxable part.

2. Your annuity starting date was after November 18, 1996, and both of the following apply.

a. The payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity.

b. On your annuity starting date, either you were under age 75 or the number of years of guaranteed payments was fewer than 5. See Pub. 575 for the definition of guaranteed payments.

If you must use the Simplified Method, complete the worksheet below to figure the taxable part of your pension or annuity. For

more details on the Simplified Method, see Pub. 575 or Pub. 721 for U.S. Civil Service retirement benefits.



If you received U.S. Civil Service retirement benefits and you chose the alternative annuity option, see Pub. 721 to figure

the taxable part of your annuity. Do not use the worksheet below.

Age (or Combined Ages) at Annuity Starting Date

If you are the retiree, use your age on the annuity starting date. If you are the survivor of a retiree, use the retiree's age on his or her annuity starting date. But if your annu-

Simplified Method Worksheet—Lines 16a and 16b

Keep for Your Records



Before you begin: ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, include any death benefit exclusion that you are entitled to (up to \$5,000) in the amount entered on line 2 below.

Note. If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 2009 on Form 1040, line 16a.


1. Enter the total pension or annuity payments received in 2009. Also, enter this amount on Form 1040, line 16a	1.	
2. Enter your cost in the plan at the annuity starting date	2.	
Note. If you completed this worksheet last year, skip line 3 and enter the amount from line 4 of last year's worksheet on line 4 below (even if the amount of your pension or annuity has changed). Otherwise, go to line 3.		
3. Enter the appropriate number from Table 1 below. But if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, enter the appropriate number from Table 2 below	3.	
4. Divide line 2 by the number on line 3	4.	
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was before 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6	5.	
6. Enter the amount, if any, recovered tax free in years after 1986. If you completed this worksheet last year, enter the amount from line 10 of last year's worksheet	6.	
7. Subtract line 6 from line 2	7.	
8. Enter the smaller of line 5 or line 7	8.	
9. Taxable amount. Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R. If you are a retired public safety officer, see <i>Insurance Premiums for Retired Public Safety Officers</i> on page 25 before entering an amount on line 16b.	9.	
10. Was your annuity starting date before 1987? <input type="checkbox"/> Yes.  Leave line 10 blank. <input type="checkbox"/> No. Add lines 6 and 8. This is the amount you have recovered tax free through 2009. You will need this number when you fill out this worksheet next year	10.	

Table 1 for Line 3 Above

AND your annuity starting date was—

IF the age at annuity starting date (see page 25) was . . .	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 25) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

ity starting date was after 1997 and the payments are for your life and that of your beneficiary, use your combined ages on the annuity starting date.

If you are the beneficiary of an employee who died, see Pub. 575. If there is more than one beneficiary, see Pub. 575 or Pub. 721 to figure each beneficiary's taxable amount.

Cost

Your cost is generally your net investment in the plan as of the annuity starting date. It does not include pre-tax contributions. Your net investment should be shown in box 9b of Form 1099-R for the first year you received payments from the plan.

Rollovers

Generally, a qualified rollover is a tax-free distribution of cash or other assets from one retirement plan that is contributed to another plan within 60 days of receiving the distribution. However, a qualified rollover to a Roth IRA is generally not a tax-free distribution. Use lines 16a and 16b to report a qualified rollover, including a direct rollover, from one qualified employer's plan to another or to an IRA or SEP.

For more details on rollovers, including distributions under qualified domestic relations orders, see Pub. 575.

Rollover to a plan other than a Roth IRA or a designated Roth account. Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of Form 1099-R. From the total on line 16a, subtract any contributions (usually shown in box 5) that were taxable to you when made. From that result, subtract the amount of the qualified rollover. Enter the remaining amount, even if zero, on line 16b. Also, enter "Roll-over" next to line 16b.

Special rules apply to partial rollovers of property. See Pub. 575.

Rollover to a Roth IRA (other than from a designated Roth account). Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of Form 1099-R. From the total on line 16a, subtract any contributions (usually shown in box 5) that were taxable to you when made. Enter the remaining amount, even if zero, on line 16b.

Rollover to a Roth IRA or a designated Roth account from a designated Roth account. Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of Form 1099-R. From the total on line 16a, subtract the amount of the qualified rollover. Enter the remaining amount, even if zero, on line 16b. Also, enter "Rollover" next to line 16b.

Lump-Sum Distributions

If you received a lump-sum distribution from a profit-sharing or retirement plan, your Form 1099-R should have the "Total distribution" box in box 2b checked. You may owe an additional tax if you received an early distribution from a qualified retirement plan and the total amount was not rolled over in a qualified rollover. For details, see the instructions for line 58 on page 45.

Enter the total distribution on line 16a and the taxable part on line 16b. For details, see Pub. 575.



You may be able to pay less tax on the distribution if you were born before January 2, 1936, or you are the beneficiary of a deceased employee who was born before January 2, 1936. For details, see Form 4972.

Line 19

Unemployment Compensation

You should receive a Form 1099-G showing in box 1 the total unemployment compensation paid to you in 2009. Report on line 19 the part, if any, you received that is more than \$2,400. If married filing jointly, also report on line 19 any unemployment compensation received by your spouse that is more than \$2,400. If you made contributions to a governmental unemployment compensation program and you are not itemizing deductions, reduce the amount you report on line 19 by those contributions.

If you received an overpayment of unemployment compensation in 2009 and you repaid any of it in 2009, reduce the

amount you would otherwise be required to report on line 19 by the amount you repaid. Enter the result on line 19. However, if the result is zero or less, enter -0- on line 19. Also, enter "Repaid" and the amount you repaid on the dotted line next to line 19. If, in 2009, you repaid unemployment compensation that you included in gross income in an earlier year, you can deduct the amount repaid on Schedule A, line 23. But if you repaid more than \$3,000, see *Repayments* in Pub. 525 for details on how to report the repayment.

Lines 20a and 20b

Social Security Benefits

You should receive a Form SSA-1099 showing in box 3 the total social security benefits paid to you. Box 4 will show the amount of any benefits you repaid in 2009. If you received railroad retirement benefits treated as social security, you should receive a Form RRB-1099.

Use the worksheet on page 28 to see if any of your benefits are taxable.

Exception. Do not use the worksheet on page 28 if any of the following applies.

- You made contributions to a traditional IRA for 2009 and you or your spouse were covered by a retirement plan at work or through self-employment. Instead, use the worksheets in Pub. 590 to see if any of your social security benefits are taxable and to figure your IRA deduction.
- You repaid any benefits in 2009 and your total repayments (box 4) were more than your total benefits for 2009 (box 3). None of your benefits are taxable for 2009. Also, you may be able to take an itemized deduction or a credit for part of the excess repayments if they were for benefits you included in gross income in an earlier year. For more details, see Pub. 915.
- You file Form 2555, 2555-EZ, 4563, or 8815, or you exclude employer-provided adoption benefits or income from sources within Puerto Rico. Instead, use the worksheet in Pub. 915.

Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records



- Before you begin:**
- ✓ Complete Form 1040, lines 21 and 23 through 32, if they apply to you.
 - ✓ Figure any write-in adjustments to be entered on the dotted line next to line 36 (see the instructions for line 36 on page 35).
 - ✓ If you are married filing separately and you lived apart from your spouse for all of 2009, enter “D” to the right of the word “benefits” on line 20a. If you do not, you may get a math error notice from the IRS.
 - ✓ Be sure you have read the **Exception** on page 27 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

<p>1. Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099. Also, enter this amount on Form 1040, line 20a</p>	1.			
<p>2. Enter one-half of line 1</p>	2.			
<p>3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21</p>	3.			
<p>4. Enter the amount, if any, from Form 1040, line 8b</p>	4.			
<p>5. Add lines 2, 3, and 4</p>	5.			
<p>6. Enter the total of the amounts from Form 1040, lines 23 through 32, plus any write-in adjustments you entered on the dotted line next to line 36</p>	6.			
<p>7. Is the amount on line 6 less than the amount on line 5?</p> <p><input type="checkbox"/> No. None of your social security benefits are taxable. Enter -0- on Form 1040, line 20b.</p> <p><input type="checkbox"/> Yes. Subtract line 6 from line 5</p>	7.			
<p>8. If you are:</p> <ul style="list-style-type: none"> • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2009, enter \$25,000 • Married filing separately and you lived with your spouse at any time in 2009, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17 	8.			
<p>9. Is the amount on line 8 less than the amount on line 7?</p> <p><input type="checkbox"/> No. None of your social security benefits are taxable. Enter -0- on Form 1040, line 20b. If you are married filing separately and you lived apart from your spouse for all of 2009, be sure you entered “D” to the right of the word “benefits” on line 20a.</p> <p><input type="checkbox"/> Yes. Subtract line 8 from line 7</p>	9.			
<p>10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2009</p>	10.			
<p>11. Subtract line 10 from line 9. If zero or less, enter -0-</p>	11.			
<p>12. Enter the smaller of line 9 or line 10</p>	12.			
<p>13. Enter one-half of line 12</p>	13.			
<p>14. Enter the smaller of line 2 or line 13</p>	14.			
<p>15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-</p>	15.			
<p>16. Add lines 14 and 15</p>	16.			
<p>17. Multiply line 1 by 85% (.85)</p>	17.			
<p>18. Taxable social security benefits. Enter the smaller of line 16 or line 17. Also enter this amount on Form 1040, line 20b</p>	18.			

TIP If any of your benefits are taxable for 2009 **and** they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Line 21 Other Income



Do not report on this line any income from self-employment or fees received as a notary public. Instead, you must use Schedule C, C-EZ, or F, even if you do not have any business expenses. Also, do not report on line 21 any nonemployee compensation shown on Form 1099-MISC. Instead, see the chart on page 11 to find out where to report that income.

Taxable income. Use line 21 to report any taxable income not reported elsewhere on your return or other schedules. See the examples below. List the type and amount of income. If necessary, show the required information on an attached statement. For more details, see *Miscellaneous Income* in Pub. 525.

Examples of income to report on line 21 include the following.

- Taxable distributions from a Coverdell education savings account (ESA) or a qualified tuition program (QTP). Distributions from these accounts may be taxable if (a) they are more than the qualified higher education expenses of the designated beneficiary in 2009, and (b) they were not included in a qualified rollover. See Pub. 970. Nontaxable distributions from these accounts, including rollovers, do not have to be reported on Form 1040.



You may have to pay an additional tax if you received a taxable distribution from a Coverdell ESA or a QTP. See the Instructions for Form 5329.

- Taxable distributions from a health savings account (HSA) or an Archer MSA. Distributions from these accounts may be taxable if (a) they are more than the unreimbursed qualified medical expenses of the account beneficiary or account holder in 2009, and (b) they were not included in a qualified rollover. See Pub. 969.



You may have to pay an additional tax if you received a taxable distribution from an HSA or an Archer MSA. See the Instructions for Form 8889 for HSAs or the Instructions for Form 8853 for Archer MSAs.

- Amounts deemed to be income from an HSA because you did not remain an eligible individual during the testing period. See Form 8889, Part III.

- Prizes and awards.

- Gambling winnings, including lotteries, raffles, a lump-sum payment from the sale of a right to receive future lottery payments, etc. For details on gambling losses, see the instructions for Schedule A, line 28, on page A-11.



Attach Form(s) W-2G to Form 1040 if any federal income tax was withheld.

- Jury duty pay. Also, see the instructions for line 36 on page 35.

- Alaska Permanent Fund dividends.

- Alternative trade adjustment assistance (ATAA) payments. These payments should be shown in box 5 of Form 1099-G.

- Reimbursements or other amounts received for items deducted in an earlier year, such as medical expenses, real estate taxes, general sales taxes, or home mortgage interest. See *Recoveries* in Pub. 525 for details on how to figure the amount to report.

- Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property. Also, see the instructions for line 36 on page 35.

- Income from an activity not engaged in for profit. See Pub. 535.

- Loss on certain corrective distributions of excess deferrals. See *Retirement Plan Contributions* in Pub. 525.

- Dividends on insurance policies if they exceed the total of all net premiums you paid for the contract.

- Recapture of a charitable contribution deduction relating to the contribution of a fractional interest in tangible personal property. See *Fractional Interest In Tangible Personal Property* in Pub. 526. Interest and an additional 10% tax apply to the amount of the recapture. See the instructions for line 60 on page 46.

- Recapture of a charitable contribution deduction if the charitable organization disposes of the donated property within 3 years of the contribution. See *Recapture if no exempt use* in Pub. 526.

- Canceled debts. These amounts may be shown in box 2 of Form 1099-C. However, part or all of your income from the cancellation of debt may be nontaxable. See Pub. 4681 or go to www.irs.gov and enter “canceled debt” or “foreclosure” in the search box.

Nontaxable income. Do not report any nontaxable income on line 21. Examples of nontaxable income include the following.

- Child support.

- Economic recovery payments of \$250 made to certain recipients of social security benefits, supplemental security income, railroad retirement benefits, or certain veterans disability compensation or pension benefits.

- Vouchers or payments made for such vouchers of \$3,500 or \$4,500 you received under the CARS “cash for clunkers” program to buy or lease a new fuel-efficient automobile.

- Any Pay-for-Performance Success Payments that reduce the principal balance of your home mortgage under the Home Affordable Modification Program.

- Life insurance proceeds received because of someone’s death (other than from certain employer-owned life insurance contracts).

- Gifts and bequests. However, if you received a gift or bequest from a foreign person of more than \$14,139, you may have to report information about it on Form 3520, Part IV. See the Instructions for Form 3520.

Adjusted Gross Income

Line 23

Educator Expenses

If you were an eligible educator in 2009, you can deduct on line 23 up to \$250 of qualified expenses you paid in 2009. If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$500. However, neither spouse can deduct more than \$250 of his or her qualified expenses on line 23. You may be able to deduct expenses that are more than the \$250 (or \$500) limit on Schedule A, line 21. An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide who worked in a school for at least 900 hours during a school year.

Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense does not have to be required to be considered necessary.

Qualified expenses do not include expenses for home schooling or for nonathletic supplies for courses in health or physical education.

You must reduce your qualified expenses by the following amounts.

- Excludable U.S. series EE and I savings bond interest from Form 8815.

- Nontaxable qualified tuition program earnings or distributions.

- Any nontaxable distribution of Coverdell education savings account earnings.

- Any reimbursements you received for these expenses that were not reported to you in box 1 of your Form W-2.

For more details, use TeleTax topic 458 (see page 94) or see Pub. 529.

Line 24

Certain Business Expenses of Reservists, Performing Artists, and Fee-Basis Government Officials

Include the following deductions on line 24.

- Certain business expenses of National Guard and reserve members who traveled more than 100 miles from home to perform services as a National Guard or reserve member.
- Performing-arts-related expenses as a qualified performing artist.
- Business expenses of fee-basis state or local government officials.

For more details, see Form 2106 or 2106-EZ.

Line 25

Health Savings Account (HSA) Deduction

You may be able to take this deduction if contributions (other than employer contributions, rollovers, and qualified HSA funding distributions from an IRA) were made to your HSA for 2009. See Form 8889.

Line 26

Moving Expenses

If you moved in connection with your job or business or started a new job, you may be able to take this deduction. But your new workplace must be at least 50 miles farther from your old home than your old home was from your old workplace. If you had no former workplace, your new workplace must be at least 50 miles from your old home. Use TeleTax topic 455 (see page 94) or see Form 3903.

Line 27

One-Half of Self-Employment Tax

If you were self-employed and owe self-employment tax, fill in Schedule SE to figure the amount of your deduction.

Line 28

Self-Employed SEP, SIMPLE, and Qualified Plans

If you were self-employed or a partner, you may be able to take this deduction. See Pub. 560 or, if you were a minister, Pub. 517.

Line 29

Self-Employed Health Insurance Deduction

You may be able to deduct the amount you paid for health insurance for yourself, your spouse, and your dependents if any of the following applies.

- You were self-employed and had a net profit for the year.
- You used one of the optional methods to figure your net earnings from self-employment on Schedule SE.
- You received wages in 2009 from an S corporation in which you were a more-than-2% shareholder. Health insurance premiums paid or reimbursed by the S corporation may be shown in box 14 of Form W-2.

The insurance plan must be established under your business. If you are a more-than-2% shareholder in an S corporation, the plan must be established by the S corporation. A plan is established by the S corporation if (a) the S corporation makes the premium payments for the policy in 2009 or (b) you make the premium payments and furnish proof of payment to the S corporation and then the S corporation reimburses you for the premium payments in 2009. You can deduct the premiums only if the S corporation reports the premiums paid or reimbursed as wages in box 1 of your Form W-2 in 2009 and you also report the premium payments or reimbursements as wages on Form 1040, line 7.

Self-Employed Health Insurance Deduction Worksheet—Line 29

Keep for Your Records



- Before you begin:**
- ✓ If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, reemployment trade adjustment assistance (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, see the Note on page 31.
 - ✓ Be sure you have read the **Exception** on page 31 to see if you can use this worksheet instead of Pub. 535 to figure your deduction.

1. Enter the total amount paid in 2009 for health insurance coverage established under your business (or the S corporation in which you were a more-than-2% shareholder) for 2009 for you, your spouse, and your dependents. But do not include amounts for any month you were eligible to participate in an employer-sponsored health plan or amounts paid from retirement plan distributions that were nontaxable because you are a retired public safety officer	1.	
2. Enter your net profit* and any other earned income** from the business under which the insurance plan is established, minus any deductions on Form 1040, lines 27 and 28	2.	
3. Self-employed health insurance deduction. Enter the smaller of line 1 or line 2 here and on Form 1040, line 29. Do not include this amount in figuring any medical expense deduction on Schedule A	3.	

*If you used either optional method to figure your net earnings from self-employment, do not enter your net profit. Instead, enter the amount from Schedule SE, Section B, line 4b.

****Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. However, it does not include capital gain income. If you were a more-than-2% shareholder in the S corporation under which the insurance plan is established, earned income is your Medicare wages (box 5 of Form W-2) from that corporation.

But if you were also eligible to participate in any subsidized health plan maintained by your or your spouse's employer for any month or part of a month in 2009, amounts paid for health insurance coverage for that month cannot be used to figure the deduction. For example, if you were eligible to participate in a subsidized health plan maintained by your spouse's employer from September 30 through December 31, you cannot use amounts paid for health insurance coverage for September through December to figure your deduction.

Medicare premiums cannot be used to figure the deduction. Also, amounts paid for health insurance coverage from retirement plan distributions that were nontaxable because you are a retired public safety officer cannot be used to figure the deduction.

For more details, see Pub. 535.

Note. If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, re-employment trade adjustment assistance (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, you must complete Form 8885 before completing the worksheet on page 30. When figuring the amount to enter on line 1 of the worksheet on page 30, do not include:

- Any amounts you included on Form 8885, line 4,
- Any qualified health insurance premiums you paid to "U.S. Treasury-HCTC," or
- Any health coverage tax credit advance payments shown in box 1 of Form 1099-H.

If you qualify to take the deduction, use the worksheet on page 30 to figure the amount you can deduct.

Exception. Use Pub. 535 instead of the worksheet on page 30 to figure your deduction if any of the following applies.

- You had more than one source of income subject to self-employment tax.
- You file Form 2555 or 2555-EZ.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

Line 30

Penalty on Early Withdrawal of Savings

The Form 1099-INT or Form 1099-OID you received will show the amount of any penalty you were charged.

Lines 31a and 31b

Alimony Paid

If you made payments to or for your spouse or former spouse under a divorce or separation instrument, you may be able to take this deduction. Use TeleTax topic 452 (see page 94) or see Pub. 504.

Line 32

IRA Deduction



If you made any nondeductible contributions to a traditional individual retirement arrangement (IRA) for 2009, you must report them on Form 8606.

If you made contributions to a traditional IRA for 2009, you may be able to take an IRA deduction. But you, or your spouse if filing a joint return, must have had earned income to do so. For IRA purposes, earned income includes alimony and separate maintenance payments reported on line 11. If you were a member of the U.S. Armed Forces, earned income includes any nontaxable combat pay you received. If you were self-employed, earned income is generally your net earnings from self-employment if your personal services were a material income-producing factor. For more details, see Pub. 590. A statement should be sent to you by June 1, 2010, that shows all contributions to your traditional IRA for 2009.

Use the worksheet on pages 32 and 33 to figure the amount, if any, of your IRA deduction. But read the following list before you fill in the worksheet.

1. If you were age 70½ or older at the end of 2009, you cannot deduct any contributions made to your traditional IRA for 2009 or treat them as nondeductible contributions.

2. You cannot deduct contributions to a Roth IRA. But you may be able to take the retirement savings contributions credit (saver's credit). See the instructions for line 50 on page 40.



If you are filing a joint return and you or your spouse made contributions to both a traditional IRA and a Roth IRA for 2009, do not use the worksheet on pages 32 and 33. Instead, see Pub. 590 to figure the amount, if any, of your IRA deduction.

3. You cannot deduct elective deferrals to a 401(k) plan, 403(b) plan, section 457 plan, SIMPLE plan, or the federal Thrift Savings Plan. These amounts are not included as income in box 1 of your Form W-2. But you may be able to take the retirement savings contributions credit. See the instructions for line 50 on page 40.

4. If you made contributions to your IRA in 2009 that you deducted for 2008, do not include them in the worksheet.

5. If you received income from a non-qualified deferred compensation plan or nongovernmental section 457 plan that is included in box 1 of your Form W-2, or in box 7 of Form 1099-MISC, do not include that income on line 8 of the worksheet. The income should be shown in (a) box 11 of your Form W-2, (b) box 12 of your Form W-2 with code Z, or (c) box 15b of Form 1099-MISC. If it is not, contact your employer or the payer for the amount of the income.

6. You must file a joint return to deduct contributions to your spouse's IRA. Enter the total IRA deduction for you and your spouse on line 32.

7. Do not include qualified rollover contributions in figuring your deduction. Instead, see the instructions for lines 15a and 15b that begin on page 24.

8. Do not include trustees' fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on Schedule A.

9. Do not include any repayments of qualified reservist distributions. You cannot deduct them. For information on how to report these repayments, see *Qualified reservist repayments* in Pub. 590.

10. If the total of your IRA deduction on line 32 plus any nondeductible contribution to your traditional IRAs shown on Form 8606 is less than your total traditional IRA contributions for 2009, see Pub. 590 for special rules.

11. You may be able to deduct up to an additional \$3,000 if all the following conditions are met.

a. You must have been a participant in a 401(k) plan under which the employer matched at least 50% of your contributions to the plan with stock of the company.

b. You must have been a participant in the 401(k) plan 6 months before the employer filed for bankruptcy.

c. The employer (or a controlling corporation) must have been a debtor in a bankruptcy case in an earlier year.

d. The employer (or any other person) must have been subject to indictment or conviction based on business transactions related to the bankruptcy.

If this applies to you, do not use the worksheet on pages 32 and 33. Instead, use the worksheet in Pub. 590.



By April 1 of the year after the year in which you turn age 70½, you must start taking minimum required distributions from your traditional IRA. If you do not, you may have to pay a 50% additional tax on the amount that should have been distributed. For details, including how to figure the minimum required distribution, see Pub. 590.

Were You Covered by a Retirement Plan?

If you were covered by a retirement plan (qualified pension, profit-sharing (including 401(k)), annuity, SEP, SIMPLE, etc.) at work or through self-employment, your IRA deduction may be reduced or eliminated. But you can still make contributions to an IRA even if you cannot deduct them.

In any case, the income earned on your IRA contributions is not taxed until it is paid to you.

The “Retirement plan” box in box 13 of your Form W-2 should be checked if you were covered by a plan at work even if you were not vested in the plan. You are also covered by a plan if you were self-em-

ployed and had a SEP, SIMPLE, or qualified retirement plan.

If you were covered by a retirement plan and you file Form 2555, 2555-EZ, or 8815, or you exclude employer-provided adoption benefits, see Pub. 590 to figure the amount, if any, of your IRA deduction.

Married persons filing separately. If you were not covered by a retirement plan but

IRA Deduction Worksheet—Line 32

Keep for Your Records



If you were age 70½ or older at the end of 2009, you cannot deduct any contributions made to your traditional IRA or treat them as nondeductible contributions. Do not complete this worksheet for anyone age 70½ or older at the end of 2009. If you are married filing jointly and only one spouse was under age 70½ at the end of 2009, complete this worksheet only for that spouse.

Before you begin:		✓ Be sure you have read the list on page 31. You may not be eligible to use this worksheet.
		✓ Figure any write-in adjustments to be entered on the dotted line next to line 36 (see the instructions for line 36 on page 35).
		✓ If you are married filing separately and you lived apart from your spouse for all of 2009, enter “D” on the dotted line next to Form 1040, line 32. If you do not, you may get a math error notice from the IRS.

	Your IRA	Spouse’s IRA
1a. Were you covered by a retirement plan (see page 31)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
b. If married filing jointly, was your spouse covered by a retirement plan? Next. If you checked “No” on line 1a (and “No” on line 1b if married filing jointly), skip lines 2 through 6, enter the applicable amount below on line 7a (and line 7b if applicable), and go to line 8. • \$5,000, if under age 50 at the end of 2009. • \$6,000, if age 50 or older but under age 70½ at the end of 2009. Otherwise, go to line 2.		
2. Enter the amount shown below that applies to you. • Single, head of household, or married filing separately and you lived apart from your spouse for all of 2009, enter \$65,000 • Qualifying widow(er), enter \$109,000 • Married filing jointly, enter \$109,000 in both columns. But if you checked “No” on either line 1a or 1b, enter \$176,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2009, enter \$10,000	2a. <input style="width:100%;" type="text"/>	2b. <input style="width:100%;" type="text"/>
3. Enter the amount from Form 1040, line 22	3. <input style="width:100%;" type="text"/>	
4. Enter the total of the amounts from Form 1040, lines 23 through 31a, plus any write-in adjustments you entered on the dotted line next to line 36	4. <input style="width:100%;" type="text"/>	
5. Subtract line 4 from line 3. If married filing jointly, enter the result in both columns	5a. <input style="width:100%;" type="text"/>	5b. <input style="width:100%;" type="text"/>
6. Is the amount on line 5 less than the amount on line 2? <input type="checkbox"/> No. None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. <input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. Follow the instruction below that applies to you. • If single, head of household, or married filing separately, and the result is \$10,000 or more, enter the applicable amount below on line 7 for that column and go to line 8. i. \$5,000, if under age 50 at the end of 2009. ii. \$6,000, if age 50 or older but under age 70½ at the end of 2009. Otherwise, go to line 7. • If married filing jointly or qualifying widow(er), and the result is \$20,000 or more (\$10,000 or more in the column for the IRA of a person who was not covered by a retirement plan), enter the applicable amount below on line 7 for that column and go to line 8. i. \$5,000, if under age 50 at the end of 2009. ii. \$6,000 if age 50 or older but under age 70½ at the end of 2009. Otherwise, go to line 7.	6a. <input style="width:100%; height:100%;" type="text"/>	6b. <input style="width:100%; height:100%;" type="text"/>

IRA Deduction Worksheet—Continued from page 32

	Your IRA	Spouse's IRA
<p>7. Multiply lines 6a and 6b by the percentage below that applies to you. If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200.</p> <ul style="list-style-type: none"> • Single, head of household, or married filing separately, multiply by 50% (.50)(or by 60% (.60) in the column for the IRA of a person who is age 50 or older at the end of 2009) • Married filing jointly or qualifying widow(er), multiply by 25% (.25) (or by 30% (.30) in the column for the IRA of a person who is age 50 or older at the end of 2009). But if you checked "No" on either line 1a or 1b, then in the column for the IRA of the person who was not covered by a retirement plan, multiply by 50% (.50) (or by 60% (.60) if age 50 or older at the end of 2009) 	7a.	7b.
<p>8. Enter the total of your (and your spouse's if filing jointly):</p> <ul style="list-style-type: none"> • Wages, salaries, tips, etc. Generally, this is the amount reported in box 1 of Form W-2. See page 31 for exceptions • Alimony and separate maintenance payments reported on Form 1040, line 11 • Nontaxable combat pay. This amount should be reported in box 12 of Form W-2 with code Q 	8.	
<p>9. Enter the earned income you (and your spouse if filing jointly) received as a self-employed individual or a partner. Generally, this is your (and your spouse's if filing jointly) net earnings from self-employment if your personal services were a material income-producing factor, minus any deductions on Form 1040, lines 27 and 28. If zero or less, enter -0-. For more details, see Pub. 590</p>	9.	
<p>10. Add lines 8 and 9</p>	10.	
<p> <i>If married filing jointly and line 10 is less than \$10,000 (\$11,000 if one spouse is age 50 or older at the end of 2009; \$12,000 if both spouses are age 50 or older at the end of 2009), stop here and see Pub. 590 to figure your IRA deduction.</i></p>		
<p>11. Enter traditional IRA contributions made, or that will be made by April 15, 2010, for 2009 to your IRA on line 11a and to your spouse's IRA on line 11b</p>	11a.	11b.
<p>12. On line 12a, enter the smallest of line 7a, 10, or 11a. On line 12b, enter the smallest of line 7b, 10, or 11b. This is the most you can deduct. Add the amounts on lines 12a and 12b and enter the total on Form 1040, line 32. Or, if you want, you can deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)</p>	12a.	12b.

your spouse was, you are considered covered by a plan unless you lived apart from your spouse for all of 2009.

You may be able to take the retirement savings contributions credit. See the instructions for line 50 that begin on page

40.

Line 33 Student Loan Interest Deduction

You can take this deduction only if all of the following apply.

- You paid interest in 2009 on a qualified student loan (see below).
- Your filing status is any status except married filing separately.
- Your modified adjusted gross income (AGI) is less than: \$75,000 if single, head of household, or qualifying widow(er); \$150,000 if married filing jointly. Use lines 2 through 4 of the worksheet below to figure your modified AGI.
- You, or your spouse if filing jointly, are not claimed as a dependent on someone's (such as your parent's) 2009 tax return.

Use the worksheet below to figure your student loan interest deduction.

Exception. Use Pub. 970 instead of the worksheet below to figure your student loan interest deduction if you file Form 2555, 2555-EZ, or 4563, or you exclude income from sources within Puerto Rico.

Qualified student loan. A qualified student loan is any loan you took out to pay the qualified higher education expenses for any of the following individuals.

1. Yourself or your spouse.
2. Any person who was your dependent when the loan was taken out.
3. Any person you could have claimed as a dependent for the year the loan was taken out except that:
 - a. The person filed a joint return,
 - b. The person had gross income that was equal to or more than the exemption amount for that year (\$3,650 for 2009), or
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's return.

The person for whom the expenses were paid must have been an eligible student (see this page). However, a loan is not a qualified student loan if (a) any of the proceeds were used for other purposes, or (b) the loan was from either a related person or a person who borrowed the proceeds under a qualified employer plan or a contract purchased under such a plan. To find out who is a related person, see Pub. 970.

Qualified higher education expenses. Qualified higher education expenses generally include tuition, fees, room and board, and related expenses such as books and supplies. The expenses must be for education in a degree, certificate, or similar program at an eligible educational institution. An eligible educational institution includes

most colleges, universities, and certain vocational schools. You must reduce the expenses by the following benefits.

- Employer-provided educational assistance benefits that are not included in box 1 of Form(s) W-2.
- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Any nontaxable distribution of qualified tuition program earnings.
- Any nontaxable distribution of Coverdell education savings account earnings.
- Any scholarship, educational assistance allowance, or other payment (but not gifts, inheritances, etc.) excluded from income.

For more details on these expenses, see Pub. 970.

Eligible student. An eligible student is a person who:

- Was enrolled in a degree, certificate, or other program (including a program of study abroad that was approved for credit by the institution at which the student was enrolled) leading to a recognized educational credential at an eligible educational institution, and
- Carried at least half the normal full-time workload for the course of study he or she was pursuing.

Student Loan Interest Deduction Worksheet—Line 33

Keep for Your Records 

Before you begin:		✓ Figure any write-in adjustments to be entered on the dotted line next to line 36 (see the instructions for line 36 on page 35).				
	✓	Be sure you have read the Exception above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.				
1.	Enter the total interest you paid in 2009 on qualified student loans (see above). Do not enter more than \$2,500	1. <input type="text"/>				
2.	Enter the amount from Form 1040, line 22	2. <input type="text"/>				
3.	Enter the total of the amounts from Form 1040, lines 23 through 32, plus any write-in adjustments you entered on the dotted line next to line 36	3. <input type="text"/>				
4.	Subtract line 3 from line 2	4. <input type="text"/>				
5.	Enter the amount shown below for your filing status. <table border="0" style="margin-left: 20px;"> <tr> <td>• Single, head of household, or qualifying widow(er)—\$60,000</td> <td rowspan="2" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="2">.....5. <input type="text"/></td> </tr> <tr> <td>• Married filing jointly—\$120,000</td> </tr> </table>	• Single, head of household, or qualifying widow(er)—\$60,000	}5. <input type="text"/>	• Married filing jointly—\$120,000	
• Single, head of household, or qualifying widow(er)—\$60,000	}5. <input type="text"/>				
• Married filing jointly—\$120,000						
6.	Is the amount on line 4 more than the amount on line 5? <input type="checkbox"/> No. Skip lines 6 and 7, enter -0- on line 8, and go to line 9. <input type="checkbox"/> Yes. Subtract line 5 from line 4	6. <input type="text"/>				
7.	Divide line 6 by \$15,000 (\$30,000 if married filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	7. <input type="text"/>				
8.	Multiply line 1 by line 7	8. <input type="text"/>				
9.	Student loan interest deduction. Subtract line 8 from line 1. Enter the result here and on Form 1040, line 33. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)	9. <input type="text"/>				

Line 34**Tuition and Fees Deduction**

If you paid qualified tuition and fees for yourself, your spouse, or your dependent(s), you may be able to take this deduction. See Form 8917.



You may be able to take a credit for your educational expenses instead of a deduction. See the instructions for line 49 on page 40 for details.

Line 35**Domestic Production Activities Deduction**

You may be able to deduct up to 6% of your qualified production activities income from the following activities.

1. Construction of real property performed in the United States.

2. Engineering or architectural services performed in the United States for construction of real property in the United States.

3. Any lease, rental, license, sale, exchange, or other disposition of:

a. Tangible personal property, computer software, and sound recordings that you manufactured, produced, grew, or extracted in whole or in significant part within the United States,

b. Any qualified film you produced, or

c. Electricity, natural gas, or potable water you produced in the United States.

The deduction does not apply to income derived from:

- The sale of food and beverages you prepared at a retail establishment;
- Property you leased, licensed, or rented for use by any related person;
- The transmission or distribution of electricity, natural gas, or potable water; or
- The lease, rental, license, sale, exchange, or other disposition of land.

In certain cases, the references above to the United States include Puerto Rico.

For details, see Form 8903 and its instructions.

Line 36

Include in the total on line 36 any of the following write-in adjustments. To find out if you can take the deduction, see the form or publication indicated. On the dotted line next to line 36, enter the amount of your deduction and identify it as indicated.

- Archer MSA deduction (see Form 8853). Identify as “MSA.”

- Jury duty pay if you gave the pay to your employer because your employer paid your salary while you served on the jury. Identify as “Jury Pay.”

- Deductible expenses related to income reported on line 21 from the rental of personal property engaged in for profit. Identify as “PPR.”

- Reforestation amortization and expenses (see Pub. 535). Identify as “RFST.”

- Repayment of supplemental unemployment benefits under the Trade Act of 1974 (see Pub. 525). Identify as “Sub-Pay TRA.”

- Contributions to section 501(c)(18)(D) pension plans (see Pub. 525). Identify as “501(c)(18)(D).”

- Contributions by certain chaplains to section 403(b) plans (see Pub. 517). Identify as “403(b).”

- Attorney fees and court costs for actions settled or decided after October 22, 2004, involving certain unlawful discrimination claims, but only to the extent of gross income from such actions (see Pub. 525). Identify as “UDC.”

- Attorney fees and court costs paid by you in connection with an award from the IRS for information you provided after December 19, 2006, that substantially contributed to the detection of tax law violations, up to the amount of the award includible in your gross income. Identify as “WBF.”

Line 37

If line 37 is less than zero, you may have a net operating loss that you can carry to another tax year. See the Instructions for Form 1045 for details.

Tax and Credits

Line 39a

If you were born before January 2, 1945, or were blind at the end of 2009, check the appropriate box(es) on line 39a. If you were married and checked the box on Form 1040, line 6b, and your spouse was born before January 2, 1945, or was blind at the end of 2009, also check the appropriate box(es) for your spouse. Be sure to enter the total number of boxes checked.

Blindness

If you were partially blind as of December 31, 2009, you must get a statement certified by your eye doctor or registered optometrist that:

- You cannot see better than 20/200 in your better eye with glasses or contact lenses, or

- Your field of vision is 20 degrees or less.

If your eye condition is not likely to improve beyond the conditions listed above, you can get a statement certified by your eye doctor or registered optometrist to this effect instead.

You must keep the statement for your records.

Line 39b

If your filing status is married filing separately (box 3 is checked), and your spouse itemizes deductions on his or her return, check the box on line 39b. Also check that box if you were a dual-status alien. But if you were a dual-status alien and you file a joint return with your spouse who was a U.S. citizen or resident alien at the end of 2009 and you and your spouse agree to be taxed on your combined worldwide income, do not check the box.

Line 40a**Itemized Deductions or Standard Deduction**

In most cases, your federal income tax will be less if you take the larger of your itemized deductions or standard deduction.

Itemized Deductions

To figure your itemized deductions, fill in Schedule A.

Standard Deduction

Most people can find their standard deduction by looking at the amounts listed under “All others” to the left of Form 1040, line 40a. But use the worksheet on page 36 to figure your standard deduction if:

- You, or your spouse if filing jointly, can be claimed as a dependent on someone’s 2009 return, or

- You checked any box on line 39a.

Exception. Use Schedule L, instead of the worksheet on page 36, to figure your standard deduction if:

- You paid state or local real estate taxes in 2009,

- You paid state or local sales or excise taxes (or certain other taxes or fees in a state without a sales tax) on the purchase of a new motor vehicle after February 16, 2009, or

- You have a net disaster loss on Form 4684, line 18.

If you use Schedule L to figure your standard deduction, be sure to check the box on

line 40b and attach Schedule L to your return.


blind, paid real estate taxes or sales or excise taxes on the purchase of a vehicle, or had a net disaster loss.



If you checked the box on line 39b, your standard deduction is zero, even if you were born before January 2, 1945, were

Standard Deduction Worksheet—Line 40a

Keep for Your Records 

 Do not complete this worksheet if you checked the box on line 39b; your standard deduction is zero. Also, do not complete this worksheet if you must use Schedule L to figure your standard deduction (see <i>Exception</i> on page 35).	
<p>1. Enter the amount shown below for your filing status.</p> <ul style="list-style-type: none"> • Single or married filing separately—\$5,700 • Married filing jointly or Qualifying widow(er)—\$11,400 • Head of household—\$8,350 	} 1. _____
<p>2. Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return?</p> <p><input type="checkbox"/> No. Enter the amount from line 1 on line 4, skip line 3, and go to line 5.</p> <p><input type="checkbox"/> Yes. Go to line 3.</p>	
<p>3. Is your earned income* more than \$650?</p> <p><input type="checkbox"/> Yes. Add \$300 to your earned income. Enter the total</p> <p><input type="checkbox"/> No. Enter \$950</p>	} 3. _____
4. Enter the smaller of line 1 or line 3.	4. _____
5. If born before January 2, 1945, or blind, multiply the number on Form 1040, line 39a, by \$1,100 (\$1,400 if single or head of household). Otherwise, enter -0-	5. _____
6. Add lines 4 and 5. Enter the total here and on Form 1040, line 40a	6. _____
<p><i>*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. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 18, minus the amount, if any, on line 27.</i></p>	

Line 42 Exemptions

Taxpayers housing Midwestern displaced individuals. You may be able to claim an additional exemption amount of \$500 per person (up to \$2,000) if you provided housing to a person who was displaced from his or her main home because of the storms, tornadoes, or flooding in a Midwestern disaster area and all of the following apply.

- The person displaced lived in your main home for a period of at least 60 consecutive days ending in 2009.
- You did not receive any rent or other amount from any source for providing the housing.
- The main home of the person displaced was in a Midwestern disaster area on the date the storms, tornadoes, or flooding occurred.
- The person displaced was not your spouse or dependent.
- You did not claim an additional exemption amount for that person in 2008.
- You did not claim the maximum additional exemption amount of \$2,000 (\$1,000 if married filing separately) in 2008.

You must complete and attach Form 8914 to claim this additional exemption amount.

Adjusted gross income (line 38) over \$125,100. Use the Deduction for Exemptions Worksheet below to figure your deduction for exemptions unless you are filing Form 8914.

Line 44 Tax

Include in the total on line 44 all of the following taxes that apply.

- Tax on your taxable income. Figure the tax using one of the methods described on this page and page 38.
- Tax from Form 8814 (relating to the election to report child’s interest or dividends). Check the appropriate box.
- Tax from Form 4972 (relating to lump-sum distributions). Check the appropriate box.
- Recapture of an education credit. You may owe this tax if you claimed an education credit in an earlier year, and either

tax-free educational assistance or a refund of qualified expenses was received in 2009 for the student. See Form 8863 for more details. Enter the amount and “ECR” in the space next to line 44.

Do you want the IRS to figure the tax on your taxable income for you?

Yes. See Pub. 967 for details, including who is eligible and what to do. If you have paid too much, we will send you a refund. If you did not pay enough, we will send you a bill.

No. Use one of the following methods to figure your tax.

Tax Table or Tax Computation Worksheet. If your taxable income is less than \$100,000, you must use the Tax Table that begins on page 77 to figure your tax. Be sure you use the correct column. If your taxable income is \$100,000 or more, use the Tax Computation Worksheet on page 89.

However, do not use the Tax Table or Tax Computation Worksheet to figure your tax if any of the following applies.

Deduction for Exemptions Worksheet—Line 42

Keep for Your Records



1.	Is the amount on Form 1040, line 38, more than the amount shown on line 4 below for your filing status?		
	<input type="checkbox"/> No. Multiply \$3,650 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on Form 1040, line 42.		
	<input type="checkbox"/> Yes. <i>Continue</i>		
2.	Multiply \$3,650 by the total number of exemptions claimed on Form 1040, line 6d	2.	<input type="text"/>
3.	Enter the amount from Form 1040, line 38	3.	<input type="text"/>
4.	Enter the amount shown below for your filing status.		
	<ul style="list-style-type: none"> • Single—\$166,800 • Married filing jointly or qualifying widow(er)—\$250,200 • Married filing separately—\$125,100 • Head of household—\$208,500 	4.	<input type="text"/>
5.	Subtract line 4 from line 3	5.	<input type="text"/>
6.	Is line 5 more than \$122,500 (\$61,250 if married filing separately)?		
	<input type="checkbox"/> Yes. Multiply \$2,433 by the total number of exemptions claimed on Form 1040, line 6d. Enter the result here and on Form 1040, line 42. Do not complete the rest of this worksheet.		
	<input type="checkbox"/> No. Divide line 5 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1)	6.	<input type="text"/>
7.	Multiply line 6 by 2% (.02) and enter the result as a decimal	7.	<input type="text"/>
8.	Multiply line 2 by line 7	8.	<input type="text"/>
9.	Divide line 8 by 3.0	9.	<input type="text"/>
10.	Deduction for exemptions. Subtract line 9 from line 2. Enter the result here and on Form 1040, line 42	10.	<input type="text"/>

Form 8615. Form 8615 generally must be used to figure the tax for any child who had more than \$1,900 of investment income, such as taxable interest, ordinary dividends, or capital gains (including capital gain distributions) and who either:

1. Was under age 18 at the end of 2009,
2. Was age 18 at the end of 2009 and did not have earned income that was more than half of the child's support, or
3. Was a full-time student over age 18 and under age 24 at the end of 2009 and did not have earned income that was more than half of the child's support.

But if the child files a joint return for 2009 or if neither of the child's parents was alive at the end of 2009, do not use Form 8615 to figure the child's tax.

A child born on January 1, 1992, is considered to be age 18 at the end of 2009; a child born on January 1, 1991, is considered to be age 19 at the end of 2009; a child

born on January 1, 1986, is considered to be age 24 at the end of 2009.

Schedule D Tax Worksheet. If you have to file Schedule D and Schedule D, line 18 or 19, is more than zero, use the Schedule D Tax Worksheet on page D-10 of the Instructions for Schedule D to figure the amount to enter on Form 1040, line 44. But if you are filing Form 2555 or 2555-EZ, you must use the Foreign Earned Income Tax Worksheet below instead.

Qualified Dividends and Capital Gain Tax Worksheet. If you do not have to use the Schedule D Tax Worksheet (see above), use the worksheet on page 39 to figure the amount to enter on Form 1040, line 44, if any of the following applies.

- You reported qualified dividends on Form 1040, line 9b.
- You do not have to file Schedule D and you reported capital gain distributions on Form 1040, line 13.

- You are filing Schedule D and Schedule D, lines 15 and 16, are both more than zero.

But if you are filing Form 2555 or 2555-EZ, you must use the Foreign Earned Income Tax Worksheet below instead.

Schedule J. If you had income from farming or fishing (including certain amounts received in connection with the Exxon Valdez litigation), your tax may be less if you choose to figure it using income averaging on Schedule J.

Foreign Earned Income Tax Worksheet. If you claimed the foreign earned income exclusion, housing exclusion, or housing deduction on Form 2555 or 2555-EZ, you must figure your tax using the worksheet below.

Foreign Earned Income Tax Worksheet—Line 44

Keep for Your Records



If Form 1040, line 43, is zero, do not complete this worksheet.

1. Enter the amount from Form 1040, line 43	1.	
2. Enter the amount from your (and your spouse's, if filing jointly) Form 2555, lines 45 and 50, or Form 2555-EZ, line 18	2.	
3. Add lines 1 and 2	3.	
4. Tax on the amount on line 3. Use the Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet*, Schedule D Tax Worksheet*, or Form 8615, whichever applies. See the instructions for line 44 that begin on page 37 to see which tax computation method applies. (Do not use a second Foreign Earned Income Tax Worksheet to figure the tax on this line)	4.	
5. Tax on the amount on line 2. Use the Tax Table or Tax Computation Worksheet, whichever applies	5.	
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on Form 1040, line 44	6.	

**Enter the amount from line 3 above on line 1 of the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you have a capital gain excess. To find out if you have a capital gain excess, subtract Form 1040, line 43, from line 6 of your Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

If you do not have a capital gain excess, complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 5 and 6 above.

If you have a capital gain excess, complete a second Qualified Dividends and Capital Gain Tax Worksheet or Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the Foreign Earned Income Tax Worksheet above.

1. Reduce (but not below zero) the amount you would otherwise enter on line 3 of your Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your Schedule D Tax Worksheet by your capital gain excess.
2. Reduce (but not below zero) the amount you would otherwise enter on line 2 of your Qualified Dividends and Capital Gain Tax Worksheet or line 6 of your Schedule D Tax Worksheet by any of your capital gain excess not used in (1) above.
3. Reduce (but not below zero) the amount on your Schedule D (Form 1040), line 18, by your capital gain excess.
4. Include your capital gain excess as a loss on line 16 of your Unrecaptured Section 1250 Gain Worksheet on page D-9 of the Instructions for Schedule D (Form 1040).



Qualified Dividends and Capital Gain Tax Worksheet—Line 44

Keep for Your Records

Before you begin: ✓ See the instructions for line 44 that begin on page 37 to see if you can use this worksheet to figure your tax.
 ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

1. Enter the amount from Form 1040, line 43. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the worksheet on page 38	1.	
2. Enter the amount from Form 1040, line 9b*	2.	
3. Are you filing Schedule D?*		
<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of Schedule D. If either line 15 or line 16 is a loss, enter -0-	} 3.	
<input type="checkbox"/> No. Enter the amount from Form 1040, line 13		
4. Add lines 2 and 3	4.	
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0-	5.	
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	
8. Enter the smaller of:		
<ul style="list-style-type: none"> • The amount on line 1, or • \$33,950 if single or married filing separately, \$67,900 if married filing jointly or qualifying widow(er), \$45,500 if head of household. 	} 8.	
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> Yes. Skip lines 9 and 10; go to line 11 and check the “No” box.	} 9.	
<input type="checkbox"/> No. Enter the amount from line 7		
10. Subtract line 9 from line 8	10.	
11. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> Yes. Skip lines 11 through 14; go to line 15.	} 11.	
<input type="checkbox"/> No. Enter the smaller of line 1 or line 6		
12. Enter the amount from line 10 (if line 10 is blank, enter -0-)	12.	
13. Subtract line 12 from line 11	13.	
14. Multiply line 13 by 15% (.15)	14.	
15. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies	15.	
16. Add lines 14 and 15	16.	
17. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies	17.	
18. Tax on all taxable income. Enter the smaller of line 16 or line 17. Also include this amount on Form 1040, line 44. If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the worksheet on page 38	18.	

*If you are filing Form 2555 or 2555-EZ, see the footnote in the worksheet on page 38 before completing this line.

Line 45**Alternative Minimum Tax**

Use the worksheet on page 41 to see if you should fill in Form 6251.



An electronic version of this worksheet is available on www.irs.gov. Enter "AMT Assistant" in the search box on the website.

Exception. Fill in Form 6251 instead of using the worksheet on page 41 if you claimed or received any of the following items.

- Accelerated depreciation.
- Stock by exercising an incentive stock option and you did not dispose of the stock in the same year.
- Tax-exempt interest from private activity bonds.
- Intangible drilling, circulation, research, experimental, or mining costs.
- Amortization of pollution-control facilities or depletion.
- Income or (loss) from tax-shelter farm activities or passive activities.
- Income from long-term contracts not figured using the percentage-of-completion method.
- Interest paid on a home mortgage not used to buy, build, or substantially improve your home.
- Investment interest expense reported on Form 4952.
- Net operating loss deduction.
- Alternative minimum tax adjustments from an estate, trust, electing large partnership, or cooperative.
 - Section 1202 exclusion.
 - Any general business credit in Part I of Form 3800.
 - Empowerment zone and renewal community employment credit.
 - Qualified electric vehicle credit.
 - Alternative fuel vehicle refueling property credit.
 - Credit for prior year minimum tax.



Form 6251 should be filled in for a child if Form 8615 must be used to figure the child's tax and the child's adjusted gross income on Form 1040, line 38, exceeds the child's earned income by more than \$6,700. To find out when Form 8615 must be used, see page 38.

Line 47**Foreign Tax Credit**

If you paid income tax to a foreign country, you may be able to take this credit. Gener-

ally, you must complete and attach Form 1116 to do so.

Exception. You do not have to complete Form 1116 to take this credit if all five of the following apply.

1. All of your gross foreign source income was from interest and dividends and all of that income and the foreign tax paid on it were reported to you on Form 1099-INT, Form 1099-DIV, or Schedule K-1 (or substitute statement).
2. If you had dividend income from shares of stock, you held those shares for at least 16 days.
3. You are not filing Form 4563 or excluding income from sources within Puerto Rico.
4. The total of your foreign taxes was not more than \$300 (not more than \$600 if married filing jointly).
5. All of your foreign taxes were:
 - a. Legally owed and not eligible for a refund, and
 - b. Paid to countries that are recognized by the United States and do not support terrorism.

For more details on these requirements, see the Instructions for Form 1116.

Do you meet all five requirements above?

- Yes.** Enter on line 47 the smaller of (a) your total foreign taxes, or (b) the amount on Form 1040, line 44.
- No.** See Form 1116 to find out if you can take the credit and, if you can, if you have to file Form 1116.

Line 48**Credit for Child and Dependent Care Expenses**

You may be able to take this credit if you paid someone to care for any of the following persons.

1. Your qualifying child under age 13 whom you claim as your dependent.
2. Your disabled spouse who could not care for himself or herself, and who lived with you for more than half the year.
3. Any disabled person not able to care for himself or herself, who lived with you for more than half the year, and whom you claim as a dependent.
4. Any disabled person not able to care for himself or herself, who lived with you for more than half the year, and whom you could have claimed as a dependent except that:
 - a. The person filed a joint return,
 - b. The person had \$3,650 or more of gross income, or

c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2009 return.

5. Your child whom you could not claim as a dependent because of the rules for *Children of divorced or separated parents* that begin on page 18.

For details, use TeleTax topic 602 (see page 94) or see Form 2441.

Line 49**Education Credits**

If you (or your dependent) paid qualified expenses in 2009 for yourself, your spouse, or your dependent to enroll in or attend an eligible educational institution, you may be able to take an education credit. See Form 8863 for details. However, you cannot take an education credit if any of the following applies.

- You, or your spouse if filing jointly, are claimed as a dependent on someone else's (such as your parent's) 2009 tax return.
- Your filing status is married filing separately.
- The amount on Form 1040, line 38, is \$90,000 or more (\$180,000 or more if married filing jointly).
- You are taking a deduction for tuition and fees on Form 1040, line 34, for the same student.
- You, or your spouse, were a nonresident alien for any part of 2009 unless your filing status is married filing jointly.

Line 50**Retirement Savings Contributions Credit (Saver's Credit)**

You may be able to take this credit if you, or your spouse if filing jointly, made (a) contributions, other than rollover contributions, to a traditional or Roth IRA; (b) elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions) or to a governmental 457, SEP, or SIMPLE plan; (c) voluntary employee contributions to a qualified retirement plan (including the federal Thrift Savings Plan); or (d) contributions to a 501(c)(18)(D) plan.

However, you cannot take the credit if either of the following applies.

1. The amount on Form 1040, line 38, is more than \$27,750 (\$41,625 if head of household; \$55,500 if married filing jointly).
2. The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 1992, (b) is claimed as

a dependent on someone else's 2009 tax return, or (c) was a student (defined next).

You were a student if during any part of 5 calendar months of 2009 you:

- Were enrolled as a full-time student at a school, or

- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes a technical, trade, or mechanical school. It does not include an

on-the-job training course, correspondence school, or school offering courses only through the Internet.

For more details, use TeleTax topic 610 (see page 94) or see Form 8880.

Worksheet To See if You Should Fill in Form 6251—Line 45

Keep for Your Records



Before you begin:		✓ Be sure you have read the Exception on page 40 to see if you must fill in Form 6251 instead of using this worksheet.
	✓	If you are claiming the foreign tax credit (see the instructions for Form 1040, line 47, on page 40), enter that credit on line 47.
1. Are you filing Schedule A?		
<input type="checkbox"/> No.	Enter the amount from Form 1040, line 38.	}
<input type="checkbox"/> Yes.	Enter the amount from Form 1040, line 41.	
		1. <input type="text"/>
2.	Enter any amount from Form 8914, line 6	2. <input type="text"/>
3.	If filing Schedule L , enter the total of lines 6 and 20 from Schedule L. Otherwise, enter -0-	3. <input type="text"/>
4.	Add lines 2 and 3	4. <input type="text"/>
5.	Subtract line 4 from line 1	5. <input type="text"/>
6.	If filing Schedule A, enter the smaller of the amount on Schedule A, line 4, or 2.5% (.025) of the amount on Form 1040, line 38 (but not less than zero). Otherwise, enter -0-	6. <input type="text"/>
7.	If filing Schedule A, enter the total of the amounts from Schedule A, lines 5, 6, 8, and 27. Otherwise, enter -0-	7. <input type="text"/>
8.	Add lines 5 through 7	8. <input type="text"/>
9.	Enter any tax refund from Form 1040, lines 10 and 21	9. <input type="text"/>
10.	Subtract line 9 from line 8	10. <input type="text"/>
11. Enter the amount shown below for your filing status.		
•	Single or head of household—\$46,700	}
•	Married filing jointly or Qualifying widow(er)—\$70,950	
•	Married filing separately—\$35,475	
12.	Is the amount on line 10 more than the amount on line 11?	11. <input type="text"/>
<input type="checkbox"/> No.	You do not need to fill in Form 6251.	
<input type="checkbox"/> Yes.	Subtract line 11 from line 10	12. <input type="text"/>
13. Enter the amount shown below for your filing status.		
•	Single or head of household—\$112,500	}
•	Married filing jointly or qualifying widow(er)—\$150,000	
•	Married filing separately—\$75,000	
14.	Is the amount on line 10 more than the amount on line 13?	13. <input type="text"/>
<input type="checkbox"/> No.	Skip lines 14 and 15; enter on line 16 the amount from line 12, and go to line 17.	
<input type="checkbox"/> Yes.	Subtract line 13 from line 10	14. <input type="text"/>
15.	Multiply line 14 by 25% (.25) and enter the smaller of the result or line 11 above	15. <input type="text"/>
16.	Add lines 12 and 15	16. <input type="text"/>
17. Is the amount on line 16 more than \$175,000 (\$87,500 if married filing separately)?		
<input type="checkbox"/> Yes.	Fill in Form 6251 to see if you owe the alternative minimum tax.	
<input type="checkbox"/> No.	Multiply line 16 by 26% (.26)	17. <input type="text"/>
18.	Enter the amount from Form 1040, line 44, minus the total of any tax from Form 4972 and any amount on Form 1040, line 47. If you used Schedule J to figure your tax, the amount for Form 1040, line 44, must be refigured without using Schedule J.	18. <input type="text"/>
Next. Is the amount on line 17 more than the amount on line 18?		
<input type="checkbox"/> Yes.	Fill in Form 6251 to see if you owe the alternative minimum tax.	
<input type="checkbox"/> No.	You do not owe alternative minimum tax and do not need to fill in Form 6251. Leave line 45 blank.	

Line 51—Child Tax Credit

Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit. Follow Steps 1 through 3 in the instructions for line 6c on page 17.
- Step 2.** Make sure you checked the box on Form 1040, line 6c, column (4), for each qualifying child.
- Step 3.** Answer the questions on this page to see if you can use the worksheet on pages 43 and 44 to figure your credit or if you must use Pub. 972.

Question

Who Must Use Pub. 972



1. Are you claiming any of the following credits?
- Mortgage interest credit, Form 8396.
 - Adoption credit, Form 8839.
 - District of Columbia first-time homebuyer credit, Form 8859.
 - Residential energy efficient property credit, Form 5695, Part II.

Yes. 

No. Continue 

You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

2. Are you excluding income from Puerto Rico or are you filing any of the following forms?

- Form 2555 or 2555-EZ (relating to foreign earned income).
- Form 4563 (exclusion of income for residents of American Samoa).

Yes. 

No. Use the worksheet on pages 43 and 44 to figure your credit.

You must use Pub. 972 to figure your credit.

Child Tax Credit Worksheet—Line 51

Keep for Your Records 



- To be a qualifying child for the child tax credit, the child must be your dependent, **under age 17** at the end of 2009, and meet all the conditions in Steps 1 through 3 on page 17.
- **Do not** use this worksheet if you answered “Yes” to question 1 or 2 on page 42. Instead, use Pub. 972.

Part 1

1. Number of qualifying children: _____ × \$1,000.
Enter the result. 1

2. Enter the amount from Form 1040, line 38. 2

3. Enter the amount shown below for your filing status.

- Married filing jointly — \$110,000
- Single, head of household, or qualifying widow(er) — \$75,000
- Married filing separately — \$55,000

} 3


4. Is the amount on line 2 more than the amount on line 3?

No. Leave line 4 blank. Enter -0- on line 5, and go to line 6. 4

Yes. Subtract line 3 from line 2.
If the result is not a multiple of \$1,000, increase it to the next multiple of \$1,000.
For example, increase \$425 to \$1,000, increase \$1,025 to \$2,000, etc.

5. Multiply the amount on line 4 by 5% (.05). Enter the result. 5

6. Is the amount on line 1 more than the amount on line 5?

No.  You cannot take the child tax credit on Form 1040, line 51. You also cannot take the additional child tax credit on Form 1040, line 65. Complete the rest of your Form 1040.

Yes. Subtract line 5 from line 1. Enter the result. 6
Go to Part 2 on the next page.

Child Tax Credit Worksheet—Continued from page 43

Keep for Your Records 

Before you begin Part 2: ✓ Figure the amount of any credits you are claiming on Form 5695, Part I; Form 8834, Part I; Form 8910; Form 8936; or Schedule R.

Part 2

7. Enter the amount from Form 1040, line 46.

7	
---	--

8. Add the following amounts from:

Form 1040, line 47 _____

Form 1040, line 48 + _____

Form 1040, line 49 + _____

Form 1040, line 50 + _____

Form 5695, line 11 + _____

Form 8834, line 22 + _____

Form 8910, line 21 + _____

Form 8936, line 14 + _____

Schedule R, line 24 + _____ Enter the total.

8	
---	--

9. Are the amounts on lines 7 and 8 the same?

Yes. 

You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.

No. Subtract line 8 from line 7.

9	
---	--

10. Is the amount on line 6 more than the amount on line 9?

Yes. Enter the amount from line 9. Also, you may be able to take the **additional child tax credit**. See the **TIP** below.

This is your child tax credit.

No. Enter the amount from line 6.

10	
----	--

Enter this amount on Form 1040, line 51.



You may be able to take the **additional child tax credit** on Form 1040, line 65, if you answered “Yes” on line 9 or line 10 above.



- First, complete your Form 1040 through lines 64a and 64b.
- Then, use Form 8812 to figure any additional child tax credit.

Line 52

Include the following credits on line 52 and check the appropriate box(es). To find out if you can take the credit, see the form indicated.

Mortgage interest credit. If a state or local government gave you a mortgage credit certificate, see Form 8396.

Adoption credit. You may be able to take this credit if you paid expenses to adopt a child or you adopted a child with special needs and the adoption became final in 2009. See the Instructions for Form 8839.

Nonbusiness energy property credit. You may be able to take this credit by completing and attaching Form 5695 for any of the following improvements to your main home located in the United States in 2009 if they are new and meet certain requirements for energy efficiency.

- Any insulation material or system primarily designed to reduce heat gain or loss in your home.
- Exterior windows (including skylights).
- Exterior doors.
- A metal roof or asphalt roof with pigmented coatings or cooling granules primarily designed to reduce the heat gain in your home.

You may also be able to take this credit for the cost of the following items if the items meet certain performance and quality standards.

- Certain electric heat pump water heaters, electric heat pumps, central air conditioners, and natural gas, propane, or oil water heaters.
- A qualified furnace or hot water boiler that uses natural gas, propane, or oil.
- A stove that burns biomass fuel to heat your home or to heat water for use in your home.
- An advanced main air circulating fan used in a natural gas, propane, or oil furnace.

If you are a member of a condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation for purposes of this credit.

For details, see Form 5695.

Residential energy efficient property credit. You may be able to take this credit by completing and attaching Form 5695 if you paid for any of the following during 2009.

- Qualified solar electric property for use in your home located in the United States.
- Qualified solar water heating property for use in your home located in the United States.
- Qualified fuel cell property installed on or in connection with your main home located in the United States.

- Qualified small wind energy property for use in connection with your home located in the United States.

- Qualified geothermal heat pump property installed on or in connection with your home located in the United States.

If you are a member of a condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation for purposes of this credit.

For details, see Form 5695.

Line 53

Other Credits

Include the following credits on line 53 and check the appropriate box(es). If box c is checked, also enter the applicable form number. To find out if you can take the credit, see the form or publication indicated.

- Credit for the elderly or the disabled. See Schedule R.
- District of Columbia first-time homebuyer credit. See Form 8859.
- Qualified plug-in electric drive motor vehicle credit. See Form 8936.
- Qualified plug-in electric vehicle credit. See Form 8834, Part I.
- Qualified electric vehicle credit. You cannot claim this credit for a vehicle placed in service after 2006. You can claim this credit only if you have a passive activity electric vehicle credit carried forward from a prior year. See Form 8834, Part II.
- Alternative motor vehicle credit. See Form 8910 if you placed an alternative motor vehicle (such as a qualified hybrid vehicle) in service during 2009 or converted a motor vehicle to a qualified plug-in electric drive motor vehicle and placed it in service after February 17, 2009.
- Alternative fuel vehicle refueling property credit. See Form 8911.
- General business credit. This credit consists of a number of credits that usually apply only to individuals who are partners, shareholders in an S corporation, self-employed, or who have rental property. See Form 3800 or Pub. 334.
- Credit for prior year minimum tax. If you paid alternative minimum tax in a prior year, see Form 8801.
- Credit to holders of tax credit bonds. See Form 8912.

Other Taxes

Line 57

Unreported Social Security and Medicare Tax from Forms 4137 and 8919

Enter the total of any taxes from Form 4137 and Form 8919. Check the appropriate box(es).

Form 4137. If you received tips of \$20 or more in any month and you did not report the full amount to your employer, you must pay the social security and Medicare or railroad retirement (RRTA) tax on the unreported tips. You must also pay this tax if your Form(s) W-2 shows allocated tips that you are including in your income on Form 1040, line 7.

To figure the social security and Medicare tax, use Form 4137. If you owe RRTA tax, contact your employer. Your employer will figure and collect the RRTA tax.



You may be charged a penalty equal to 50% of the social security and Medicare tax due on tips you received but did not report to your employer.

Form 8919. If you are an employee who received wages from an employer who did not withhold social security and Medicare tax from your wages, use Form 8919 to figure your share of the unreported tax. Include on line 57 the amount from line 13 of Form 8919. Include the amount from line 6 of Form 8919 on Form 1040, line 7.

Line 58

Additional Tax on IRAs, Other Qualified Retirement Plans, etc.



You may not owe this tax if the distribution was made or repaid because of the storms, tornadoes, or flooding in a Midwestern disaster area. For details, see Pub. 4492-B.

If any of the following apply, see Form 5329 and its instructions to find out if you owe this tax and if you must file Form 5329.

1. You received an early distribution from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988, and the total distribution was not rolled over in a qualified rollover contribution.
2. Excess contributions were made to your IRAs, Coverdell education savings ac-

counts (ESAs), Archer MSAs, or health savings accounts (HSAs).

3. You received taxable distributions from Coverdell ESAs or qualified tuition programs.

Exception. If only item (1) applies and distribution code 1 is correctly shown in box 7 of Form 1099-R, you do not have to file Form 5329. Instead, multiply the taxable amount of the distribution by 10% (.10) and enter the result on line 58. The taxable amount of the distribution is the part of the distribution you reported on Form 1040, line 15b or line 16b, or on Form 4972. Also, enter “No” under the heading “Other Taxes” to the left of line 58 to indicate that you do not have to file Form 5329. But if distribution code 1 is incorrectly shown in box 7 of Form 1099-R or you qualify for an exception for qualified medical expenses, qualified higher education expenses, qualified first-time homebuyer distributions, or a qualified reservist distribution, you must file Form 5329.

Line 59

Additional Taxes

Enter the total of any advance earned income credit (AEIC) payments you received and household employment taxes from Schedule H. Check the appropriate box(es).

AEIC payments. Enter the amount of AEIC payments you received. These payments are shown in box 9 of Form(s) W-2.

Household employment taxes. If any of the following apply, see Schedule H and its instructions to find out if you owe these taxes.

1. You paid any one household employee (defined below) cash wages of \$1,700 or more in 2009. Cash wages include wages paid by check, money order, etc. But do not count amounts paid to an employee who was under age 18 at any time in 2009 and was a student.

2. You withheld federal income tax during 2009 at the request of any household employee.

3. You paid total cash wages of \$1,000 or more in any calendar quarter of 2008 or 2009 to household employees.

Household employee. Any person who does household work is a household employee if you can control what will be done and how it will be done. Household work includes work done in or around your home by babysitters, nannies, health aides, maids, yard workers, and similar domestic workers.

Need more information or forms? See page 96.

Line 60

Total Tax

Include in the total on line 60 any of the following taxes. To find out if you owe the tax, see the form or publication indicated. On the dotted line next to line 60, enter the amount of the tax and identify it as indicated.

1. Additional tax on health savings account (HSA) distributions (see Form 8889, Part II). Identify as “HSA.”

2. Additional tax on an HSA because you did not remain an eligible individual during the testing period (see Form 8889, Part III). Identify as “HDHP.”

3. Additional tax on Archer MSA distributions (see Form 8853). Identify as “MSA.”

4. Additional tax on Medicare Advantage MSA distributions (see Form 8853). Identify as “Med MSA.”

5. Recapture of the following credits.

a. Investment credit (see Form 4255). Identify as “ICR.”

b. First-time homebuyer credit (see Form 5405). Identify as “FTHCR.”

c. Low-income housing credit (see Form 8611). Identify as “LIHCR.”

d. Qualified electric vehicle credit (see Form 8834). Identify as “QEVCr.”

e. Indian employment credit (see Form 8845). Identify as “IECR.”

f. New markets credit (see Form 8874). Identify as “NMCR.”

g. Credit for employer-provided child care facilities (see Form 8882). Identify as “ECCFR.”

h. Alternative motor vehicle credit (see Form 8910). Identify as “AMVCR.”

i. Alternative fuel vehicle refueling property credit (see Form 8911). Identify as “ARPCR.”

6. Recapture of federal mortgage subsidy. If you sold your home in 2009 and it was financed (in whole or in part) from the proceeds of any tax-exempt qualified mortgage bond or you claimed the mortgage interest credit, see Form 8828. Identify as “FMSR.”

7. Recapture of COBRA premium assistance. If you received premium assistance under COBRA continuation coverage that covered you, your spouse, or any of your dependents, and your modified adjusted gross income is more than \$125,000 (\$250,000 if married filing jointly), see Pub. 502. Identify as “COBRA.”

8. Section 72(m)(5) excess benefits tax (see Pub. 560). Identify as “Sec. 72(m)(5).”

9. Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance. This tax should be shown in box 12 of Form W-2 with

codes A and B or M and N. Identify as “UT.”

10. Golden parachute payments. If you received an excess parachute payment (EPP), you must pay a 20% tax on it. This tax should be shown in box 12 of Form W-2 with code K. If you received a Form 1099-MISC, the tax is 20% of the EPP shown in box 13. Identify as “EPP.”

11. Tax on accumulation distribution of trusts (see Form 4970). Identify as “ADT.”

12. Excise tax on insider stock compensation from an expatriated corporation. You may owe a 15% excise tax on the value of nonstatutory stock options and certain other stock-based compensation held by you or a member of your family from an expatriated corporation or its expanded affiliated group in which you were an officer, director, or more-than-10% owner. See section 4985. Identify as “ISC.”

13. Additional tax on income you received from a nonqualified deferred compensation plan that fails to meet certain requirements. This income should be shown in box 12 of Form W-2 with code Z, or in box 15b of Form 1099-MISC. The tax is 20% of the amount required to be included in income plus an interest amount determined under section 409A(a)(1)(B)(ii). See section 409A(a)(1)(B) for details. Identify as “NQDC.”

14. Interest on the tax due on installment income from the sale of certain residential lots and timeshares. Identify as “453(l)(3).”

15. Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000. Identify as “453A(c).”

16. Additional tax on recapture of a charitable contribution deduction relating to a fractional interest in tangible personal property. See Pub. 526. Identify as “FITPP.”

17. Look-back interest under section 167(g) or 460(b). See Form 8697 or 8866. Identify as “From Form 8697” or “From Form 8866.”

Payments

Line 61

Federal Income Tax Withheld

Add the amounts shown as federal income tax withheld on your Forms W-2, W-2G, and 1099-R. Enter the total on line 61. The amount withheld should be shown in box 2 of Form W-2 or W-2G, and in box 4 of Form 1099-R. Attach Forms W-2G and 1099-R to the front of your return if federal income tax was withheld.

If you received a 2009 Form 1099 showing federal income tax withheld on

dividends, taxable or tax-exempt interest income, unemployment compensation, social security benefits, or other income you received, include the amount withheld in the total on line 61. This should be shown in box 4 of Form 1099 or box 6 of Form SSA-1099.

Line 62

2009 Estimated Tax Payments

Enter any estimated federal income tax payments you made for 2009. Include any overpayment that you applied to your 2009 estimated tax from:

- Your 2008 return, or
- An amended return (Form 1040X).

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, you can divide the amount paid in any way you choose as long as you both agree. If you cannot agree, you must divide the payments in proportion to each spouse's individual tax as shown on your separate returns for 2009. For an example of how to do this, see Pub. 505. Be sure to show both social security numbers (SSNs) in the space provided on the separate returns. If you or your spouse paid separate estimated tax but you are now filing a joint return, add the amounts you each paid. Follow these instructions even if your spouse died in 2009 or in 2010 before filing a 2009 return.

Divorced Taxpayers

If you got divorced in 2009 and you made joint estimated tax payments with your for-

mer spouse, enter your former spouse's SSN in the space provided on the front of Form 1040. If you were divorced and remarried in 2009, enter your present spouse's SSN in the space provided on the front of Form 1040. Also, under the heading *Payments* to the left of line 62, enter your former spouse's SSN, followed by "DIV."

Name Change

If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040. On the statement, explain all the payments you and your spouse made in 2009 and the name(s) and SSN(s) under which you made them.

Line 63

Making Work Pay and Government Retiree Credits

Complete Schedule M to take either the:

- Making work pay credit, or
- Government retiree credit.

Making Work Pay Credit

You may be able to take this credit if you have earned income from work. However, you cannot take the credit if:

- Your modified adjusted gross income (AGI) is \$95,000 (\$190,000 if married filing jointly) or more, or
- You can be claimed as a dependent on someone else's return.

Even if the federal income tax withheld from your pay was reduced because of this credit, you must claim the credit on your return to benefit from it.

The credit is reduced if:

- You received a \$250 economic recovery payment in 2009 because you were a recipient of social security benefits, supplemental security income, railroad retirement benefits, or certain veterans disability compensation or pension benefits,
- Your modified AGI is more than \$75,000 (\$150,000 if married filing jointly), or
- You take the government retiree credit discussed next.

Government Retiree Credit

You can take this credit if you received a pension or annuity payment in 2009 for service performed for the U.S. Government or any state or local government (or any agency of one or more of these) and the service was not covered by social security. The credit is \$250 (\$500 if married filing jointly and both you and your spouse received a qualifying pension or annuity).

However, you cannot take this credit if you received a \$250 economic recovery payment in 2009. If you file a joint return, both you and your spouse received a qualifying pension or annuity, and both of you received an economic recovery payment in 2009, no government retiree credit is allowed. If only one of you received an economic recovery payment in 2009, the credit is \$250.

This credit reduces your making work pay credit.

Lines 64a and 64b— Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

TIP *Special rules may apply for people who had to relocate because of the storms, tornadoes, or flooding in a Midwestern disaster area. For details, see Pub. 4492-B.*

To Take the EIC:



- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



For help in determining if you are eligible for the EIC, go to www.irs.gov/eitc and click on “EITC Assistant.” This service is available in English and Spanish.

CAUTION *If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. See Form 8862, who must file, that begins on page 50. You may also have to pay penalties.*



Step 1 All Filers



- If, in 2009:
 - 3 or more children lived with you, is the amount on Form 1040, line 38, less than \$43,279 (\$48,279 if married filing jointly)?
 - 2 children lived with you, is the amount on Form 1040, line 38, less than \$40,295 (\$45,295 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040, line 38, less than \$35,463 (\$40,463 if married filing jointly)?
 - No children lived with you, is the amount on Form 1040, line 38, less than \$13,440 (\$18,440 if married filing jointly)?

Yes. Continue  **No.**  You cannot take the credit.
- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 51)?

Yes. Continue  **No.**  You cannot take the credit. Enter “No” on the dotted line next to line 64a.

- Is your filing status married filing separately?

Yes.  You cannot take the credit. **No.** Continue 
- Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?

Yes.  You cannot take the credit. **No.** Continue 
- Were you or your spouse a nonresident alien for any part of 2009?

Yes. See *Nonresident aliens* on page 51. **No.** Go to Step 2.


Step 2 Investment Income


- Add the amounts from Form 1040:

Line 8a			
Line 8b	+		
Line 9a	+		
Line 13*	+		

Investment Income =

*If line 13 is a loss, enter -0-.
- Is your investment income more than \$3,100?

Yes. Continue  **No.** Skip question 3; go to question 4.
- Are you filing Form 4797 (relating to sales of business property)?

Yes. See *Form 4797 filers* on page 50. **No.**  You cannot take the credit.
- Do any of the following apply for 2009?
 - You are filing Schedule E.
 - You are a member of a qualified joint venture that is a passive activity reporting rental real estate income not subject to self-employment tax on Schedule C or C-EZ.
 - You are reporting income from the rental of personal property not used in a trade or business.
 - You are reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child’s interest and dividends).

Yes. You must use Worksheet 1 in Pub. 596 to see if you can take the credit. **No.** Go to Step 3.

Continued from page 48

Step 3 Qualifying Child**A qualifying child for the EIC is a child who is your...**

Son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)

AND

was ...

Under age 19 at the end of 2009 and younger than you
(or your spouse, if filing jointly)

or

Under age 24 at the end of 2009, a student (see page 51), and
younger than you (or your spouse, if filing jointly)

or

Any age and permanently and totally disabled (see page 51)

AND

Who is not filing a joint return for 2009 (or is filing a joint
return for 2009 only as a claim for refund)

AND

Who lived with you in the United States for more than half
of 2009.

If the child did not live with you for the
required time, see *Exception to time lived with you* on page
50.



*If the child meets the conditions to be a qualifying
child of any other person (other than your spouse if filing a
joint return) for 2009, or the child was married, see page 51.*

1. Do you have at least one child who meets the conditions to be your qualifying child?
- Yes.** The child must have a valid social security number (SSN) as defined on page 51 unless the child was born and died in 2009. If at least one qualifying child has a valid SSN (or was born or died in 2009), go to question 2. Otherwise, you cannot take the credit.
- No.** Skip question 2; go to Step 4.

2. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2009?
- Yes.** You cannot take the credit. Enter "No" on the dotted line next to line 64a.
- No.** Skip Step 4; go to Step 5 on page 50.

Step 4 Filers Without a Qualifying Child

1. Is the amount on Form 1040, line 38, less than \$13,440 (\$18,440 if married filing jointly)?
- Yes.** Continue →
- No.** You cannot take the credit.
2. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2009?
- Yes.** You cannot take the credit. Enter "No" on the dotted line next to line 64a.
- No.** Continue →
3. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2009 tax return?
- Yes.** You cannot take the credit.
- No.** Continue →
4. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2009? If your spouse died in 2009, see Pub. 596 before you answer.
- Yes.** Continue →
- No.** You cannot take the credit.
5. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2009? Members of the military stationed outside the United States, see page 51 before you answer.
- Yes.** Go to Step 5 on page 50.
- No.** You cannot take the credit. Enter "No" on the dotted line next to line 64a.

Continued from page 49

Step 5 Earned Income

1. Are you filing Schedule SE because you were a member of the clergy or you had church employee income of \$108.28 or more?

- Yes.** See *Clergy or Church employees*, whichever applies, on this page. **No.** Continue

2. Figure earned income:

Form 1040, line 7 _____

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount received for work performed while an inmate in a penal institution (enter "PRI" and the amount subtracted on the dotted line next to Form 1040, line 7).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount subtracted on the dotted line next to Form 1040, line 7). This amount may be shown in box 11 of Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Add all of your nontaxable combat pay if you elect to include it in earned income. Also enter this amount on Form 1040, line 64b. See *Combat pay, nontaxable* on this page.

+ _____



Electing to include nontaxable combat pay may increase or decrease your EIC. Figure the credit with and without your nontaxable combat pay before making the election.

Earned Income =

3. Were you self-employed at any time in 2009, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

- Yes.** Skip question 4 and Step 6; go to Worksheet B on page 53. **No.** Continue

4. If you have:

- 3 or more qualifying children, is your earned income less than \$43,279 (\$48,279 if married filing jointly)?
- 2 qualifying children, is your earned income less than \$40,295 (\$45,295 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$35,463 (\$40,463 if married filing jointly)?

• No qualifying children, is your earned income less than \$13,440 (\$18,440 if married filing jointly)?

- Yes.** Go to Step 6. **No.** You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

- Yes.** See *Credit figured by the IRS* on this page. **No.** Go to Worksheet A on page 52.

Definitions and Special Rules

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.

Church employees. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 5, line 2. Be sure to answer "Yes" to question 3 in Step 5.

Clergy. The following instructions apply to ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

1. Enter "Clergy" on the dotted line next to Form 1040, line 64a.
2. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
3. Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 5, line 2.
4. Be sure to answer "Yes" to question 3 in Step 5.

Combat pay, nontaxable. If you were a member of the U.S. Armed Forces who served in a combat zone, certain pay is excluded from your income. See *Combat Zone Exclusion* in Pub. 3. You can elect to include this pay in your earned income when figuring the EIC. The amount of your nontaxable combat pay should be shown in box 12 of Form(s) W-2 with code Q. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election.

Credit figured by the IRS. To have the IRS figure your EIC:

1. Enter "EIC" on the dotted line next to Form 1040, line 64a.
2. Be sure you enter the nontaxable combat pay you elect to include in earned income on Form 1040, line 64b. See *Combat pay, nontaxable* above.
3. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, who must file* below.

Exception to time lived with you. Temporary absences by you or the child for special circumstances, such as school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time the child lived with you. Also see *Kidnapped child* on page 19 or *Members of the military* on page 51. A child is considered to have lived with you for all of 2009 if the child was born or died in 2009 and your home was this child's home for the entire time he or she was alive in 2009.

Form 4797 filers. If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Worksheet 1 in Pub. 596 to see if you can take the EIC. Otherwise, stop; you cannot take the EIC.

Form 8862, who must file. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other

than a math or clerical error. But do not file Form 8862 if either of the following applies.

- You filed Form 8862 for another year, the EIC was allowed for that year, and your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
 - You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the other year was because it was determined that a child listed on Schedule EIC was not your qualifying child.
- Also, do not file Form 8862 or take the credit for the:
- 2 years after the most recent tax year for which there was a final determination that your EIC claim was due to reckless or intentional disregard of the EIC rules, or
 - 10 years after the most recent tax year for which there was a final determination that your EIC claim was due to fraud.

Foster child. A foster child is any child placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction. For more details on authorized placement agencies, see Pub. 596.

Married child. A child who was married at the end of 2009 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) you could have claimed him or her as your dependent except for the special rule for *Children of divorced or separated parents* that begins on page 18.

Members of the military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you do not serve more than 90 days.

Nonresident aliens. If your filing status is married filing jointly, go to Step 2 on page 48. Otherwise, stop; you cannot take the EIC. Enter “No” on the dotted line next to line 64a.

Permanently and totally disabled. A person is permanently and totally disabled if, at any time in 2009, the person cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition (a) has lasted or can be expected to last continuously for at least a year, or (b) can be expected to lead to death.

Qualifying child of more than one person. Even if a child meets the conditions to be the qualifying child of more than one person, only one person can claim the child as a qualifying child for all of the following tax benefits, unless the special rule for *Children of divorced or separated parents* beginning on page 18 applies.

1. Dependency exemption (line 6c).
2. Child tax credits (lines 51 and 65).
3. Head of household filing status (line 4).
4. Credit for child and dependent care expenses (line 48).
5. Exclusion for dependent care benefits (Form 2441, Part III).
6. Earned income credit (lines 64a and 64b).

No other person can take any of the six tax benefits listed above unless he or she has a different qualifying child. If you and any other person can claim the child as a qualifying child, the following rules apply.

- If only one of the persons is the child’s parent, the child is treated as the qualifying child of the parent.
- If the parents do not file a joint return together but both parents claim the child as a qualifying child, the IRS will treat the child as the qualifying child of the parent with whom the child lived for the longer period of time in 2009. If the child lived with each parent for the same amount of time, the IRS will treat the child as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2009.
- If no parent can claim the child as a qualifying child, the child is treated as the qualifying child of the person who had the highest AGI for 2009.
- If a parent can claim the child as a qualifying child but no parent does so claim the child, the child is treated as the qualifying child of the person who had the highest AGI for 2009, but only if that person’s AGI is higher than the highest AGI of any parent of the child.

Example. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your daughter does not meet the conditions to be a qualifying child of any other person, including her other parent. Under the rules above, you can claim your daughter as a qualifying child for all of the six tax benefits listed above for which you otherwise qualify. Your mother cannot claim any of the six tax benefits listed above unless she has a different qualifying child. However, if your mother’s AGI is higher than yours and the other parent’s and you do not claim your daughter as a qualifying child, your daughter is the qualifying child of your mother.

For more details and examples, see Pub. 596.

If you will not be taking the EIC with a qualifying child, enter “No” on the dotted line next to line 64a. Otherwise, go to Step 3, question 1, on page 49.

Social security number (SSN). For the EIC, a valid SSN is a number issued by the Social Security Administration unless “Not Valid for Employment” is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 14. If you will not have an SSN by the date your return is due, see *What if You Cannot File on Time?* on page 8.

Student. A student is a child who during any part of 5 calendar months of 2009 was enrolled as a full-time student at a school, or took a full-time, on-farm training course given by a school or a state, county, or local government agency. A school includes a technical, trade, or mechanical school. It does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet.

Welfare benefits, effect of credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it can count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Supplemental Nutrition Assistance Program (food stamps) and low-income housing.



Before you begin: ✓ Be sure you are using the correct worksheet. Use this worksheet only if you answered “No” to Step 5, question 3, on page 50. Otherwise, use Worksheet B that begins on page 53.

Part 1

All Filers Using Worksheet A

1. Enter your earned income from Step 5 on page 50. 1

2. Look up the amount on line 1 above in the EIC Table on pages 55–71 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 2

If line 2 is zero, You cannot take the credit. Enter “No” on the dotted line next to line 64a.

3. Enter the amount from Form 1040, line 38. 3

4. Are the amounts on lines 3 and 1 the same?

Yes. Skip line 5; enter the amount from line 2 on line 6.

No. Go to line 5.

Part 2

Filers Who Answered “No” on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than \$7,500 (\$12,500 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than \$16,450 (\$21,450 if married filing jointly)?

Yes. Leave line 5 blank; enter the amount from line 2 on line 6.

No. Look up the amount on line 3 in the EIC Table on pages 55–71 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 5

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

Part 3

Your Earned Income Credit

6. **This is your earned income credit.** 6

Enter this amount on Form 1040, line 64a.

Reminder—

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 50 to find out if you must file Form 8862 to take the credit for 2009.



Use this worksheet if you answered “Yes” to Step 5, question 3, on page 50.

- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse’s amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

Part 1 Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE	1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.	1a	
	b. Enter any amount from Schedule SE, Section B, line 4b, and line 5a.	+ 1b	
	c. Combine lines 1a and 1b.	= 1c	
	d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.	- 1d	
	e. Subtract line 1d from 1c.	= 1e	

Part 2 Self-Employed NOT Required To File Schedule SE <small>For example, your net earnings from self-employment were less than \$400.</small>	2. Do not include on these lines any statutory employee income, any net profit from services performed as a notary public, any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361, or any income or loss from a qualified joint venture reporting only rental real estate income not subject to self-employment tax.	
	a. Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.	2a
	b. Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1*.	+ 2b
c. Combine lines 2a and 2b.	= 2c	
<small>*Reduce any Schedule K-1 amounts by any partnership section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Enter your name and social security number on Schedule SE and attach it to your return.</small>		

Part 3 Statutory Employees Filing Schedule C or C-EZ	3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.	3	
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Part 4 All Filers Using Worksheet B <small>Note. If line 4b includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.</small>	4a. Enter your earned income from Step 5 on page 50.	4a	
	b. Combine lines 1e, 2c, 3, and 4a. This is your total earned income.	4b	
If line 4b is zero or less,  You cannot take the credit. Enter “No” on the dotted line next to line 64a.			
5. If you have: <ul style="list-style-type: none"> ● 3 or more qualifying children, is line 4b less than \$43,279 (\$48,279 if married filing jointly)? ● 2 qualifying children, is line 4b less than \$40,295 (\$45,295 if married filing jointly)? ● 1 qualifying child, is line 4b less than \$35,463 (\$40,463 if married filing jointly)? ● No qualifying children, is line 4b less than \$13,440 (\$18,440 if married filing jointly)? 			
<input type="checkbox"/> Yes. If you want the IRS to figure your credit, see page 50. If you want to figure the credit yourself, enter the amount from line 4b on line 6 (page 54).			
<input type="checkbox"/> No.  You cannot take the credit. Enter “No” on the dotted line next to line 64a.			



Part 5

All Filers Using Worksheet B

6. Enter your total earned income from Part 4, line 4b, on page 53. 6

7. Look up the amount on line 6 above in the EIC Table on pages 55–71 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 7

If line 7 is zero, You cannot take the credit. Enter “No” on the dotted line next to line 64a.

8. Enter the amount from Form 1040, line 38. 8

9. Are the amounts on lines 8 and 6 the same?

Yes. Skip line 10; enter the amount from line 7 on line 11.

No. Go to line 10.

Part 6

Filers Who Answered “No” on Line 9

10. If you have:

- No qualifying children, is the amount on line 8 less than \$7,500 (\$12,500 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 8 less than \$16,450 (\$21,450 if married filing jointly)?

Yes. Leave line 10 blank; enter the amount from line 7 on line 11.

No. Look up the amount on line 8 in the EIC Table on pages 55–71 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 10

Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

Part 7

Your Earned Income Credit

11. **This is your earned income credit.** 11

Reminder—

✓ If you have a qualifying child, complete and attach Schedule EIC.



Enter this amount on Form 1040, line 64a.



If your EIC for a year after 1996 was reduced or disallowed, see page 50 to find out if you must file Form 8862 to take the credit for 2009.

2009 Earned Income Credit (EIC) Table--Continued

(Caution. This is not a tax table.)

Table with columns for income ranges and filing status/children counts. The table is organized into two main sections: 'Single, head of household, or qualifying widow(er) and you have-' and 'Married filing jointly and you have-'. Each section has sub-columns for 'No Children', 'One Child', 'Two Children', and 'Three Children'. The rows represent income brackets from \$14,250 to \$17,200.

(Continued on page 61)

2009 Earned Income Credit (EIC) Table--Continued

(Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is--		And your filing status is--							
		Single, head of household, or qualifying widow(er) and you have--				Married filing jointly and you have--			
		No Children	One Child	Two Children	Three Children	No Children	One Child	Two Children	Three Children
At least	But less than	Your credit is--				Your credit is--			
46,000	46,050	0	0	0	0	0	0	0	475
46,050	46,100	0	0	0	0	0	0	0	464
46,100	46,150	0	0	0	0	0	0	0	454
46,150	46,200	0	0	0	0	0	0	0	443
46,200	46,250	0	0	0	0	0	0	0	433
46,250	46,300	0	0	0	0	0	0	0	422
46,300	46,350	0	0	0	0	0	0	0	412
46,350	46,400	0	0	0	0	0	0	0	401
46,400	46,450	0	0	0	0	0	0	0	390
46,450	46,500	0	0	0	0	0	0	0	380
46,500	46,550	0	0	0	0	0	0	0	369
46,550	46,600	0	0	0	0	0	0	0	359
46,600	46,650	0	0	0	0	0	0	0	348
46,650	46,700	0	0	0	0	0	0	0	338
46,700	46,750	0	0	0	0	0	0	0	327
46,750	46,800	0	0	0	0	0	0	0	317
46,800	46,850	0	0	0	0	0	0	0	306
46,850	46,900	0	0	0	0	0	0	0	296
46,900	46,950	0	0	0	0	0	0	0	285
46,950	47,000	0	0	0	0	0	0	0	275
47,000	47,050	0	0	0	0	0	0	0	264
47,050	47,100	0	0	0	0	0	0	0	254
47,100	47,150	0	0	0	0	0	0	0	243
47,150	47,200	0	0	0	0	0	0	0	232
47,200	47,250	0	0	0	0	0	0	0	222
47,250	47,300	0	0	0	0	0	0	0	211
47,300	47,350	0	0	0	0	0	0	0	201
47,350	47,400	0	0	0	0	0	0	0	190
47,400	47,450	0	0	0	0	0	0	0	180
47,450	47,500	0	0	0	0	0	0	0	169
47,500	47,550	0	0	0	0	0	0	0	159
47,550	47,600	0	0	0	0	0	0	0	148
47,600	47,650	0	0	0	0	0	0	0	138
47,650	47,700	0	0	0	0	0	0	0	127
47,700	47,750	0	0	0	0	0	0	0	117
47,750	47,800	0	0	0	0	0	0	0	106
47,800	47,850	0	0	0	0	0	0	0	96
47,850	47,900	0	0	0	0	0	0	0	85
47,900	47,950	0	0	0	0	0	0	0	75
47,950	48,000	0	0	0	0	0	0	0	64
48,000	48,050	0	0	0	0	0	0	0	53
48,050	48,100	0	0	0	0	0	0	0	43
48,100	48,150	0	0	0	0	0	0	0	32
48,150	48,200	0	0	0	0	0	0	0	22
48,200	48,250	0	0	0	0	0	0	0	11
48,250	48,279	0	0	0	0	0	0	0	3

Line 65**Additional Child Tax Credit****What Is the Additional Child Tax Credit?**

This credit is for certain people who have at least one qualifying child as defined in the instructions for line 6c on page 17. The additional child tax credit may give you a refund even if you do not owe any tax.

Two Steps To Take the Additional Child Tax Credit!

Step 1. Be sure you figured the amount, if any, of your child tax credit. See the instructions for line 51 that begin on page 42.

Step 2. Read the TIP at the end of your Child Tax Credit Worksheet. Use Form 8812 to see if you can take the additional child tax credit, but only if you meet the condition given in that TIP.

Line 66**Refundable Education Credit from Form 8863**

If you meet the requirements to claim the American opportunity credit (see the instructions for line 49 on page 40), enter on line 66 the amount, if any, from Form 8863, line 16.

Line 67**First-Time Homebuyer Credit**

You may be able to take this credit if you bought a main home in the United States and you (and your spouse if married) did not own any other main home during the 3-year period ending on the date you bought the home. If you constructed your main home, you are treated as having bought it on the date you first occupied it. If you bought the home after 2008 and before May 1, 2010 (before July 1, 2010, if you entered into a written binding contract before May 1, 2010), the credit generally is 10% of the purchase price of the home but is limited to \$8,000 (\$4,000 if married filing separately).

You also may be able to take the credit, but it is limited to \$6,500 (\$3,250 if married filing separately), if:

1. You bought a main home in the United States after November 6, 2009, and before May 1, 2010 (before July 1, 2010, if you entered into a written binding contract before May 1, 2010), and

2. You (and your spouse if married) owned and used the same home as your main home for any period of 5 consecutive years during the 8-year period ending on the date you bought the home described in (1) above.

No credit is allowed for homes bought after April 30, 2010 (after June 30, 2010, if you entered into a written binding contract before May 1, 2010).

You can choose to claim the credit on your 2009 return for a home you bought in 2010 that qualifies for the credit.

You generally must repay the credit if:

- You dispose of the home within 36 months after buying it, or
- You stop using the home as your main home during that 36-month period.

See Form 5405 for more details, including special rules for certain members of the uniformed services, members of the U.S. Foreign Service, and employees of the intelligence community on official extended duty service.



Credit claimed on 2008 return. The maximum credit was originally \$7,500 (\$3,750 if married filing separately). So if you made the election to claim the credit on your 2008 return for a home you bought in 2009 and you did not use the February 2009 revision of Form 5405, you now may be able to claim a larger credit (up to \$8,000) on an amended 2008 return. See Amended Return on page 91.

Line 68**Amount Paid With Request for Extension To File**

If you filed Form 4868 to get an automatic extension of time to file Form 1040, enter any amount you paid with that form or by electronic funds withdrawal or credit or debit card. If you paid by credit or debit card, do not include on line 68 the convenience fee you were charged. Also, include any amounts paid with Form 2350.

Line 69**Excess Social Security and Tier 1 RRTA Tax Withheld**

If you, or your spouse if filing a joint return, had more than one employer for 2009 and total wages of more than \$106,800, too much social security or tier 1 railroad retirement (RRTA) tax may have been withheld. You can take a credit on this line for the amount withheld in excess of \$6,621.60. But if any one employer withheld more than \$6,621.60, you cannot claim the excess on your return. The employer should adjust the tax for you. If the employer does not adjust the overcollection, you can file a claim for refund using Form 843. Figure this amount separately for you and your spouse.

You cannot claim a refund for excess tier 2 RRTA tax on Form 1040. Instead, use Form 843.

For more details, see Pub. 505.

Line 70

Check the box(es) on line 70 to report any credit from Form 2439, 4136, 8801 (line 29), or 8885.

Refund**Line 72****Amount Overpaid**

If line 72 is under \$1, we will send a refund only on written request.

If you want to check the status of your refund, please wait at least 72 hours after IRS acknowledges receipt of your e-filed return (3 to 4 weeks after you mail a paper return) to do so. But if you filed Form 8379 with your return, allow 14 weeks (11 weeks if you filed electronically). See page 93 for details.



If the amount you overpaid is large, you may want to decrease the amount of income tax withheld from your pay by filing a new Form W-4. See Income Tax Withholding and Estimated Tax Payments for 2010 on page 90.

Refund Offset

If you owe past-due federal tax, state income tax, child support, spousal support, or certain federal nontax debts, such as student loans, all or part of the overpayment on line 72 may be used (offset) to pay the past-due amount. Offsets for federal taxes are made by the IRS. All other offsets are made by the Treasury Department's Financial Management Service (FMS). For federal tax offsets, you will receive a notice from the IRS. For all other offsets, you will receive a notice from FMS. To find out if you may have an offset or if you have any questions about it, contact the agency to which you owe the debt.

Injured Spouse

If you file a joint return and your spouse has not paid past-due federal tax, state income tax, child support, spousal support, or a federal nontax debt, such as a student loan, part or all of the overpayment on line 72 may be used (offset) to pay the past-due amount. But your part of the overpayment may be refunded to you if certain conditions apply and you complete Form 8379. For details, use TeleTax topic 203 (see page 93) or see Form 8379.

Lines 73a Through 73d

DIRECT DEPOSIT

Simple. Safe. Secure.

Fast Refunds! Choose direct deposit—a fast, simple, safe, secure way to have your refund deposited automatically to your checking or savings account, including an individual retirement arrangement (IRA). See the information about IRAs on this page.

Why Use Direct Deposit?

- You get your refund faster by direct deposit than you do by check.
- Payment is more secure. There is no check that can get lost or stolen.
- It is more convenient. You do not have to make a trip to the bank to deposit your check.
- It saves tax dollars. It costs the government less to refund by direct deposit.

If you want us to directly deposit the amount shown on line 73a to your checking or savings account, including an IRA, at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) in the United States:

- Check the box on line 73a and attach Form 8888 if you want to split the direct deposit of your refund among two or three accounts, or

- Complete lines 73b through 73d if you want your refund deposited to only one account.

Otherwise, we will send you a check.

Note. If you do not want your refund directly deposited to your account, do not check the box on line 73a. Draw a line through the boxes on lines 73b and 73d.



*The IRS is not responsible for a lost refund if you enter the wrong account information. Check with your financial institution to get the **correct** routing and account numbers and to make sure your direct deposit will be accepted. Do not use the routing number on a deposit slip if it is different from the routing number on your checks.*

If you file a joint return and check the box on line 73a and attach Form 8888 or fill in lines 73b through 73d, your spouse may get at least part of the refund.

If the direct deposit to your account(s) is different from the amount you expected, you will receive an explanation in the mail about 2 weeks after your refund is deposited.

TreasuryDirect®. You can request a deposit of your refund to a TreasuryDirect® online account to buy U.S. Treasury marketable securities and savings bonds. For more information, go to www.treasurydirect.gov.

U.S. Series I Savings Bonds. You can use your refund to buy up to \$5,000 in U.S. Series I Savings Bonds. The amount you request must be a multiple of \$50. You do not need a TreasuryDirect® account to do this. See the Form 8888 instructions for details.

Line 73a

You cannot file Form 8888 and split your refund among two or three accounts if Form 8379 is filed with your return.

Line 73b

The routing number must be nine digits. The first two digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check will be sent instead. On the sample check below, the routing number is 250250025. Bob and Jennifer Maple would use that routing number unless their financial institution in-

structed them to use a different routing number for direct deposits.

Ask your financial institution for the correct routing number to enter on line 73b if:

- Your deposit is to a savings account that does not allow you to write checks, or
- Your checks state they are payable through a financial institution different from the one at which you have your checking account.

Line 73c

Check the appropriate box for the type of account. Do not check more than one box. If the deposit is to an account such as an IRA, health savings account, brokerage account, or other similar account, ask your financial institution whether you should check the “Checking” or “Savings” box. You must check the correct box to ensure your deposit is accepted. For a TreasuryDirect® online account, check the “Savings” box.

Line 73d

The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. On the sample check below, the account number is 20202086. Do not include the check number.

You cannot request a deposit of your refund to an account that is not in your name (such as your tax preparer’s own account).



Some financial institutions will not allow a joint refund to be deposited to an individual account. If the direct deposit is rejected, a check will be sent instead. The IRS is not responsible if a financial institution rejects a direct deposit.

Individual Retirement Arrangement (IRA)

You can have your refund directly deposited to a traditional IRA, Roth IRA, or SEP-IRA, but not a SIMPLE IRA. You must establish the IRA at a bank or other financial institution before you request direct deposit. Make sure your direct deposit will be accepted. You must also notify the trustee of your account of the year to which the deposit is to be applied unless the trustee will not accept a deposit for 2009. If you do not, the trustee can assume the deposit is for the year during which you are filing the return. For example, if you file your 2009 return during 2010 and do not notify the trustee in advance, the trustee can assume the deposit to your IRA is for 2010. If you designate your deposit to be for 2009, you must verify that the deposit was actually made to the account by the due date of the return (without regard to extensions). If the deposit is not made by that date, the deposit is not an IRA contribution for 2009. In that case, you must file an amended 2009 return and reduce any IRA

Sample Check—Lines 73b Through 73d

BOB MAPLE
JENNIFER MAPLE
123 Pear Lane
Anyplace, DC 20000

PAY TO THE ORDER OF _____ \$ 1234

ANYPLACE BANK
Anyplace, DC 20000

For _____

Routing number (line 73b): 250250025
Account number (line 73d): 20202086

Do not include the check number.



The routing and account numbers may be in different places on your check.

deduction and any retirement savings contributions credit you claimed.



You and your spouse, if filing jointly, each may be able to contribute up to \$5,000 (\$6,000 if age 50 or older at the end of 2009) to a traditional IRA or Roth IRA for 2009. The limit for 2010 is also \$5,000 (\$6,000 if age 50 or older at the end of 2010). A higher limit may apply for 2009 if you were a participant in a 401(k) plan and your employer was in bankruptcy in an earlier year. You may owe a penalty if your contributions exceed these limits.



For more information on IRAs, see Pub. 590.

Line 74

Applied to Your 2010 Estimated Tax

Enter on line 74 the amount, if any, of the overpayment on line 72 you want applied to your 2010 estimated tax. We will apply this amount to your account unless you attach a statement requesting us to apply it to your spouse's account. Include your spouse's social security number in the attached statement.



This election to apply part or all of the amount overpaid to your 2010 estimated tax cannot be changed later.

Amount You Owe



IRS e-file offers you the electronic payment option of electronic funds withdrawal (EFW). EFW can be used to pay your current year balance due and can be used to make up to four estimated tax payments. If you are filing early, you can schedule your payment for withdrawal from your account on a future date, up to and including April 15, 2010. If you file your return after April 15, 2010, you can include interest and penalty in your payment. Visit www.irs.gov and enter "e-pay" in the search box for details.

You can also pay using EFTPS, a free tax payment system that allows you to make payments online or by phone. For more information or details on enrolling, visit www.eftps.gov or call Customer Service at 1-800-316-6541. TTY/TDD help is available by calling 1-800-733-4829.

Line 75 Amount You Owe



To save interest and penalties, pay your taxes in full by April 15, 2010. You do not have to pay if line 75 is under \$1.

Include any estimated tax penalty from line 76 in the amount you enter on line 75.

You can pay by check, money order, or credit or debit card. Do not include any estimated tax payment for 2010 in this payment. Instead, make the estimated tax payment separately.

To pay by check or money order. Make your check or money order payable to the "United States Treasury" for the full amount due. Do not send cash. Do not attach the payment to your return. Write "2009 Form 1040" and your name, address, daytime phone number, and social security number (SSN) on your payment. If you are filing a joint return, enter the SSN shown first on your tax return.

To help process your payment, enter the amount on the right side of the check like this: \$ XXX.XX. Do not use dashes or lines (for example, do not enter "\$ XXX-" or "\$ XXX^{XX}/₁₀₀").

Then, complete Form 1040-V following the instructions on that form and enclose it in the envelope with your tax return and payment. Although you do not have to use Form 1040-V, doing so allows us to process your payment more accurately and efficiently.

To pay by credit or debit card. To pay by credit or debit card, call toll-free or visit the website of one of the service providers listed below and follow the instructions. A convenience fee will be charged by the service provider. This fee is deductible as a miscellaneous itemized deduction subject to the 2% of AGI limit on your 2010 income tax return. Fees may vary among the providers. You will be told what the fee is during the transaction and you will have the option to either continue or cancel the transaction. You can also find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's website shown below.

Link2Gov Corporation
1-888-PAY-1040™ (1-888-729-1040)
1-888-658-5465 (Customer Service)
www.PAY1040.com

RBS WorldPay, Inc.
1-888-9-PAY-TAX™
(1-888-972-9829)
1-877-517-4881 (Customer Service)
www.payUSAtax.com

Official Payments Corporation
1-888-UPAY-TAX™
(1-888-872-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com



You may need to (a) increase the amount of income tax withheld from your pay by filing a new Form W-4, (b) increase the tax withheld from other income by filing Form W-4P or W-4V, or (c) make estimated tax payments for 2010. See Income Tax Withholding and Estimated Tax Payments for 2010 on page 90.

What If You Cannot Pay?

If you cannot pay the full amount shown on line 75 when you file, you can ask for:

- An installment agreement, or
- An extension of time to pay.

Installment agreement. Under an installment agreement, you can pay all or part of the tax you owe in monthly installments. Generally, you can have up to 60 months to pay. However, even if your request to pay in installments is granted, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 15, 2010. You must also pay a fee. To limit the interest and penalty charges, pay as much of the tax as possible when you file. But before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan or credit card payment.

To ask for an installment agreement, you can apply online or use Form 9465. To apply online, go to www.irs.gov, click on "I Need To" and select "Set Up a Payment Plan." If you use Form 9465, you should receive a response to your request to make installment payments within 30 days. But if you file your return after March 31, it may take us longer to reply.

Extension of time to pay. If paying the tax when it is due would cause you an undue hardship, you can ask for an extension of time to pay by filing Form 1127 by April 15, 2010. An extension generally will not be granted for more than 6 months. You will be charged interest on the tax not paid by April 15, 2010. You must pay the tax before the extension runs out. If you do not, penalties may be imposed.

Line 76 Estimated Tax Penalty

You may owe this penalty if:

- Line 75 is at least \$1,000 and it is more than 10% of the tax shown on your return, or
- You did not pay enough estimated tax by any of the due dates. This is true even if you are due a refund.

For most people, the "tax shown on your return" is the amount on your 2009 Form 1040, line 60, minus the total of any amounts shown on lines 63, 64a, 65, 66, and 67 and Forms 8828, 4137, 4136, 5329 (Parts III through VIII only), 8801 (line 29 only), 8885, and 8919. Also subtract from line 60 any tax on an excess parachute payment, any excise tax on insider stock compensation of an expatriated corporation,

any uncollected social security and Medicare or RRTA tax on tips or group-term life insurance, any look-back interest due under section 167(g) or 460(b), and any recapture of COBRA premium assistance. When figuring the amount on line 60, include household employment taxes only if line 61 is more than zero or you would owe the penalty even if you did not include those taxes. But if you entered an amount on Schedule H, line 7, include the total of that amount plus the household employment taxes on Form 1040, line 59.

Exception. You will not owe the penalty if your 2008 tax return was for a tax year of 12 full months and **any** of the following applies.

1. You had no tax shown on your 2008 return and you were a U.S. citizen or resident for all of 2008.

2. The total of lines 61, 62, and 69 on your 2009 return is at least 100% of the tax shown on your 2008 return (110% of that amount if you are not a farmer or fisherman, your adjusted gross income (AGI) shown on your 2008 return was more than \$150,000 (more than \$75,000 if married filing separately for 2009), and item (3) below does not apply). Your estimated tax payments for 2009 must have been made on time and for the required amount.

3. The total of lines 61, 62, and 69 on your 2009 return is at least 90% of the tax shown on your 2008 return, your AGI shown on your 2008 return was less than \$500,000 (less than \$250,000 if married filing separately for 2009), and you certify on Form 2210 (or 2210-F for farmers and fishermen) that more than 50% of the gross income on your 2008 return was from a small business. A small business is one that had an average of fewer than 500 employees for 2008. See Form 2210 (or 2210-F) and its instructions for details. Your estimated tax payments for 2009 must have been made on time and for the required amount.

For most people, the “tax shown on your 2008 return” is the amount on your 2008 Form 1040, line 61, minus the total of any amounts shown on lines 64a, 66, 69, and 70 and Forms 8828, 4137, 4136, 5329 (Parts III through VIII only), 8801 (line 30 only), 8885, and 8919. Also subtract from line 61 any tax on an excess parachute payment, any excise tax on insider stock compensation of an expatriated corporation, any uncollected social security and Medicare or RRTA tax on tips or group-term life insurance, and any look-back interest due under section 167(g) or 460(b). When figuring the amount on line 61, include household employment taxes only if line 62 is more than zero or you would have owed the estimated tax penalty for 2008 even if you did not include those taxes. But if you entered an amount on your 2008 Schedule H, line 7, include the total of that amount plus the household employment taxes on your 2008 Form 1040, line 60.



The IRS will waive the penalty to the extent any underpayment is due to adjustments to the income tax withholding tables because of the making work pay credit. You must request a waiver by filing Form 2210 or 2210-F with your return.

Figuring the Penalty

If the *Exception* on this page does not apply and you choose to figure the penalty yourself, see Form 2210 (or 2210-F for farmers and fishermen) to find out if you owe the penalty. If you do, you can use the form to figure the amount.

Enter the penalty on line 76. Add the penalty to any tax due and enter the total on line 75. If you are due a refund, subtract the penalty from the overpayment you show on line 72. Do not file Form 2210 with your return unless Form 2210 indicates that you must do so. Instead, keep it for your records.



Because Form 2210 is complicated, you can leave line 76 blank and the IRS will figure the penalty and send you a bill.

We will not charge you interest on the penalty if you pay by the date specified on the bill. If your income varied during the year, the annualized income installment method may reduce the amount of your penalty. But you must file Form 2210 because the IRS cannot figure your penalty under this method. See the Instructions for Form 2210 for other situations in which you may be able to lower your penalty by filing Form 2210.

Third Party Designee

If you want to allow your preparer, a friend, family member, or any other person you choose to discuss your 2009 tax return with the IRS, check the “Yes” box in the “Third Party Designee” area of your return. Also, enter the designee’s name, phone number, and any five digits the designee chooses as his or her personal identification number (PIN).

If you check the “Yes” box, you, and your spouse if filing a joint return, are authorizing the IRS to call the designee to answer any questions that may arise during the processing of your return. You are also authorizing the designee to:

- Give the IRS any information that is missing from your return,
- Call the IRS for information about the processing of your return or the status of your refund or payment(s),
- Receive copies of notices or transcripts related to your return, upon request, and
- Respond to certain IRS notices about math errors, offsets, and return preparation.

You are not authorizing the designee to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before the

IRS. If you want to expand the designee’s authorization, see Pub. 947.

The authorization will automatically end no later than the due date (without regard to extensions) for filing your 2010 tax return. This is April 15, 2011, for most people. If you wish to revoke the authorization before it ends, see Pub. 947.

Sign Your Return

Form 1040 is not considered a valid return unless you sign it. If you are filing a joint return, your spouse must also sign. If your spouse cannot sign the return, see Pub. 501. Be sure to date your return and enter your occupation(s). If you have someone prepare your return, you are still responsible for the correctness of the return. If your return is signed by a representative for you, you must have a power of attorney attached that specifically authorizes the representative to sign your return. To do this, you can use Form 2848. If you are filing a joint return as a surviving spouse, see *Death of a Taxpayer* on page 91.

Child’s Return

If your child cannot sign the return, either parent can sign the child’s name in the space provided. Then, enter “By (your signature), parent for minor child.”

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your return. We may have questions about items on your return, such as the earned income credit, credit for child and dependent care expenses, etc. If you answer our questions over the phone, we may be able to continue processing your return without mailing you a letter. If you are filing a joint return, you can enter either your or your spouse’s daytime phone number.

Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it in the space provided. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.



Electronic Return Signatures!

To file your return electronically, you must sign the return electronically using a personal identification number (PIN). If you are filing online using software, you must use a Self-Select PIN. If you are filing electronically using a tax practitioner, you can use a Self-Select PIN or a Practitioner PIN.

Self-Select PIN. The Self-Select PIN method allows you to create your own PIN.

If you are married filing jointly, you and your spouse will each need to create a PIN and enter these PINs as your electronic signatures.

A PIN is any combination of five digits you choose except five zeros. If you use a PIN, there is nothing to sign and nothing to mail—not even your Forms W-2.

To verify your identity, you will be prompted to enter your adjusted gross income (AGI) from your originally filed 2008 federal income tax return, if applicable. Do not use your AGI from an amended return (Form 1040X) or a math error correction made by IRS. AGI is the amount shown on your 2008 Form 1040, line 38; Form 1040A, line 22; or Form 1040EZ, line 4. If you do not have your 2008 income tax return, call the IRS at 1-800-829-1040 to get a free transcript of your return. (If you filed electronically last year, you may use your prior year PIN to verify your identity instead of your prior year AGI. The prior year PIN is the five digit PIN you used to electronically sign your 2008 return.) You will also be prompted to enter your date of birth (DOB). Make sure your DOB is accurate and matches the information on record with the Social Security Ad-

ministration by checking your annual social security statement.



You cannot use the Self-Select PIN method if you are a first-time filer under age 16 at the end of 2009.

Practitioner PIN. The Practitioner PIN method allows you to authorize your tax practitioner to enter or generate your PIN. The practitioner can provide you with details.

Form 8453. You must send in a paper Form 8453 if you are attaching or filing Form 1098-C, 2848 (for an electronic return signed by an agent), 3115, 3468 (if attachments are required), 4136 (if certificate or statement required), 5713, 8283 (if a statement is required for Section A or if Section B is completed), 8332 (or certain pages from a divorce decree or separation agreement that went into effect after 1984 and before 2009), 8858, 8864 (if certification or statement required), 8885, Schedule D-1 (Form 1040) (if you elect not to include your transactions on the electronic STCGL or LTCGL records), or Appendix A (statement by taxpayer using the procedures in Rev. Proc. 2009-20 to determine a

theft loss deduction related to a fraudulent investment arrangement). This revenue procedure is found on page 749 of Internal Revenue Bulletin 2009-14 at www.irs.gov/irb/2009-14_IRB/ar11.html.

For more details, visit www.irs.gov/efile and click on “Individual Taxpayers.”

Assemble Your Return

Assemble any schedules and forms behind Form 1040 in order of the “Attachment Sequence No.” shown in the upper right corner of the schedule or form. If you have supporting statements, arrange them in the same order as the schedules or forms they support and attach them last. Do not attach correspondence or other items unless required to do so. Attach a copy of Forms W-2 and 2439 to the front of Form 1040. If you received a Form W-2c (a corrected Form W-2), attach a copy of your original Forms W-2 and any Forms W-2c. Also attach Forms W-2G and 1099-R to the front of Form 1040 if tax was withheld.

2009 Tax Table—Continued

Table with columns: If line 43 (taxable income) is—, And you are— (Single, Married filing jointly, Married filing separately, Head of a household), Your tax is—, and a grid of values for tax brackets 95,000 through 96,950.

Table with columns: If line 43 (taxable income) is—, And you are— (Single, Married filing jointly, Married filing separately, Head of a household), Your tax is—, and a grid of values for tax brackets 97,000 through 98,950.

Table with columns: If line 43 (taxable income) is—, And you are— (Single, Married filing jointly, Married filing separately, Head of a household), Your tax is—, and a grid of values for tax brackets 99,000 through 100,000. A callout box is present in the lower right section.

\$100,000 or over — use the Tax Computation Worksheet on page 89

* This column must also be used by a qualifying widow(er)

2009 Tax Computation Worksheet—Line 44



See the instructions for line 44 that begin on page 37 to see if you must use the worksheet below to figure your tax.

Note. If you are required to use this worksheet to figure the tax on an amount from another form or worksheet, such as the Qualified Dividends and Capital Gain Tax Worksheet, the Schedule D Tax Worksheet, Schedule J, Form 8615, or the Foreign Earned Income Tax Worksheet, enter the amount from that form or worksheet in column (a) of the row that applies to the amount you are looking up. Enter the result on the appropriate line of the form or worksheet that you are completing.

Section A—Use if your filing status is **Single**. Complete the row below that applies to you.

Taxable income. If line 43 is—	(a) Enter the amount from line 43	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$171,550	\$	× 28% (.28)	\$	\$ 6,280.00	\$
Over \$171,550 but not over \$372,950	\$	× 33% (.33)	\$	\$ 14,857.50	\$
Over \$372,950	\$	× 35% (.35)	\$	\$22,316.50	\$

Section B—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**. Complete the row below that applies to you.

Taxable income. If line 43 is—	(a) Enter the amount from line 43	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$137,050	\$	× 25% (.25)	\$	\$ 7,625.00	\$
Over \$137,050 but not over \$208,850	\$	× 28% (.28)	\$	\$ 11,736.50	\$
Over \$208,850 but not over \$372,950	\$	× 33% (.33)	\$	\$ 22,179.00	\$
Over \$372,950	\$	× 35% (.35)	\$	\$ 29,638.00	\$

Section C—Use if your filing status is **Married filing separately**. Complete the row below that applies to you.

Taxable income. If line 43 is—	(a) Enter the amount from line 43	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$104,425	\$	× 28% (.28)	\$	\$ 5,868.25	\$
Over \$104,425 but not over \$186,475	\$	× 33% (.33)	\$	\$ 11,089.50	\$
Over \$186,475	\$	× 35% (.35)	\$	\$ 14,819.00	\$

Section D—Use if your filing status is **Head of household**. Complete the row below that applies to you.

Taxable income. If line 43 is—	(a) Enter the amount from line 43	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$117,450	\$	× 25% (.25)	\$	\$ 5,147.50	\$
Over \$117,450 but not over \$190,200	\$	× 28% (.28)	\$	\$ 8,671.00	\$
Over \$190,200 but not over \$372,950	\$	× 33% (.33)	\$	\$ 18,181.00	\$
Over \$372,950	\$	× 35% (.35)	\$	\$ 25,640.00	\$

General Information

How To Avoid Common Mistakes

Mistakes can delay your refund or result in notices being sent to you.

- Make sure you entered the correct name and social security number (SSN) for each dependent you claim on line 6c. Check that each dependent's name and SSN agrees with his or her social security card. For each child under age 17 who is a qualifying child for the child tax credit, make sure you checked the box in line 6c, column (4).

- Check your math, especially for the child tax credit, earned income credit (EIC), taxable social security benefits, total income, itemized deductions or standard deduction, deduction for exemptions, taxable income, total tax, federal income tax withheld, and refund or amount you owe.

- Be sure you used the correct method to figure your tax. See the instructions for line 44 that begin on page 37.

- Be sure to enter your SSN in the space provided on page 1 of Form 1040. If you are married filing a joint or separate return, also enter your spouse's SSN. Be sure to enter your SSN in the space next to your name. Check that your name and SSN agree with your social security card.

- Make sure your name and address are correct on the peel-off label. If not, enter the correct information. If you did not get a peel-off label, enter your (and your spouse's) name in the same order as shown on your last return.

- If you live in an apartment, be sure to include your apartment number in your address.

- If you are taking the standard deduction and you checked any box on line 39a, 39b, or 40b or you (or your spouse if filing jointly) can be claimed as a dependent on someone else's 2009 return, see pages 35 and 36 to be sure you entered the correct amount on line 40a.

- If you received capital gain distributions but were not required to file Schedule D, make sure you checked the box on line 13.

- If you are taking the EIC, be sure you used the correct column of the EIC Table for your filing status and the number of children you have.

- Remember to sign and date Form 1040 and enter your occupation(s).

- Attach your Form(s) W-2 and other required forms and schedules. Put all forms and schedules in the proper order. See *Assemble Your Return* on page 76.

- If you owe tax and are paying by check or money order, be sure to include all

the required information on your payment. See the instructions for line 75 on page 74 for details.

- Do not file more than one original return for the same year, even if you have not gotten your refund or have not heard from the IRS since you filed. Filing more than one original return for the same year, or sending in more than one copy of the same return (unless we ask you to do so), could delay your refund.

What Are Your Rights as a Taxpayer?

You have the right to be treated fairly, professionally, promptly, and courteously by IRS employees. Our goal at the IRS is to protect your rights so that you will have the highest confidence in the integrity, efficiency, and fairness of our tax system. To ensure that you always receive such treatment, you should know about the many rights you have at each step of the tax process. For details, see Pub. 1.

Innocent Spouse Relief

Generally, both you and your spouse are each responsible for paying the full amount of tax, interest, and penalties on your joint return. However, you may qualify for relief from liability for tax on a joint return if (a) there is an understatement of tax because your spouse omitted income or claimed false deductions or credits, (b) you are divorced, separated, or no longer living with your spouse, or (c) given all the facts and circumstances, it would not be fair to hold you liable for the tax. You may also qualify for relief if you were a married resident of a community property state but did not file a joint return and are now liable for an underpaid or understated tax. To request relief, you generally must file Form 8857 no later than 2 years after the date on which the IRS first attempted to collect the tax from you. For more information, see Pub. 971 and Form 8857 or you can call the Innocent Spouse office toll-free at 1-866-897-4270.

Income Tax Withholding and Estimated Tax Payments for 2010

If the amount you owe or the amount you overpaid is large, you may want to file a new Form W-4 with your employer to change the amount of income tax withheld

from your 2010 pay. For details on how to complete Form W-4, see Pub. 919. If you have pension or annuity income, use Form W-4P. If you receive certain government payments (such as unemployment compensation or social security benefits), you can have tax withheld from those payments by giving the payer Form W-4V.



You can use the IRS Withholding Calculator at www.irs.gov/individuals, instead of Pub. 919 or the worksheets included with Form W-4 or W-4P, to determine whether you need to have your withholding increased or decreased.

In general, you do not have to make estimated tax payments if you expect that your 2010 Form 1040 will show a tax refund or a tax balance due of less than \$1,000. If your total estimated tax for 2010 is \$1,000 or more, see Form 1040-ES. It has a worksheet you can use to see if you have to make estimated tax payments. For more details, see Pub. 505.

Do Both the Name and SSN on Your Tax Forms Agree With Your Social Security Card?

If not, certain deductions and credits may be reduced or disallowed, your refund may be delayed, and you may not receive credit for your social security earnings. If your Form W-2 shows an incorrect SSN or name, notify your employer or the form-issuing agent as soon as possible to make sure your earnings are credited to your social security record. If the name or SSN on your social security card is incorrect, call the Social Security Administration at 1-800-772-1213.

Secure Your Tax Records from Identity Theft

Identity theft occurs when someone uses your personal information such as your name, social security number (SSN), or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and

• Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your tax records are not currently affected by identity theft but you think you are at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, etc., contact the IRS Identity Theft Hotline at 1-800-908-4490 or submit Form 14039.

For more information, see Pub. 4535.

Victims of identity theft who are experiencing economic harm or a systemic problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the National Taxpayer Advocate helpline at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

Protect yourself from suspicious emails or phishing schemes. Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common form is the act of sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request detailed personal information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward the message to phishing@irs.gov. You may also report misuse of the IRS name, logo, forms, or other IRS property to the Treasury Inspector General for Tax Administration toll-free at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at spam@uce.gov or contact them at www.ftc.gov/idtheft or 1-877-IDTHEFT (1-877-438-4338).

Visit the IRS website at www.irs.gov to learn more about identity theft and how to reduce your risk.

How Do You Make a Gift To Reduce Debt Held By the Public?

If you wish to do so, make a check payable to "Bureau of the Public Debt." You can send it to: Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. Or you can enclose the check with your income tax return when

you file. Do not add your gift to any tax you may owe. See page 74 for details on how to pay any tax you owe.



You may be able to deduct this gift on your 2010 tax return.

How Long Should Records Be Kept?

Keep a copy of your tax return, worksheets you used, and records of all items appearing on it (such as Forms W-2 and 1099) until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed or 2 years from the date the tax was paid, whichever is later. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property. For more details, see Pub. 552.

Amended Return

File Form 1040X to change a return you already filed. 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. But you may have more time to file Form 1040X if you live in a federally declared disaster area or you are physically or mentally unable to manage your financial affairs. See Pub. 556 for details.

Need a Copy of Your Tax Return?

If you need a copy of your tax return, use Form 4506. There is a \$57 fee (subject to change) for each return requested. If your main home, principal place of business, or tax records are located in a federally declared disaster area, this fee will be waived. If you want a free transcript of your tax return or account, use Form 4506-T or call us. See page 95 for the number.

Death of a Taxpayer

If a taxpayer died before filing a return for 2009, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return must enter "Deceased," the deceased taxpayer's name, and the date of death

across the top of the return. If this information is not provided, it may delay the processing of the return.

If your spouse died in 2009 and you did not remarry in 2009, or if your spouse died in 2010 before filing a return for 2009, you can file a joint return. A joint return should show your spouse's 2009 income before death and your income for all of 2009. Enter "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

Claiming a Refund for a Deceased Taxpayer

If you are filing a joint return as a surviving spouse, you only need to file the tax return to claim the refund. If you are a court-appointed representative, file the return and attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach Form 1310.

For more details, use TeleTax topic 356 (see page 94) or see Pub. 559.

Past Due Returns

The integrity of our tax system and well-being of our country depend, to a large degree, on the timely filing and payment of taxes by each individual, family, and business in this country. Those choosing not to file and pay their fair share increase the burden on the rest of us to support our schools, maintain and repair roadways, and the many other ways our tax dollars help to make life easier for all citizens.

Some people don't know they should file a tax return; some don't file because they expect a refund; and some don't file because they owe taxes. Encourage your family, neighbors, friends, and coworkers to do their fair share by filing their federal tax returns and paying any tax due on time.

If you or someone you know needs to file past due tax returns, use TeleTax topic 153 (see page 93) or visit www.irs.gov and click on "Individuals" for help in filing those returns. Send the return to the address that applies to you in the latest Form 1040 instruction booklet. For example, if you are filing a 2006 return in 2010, use the address in this booklet. However, if you got an IRS notice, mail the return to the address in the notice.

Other Ways To Get Help

Send Your Written Tax Questions to the IRS

You should get an answer in about 30 days. For the mailing address, call us at 1-800-829-1040 (hearing impaired customers with access to TTY/TDD equipment may call 1-800-829-4059). Do not send questions with your return.

Research Your Tax Questions Online

You can find answers to many of your tax questions online in several ways by accessing the IRS website at www.irs.gov/help and then clicking on "Help With Tax Questions." Here are some of the methods you may want to try.

- Frequently asked questions. This section contains an extensive list of questions and answers. You can select your question by category or keyword.
- Tax trails. This is an interactive section which asks questions you can answer by selecting "Yes" or "No."
- Tax topics. This is an online version of the TeleTax topics listed on pages 93 and 94.

Free Help With Your Return

Free help in preparing your return is available nationwide from IRS-sponsored volunteers. These volunteers are trained and certified to prepare federal income tax returns by passing an IRS test. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers. The Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 or older with their tax return preparation. VITA/TCE tax preparation sites must adhere to strict quality standards necessary to prepare accurate returns. Free electronic filing is offered by IRS authorized *e-file* providers at many of the VITA/TCE locations nationwide. Volunteers will help you with claiming the credits and deductions you may be entitled to. If you are a member of the military, you can also get assistance on military tax benefits, such as combat zone tax benefits, at an office within your installation. For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right corner. Or, call us at 1-800-829-1040. To find the nearest AARP Tax-Aide site, visit AARP's website at www.aarp.org/money/taxaide or call 1-888-227-7669.

When you go for help, take proof of identity and social security numbers (or individual taxpayer identification numbers) for your spouse, your dependents, and yourself. Take a copy of your 2008 tax return (if available), all your Forms W-2,

1099, and 1098 for 2009, and any other information about your 2009 income and expenses.

Everyday Tax Solutions

You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under "United States Government, Internal Revenue Service."

Online Services

If you subscribe to an online service, ask about online filing or tax information.

Help for People With Disabilities

Telephone help is available using TTY/TDD equipment by calling 1-800-829-4059. Braille materials are available at libraries that have special services for people with disabilities.

Tax Services in Other Languages

To better serve taxpayers whose native language is not English, we have products and services in various languages.

For Spanish speaking taxpayers, we have:

- Spanish Publication 17, El Impuesto Federal sobre los Ingresos, and
- The Espanol website, www.irs.gov/espanol.

We also offer a Basic Tax Responsibilities CD/DVD in the following languages.

- Spanish.
- Chinese.
- Vietnamese.
- Korean.
- Russian.

To get a copy of this CD/DVD, call the National Distribution Center at 1-800-829-3676 and ask for Pub. 4580 in your language.



The IRS Taxpayer Assistance Centers provide over-the-phone interpreter assistance in more than 170 different languages.

To find the number, see Everyday Tax Solutions above.

Interest and Penalties

You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts can be com-

plicated, we will do it for you if you want. We will send you a bill for any amount due.

If you include interest or penalties (other than the estimated tax penalty) with your payment, identify and enter the amount in the bottom margin of Form 1040, page 2. Do not include interest or penalties (other than the estimated tax penalty) in the amount you owe on line 75.

Interest

We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements. Interest is charged on the penalty from the due date of the return (including extensions).

Penalties

Late filing. If you do not file your return by the due date (including extensions), the penalty is usually 5% of the amount due for each month or part of a month your return is late, unless you have a reasonable explanation. If you do, attach it to your return. The penalty can be as much as 25% of the tax due. The penalty is 15% per month, up to a maximum of 75%, if the failure to file is fraudulent. If your return is more than 60 days late, the minimum penalty will be \$135 or the amount of any tax you owe, whichever is smaller.

Late payment of tax. If you pay your taxes late, the penalty is usually ½ of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty can be as much as 25% of the unpaid amount. It applies to any unpaid tax on the return. This penalty is in addition to interest charges on late payments.

Frivolous return. In addition to any other penalties, the law imposes a penalty of \$5,000 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax because you take a frivolous position or desire to delay or interfere with the tax laws. This includes altering or striking out the preprinted language above the space where you sign. For a list of positions identified as frivolous, see Notice 2008-14, 2008-4 I.R.B. 310, available at www.irs.gov/irb/2008-04_IRB/ar12.html.

Other. Other penalties can be imposed for negligence, substantial understatement of tax, reportable transaction understatements, filing an erroneous refund claim, and fraud. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement. See Pub. 17 for details on some of these penalties.

Refund Information

where's my refund?

You can go online to check the status of your refund 72 hours after IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after you mail a paper return. But if you filed Form 8379 with your return, allow 14 weeks (11 weeks if you filed electronically) before checking your refund status.



Go to www.irs.gov and click on *Where's My Refund*. Have a copy of your tax return handy. You will need to provide the following information from your return:

- Your social security number (or individual taxpayer identification number),
- Your filing status, and
- The exact whole dollar amount of your refund.



Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please

wait until the next week before checking back.

If you do not have Internet access, call:

- 1-800-829-1954 during the hours shown on page 95, or
- 1-800-829-4477 24 hours a day, 7 days a week, for automated refund information.

Do not send in a copy of your return unless asked to do so.

To get a refund, you generally must file your return within 3 years from the date the return was due (including extensions).

Refund information also is available in Spanish at www.irs.gov/espanol and the phone numbers listed above.

What Is TeleTax?

Recorded Tax Information

Recorded tax information is available 24 hours a day, 7 days a week. Select the number of the topic you want to hear. Then, call 1-800-829-4477. Have paper and pencil handy to take notes.

Topics by Internet

TeleTax topics are also available through the IRS website at www.irs.gov.

TeleTax Topics

All topics are available in Spanish.

Topic No.	Subject
IRS Help Available	
101	IRS services—Volunteer tax assistance, toll-free telephone, walk-in assistance, and outreach programs
102	Tax assistance for individuals with disabilities and the hearing impaired
103	Tax help for small businesses and self-employed
104	Taxpayer Advocate Service—Help for problem situations
105	Armed Forces tax information
107	Tax relief in disaster situations
IRS Procedures	
151	Your appeal rights
152	Refund information
153	What to do if you haven't filed your tax return

Topic No.	Subject
154	Forms W-2 and Form 1099-R—What to do if not received
155	Forms and publications—How to order
156	Copy of your tax return—How to get one
157	Change of address—How to notify IRS
158	Ensuring proper credit of payments
159	Prior year(s) Form W-2—How to get a copy of
160	Form 1099-A (Acquisition or Abandonment of Secured Property) and Form 1099-C (Cancellation of Debt)
Collection	
201	The collection process
202	Tax payment options
203	Failure to pay child support and federal nontax and state income tax obligations
204	Offers in compromise

Topic No.	Subject
205	Innocent spouse relief (and separation of liability and equitable relief)
206	Dishonored payments
Alternative Filing Methods	
253	Substitute tax forms
254	How to choose a paid tax preparer
255	Self-select PIN signature method for online registration
General Information	
301	When, where, and how to file
303	Checklist of common errors when preparing your tax return
304	Extension of time to file your tax return
305	Recordkeeping
306	Penalty for underpayment of estimated tax
307	Backup withholding
308	Amended returns
309	Roth IRA contributions
310	Coverdell education savings accounts
311	Power of attorney information

TeleTax Topics

(Continued)

Topic No.	Subject
312	Disclosure authorizations
313	Qualified tuition programs (QTPs)
Which Forms to File	
352	Which form—1040, 1040A, or 1040EZ?
356	Decedents
Types of Income	
401	Wages and salaries
403	Interest received
404	Dividends
407	Business income
409	Capital gains and losses
410	Pensions and annuities
411	Pensions—The general rule and the simplified method
412	Lump-sum distributions
413	Rollovers from retirement plans
414	Rental income and expenses
415	Renting residential and vacation property
416	Farming and fishing income
417	Earnings for clergy
418	Unemployment compensation
419	Gambling income and expenses
420	Bartering income
421	Scholarship and fellowship grants
423	Social security and equivalent railroad retirement benefits
424	401(k) plans
425	Passive activities—Losses and credits
427	Stock options
429	Traders in securities (information for Form 1040 filers)
430	Exchange of policyholder interest for stock
431	Canceled debt—Is it taxable or not?
Adjustments to Income	
451	Individual retirement arrangements (IRAs)
452	Alimony paid
453	Bad debt deduction
455	Moving expenses
456	Student loan interest deduction
457	Tuition and fees deduction
458	Educator expense deduction
Itemized Deductions	
501	Should I itemize?
502	Medical and dental expenses
503	Deductible taxes

Topic No.	Subject
504	Home mortgage points
505	Interest expense
506	Contributions
507	Casualty and theft losses
508	Miscellaneous expenses
509	Business use of home
510	Business use of car
511	Business travel expenses
512	Business entertainment expenses
513	Educational expenses
514	Employee business expenses
515	Casualty, disaster, and theft losses
Tax Computation	
551	Standard deduction
552	Tax and credits figured by the IRS
553	Tax on a child's investment income
554	Self-employment tax
556	Alternative minimum tax
557	Tax on early distributions from traditional and Roth IRAs
558	Tax on early distributions from retirement plans
Tax Credits	
601	Earned income credit (EIC)
602	Child and dependent care credit
607	Adoption credit
608	Excess social security and RRTA tax withheld
610	Retirement savings contributions credit
611	First-time homebuyer credit—Purchases made in 2008
612	First-time homebuyer credit—Purchases made in 2009
IRS Notices	
651	Notices—What to do
652	Notice of underreported income—CP 2000
653	IRS notices and bills, penalties, and interest charges
Basis of Assets, Depreciation, and Sale of Assets	
701	Sale of your home
703	Basis of assets
704	Depreciation
705	Installment sales
Employer Tax Information	
751	Social security and Medicare withholding rates
752	Form W-2—Where, when, and how to file

Topic No.	Subject
753	Form W-4—Employee's Withholding Allowance Certificate
754	Form W-5—Advance earned income credit
755	Employer identification number (EIN)—How to apply
756	Employment taxes for household employees
757	Forms 941 and 944—Deposit requirements
758	Form 941—Employer's Quarterly Federal Tax Return and Form 944—Employer's Annual Federal Tax Return
761	Tips—Withholding and reporting
762	Independent contractor vs. employee
Electronic Media Filers—1099 Series and Related Information Returns	
801	Who must file magnetically
802	Applications, forms, and information
803	Waivers and extensions
804	Test files and combined federal and state filing
805	Electronic filing of information returns
Tax Information for Aliens and U.S. Citizens Living Abroad	
851	Resident and nonresident aliens
856	Foreign tax credit
857	Individual taxpayer identification number (ITIN)—Form W-7
858	Alien tax clearance
Tax Information for Residents of Puerto Rico (in Spanish only)	
901	Is a person with income from Puerto Rican sources required to file a U.S. federal income tax return?
902	Credits and deductions for taxpayers with Puerto Rican source income that is exempt from U.S. tax
903	Federal employment tax in Puerto Rico
904	Tax assistance for residents of Puerto Rico

Topic numbers are effective January 1, 2010.

Calling the IRS

If you cannot find the answer to your question in these instructions or online, please call us for assistance. See *Making the Call* below. You will not be charged for the call unless your phone company charges you for toll-free calls. Our normal hours of operation are Monday through Friday from 7:00 a.m. to 10:00 p.m. local time. Assistance provided to callers from Alaska and Hawaii will be based on the hours of operation in the Pacific time zone.



If you want to check the status of your 2009 refund, see Refund Information on page 93.

Before You Call

IRS representatives care about the quality of the service provided to you, our customer. You can help us provide accurate, complete answers to your questions by having the following information available.

- The tax form, schedule, or notice to which your question relates.
- The facts about your particular situation. The answer to the same question often varies from one taxpayer to another because of differences in their age, income, whether they can be claimed as a dependent, etc.
- The name of any IRS publication or other source of information that you used to look for the answer.

To maintain your account security, you may be asked for the following information, which you should also have available.

- Your social security number.
- The amount of refund and filing status shown on your tax return.
- The “Caller ID Number” shown at the top of any notice you received.

- Your personal identification number (PIN) if you have one.
- Your date of birth.
- The numbers in your street address.
- Your ZIP code.

If you are asking for an installment agreement to pay your tax, you will be asked for the highest amount you can pay each month and the date on which you can pay it.

Evaluation of services provided. The IRS uses several methods to evaluate our telephone service. One method is to record telephone calls for quality purposes only. A random sample of recorded calls is selected for review through the quality assurance process. Other methods include listening to live calls in progress and random selection of customers for participation in a customer satisfaction survey.

Making the Call

Call 1-800-829-1040 (hearing impaired customers with TTY/TDD equipment may

call 1-800-829-4059). Our menu allows you to speak your responses or use your keypad to select a menu option. After receiving your menu selection, the system will direct your call to the appropriate assistance.

Before You Hang Up

If you do not fully understand the answer you receive, or you feel our representative may not fully understand your question, our representative needs to know this. He or she will be happy to take additional time to be sure your question is answered fully.

By law, you are responsible for paying your share of federal income tax. If we should make an error in answering your question, you are still responsible for the payment of the correct tax. Should this occur, however, you will not be charged any penalty.

Quick and Easy Access to Tax Help and Tax Products



If you live outside the United States, see Pub. 54 to find out how to get help and tax products.



Internet

You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov.

Online services and help. Go to www.irs.gov to obtain information on:

- **Online Services**—Conduct business with the IRS electronically.
- **Taxpayer Advocate Service**—Helps taxpayers resolve problems with the IRS.
- **Free File** and e-file—Free federal online filing.
- **Where's My Refund**—Your refund status anytime from anywhere.
- **Free Tax Return Preparation**—Free tax assistance and preparation.
- **Recent Tax Changes**—Highlights on newly enacted tax law.
- **Innocent Spouses**—Tax information for innocent spouses.
- **Disaster Tax Relief**—Tax relief provisions for disaster situations.
- **Identity Theft and Your Tax Records**—Safeguard your identity and tax records.
- **Online Payment Agreement (OPA) Application**—Online agreements.
- **Applying for Offers in Compromise**—Information on offers in compromise.

View and download products. Click on “Forms and Publications” or go to www.irs.gov/formspubs to:

- View or download current and previous year tax products.
- Order current year tax products online.

The Forms and Publications page provides links to access and acquire both electronic and print media. Additionally, the “Search” function provides basic and advanced search capabilities for published products available on www.irs.gov.

Online ordering of products. To order tax products delivered by mail, go to www.irs.gov/formspubs.

- For current year products, click on “Forms and publications by U.S. mail.”
- For a tax booklet of forms and instructions, click on “Tax packages.”
- For tax products on a DVD, click on “Tax products on DVD (Pub. 1796).” See *DVD* on this page.



To get information, forms, and publications in Spanish, click “Español” in the upper right corner of www.irs.gov.



Phone

Tax forms and publications. Call 1-800-TAX-FORM (1-800-829-3676) to order current and prior year forms, instructions, and publications. You should receive your order within 10 working days.

Tax help and questions. Call 1-800-829-1040.

Hearing Impaired TTY/TDD. Call 1-800-829-4059.

TeleTax information - 24 hour tax information. Call 1-800-829-4477. See pages 93 and 94 for topic numbers and details.

Refund hotline. Call 1-800-829-1954.

National Taxpayer Advocate helpline. Call 1-877-777-4778.



Walk-In

You can pick up some of the most requested forms, instructions, and publications at many IRS offices, post offices, and libraries. Also, some grocery stores, copy centers, city and county government offices, and credit unions

have reproducible tax products available to photocopy or print from a DVD.



Mail

You can order forms, instructions, and publications by completing the order blank on page 99. You should receive your order within 10 days after we receive your request.



DVD

Buy IRS Publication 1796 (IRS Tax Products DVD) for \$30. Price is subject to change. There may be a handling fee. The DVD includes current-year and prior-year forms, instructions, and publications; Internal Revenue Bulletins;

and toll-free and email technical support. The DVD is released twice during the year. The first release will ship early January 2010 and the final release will ship early March 2010.

Internet. Buy the DVD from:

- National Technical Information Service (NTIS) at www.irs.gov/cdorders
- Government Printing Office (GPO) at <http://bookstore.gpo.gov> (search for Pub. 1796)

Telephone. Buy the DVD from:

- NTIS at 1-877-233-6767
- GPO at 1-866-512-1800

Other ways to get help. See page 92 for information.

Disclosure, Privacy Act, and Paperwork Reduction Act Notice

The IRS Restructuring and Reform Act of 1998, the Privacy Act of 1974, and the Paperwork Reduction Act of 1980 require that when we ask you for information we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This notice applies to all papers you file with us, including this tax return. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001, 6011, and 6012(a), and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 requires filers and paid preparers to provide their social security number or other identifying number. This is so we know who you are, and can process your return and other papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund or for the third-party designee. You also do not have to provide your daytime phone number.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become

material in the administration of any Internal Revenue law.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Generally, tax returns and return information are confidential, as stated in Code section 6103. However, Code section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may disclose your tax information to the Department of Treasury and contractors for tax administration purposes; and to other persons as necessary to obtain information needed to determine the amount of or to collect the tax you owe. We may disclose your tax information to the Comptroller General of the United States to permit the Comptroller General to review the Internal Revenue Service. We may disclose your tax information to committees of Congress; federal, state, and local child support agencies; and to other federal agencies for the purposes of deter-

mining entitlement for benefits or the eligibility for and the repayment of loans. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

We Welcome Comments on Forms

We try to create forms and instructions that can be easily understood. Often this is difficult to do because our tax laws are very complex. For some people with income mostly from wages, filling in the forms is easy. For others who have businesses, pensions, stocks, rental income, or other investments, it is more difficult.

If you have suggestions for making these forms simpler, we would be happy to hear from you. You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Enter "Forms Comment" on the subject line. Or you can write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send your return to this address. Instead, see the back cover.

Estimates of Taxpayer Burden

The table below shows burden estimates as of October 2009 for taxpayers filing a 2009 Form 1040, 1040A, or 1040EZ tax return. Time spent and out-of-pocket costs are presented separately. Time burden is broken out by taxpayer activity, with recordkeeping representing the largest component. Out-of-pocket costs include any expenses incurred by taxpayers to prepare and submit their tax returns. Examples include tax return preparation and submission fees, postage and photocopying costs, and tax preparation software costs. While these estimates do not in-

clude burden associated with post-filing activities, IRS operational data indicate that electronically prepared and filed returns have fewer arithmetic errors, implying lower post-filing burden.

Reported time and cost burdens are national averages and do not necessarily reflect a “typical” case. For instance, the estimated average time burden for all taxpayers filing a Form 1040, 1040A, or 1040EZ is 17.3 hours, with an average cost of \$225 per return. This average includes all associated forms and schedules, across all preparation methods and taxpayer activities.

Taxpayers filing Form 1040 are expected to have an average burden of about 21.4 hours, with taxpayers filing Form 1040A or Form 1040EZ averaging about 8.0 hours. Within each of these estimates there is significant variation in taxpayer activity. Similarly, tax preparation fees vary extensively depending on the tax situation of the taxpayer, the type of professional preparer, and the geographic area.

If you have comments concerning the time and cost estimates below, you can contact us at either one of the addresses shown under *We Welcome Comments on Forms* on page 97.

Estimated Average Taxpayer Burden for Individuals by Activity

The average time and costs required to complete and file Form 1040, Form 1040A, Form 1040EZ, their schedules, and accompanying forms will vary depending on individual circumstances. The estimated averages are:

Primary Form Filed or Type of Taxpayer	Percentage of Returns	Average Time Burden (Hours)						Average Cost (Dollars)
		Total Time	Record Keeping	Tax Planning	Form Completion	Form Submission	All Other	
All taxpayers	100	17.3	8.0	1.7	4.3	1.0	2.4	\$225
Primary forms filed								
1040	70	21.4	10.2	2.1	5.2	1.0	2.9	280
1040A & 1040EZ	30	8.0	2.7	0.8	2.3	0.8	1.3	96
Type of taxpayer								
Nonbusiness*	69	10.7	4.1	1.1	3.0	0.8	1.7	129
Business*	31	31.9	16.5	3.0	7.1	1.2	4.0	434

* You are considered a “business” filer if you file one or more of the following with Form 1040: Schedule C, C-EZ, E, or F or Form 2106 or 2106-EZ. You are considered a “nonbusiness” filer if you did not file any of those schedules or forms with Form 1040 or if you file Form 1040A or 1040EZ.

Order Form for Forms and Publications

The most frequently ordered forms and publications are listed on the order form below. You will receive two copies of each form, one copy of the instructions, and one copy of each publication you order. To help reduce waste, please order only the items you need to prepare your return.



For faster ways of getting the items you need, go to www.irs.gov/formspubs.

How To Use the Order Form

Circle the items you need on the order form below. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper.

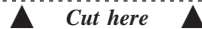
Print or type your name and address accurately in the space provided below to en-

sure delivery of your order. Enclose the order form in an envelope and mail it to the IRS address shown on this page. You should receive your order within 10 days after receipt of your request.

Do not send your tax return to the address shown on this page. Instead, see the back cover.

Mail Your Order Form To:

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



Save Money and Time by Going Online!

Download or order these and other tax products at www.irs.gov/formspubs

Order Form

Please Print

Name	
Postal mailing address	Apt./Suite/Room
City	State ZIP code
Foreign country	International postal code
Daytime phone number ()	

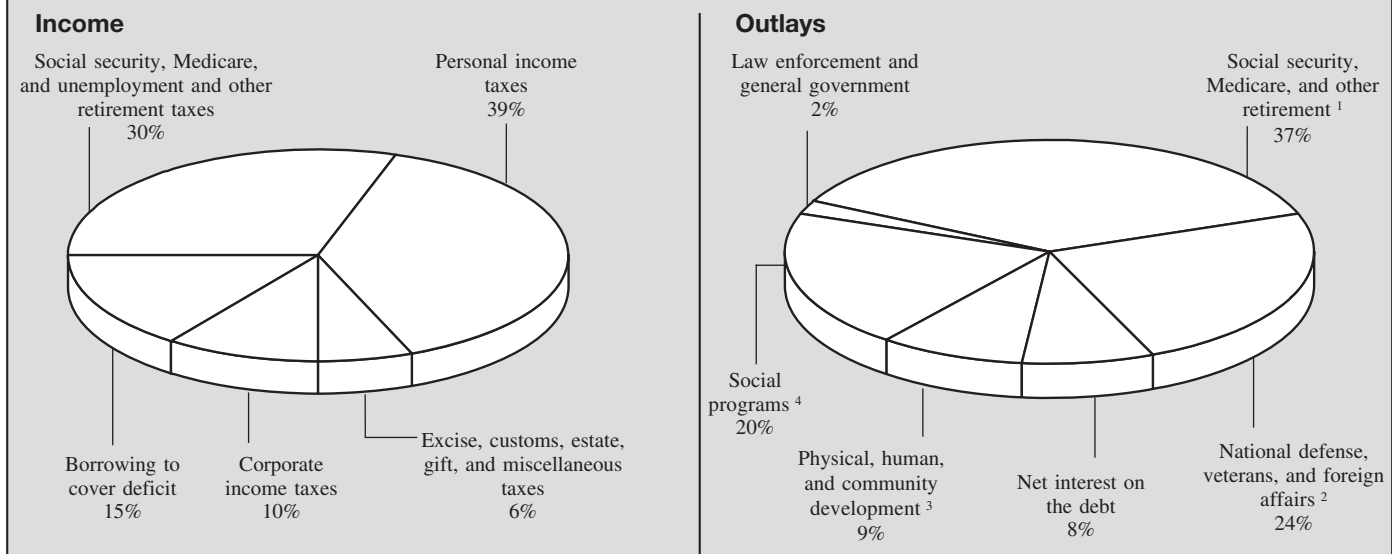
Circle the forms and publications you need. The instructions for any form you order will be included.

Use the blank spaces to order items not listed.

1040	Schedule F (1040)	1040-ES (2010)	4868	8917	Pub. 523	Pub. 554	Pub. 946
Schedule A (1040)	Schedule H (1040)	1040-V	5405	9465	Pub. 525	Pub. 575	Pub. 970
Schedule B (1040A or 1040)	Schedule J (1040)	1040X	6251	Pub. 1	Pub. 526	Pub. 583	Pub. 972
Schedule C (1040)	Schedule L (1040A or 1040)	2106	8283	Pub. 17	Pub. 527	Pub. 587	Pub. 4681
Schedule C-EZ (1040)	Schedule M (1040A or 1040)	2441	8606	Pub. 334	Pub. 529	Pub. 590	
Schedule D (1040)	Schedule R (1040A or 1040)	4506	8812	Pub. 463	Pub. 535	Pub. 596	
Schedule D-1 (1040)	Schedule SE (1040)	4506-T	8822	Pub. 501	Pub. 547	Pub. 910	
Schedule E (1040)	1040A	4562	8829	Pub. 502	Pub. 550	Pub. 915	
Schedule EIC (1040A or 1040)	1040EZ	4684	8863	Pub. 505	Pub. 551	Pub. 919	

Major Categories of Federal Income and Outlays for Fiscal Year 2008

Income and Outlays. These pie charts show the relative sizes of the major categories of federal income and outlays for fiscal year 2008.



On or before the first Monday in February of each year, the President is required by law to submit to the Congress a budget proposal for the fiscal year that begins the following October. The budget plan sets forth the President's proposed receipts, spending, and the surplus or deficit for the Federal Government. The plan includes recommendations for new legislation as well as recommendations to change, eliminate, and add programs. After receiving the President's proposal, the Congress reviews it and makes changes. It first passes a budget resolution setting its own targets for receipts, outlays, and the surplus or deficit. Next, individual spending and revenue bills that are consistent with the goals of the budget resolution are enacted.

In fiscal year 2008 (which began on October 1, 2007, and ended on September 30, 2008), federal income was \$2.524 trillion

and outlays were \$2.983 trillion, leaving a deficit of \$459 billion.

Footnotes for Certain Federal Outlays

1. Social security, Medicare, and other retirement: These programs provide income support for the retired and disabled and medical care for the elderly.

2. National defense, veterans, and foreign affairs: About 20% of outlays were to equip, modernize, and pay our armed forces and to fund national defense activities; about 3% were for veterans benefits and services; and about 1% were for international activities, including military and economic assistance to foreign countries and the maintenance of U.S. embassies abroad.

3. Physical, human, and community development: These outlays were for agriculture; natural resources; environment; transportation; aid for elementary and secondary education and direct assistance to college students; job training; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

4. Social programs: About 14% of total outlays were for Medicaid, food stamps, temporary assistance for needy families, supplemental security income, and related programs; and the remaining outlays were for health research and public health programs, unemployment compensation, assisted housing, and social services.

Note. The percentages on this page exclude undistributed offsetting receipts, which were \$86 billion in fiscal year 2008. In the budget, these receipts are offset against spending in figuring the outlay totals shown above. These receipts are for the U.S. Government's share of its employee retirement programs, rents and royalties on the Outer Continental Shelf, and proceeds from the sale of assets.

2009 Tax Rate Schedules



The Tax Rate Schedules are shown so you can see the tax rate that applies to all levels of taxable income. Do not use them to figure your tax. Instead, see the instructions for line 44 that begin on page 37.

Schedule X—If your filing status is **Single**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$8,350	..... 10%	\$0
8,350	33,950	\$835.00 + 15%	8,350
33,950	82,250	4,675.00 + 25%	33,950
82,250	171,550	16,750.00 + 28%	82,250
171,550	372,950	41,754.00 + 33%	171,550
372,950	.....	108,216.00 + 35%	372,950

Schedule Y-1—If your filing status is **Married filing jointly** or **Qualifying widow(er)**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$16,700	..... 10%	\$0
16,700	67,900	\$1,670.00 + 15%	16,700
67,900	137,050	9,350.00 + 25%	67,900
137,050	208,850	26,637.50 + 28%	137,050
208,850	372,950	46,741.50 + 33%	208,850
372,950	.....	100,894.50 + 35%	372,950

Schedule Y-2—If your filing status is **Married filing separately**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$8,350	..... 10%	\$0
8,350	33,950	\$835.00 + 15%	8,350
33,950	68,525	4,675.00 + 25%	33,950
68,525	104,425	13,318.75 + 28%	68,525
104,425	186,475	23,370.75 + 33%	104,425
186,475	.....	50,447.25 + 35%	186,475

Schedule Z—If your filing status is **Head of household**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$11,950	..... 10%	\$0
11,950	45,500	\$1,195.00 + 15%	11,950
45,500	117,450	6,227.50 + 25%	45,500
117,450	190,200	24,215.00 + 28%	117,450
190,200	372,950	44,585.00 + 33%	190,200
372,950	.....	104,892.50 + 35%	372,950



2009 Instructions for Schedule A (Form 1040)

Itemized Deductions

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or your standard deduction.

If you itemize, you can deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You can also deduct certain casualty and theft losses.

If you and your spouse paid expenses jointly and are filing separate returns for 2009, see Pub. 504 to figure the portion of joint expenses that you can claim as itemized deductions.



Do not include on Schedule A items deducted elsewhere, such as on Form 1040 or Schedule C, C-EZ, E, or F.

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Schedule B. Schedule B, Interest and Ordinary Dividends, is no longer associated with Schedule A. Schedules A and B are now separate schedules.

New motor vehicle taxes. You can deduct certain state and local sales and excise taxes you paid in 2009 for the purchase of a new motor vehicle. If your state does not have a sales tax, you may be able to deduct certain other fees or taxes. See the instructions for line 7 on page A-6.

Increase in personal casualty and theft loss limit. Generally, each personal casualty or theft loss is limited to the excess of the loss over \$500. In addition, the 10%-of-adjusted-gross-income (AGI) limit continues to apply to the net loss.

Credit or debit card convenience fees. If you pay your income tax (including estimated tax payments) by credit or debit card, you may be able to deduct the convenience fee you are charged by the card processor to pay using your credit or debit card. See the instructions for line 23 that begins on page A-10.

Standard mileage rates. The 2009 rate for use of your vehicle to get medical care is 24 cents a mile. The special rate for charitable use of your vehicle to provide relief related to a Midwestern disaster area has expired.

Medical and Dental Expenses

You can deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 38.

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



If you received a distribution from a health savings account or a medical savings account in 2009, see Pub. 969 to figure your deduction.

Examples of Medical and Dental Payments You Can Deduct

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

- Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see *Limit on long-term care premiums you can deduct* on page A-2. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 29. You cannot deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your Form(s) W-2. If you are a retired public safety officer, you cannot deduct any premiums you paid to the extent they were paid for with a tax-free distribution from your retirement plan.



If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, reemployment TAA (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, you must reduce your insurance premiums by any amounts used to figure the health coverage tax credit. See the instructions for line 1 on page A-2.

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Diagnostic tests, such as a full-body scan, pregnancy test, or blood sugar test kit.
- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you can deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Qualified long-term care services (see Pub. 502).
- The supplemental part of Medicare insurance (Medicare B).
- The premiums you pay for Medicare Part D insurance.
- A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.

- A weight-loss program as treatment for a specific disease (including obesity) diagnosed by a doctor.

- Medical treatment at a center for drug or alcohol addiction.

- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.

- Surgery to improve defective vision, such as laser eye surgery or radial keratotomy.

- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. Do not deduct more than \$50 a night for each eligible person.

- Ambulance service and other travel costs to get medical care. If you used your own car, you can claim what you spent for gas and oil to go to and from the place you received the care; or you can claim 24 cents a mile. Add parking and tolls to the amount you claim under either method.

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

Limit on long-term care premiums you can deduct. The amount you can deduct for qualified long-term care contracts (as defined in Pub. 502) depends on the age, at the end of 2009, of the person for whom the premiums were paid. See the chart below for details.

IF the person was, at the end of 2009, age . . .	THEN the most you can deduct is . . .
40 or under	\$ 320
41–50	\$ 600
51–60	\$ 1,190
61–70	\$ 3,180
71 or older	\$ 3,980

Examples of Medical and Dental Payments You Cannot Deduct

- The cost of diet food.
- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.
- Life insurance or income protection policies.
- The Medicare tax on your wages and tips or the Medicare tax paid as part of the

self-employment tax or household employment taxes.



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

- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 48.

- Illegal operations or drugs.

- Imported drugs not approved by the U.S. Food and Drug Administration (FDA). This includes foreign-made versions of U.S.-approved drugs manufactured without FDA approval.

- Nonprescription medicines (including nicotine gum and certain nicotine patches).

- Travel your doctor told you to take for rest or a change.

- Funeral, burial, or cremation costs.

Line 1

Medical and Dental Expenses

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



Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed

health insurance deduction on Form 1040, line 29, reduce the premiums by the amount on line 29.

Note. If, during 2009, you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, re-employment TAA (RTAA) recipient, or Pension Benefit Guaranty Corporation pension recipient, you must complete Form 8885 before completing Schedule A, line 1. When figuring the amount of insurance premiums you can deduct on Schedule A, do not include:

- Any amounts you included on Form 8885, line 4,

- Any qualified health insurance premiums you paid to "U.S. Treasury — HCTC," or

- Any health coverage tax credit advance payments shown in box 1 of Form 1099-H.

Whose medical and dental expenses can you include? You can include medical and dental bills you paid for anyone who was one of the following either when the services were provided or when you paid for them.

- Yourself and your spouse.
- All dependents you claim on your return.

- Your child whom you do not claim as a dependent because of the rules for children of divorced or separated parents.

- Any person you could have claimed as a dependent on your return except that person received \$3,650 or more of gross income or filed a joint return.

- Any person you could have claimed as a dependent except that you, or your spouse if filing jointly, can be claimed as a dependent on someone else's 2009 return.

Example. You provided over half of your mother's support but cannot claim her as a dependent because she received wages of \$3,650 in 2009. You can include on line 1 any medical and dental expenses you paid in 2009 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 only the amount you paid. If you received a reimbursement in 2009 for medical or dental expenses you paid in 2009, reduce your 2009 expenses by this amount. If you received a reimbursement in 2009 for prior year medical or dental expenses, do not reduce your 2009 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include.

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

Taxes You Paid

Taxes You Cannot Deduct

- Federal income and most excise taxes.
- Social security, Medicare, federal unemployment (FUTA), and railroad retirement (RRTA) taxes.

- Customs duties.

- Federal estate and gift taxes. But see the instructions for line 28 on page A-11.

- Certain state and local taxes, including: tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5



You can elect to deduct state and local general sales taxes instead of state and local income taxes. You cannot deduct both.

State and Local Income Taxes

If you deduct state and local income taxes, check **box a** on line 5. Include on this line the state and local income taxes listed below.

- State and local income taxes withheld from your salary during 2009. Your Form(s) W-2 will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.

- State and local income taxes paid in 2009 for a prior year, such as taxes paid with your 2008 state or local income tax return. Do not include penalties or interest.

- State and local estimated tax payments made during 2009, including any part of a prior year refund that you chose to have credited to your 2009 state or local income taxes.

- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

- Mandatory contributions to the Alaska, New Jersey, or Pennsylvania state unemployment fund.

Do not reduce your deduction by any:

- State or local income tax refund or credit you expect to receive for 2009, or

- Refund of, or credit for, prior year state and local income taxes you actually received in 2009. Instead, see the instructions for Form 1040, line 10.

State and Local General Sales Taxes

If you elect to deduct state and local general sales taxes, you **must** check **box b** on line 5. To figure your deduction, you can use either your actual expenses or the optional sales tax tables.



You cannot deduct new motor vehicle taxes on line 7 of Schedule A if you make this election.

Actual Expenses

Generally, you can deduct the actual state and local general sales taxes (including compensating use taxes) you paid in 2009 if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate. If you paid sales tax

on a motor vehicle at a rate higher than the general sales tax rate, you can deduct only the amount of tax that you would have paid at the general sales tax rate on that vehicle. Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles. Also include any state and local general sales taxes paid for a leased motor vehicle. Do not include sales taxes paid on items used in your trade or business.



You must keep your actual receipts showing general sales taxes paid to use this method.

Refund of general sales taxes. If you received a refund of state or local general sales taxes in 2009 for amounts paid in 2009, reduce your **actual** 2009 state and local general sales taxes by this amount. If you received a refund of state or local general sales taxes in 2009 for prior year purchases, do not reduce your 2009 state and local general sales taxes by this amount. But if you deducted your **actual** state and local general sales taxes in the earlier year and the deduction reduced your tax, you may have to include the refund in income on Form 1040, line 21. See *Recoveries* in Pub. 525 for details.

Optional Sales Tax Tables

Instead of using your actual expenses, you can use the tables on pages A-12 through A-14 to figure your state and local general sales tax deduction. You may also be able to add the state and local general sales taxes paid on certain specified items.

To figure your state and local general sales tax deduction using the tables, complete the worksheet on page A-4 or use the 2009 Sales Tax Deduction Calculator on the IRS website. To use the 2009 Sales Tax Deduction Calculator, go to www.irs.gov and enter "Sales tax deduction calculator" in the search box.



If your filing status is married filing separately, both you and your spouse elect to deduct sales taxes, **and** your spouse elects to use the optional sales tax tables, you also must use the tables to figure your state and local general sales tax deduction.

Instructions for Line 5b Worksheet

Line 1. If you lived in the same state for all of 2009, enter the applicable amount, based on your 2009 income and exemptions, from the optional state sales tax table for your state on page A-12 or A-13. Read down the "At least-But less than" columns for your state and find the line that includes your 2009 income. If married filing separately, do not include your spouse's income. Your 2009 income is the amount shown on your Form 1040, line 38, **plus** any nontaxable items, such as the following.

- Tax-exempt interest.

- A voucher received or payment made for such voucher under the CARS "cash for clunkers" program.

- Veterans' benefits.
- Nontaxable combat pay.
- Workers' compensation.
- Nontaxable unemployment compensation.
- Nontaxable part of social security and railroad retirement benefits.
- Nontaxable part of IRA, pension, or annuity distributions. Do not include rollovers.
- Public assistance payments.
- Economic recovery payments.

The exemptions column refers to the number of exemptions claimed on Form 1040, line 6d.

What if you lived in more than one state? If you lived in more than one state during 2009, look up the table amount for each state using the above rules. If there is no table for your state, the table amount is considered to be zero. Multiply the table amount for each state you lived in by a fraction. The numerator of the fraction is the number of days you lived in the state during 2009 and the denominator is the total number of days in the year (365). Enter the total of the prorated table amounts for each state on line 1. However, if you also lived in a locality during 2009 that imposed a local general sales tax, do not enter the total on line 1. Instead, complete a separate worksheet for each state you lived in and enter the prorated amount for that state on line 1.

Example. You lived in State A from January 1 through August 31, 2009 (243 days), and in State B from September 1 through December 31, 2009 (122 days). The table amount for State A is \$500. The table amount for State B is \$400. You would figure your state general sales tax as follows.

State A:	$500 \times 243/365 =$	\$333
State B:	$400 \times 122/365 =$	134
Total		= \$467

If none of the localities in which you lived during 2009 imposed a local general sales tax, enter \$467 on line 1 of your worksheet. Otherwise, complete a separate worksheet for State A and State B. Enter \$333 on line 1 of the State A worksheet and \$134 on line 1 of the State B worksheet.

Line 2. If you checked the "No" box, enter -0- on line 2, and go to line 3. If you checked the "Yes" box and lived in the same locality for all of 2009, enter the applicable amount, based on your 2009 income and exemptions, from the optional local sales tax table for your locality on page A-14. Read down the "At least-But less than" columns for your locality and find the line that includes your 2009 income. See the line 1 instructions on this page to figure your 2009 income. The ex-

exemptions column refers to the number of exemptions claimed on Form 1040, line 6d.

What if you lived in more than one locality? If you lived in more than one locality during 2009, look up the table amount for each locality using the above rules. If there is no table for your locality, the table amount is considered to be zero. Multiply the table amount for each locality you lived in by a fraction. The numerator of the fraction is the number of days you lived in the

locality during 2009 and the denominator is the total number of days in the year (365). If you lived in more than one locality in the same state and the local general sales tax rate was the same for each locality, enter the total of the prorated table amounts for each locality in that state on line 2. Otherwise, complete a separate worksheet for lines 2 through 6 for each locality and enter each prorated table amount on line 2 of the applicable worksheet.

Example. You lived in Locality 1 from January 1 through August 31, 2009 (243 days), and in Locality 2 from September 1 through December 31, 2009 (122 days). The table amount for Locality 1 is \$100. The table amount for Locality 2 is \$150. You would figure the amount to enter on line 2 as follows. Note that this amount may not equal your local sales tax deduction, which is figured on line 6 of the worksheet.

State and Local General Sales Tax Deduction Worksheet—Line 5b

(See the *Instructions for Line 5b Worksheet* that begin on page A-3.)

Keep for Your Records



Before you begin: See the instructions for line 1 on page A-3 if you:

- Lived in more than one state during 2009, or
- Had any **nontaxable** income in 2009.

<p>1. Enter your state general sales taxes from the applicable table on page A-12 or A-13 (see page A-3) . . .</p> <p>Next. If, for all of 2009, you lived only in Connecticut, the District of Columbia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, Rhode Island, or West Virginia, skip lines 2 through 5, enter -0- on line 6, and go to line 7. Otherwise, go to line 2.</p> <p>2. Did you live in Alaska, Arizona, Arkansas, California (Los Angeles County only), Colorado, Georgia, Illinois, Louisiana, Missouri, New York State, North Carolina, South Carolina, Tennessee, Utah, or Virginia in 2009?</p> <p><input type="checkbox"/> No. Enter -0-</p> <p><input type="checkbox"/> Yes. Enter your local general sales taxes from the applicable table on page A-14 (see page A-3)</p> <p>3. Did your locality impose a local general sales tax in 2009? Residents of California and Nevada see page A-5.</p> <p><input type="checkbox"/> No. Skip lines 3 through 5, enter -0- on line 6, and go to line 7.</p> <p><input type="checkbox"/> Yes. Enter your local general sales tax rate, but omit the percentage sign. For example, if your local general sales tax rate was 2.5%, enter 2.5. If your local general sales tax rate changed or you lived in more than one locality in the same state during 2009, see page A-5. (If you do not know your local general sales tax rate, contact your local government.)</p> <p>4. Did you enter -0- on line 2 above?</p> <p><input type="checkbox"/> No. Skip lines 4 and 5 and go to line 6.</p> <p><input type="checkbox"/> Yes. Enter your state general sales tax rate (shown in the table heading for your state), but omit the percentage sign. For example, if your state general sales tax rate is 6%, enter 6.0</p> <p>5. Divide line 3 by line 4. Enter the result as a decimal (rounded to at least three places)</p> <p>6. Did you enter -0- on line 2 above?</p> <p><input type="checkbox"/> No. Multiply line 2 by line 3</p> <p><input type="checkbox"/> Yes. Multiply line 1 by line 5. If you lived in more than one locality in the same state during 2009, see the instructions on page A-5</p> <p>7. Enter your state and local general sales taxes paid on specified items, if any (see page A-5)</p> <p>8. Deduction for general sales taxes. Add lines 1, 6, and 7. Enter the result here and the total from all your state and local general sales tax deduction worksheets, if you completed more than one, on Schedule A, line 5. Be sure to check box b on that line</p>	<p>1.</p> <p>2.</p> <p>3.</p> <p>4.</p> <p>5.</p> <p>6.</p> <p>7.</p> <p>8.</p>	<p>\$</p> <p>\$</p> <p>.</p> <p>.</p> <p>.</p> <p>\$</p> <p>\$</p> <p>\$</p> <p>\$</p>
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Line 7

New Motor Vehicle Taxes



If you elected to deduct state and local general sales taxes on line 5b, you cannot deduct new motor vehicle taxes on line 7.

You may be able to deduct state and local sales and excise taxes (or certain other taxes or fees in a state without a sales tax) paid after February 16, 2009, for the purchase of any new motor vehicle(s). To figure the amount you can deduct, you will need to complete the *Worksheet for Line 7* on the back of Schedule A.

If the amount on Form 1040, line 38, is equal to or greater than \$135,000 (\$260,000 if married filing jointly), you cannot deduct these taxes.

Instructions for Worksheet for Line 7

Line 1. Enter the state or local sales and excise taxes from your sales invoice(s) relating to any new motor vehicle(s) (defined below) you purchased after February 16, 2009.

States with no sales tax. The states of Alaska, Delaware, Hawaii, Montana, New Hampshire, and Oregon do not have a sales tax. However, you may be charged other taxes or fees on the purchase of a new motor vehicle in one of these six states that is similar to a sales tax. The taxes or fees that qualify must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per unit fee. You can include these taxes and fees on line 1 of the *Worksheet for Line 7*.

One example of a fee you can include on line 1 of the worksheet is the 3.75% document fee when registering a title with the Delaware Division of Motor Vehicles. The fee is 3.75% of the purchase price.

New motor vehicle. A new motor vehicle is any of the following. The original use of the vehicle must begin with you.

- A passenger automobile or light truck that is self propelled, designed to transport people or property on a street or highway, and the gross vehicle weight rating of the vehicle is not more than 8,500 pounds.
- A motorcycle (defined below) with a gross vehicle weight rating of not more than 8,500 pounds.
- A motor home (defined below).

Motorcycle. A vehicle with motive power having a seat or saddle for the use of the rider and designed to travel on not more than three wheels in contact with the ground.

Motor home. A multi-purpose vehicle with motive power that is designed to provide temporary residential accommodations, as evidenced by the presence of at least four of the following facilities.

- Cooking.
- Refrigeration or ice box.

- Self-contained toilet.
- Heating and/or air conditioning.
- Potable water supply system including a faucet and sink.
- Separate 110-125 volt electrical power supply and/or propane.

Line 2. Enter on line 2 the cost of the new motor vehicle(s). Do not include on line 2 any state or local sales or excise taxes you entered on line 1.

Line 3. If you check the "Yes" box, the amount you can include for state or local sales and excise taxes is limited to the taxes imposed on the first \$49,500 of the purchase price of each new motor vehicle. To figure the amount to enter on line 3, you will need to know the rate(s) of tax that apply in the state and locality where you purchased each new motor vehicle. If the state and locality where you purchased a new motor vehicle imposes a fixed rate, multiply the combined state and local rate by the **smaller** of \$49,500 or the purchase price (**before taxes**) of the new motor vehicle. See *Example 1* below.

Some taxing jurisdictions may provide for a sales tax that is limited to a certain dollar amount per purchase. One example is Manatee County, Florida. Manatee County charges an additional ½% (.005) discretionary sales tax that is collected on the first \$5,000 of a purchase, not to exceed \$25. See *Example 2* below.

Example 1. You purchased a new motor vehicle on April 3, 2009, for \$56,500 before taxes. The state where you purchased the vehicle imposes a fixed sales tax rate of 5% and the locality also charges a fixed rate of 1%, for a combined fixed sales tax rate of 6%. The amount of sales tax you can include on line 3 is \$2,970 ($\$49,500 \times 6\%$ (.06)).

Example 2. You purchased a new motor vehicle in Manatee County, Florida, on April 16, 2009, for \$60,000 before taxes. The state of Florida has a fixed sales tax rate of 6%. The amount of sales tax you can include on line 3 is \$2,995 ($\$49,500 \times 6\%$ (.06) + \$25). In this example, \$2,970 represents the 6% Florida sales tax and the \$25 is for the Manatee County discretionary sales tax on the first \$5,000 of the purchase price.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line:

- State and local personal property taxes you paid, if the taxes were based on value alone and were imposed on a yearly basis; and
- Income tax you paid to a foreign country or U.S. possession.



You may want to take a credit for the foreign tax instead of a deduction. See the instructions for Form 1040, line 47, for details.

Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. See Pub. 535 for details.

In general, if you paid interest in 2009 that applies to any period after 2009, you can deduct only amounts that apply for 2009.

Lines 10 and 11

Home Mortgage Interest

A home mortgage is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

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

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

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

1. You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or improve your home, and all of these mortgages totaled over \$100,000 at any time during 2009. The limit is \$50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

2. You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over \$1 million at any time during

2009. The limit is \$500,000 if married filing separately.



If the total amount of all mortgages is more than the fair market value of the home, additional limits apply. See

Pub. 936.

Line 10

Enter on line 10 mortgage interest and points reported to you on Form 1098 under your social security number (SSN). If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21. If you and at least one other person (other than your spouse if filing jointly) were liable for and paid interest on the mortgage, and the interest was reported on Form 1098 under the other person's SSN, report your share of the interest on line 11 (as explained in the line 11 instructions below).

If you paid more interest to the recipient than is shown on Form 1098, see Pub. 936 to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and enter "See attached" to the right of line 10.



If you are claiming the mortgage interest credit (for holders of qualified mortgage credit certificates issued by state or local governmental units or agencies), subtract the amount shown on Form 8396, line 3, from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11

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

If you bought your home from the recipient, be sure to show that recipient's name, identifying number, and address on the dotted lines next to line 11. If the recipient is an individual, the identifying number is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a \$50 penalty.

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

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid only to borrow money are generally deductible over the life of the loan. See Pub. 936 to figure the amount you can deduct. Points paid for other purposes, such as for a lender's services, are not deductible.

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

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



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

Line 13

Qualified Mortgage Insurance Premiums

Enter the qualified mortgage insurance premiums you paid under a mortgage insurance contract issued after December 31, 2006, in connection with home acquisition debt that was secured by your first or second home. See *Prepaid mortgage insurance premiums* on this page if you paid any premiums allocable to any period after the close of the tax year. Box 4 of Form 1098 may show the amount of premiums you paid in 2009. If you and at least one other

person (other than your spouse if filing jointly) were liable for and paid the premiums in connection with the loan, and the premiums were reported on Form 1098 under the other person's SSN, report your share of the premiums on line 13.

Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Mortgage insurance provided by the Department of Veterans Affairs and the Rural Housing Service is commonly known as a funding fee and guarantee fee respectively. These fees can be deducted fully in 2009 if the mortgage insurance contract was issued in 2009. Contact the mortgage insurance issuer to determine the deductible amount if it is not included in box 4 of Form 1098.

Prepaid mortgage insurance premiums. If you paid qualified mortgage insurance premiums that are allocable to periods after the close of the tax year, you must allocate them over the shorter of:

- The stated term of the mortgage, or
- 84 months, beginning with the month the insurance was obtained.

The premiums are treated as paid in the year to which they are allocated. If the mortgage is satisfied before its term, no deduction is allowed for the unamortized balance. See Pub. 936 for details.

Exception for certain mortgage insurance. The allocation rules, explained above, do not apply to qualified mortgage insurance provided by the Department of Veterans Affairs or the Rural Housing Service.

Limit on amount you can deduct. You cannot deduct your mortgage insurance premiums if the amount on Form 1040, line 38, is more than \$109,000 (\$54,500 if married filing separately). If the amount on Form 1040, line 38, is more than \$100,000 (\$50,000 if married filing separately), your deduction is limited and you must use the worksheet on page A-8 to figure your deduction.

Qualified Mortgage Insurance Premiums Deduction Worksheet— Line 13

Keep for Your Records



Before you begin: ✓ See the instructions for line 13 on page A-7 to see if you must use this worksheet to figure your deduction.

1. Enter the total premiums you paid in 2009 for qualified mortgage insurance for a contract issued after December 31, 2006	1.	<input type="text"/>
2. Enter the amount from Form 1040, line 38	2.	<input type="text"/>
3. Enter \$100,000 (\$50,000 if married filing separately)	3.	<input type="text"/>
4. Is the amount on line 2 more than the amount on line 3? <input type="checkbox"/> No. Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 13. Do not complete the rest of this worksheet. <input type="checkbox"/> Yes. Subtract line 3 from line 2. If the result is not a multiple of \$1,000 (\$500 if married filing separately), increase it to the next multiple of \$1,000 (\$500 if married filing separately). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separately, increase \$425 to \$500, increase \$2,025 to \$2,500, etc.	4.	<input type="text"/>
5. Divide line 4 by \$10,000 (\$5,000 if married filing separately). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0	5.	<input type="text"/>
6. Multiply line 1 by line 5	6.	<input type="text"/>
7. Qualified mortgage insurance premiums deduction. Subtract line 6 from line 1. Enter the result here and on Schedule A, line 13	7.	<input type="text"/>

Line 14

Investment Interest

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

Complete and attach Form 4952 to figure your deduction.

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

1. Your investment interest expense is not more than your investment income from interest and ordinary dividends minus any qualified dividends.
2. You have no other deductible investment expenses.
3. You have no disallowed investment interest expense from 2008.



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

For more details, see Pub. 550.

Gifts to Charity

You can deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You can also deduct what

you gave to organizations that work to prevent cruelty to children or animals. Certain whaling captains may be able to deduct expenses paid in 2009 for Native Alaskan subsistence bowhead whale hunting activities. See Pub. 526 for details.

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

- Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
- See Pub. 78 for a list of most qualified organizations. You can access Pub. 78 on the IRS website at www.irs.gov under *Charities and Non-Profits* then *Contributors*.
- Call our Tax Exempt/Government Entities Customer Account Services at 1-877-829-5500.

Examples of Qualified Charitable Organizations

- Churches, mosques, synagogues, temples, etc.
- Boy Scouts, Boys and Girls Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
- Fraternal orders, if the gifts will be used for the purposes listed earlier on this page.
- Veterans' and certain cultural groups.
- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral

palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

- Federal, state, and local governments if the gifts are solely for public purposes.

Contributions You Can Deduct

Contributions can be in cash, property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you can take the actual cost of gas and oil or 14 cents a mile. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

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

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

Gifts of \$250 or more. You can deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in (1) and (2) next.

1. The amount of any money contributed and a description (but not value) of any property donated.

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

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See Pub. 526 if you made a separate gift of \$250 or more through payroll deduction.



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

Limit on the amount you can deduct. See Pub. 526 to figure the amount of your deduction if any of the following applies.

1. Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 38.

2. Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 38.

3. You gave gifts of property that increased in value or gave gifts of the use of property.

Contributions You Cannot Deduct

- Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.

- Political contributions.

- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

- Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 28. See the instructions on page A-11 for details.

- Cost of tuition. But you may be able to deduct this expense on line 21 (see page A-10), or Form 1040, line 34, or take a credit for this expense (see Form 8863).

- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

- Gifts to individuals and groups that are run for personal profit.

- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See Pub. 526 for details.

- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See section 170(f)(9).

- Gifts to groups whose purpose is to lobby for changes in the laws.

- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

- Value of benefits received in connection with a contribution to a charitable organization. See Pub. 526 for exceptions.

Line 16

Gifts by Cash or Check

Enter on line 16 the total gifts you made in cash or by check (including out-of-pocket expenses).

Recordkeeping. For any contribution made in cash, regardless of the amount, you must maintain as a record of the contribution a bank record (such as a canceled check or credit card statement) or a written record from the charity. The written record must include the name of the charity, date, and amount of the contribution. If you made contributions through payroll deduction, see Pub. 526 for information on the records you must keep. Do not attach the record to your tax return. Instead, keep it with your other tax records.

Line 17

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. For more details on determining the value of donated property, see Pub. 561.

If the amount of your deduction is more than \$500, you must complete and attach

Form 8283. For this purpose, the “amount of your deduction” means your deduction before applying any income limits that could result in a carryover of contributions. If you deduct more than \$500 for a contribution of a motor vehicle, boat, or airplane, you must also attach a statement from the charitable organization to your return. The organization may use Form 1098-C to provide the required information. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. This amount is \$500 for certain contributions of clothing and household items (see below). See Form 8283 and its instructions for details.

Contributions of clothing and household items. A deduction for these contributions will be allowed only if the items are in good used condition or better. However, this rule does not apply to a contribution of any single item for which a deduction of more than \$500 is claimed and for which you include a qualified appraisal and Form 8283 with your tax return.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization’s name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property’s value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.

- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

- Any conditions attached to the gift.



If your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, or you made a “qualified conservation contribution,” your records should contain additional information. See Pub. 526 for details.

Line 18

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

Casualty and Theft Losses

Line 20

Complete and attach Form 4684 to figure the amount of your loss to enter on line 20.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You can deduct personal casualty or theft losses only to the extent that:

1. The amount of each separate casualty or theft loss is more than \$500, and
2. The total amount of all losses during the year (reduced by the \$500 limit discussed in (1) above) is more than 10% of the amount on Form 1040, line 38.

Exception for disaster losses. The 10% of AGI limitation does not apply to a casualty loss that occurred in an area determined by the President of the United States to warrant federal disaster assistance.

For information on disaster losses, see Pub. 547.

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

Use Schedule A, line 23, to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

Job Expenses and Certain Miscellaneous Deductions

You can deduct only the part of these expenses that exceeds 2% of the amount on Form 1040, line 38.

Pub. 529 discusses the types of expenses that can and cannot be deducted.

Examples of Expenses You Cannot Deduct

- Political contributions.
- Legal expenses for personal matters that do not produce taxable income.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses. See Pub. 529 for the definition of commuting.

- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain federal employees.

- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Club dues.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses. See Form 8839 for details.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 21

Unreimbursed Employee Expenses

Enter the total ordinary and necessary job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your Form W-2 are not considered reimbursements.)

An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

But you must fill in and attach Form 2106 if either (1) or (2) below applies.

1. You claim any travel, transportation, meal, or entertainment expenses for your job.
2. Your employer paid you for any of your job expenses that you would otherwise report on line 21.



If you used your own vehicle, are using the standard mileage rate, and (2) above does not apply, you may be able to file Form 2106-EZ instead.

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted line next to line 21. If you need more space, attach a statement showing the type and amount of each expense. Enter the total of all these expenses on line 21.



Do not include on line 21 any educator expenses you deducted on Form 1040, line 23.

Examples of other expenses to include on line 21 are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.

- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.

- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 93 of the Form 1040 instructions) or see Pub. 587.
- Certain educational expenses. For details, use TeleTax topic 513 (see page 93 of the Form 1040 instructions) or see Pub. 970. Reduce your educational expenses by any tuition and fees deduction you claimed on Form 1040, line 34.



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

Line 22

Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit or debit card, include the convenience fee you were charged on line 23 instead of this line.

Line 23

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income. But do not include any personal expenses. List the type and amount of each expense on the dotted lines next to line 23. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 23.

Examples of expenses to include on line 23 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see Pub. 529.
- Casualty and theft losses of property used in performing services as an employee

from Form 4684, lines 36 and 42b, or Form 4797, line 18a.

- Deduction for repayment of amounts under a claim of right if \$3,000 or less.
- Convenience fee charged by the card processor for paying your income tax (including estimated tax payments) by credit or debit card. The deduction is claimed for the year in which the fee was charged to your card.

Other Miscellaneous Deductions

Line 28

Only the expenses listed next can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 28. If you need more space, attach a statement showing the type and

amount of each expense. Enter one total on line 28.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Casualty and theft losses of income-producing property from Form 4684, lines 36 and 42b, or Form 4797, line 18a.
- Loss from other activities from Schedule K-1 (Form 1065-B), box 2.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over \$3,000. See Pub. 525 for details.
- Certain unrecovered investment in a pension.
- Impairment-related work expenses of a disabled person.

For more details, see Pub. 529.

Total Itemized Deductions

Line 29

Use the worksheet below to figure the amount to enter on line 29 if the amount on Form 1040, line 38, is over \$166,800 (\$83,400 if married filing separately).




Line 30

If you elect to itemize for state tax or other purposes even though your itemized deductions are less than your standard deduction, check the box on line 30.

Itemized Deductions Worksheet—Line 29

Keep for Your Records



1. Enter the total of the amounts from Schedule A, lines 4, 9, 15, 19, 20, 27, and 28	1.	_____
2. Enter the total of the amounts from Schedule A, lines 4, 14, and 20, plus any gambling and casualty or theft losses included on line 28	2.	_____
 Be sure your total gambling and casualty or theft losses are clearly identified on the dotted lines next to line 28.		
3. Is the amount on line 2 less than the amount on line 1? <input type="checkbox"/> No.  Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 29. <input type="checkbox"/> Yes. Subtract line 2 from line 1	3.	_____
4. Multiply line 3 by 80% (.80)	4.	_____
5. Enter the amount from Form 1040, line 38	5.	_____
6. Enter \$166,800 (\$83,400) if married filing separately)	6.	_____
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> No.  Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 29. <input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	_____
8. Multiply line 7 by 3% (.03)	8.	_____
9. Enter the smaller of line 4 or line 8	9.	_____
10. Divide line 9 by 1.5	10.	_____
11. Subtract line 10 from line 9	11.	_____
12. Total itemized deductions. Subtract line 11 from line 1. Enter the result here and on Schedule A, line 29	12.	_____

Which Optional Local Sales Tax Table Should I Use?

IF you live in the state of...	AND you live in...	THEN use Local Table...
Alaska	Any locality	C
Arizona	Mesa, Phoenix, or Tucson	A
	Chandler, Gilbert, Glendale, Peoria, Scottsdale, Tempe, Yuma, or any other locality	B
Arkansas	Any locality	C
California	Los Angeles County	A
Colorado	Arvada, Aurora, City of Boulder, Fort Collins, Greeley, Longmont, Thornton, or Westminster	B
	Adams County, Arapahoe County, Boulder County, Centennial, Colorado Springs, Denver City/Denver County, El Paso County, Jefferson County, Lakewood, Larimer County, City of Pueblo, Pueblo County, or any other locality	A
Georgia	Any locality	B
Illinois	Any locality	A
Louisiana	Any locality	C
Missouri	Any locality	C
New York	New York City, or one of the following counties: Albany, Allegany, Cattaraugus, Cayuga, Chemung, Clinton, Cortland, Erie, Essex, Franklin, Fulton, Genesee, Herkimer, Jefferson, Lewis, Livingston, Monroe, Montgomery, Nassau, Niagara, Oneida, Onondaga, Ontario, Orange, Orleans, Oswego, Otsego, Putnam, Rensselaer, Rockland, St. Lawrence, Saratoga, Schenectady, Schoharie, Seneca, Steuben, Suffolk, Sullivan, Tompkins, Ulster, Warren, Washington, Westchester, Wyoming, or Yates	A
	Any other locality	D
North Carolina	Any locality	A
South Carolina	Cherokee, Chesterfield, Darlington, Dillon, Horry, Jasper, Lee, Lexington, or Myrtle Beach	B
	Any other locality	C
Tennessee	Any locality	C
Utah	Any locality	B
Virginia	Any locality	B

2009 Optional Local Sales Tax Tables for Certain Local Jurisdictions

(Based on a local sales tax rate of 1 percent)

Income At least	But less than	Local Table A					Local Table B					Local Table C					Local Table D								
		Exemptions					Exemptions					Exemptions					Exemptions								
		1	2	3	4	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	1	2	3	4	5	Over 5	
\$0	\$20,000	37	41	44	46	47	49	45	51	55	59	61	65	56	64	69	73	76	81	36	39	40	41	42	43
20,000	30,000	61	67	71	74	76	79	72	82	88	93	96	102	89	101	109	115	120	126	62	65	68	69	70	72
30,000	40,000	74	81	85	89	91	95	86	98	105	110	115	121	106	120	129	136	142	150	76	80	83	85	86	88
40,000	50,000	85	93	98	102	105	109	99	112	120	126	131	138	121	137	147	155	162	170	88	93	96	98	100	102
50,000	60,000	96	105	110	114	117	122	111	124	133	140	146	153	135	152	164	172	179	189	100	105	109	111	113	115
60,000	70,000	106	115	121	126	129	134	122	136	146	153	159	168	148	167	179	188	196	206	111	117	120	123	125	128
70,000	80,000	116	126	132	137	141	146	132	148	158	166	172	181	160	180	193	203	211	222	122	128	132	134	137	140
80,000	90,000	125	136	142	147	151	157	142	159	170	178	185	194	172	193	207	217	226	237	132	138	142	145	148	151
90,000	100,000	134	145	152	157	162	167	152	170	181	190	197	207	183	205	219	230	239	252	141	148	153	156	158	162
100,000	120,000	147	158	166	171	176	182	165	184	196	205	213	223	198	221	237	248	258	271	155	162	167	170	173	176
120,000	140,000	164	177	185	191	196	202	184	204	217	227	235	246	219	244	261	273	284	298	173	181	186	190	193	197
140,000	160,000	180	194	202	209	214	221	201	222	236	247	255	267	237	264	282	296	307	322	190	199	204	208	211	215
160,000	180,000	197	211	220	227	232	240	218	241	256	267	276	289	256	285	304	318	330	346	207	217	222	226	230	234
180,000	200,000	213	227	237	244	249	257	235	258	274	285	295	308	274	304	323	339	351	368	224	233	239	243	247	252
200,000	or more	298	316	327	336	343	352	323	351	370	385	397	413	365	402	427	445	461	482	310	322	329	334	339	345

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Form 1040A. Form 1040A filers will now file Schedule B to report interest and ordinary dividends. Schedule 1 (Form 1040A), Interest and Ordinary Dividends for Form 1040A Filers, is now obsolete. For any prior year returns (before 2009) that need to be filed, still use Schedule 1.


Schedule A. Schedule A, Itemized Deductions, is no longer associated with Schedule B. Schedules A and B are now separate schedules.

Purpose of Form

Use Schedule B if any of the following applies.

- You had over \$1,500 of taxable interest or ordinary dividends.
- You received interest from a seller-financed mortgage and the buyer used the property as a personal residence.
- You have accrued interest from a bond.
- You are reporting original issue discount (OID) in an amount less than the amount shown on Form 1099-OID.
- You are reducing your interest income on a bond by the amount of amortizable bond premium.
- You are claiming the exclusion of interest from series EE or I U.S. savings bonds issued after 1989.
- You received interest or ordinary dividends as a nominee.
- You had a foreign account or you received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

Specific Instructions

 You can list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the

separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.

Part I. Interest

Line 1. Report on line 1 all of your taxable interest. Taxable interest should be shown on your Forms 1099-INT, Forms 1099-OID, or substitute statements. Include interest from series EE, H, HH, and I U.S. savings bonds. List each payer's name and show the amount. Do not report on this line any tax-exempt interest from box 8 or box 9 of Form 1099-INT. Instead, report the amount from box 8 on line 8b of Form 1040A or 1040. If an amount is shown in box 9 of Form 1099-INT, you generally must report it on line 13 of Form 6251. See the Instructions for Form 6251 for more details.

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

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



If you received interest as a nominee, you must give the actual owner a Form 1099-INT unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-INT with the IRS.

For more details, see the General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G and the Instructions for Forms 1099-INT and 1099-OID.

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

Original issue discount (OID). If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules earlier under *Nominees* to see how to report the OID. But identify the amount to be subtracted as "OID Adjustment."

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

Line 3. If, during 2009, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See Form 8815 for details.

Part II. Ordinary Dividends



You may have to file Form 5471 if, in 2009, you were an officer or director of a foreign corporation. You may also have to file Form 5471 if, in 2009, you owned 10% or more of the total (a) value of a foreign corporation's stock, or (b) combined voting power of all classes of a foreign corporation's stock with voting rights. For details, see Form 5471 and its instructions.

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

Nominees. If you received a Form 1099-DIV that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter "Nominee Distribution" and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.



If you received dividends as a nominee, you must give the actual owner a Form 1099-DIV unless the owner is your spouse. You must also file a Form 1096 and a Form 1099-DIV with the IRS. For more details, see the General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G and the Instructions for Form 1099-DIV.

Part III. Foreign Accounts and Trusts

Line 7a. Check the "Yes" box on line 7a if either (1) or (2) below applies.

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

2. At any time during 2009 you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).



For line 7a, item (2) does not apply to foreign securities held in a U.S. securities account.

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

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; and you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$10 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See Form TD F 90-22.1 to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). You can get Form TD F 90-22.1 by visiting the IRS website at www.irs.gov/pub/irs-pdf/f90221.pdf.

If you checked the "Yes" box on line 7a, file Form TD F 90-22.1 by June 30, 2010, with the Department of the Treasury at the address shown on that form. Do not attach it to Form 1040.



If you are required to file Form TD F 90-22.1 but do not do so, you may have to pay a penalty of up to \$10,000 (more in some cases).

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

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

If you were the grantor of, or transferor to, a foreign trust that existed during 2009, you may have to file Form 3520.

Do not attach Form 3520 to Form 1040. Instead, file it at the address shown in its instructions.

If you were treated as the owner of a foreign trust under the grantor trust rules, you are also responsible for ensuring that the foreign trust files Form 3520-A. Form 3520-A is due on March 15, 2010, for a calendar year trust. See the instructions for Form 3520-A for more details.



2009 Instructions for Schedule C

Profit or Loss From Business

Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the instructions for Form 1040, line 21, or Form 1040NR, line 21.

Also, use Schedule C to report (a) wages and expenses you had as a statutory employee, (b) income and deductions of qualified joint ventures, and (c) certain income shown on Form 1099-MISC, Miscellaneous Income. See the *Instructions for Recipients* (back of Copy B of Form 1099-MISC) for the types of income to report on Schedule C.

Small businesses and statutory employees with expenses of \$5,000 or less may be able to file Schedule C-EZ instead of Schedule C. See Schedule C-EZ for details.

You may be subject to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Single-member limited liability companies (LLCs) with employees. Single-member LLCs that are disregarded as entities separate from their owner for federal income tax purposes are now required to file employment tax returns (effective for wages paid on or after January 1, 2009) using the LLC's name and employer identification number (EIN) rather than the LLC owner's name and EIN. This new requirement to use the LLC's name and EIN also went into effect for certain excise tax returns beginning in 2008. Single-member LLCs not previously needing an EIN may now need to obtain an EIN for the payment and reporting of these taxes. For more information, see the Instructions for Form SS-4.

Increased section 179 deduction extended. The dollar limit for the section 179 deduction to expense certain depreciable business property is \$250,000 for property placed in service in 2009. This limit will be reduced when the total cost of section 179 property placed in service during the tax year exceeds \$800,000. For more information, see Pub. 946.

Special depreciation allowance. For qualifying property acquired and placed in service in 2009, you may be able to take a depreciation deduction equal to 50% of the adjusted basis of the property. Qualifying property includes certain property with a recovery period of 20 years or less, certain computer software, water utility property, or qualified leasehold improvements. For more information, see Pub. 946.

General Instructions

Other Schedules and Forms You May Have To File

- Schedule A to deduct interest, taxes, and casualty losses not related to your business.
- Schedule E to report rental real estate and royalty income or (loss) that is not subject to self-employment tax.
- Schedule F to report profit or (loss) from farming.
- Schedule J to figure your tax by averaging your farming or fishing income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE to pay self-employment tax on income from any trade or business.
- Form 3800 to claim any of the general business credits.
- Form 4562 to claim depreciation (including the special allowance) on assets placed in service in 2009, to claim amortization that began in 2009, to make an election under section 179 to expense certain property, or to report information on listed property.
- Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.
- Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.
- Form 6198 to figure your allowable loss if you have a business loss and you have amounts invested in the business for which you are not at risk.
- Form 8582 to figure your deductible loss from passive activities.

- Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.

- Form 8824 to report like-kind exchanges.

- Form 8829 to claim expenses for business use of your home.

- Form 8903 to take a deduction for income from domestic production activities.

Single-member limited liability company (LLC). Generally, a single-member domestic LLC is not treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule C or C-EZ (or Schedule E or F, if applicable). However, you can elect to treat a domestic LLC as a corporation. See Form 8832 for details on the election and the tax treatment of a foreign LLC.

Heavy highway vehicle use tax. If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a federal highway motor vehicle use tax. See the Instructions for Form 2290 to find out if you must pay this tax.

Information returns. You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For details, see the 2009 General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file Form 8300. For details, see Pub. 1544.

Husband-Wife Business

Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you

are partners in a partnership, whether or not you have a formal partnership agreement. Do not use Schedule C or C-EZ. Instead, file Form 1065. See Pub. 541 for more details.

Exception—Qualified Joint Venture

If you and your spouse each materially participate (see *Material participation* on page C-3) as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. By making the election, you will not be required to file Form 1065 for any year the election is in effect and will instead report the income and deductions directly on your joint return. If you and your spouse filed a Form 1065 for the year prior to the election, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.

Note. Mere joint ownership of property that is not a trade or business does not qualify for the election.

Making the election. To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. Each of you must also file a separate Schedule SE to pay self-employment tax, as applicable.

If you have employees or otherwise need an employer identification number (EIN) for the business, see www.irs.gov, keyword “qualified joint venture,” for more information.

Once made, the election can be revoked only with the permission of the IRS. However, the election technically remains in effect only for as long as the spouses filing as a qualified joint venture continue to meet the requirements for filing the election. If the spouses fail to meet the qualified joint venture requirements for a year, a new election will be necessary for any future year in which the spouses meet the requirements to be treated as a qualified joint venture.

Rental real estate business. If you and your spouse make the election for your rental real estate business, you must each report your share of income and deductions on Schedule C or C-EZ instead of Schedule E. Rental real estate income generally is not included in net earnings from self-employment subject to self-employment tax and generally is subject to the passive loss limitation rules. Electing qualified joint venture status and using the Schedule C or C-EZ does not alter the application of the self-employment tax or the passive loss limitation rules.

Exception—Community Income

If you and your spouse wholly own an unincorporated business as community property under the community property laws of

a state, foreign country, or U.S. possession, the income and deductions are reported as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both you and your spouse are partners in a partnership, see Pub. 541.
- If you and your spouse elected to treat the business as a qualifying joint venture, see *Exception—Qualified Joint Venture* on this page.

The only states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

Reportable Transaction Disclosure Statement

Use Form 8886 to disclose information for each reportable transaction in which you participated. Form 8886 must be filed for each tax year that your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. The following are reportable transactions.

- Any listed transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.
- Any transaction offered to you or a related party under conditions of confidentiality for which you paid an advisor a fee of at least \$50,000.
- Certain transactions for which you or a related party have contractual protection against disallowance of the tax benefits.
- Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years. (At least \$50,000 for a single tax year if the loss arose from a foreign currency transaction defined in section 988(c)(1), whether or not the loss flows through from an S corporation or partnership.)
- Certain transactions of interest entered into after November 1, 2006, that are the same or substantially similar to one of the types of transactions that the IRS has identified by published guidance as a transaction of interest.

See the Instructions for Form 8886 for more details.

Capital Construction Fund

Do not claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under chapter 535 of title 46 of the United States Code. Instead, reduce the amount you would otherwise enter on Form 1040, line 43, by the amount of the deduction. Next to line 43,

enter “CCF” and the amount of the deduction. For details, see Pub. 595.

Additional Information

See Pub. 334 for more information for small businesses.

Specific Instructions

Filers of Form 1041. Do not complete the block labeled “Social security number (SSN).” Instead, enter the employer identification number (EIN) issued to the estate or trust on line D.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client. For example, “wholesale sale of hardware to retailers” or “appraisal of real estate for lending institutions.”

Line D

Enter on line D the employer identification number (EIN) that was issued to you on Form SS-4. Do not enter your SSN. Do not enter another taxpayer’s EIN (for example, from any Forms 1099-MISC that you received). **If you do not have an EIN, leave line D blank.**

You need an EIN only if you have a qualified retirement plan or are required to file employment, excise, alcohol, tobacco, or firearms returns, or are a payer of gambling winnings. If you need an EIN, see the Instructions for Form SS-4.

Single member LLCs. If you are the sole owner of an LLC that is not treated as a separate entity for federal income tax purposes, you may have an EIN that was issued to the LLC (and in the LLC’s legal name) if you are required to file employment tax returns and certain excise tax returns. However, you should **enter on line D only the EIN issued to you and in your name as a sole proprietor.** If you do not have such an EIN, leave line D blank. Do not enter on line D the EIN issued to the LLC.

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

Line F

Generally, you can use the cash method, accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method used must clearly reflect income. Unless you are a qualifying taxpayer or a qualifying small business taxpayer (see the Part III instructions on page C-8), you must use the accrual method for sales and purchases of inventory items. Special rules apply to long-term contracts (see section 460 for details).

If you use the cash method, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for deductible expenses. However, if the payment of an expenditure creates an asset having a useful life that extends substantially beyond the close of the year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 1 of Pub. 535.

If you use the accrual method, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year. Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

To change your accounting method, you generally must file Form 3115. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment.

Example. You change to the cash method of accounting and choose to account for inventoriable items in the same manner as materials and supplies that are not incidental. You accrued sales in 2008 for which you received payment in 2009. You must report those sales in both years as a result of changing your accounting method and must make a section 481(a) adjustment to prevent duplication of income.

A net negative section 481(a) adjustment is taken into account entirely in the year of the change. A net positive section 481(a) adjustment is generally taken into account over a period of 4 years. Include any net positive section 481(a) adjustments on line 6. If the net section 481(a) adjustment is negative, report it in Part V.

For details on figuring section 481(a) adjustments, see the Instructions for Form 3115, and Rev. Proc. 2006-12, 2006-3 I.R.B. 310, available at www.irs.gov/irb/2006-03_IRB/ar14.html. Also see Rev. Proc. 2006-37, 2006-38 I.R.B. 499, available at www.irs.gov/irb/2006-38_IRB/ar10.html.

Line G

If your business activity was not a rental activity and you met any of the material participation tests, explained next, or the exception for oil and gas applies (explained later on this page), check the “Yes” box.

Otherwise, check the “No” box. If you check the “No” box, this business is a passive activity. If you have a loss from this business, see *Limit on losses* later on this page. If you have a profit from this business activity but have current year losses from other passive activities or you have prior year unallowed passive activity losses, see the Instructions for Form 8582.

Material participation. For purposes of the seven material participation tests listed below, participation generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

- Studying and reviewing financial statements or reports on the activity,
- Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
- Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity you own can be counted as your participation in the activity. This rule applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return. However, this rule does not apply for purposes of determining whether you and your spouse can elect to have your business treated as a qualified joint venture instead of a partnership (see *Exception-Qualified Joint Venture* on page C-2 under *Husband-Wife Business*).

For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 2009 if you met any of the following seven tests.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who did not own any interest in the activity) for the tax year.
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.
4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a “significant participation activity” if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially

participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.

6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis for more than 100 hours during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) (a) received compensation for performing management services in connection with the activity, or (b) spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

Rental of property. Generally, a rental activity (such as long-term equipment leasing or rental real estate) is a passive activity even if you materially participated in the activity. However, if you materially participated in a rental real estate activity as a real estate professional, it is not a passive activity. Also, if you met any of the five exceptions listed under *Rental Activities* in the Instructions for Form 8582, the rental of the property is not treated as a rental activity and the material participation rules above apply. See *Activities That Are Not Passive Activities* in the Instructions for Form 8582 for the definition of a real estate professional.

Exception for oil and gas. If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the “Yes” box. The activity of owning a working interest is not a passive activity, regardless of your participation.

Limit on losses. Your loss may be limited if:

- You checked the “No” box on line G, or
- You are a qualified joint venture reporting only rental real estate income, but not as a real estate professional. In these situations you may have a loss from a passive activity, and you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule C, line 31.

Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see Pub. 925.

Line H

If you started or acquired this business in 2009, check the box on line H. Also check the box if you are reopening or restarting

this business after temporarily closing it, and you did not file a 2008 Schedule C or C-EZ for this business.

Part I. Income

Except as otherwise provided in the Internal Revenue Code, gross income includes income from whatever source derived. In certain circumstances, however, gross income does not include extraterritorial income that is qualifying foreign trade income. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule C as explained in the Instructions for Form 8873.

If you were a debtor in a chapter 11 bankruptcy case during 2009, see page 21 of the instructions for Form 1040 and page SE-2 of the instructions for Schedule SE (Form 1040).

Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly shown on Forms 1099-MISC. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference.

Statutory employees. If you received a Form W-2 and the "Statutory employee" box in box 13 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ and check the box on that line. Social security and Medicare tax should have been withheld from your earnings; therefore, you do not owe self-employment tax on these earnings. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain home-workers.

If you had both self-employment income and statutory employee income, you must file two Schedules C. You cannot use Schedule C-EZ or combine these amounts on a single Schedule C.

Qualified joint ventures reporting only rental real estate income. See the instructions under *Rental real estate business* on page C-2.

Installment sales. Generally, the installment method cannot be used to report income from the sale of (a) personal property regularly sold under the installment method, or (b) real property held for resale to customers. But the installment method can be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See section 453(l)(2)(B) for details. If you make this election, include the interest in the total on Form 1040, line 60. Also, enter "453(l)(3)" and the amount of the interest on the dotted line to the left of line 60.

If you use the installment method, attach a schedule to your return. Show separ-

ately for 2009 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you received in 2009, credit for biodiesel and renewable diesel fuels claimed on line 8 of Form 8864, credit for alcohol and cellulosic biofuel fuels claimed on line 6 of Form 6478, credit for federal tax paid on fuels claimed on your 2008 Form 1040, prizes and awards related to your trade or business, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on Form 1099-PATR. Also, include any recapture of the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property used in your business. See Regulations section 1.179A-1 for details.

If the business use percentage of any listed property (defined in the instructions for line 13) dropped to 50% or less in 2009, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use Part IV of Form 4797 to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See chapter 5 of Pub. 946 to figure the amount.

Part II. Expenses

Capitalizing costs of property. If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property generally must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property generally must also include part of certain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8 through 26 and Part V by amounts capitalized. See Pub. 538 for a discussion of uniform capitalization rules.

Exception for certain producers. Producers who account for inventoriable items in the same manner as materials and supplies that are not incidental can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See Part III. *Cost of Goods Sold* on page C-8 for more details.

Exception for creative property. If you are a freelance artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For details, see *Uniform Capitalization Rules* in Pub. 538.

Line 9

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. You must use actual expenses if you used your vehicle for hire (such as a taxicab) or you used five or more vehicles simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2009 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you take the standard mileage rate:

- Multiply the number of business miles driven by 55 cents, and
- Add to this amount your parking fees and tolls, and enter the total on line 9.

Do not deduct depreciation, rent or lease payments, or your actual operating expenses.

If you deduct actual expenses:

- Include on line 9 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 13 and rent or lease payments on line 20a.

For details, see chapter 4 of Pub. 463.

Information on your vehicle. If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing one of the following.

- Schedule C, Part IV, or Schedule C-EZ, Part III, if: (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated, and (b) you are not required to file Form 4562 for any other reason. If you used more than one vehicle during the year, attach your own schedule with the information requested in Schedule C, Part IV, or Schedule C-EZ, Part III, for each additional vehicle.
- Form 4562, Part V, if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see the instructions for line 13).

Line 11

Enter the total cost of contract labor for the tax year. Contract labor includes payments

to persons you do not treat as employees (for example, independent contractors) for services performed for your trade or business. Do not include contract labor deducted elsewhere on your return, such as contract labor that is includible on line 17, 21, 26, or 37. Also, do not include salaries and wages paid to your employees, instead see line 26.

You must file Form 1099-MISC, Miscellaneous Income, to report contract labor payments of \$600 or more during the year. See the Instructions for Form 1099-MISC for details.

Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach Form T. See chapter 9 of Pub. 535 for details.

Line 13

Depreciation and section 179 expense deduction. Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable. Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income. You can also elect under section 179 to expense part or all of the cost of certain property you bought in 2009 for use in your business. See the Instructions for Form 4562 and Pub. 946 to figure the amount to enter on line 13.

When to attach Form 4562. You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property placed in service during 2009;
- Depreciation on listed property (defined below), regardless of the date it was placed in service; or
- A section 179 expense deduction.

If you acquired depreciable property for the first time in 2009, see Pub. 946.

Listed property generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less;
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.;
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment);
- Cellular telephones or other similar telecommunications equipment; and
- Computers or peripheral equipment.

Exceptions. Listed property does not include photographic, phonographic, com-

munication, or video equipment used exclusively in your trade or business or at your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses for the business use of your home.

See the instructions for line 6 on page C-4 if the business use percentage of any listed property dropped to 50% or less in 2009.

Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs. If you made contributions on your behalf as a self-employed person to a dependent care assistance program, complete Form 2441, Parts I and III, to figure your deductible contributions to that program.

You cannot deduct contributions you made on your behalf as a self-employed person for group-term life insurance.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan. However, you may be able to deduct on Form 1040, line 29, or Form 1040NR, line 28, the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the instructions for Form 1040, line 29, or Form 1040NR, line 28, for details.

Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For details, see chapter 6 of Pub. 535.

Lines 16a and 16b

Interest allocation rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. “Interest allocation” rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C or C-EZ.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See chapter 4 of Pub. 535 for details.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see chapter 4 of Pub. 535 to figure the amount that is deductible on Schedule C or C-EZ.

How to report. If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 2009 to banks or other financial institutions for which you received a Form 1098 (or similar statement). If you did not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098, see chapter 4 of Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 16a. Attach a statement to your return explaining the difference and enter “See attached” in the margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 16b, enter “See attached.”

If you paid interest in 2009 that also applies to future years, deduct only the part that applies to 2009.

Line 17

Include on this line fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to operating your business.

Include fees for tax advice related to your business and for preparation of the tax forms related to your business. Also, include expenses incurred in resolving asserted tax deficiencies relating to your business.

For more information, see Pub. 334 or 535.

Line 18

Include on this line your expenses for office supplies and postage.

Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plan for the benefit of your employees. If the plan included you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 28, or Form 1040NR, line 27, not on Schedule C.

Generally, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim

a deduction for the current tax year. There is a penalty for failure to timely file these forms.

Form 5500-EZ. File this form if you have a one-participant retirement plan that meets certain requirements. A one-participant plan is a plan that covers only you (or you and your spouse).

Form 5500. File this form for a plan that does not meet the requirements for filing Form 5500-EZ.

For details, see Pub. 560.

Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an amount called the inclusion amount. See *Leasing a Car* in chapter 4 of Pub. 463 to figure this amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

Line 21

Deduct the cost of incidental repairs and maintenance that do not add to the property's value or appreciably prolong its life. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

Line 22

Generally, you can deduct the cost of materials and supplies only to the extent you actually consumed and used them in your business during the tax year (unless you deducted them in a prior tax year). However, if you had incidental materials and supplies on hand for which you kept no inventories or records of use, you can deduct the cost of those you actually purchased during the tax year, provided that method clearly reflects income.

You can also deduct the cost of books, professional instruments, equipment, etc., if you normally use them within a year. However, if their usefulness extends substantially beyond a year, you must generally recover their costs through depreciation.

Line 23

You can deduct the following taxes and licenses on this line.

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.
- Real estate and personal property taxes on business assets.
- Licenses and regulatory fees for your trade or business paid each year to state or local governments. But some licenses, such

as liquor licenses, may have to be amortized. See chapter 8 of Pub. 535 for details.

- Social security and Medicare taxes paid to match required withholding from your employees' wages. Reduce your deduction by the amount shown on Form 8846, line 4.

- Federal unemployment tax paid.
- Federal highway use tax.
- Contributions to state unemployment insurance fund or disability benefit fund if they are considered taxes under state law.

Do not deduct the following.

- Federal income taxes, including your self-employment tax. However, you can deduct one-half of your self-employment tax on Form 1040, line 27.

- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
- State and local sales taxes imposed on the buyer that you were required to collect and pay over to state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
- Other taxes and license fees not related to your business.

Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business, regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a bona fide business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for line 24b.

Instead of keeping records of your actual incidental expenses, you can use an optional method for deducting incidental expenses only if you did not pay or incur meal expenses on a day you were traveling away from your tax home. The amount of the deduction is \$3 a day. Incidental expenses include fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries. They do not include expenses for laundry, cleaning and pressing of clothing, lodging taxes, or the costs of telegrams or telephone calls. You cannot use this method on any day that you use the stan-

dard meal allowance (as explained in the instructions for line 24b).

You cannot deduct expenses for attending a convention, seminar, or similar meeting held outside the North American area unless the meeting is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For details on travel expenses, see chapter 1 of Pub. 463.

Line 24b

Enter your total deductible business meal and entertainment expenses. This includes expenses for meals while traveling away from home for business and for meals that are business-related entertainment.

Deductible expenses. Business meal expenses are deductible only if they are (a) directly related to or associated with the active conduct of your trade or business, (b) not lavish or extravagant, and (c) incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

Also, you cannot deduct membership dues for any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

There are exceptions to these rules as well as other rules that apply to sky-box rentals and tickets to entertainment events. See Pub. 463, chapters 1 and 2.

Standard meal allowance. Instead of deducting the actual cost of your meals while traveling away from home, you can use the standard meal allowance for your daily meals and incidental expenses. Under this method, you deduct a specified amount, depending on where you travel, instead of keeping records of your actual meal expenses. However, you must still keep records to prove the time, place, and business purpose of your travel.

The standard meal allowance is the federal M&IE rate. You can find these rates on the Internet at www.gsa.gov. Click on "Per Diem Rates" for links to locations inside and outside the continental United States.

See chapter 1 of Pub. 463 for details on how to figure your deduction using the standard meal allowance, including special rules for partial days of travel.

Amount of deduction. Generally, you can deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. However, for individuals subject to the Department of Transportation (DOT) hours of service limits, that percentage is increased to 80% for business meals consumed during, or incident to, any period of duty for which those limits are in effect. Individuals subject to the DOT hours of service limits include the following.

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.

- Interstate truck operators who are under DOT regulations.

- Certain merchant mariners who are under Coast Guard regulations.

However, you can fully deduct meals, incidentals, and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You can also fully deduct meals, incidentals, and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. See Pub. 535 for details and other exceptions.

Daycare providers. If you qualify as a family daycare provider, you can use the standard meal and snack rates, instead of actual costs, to compute the deductible cost of meals and snacks provided to eligible children. See Pub. 587 for details, including recordkeeping requirements.

Line 25

Deduct utility expenses only for your trade or business.

Local telephone service. If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone line into your residence. But you can deduct any additional costs you incurred for business that are more than the base rate of the first phone line. For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

Line 26

Enter the total salaries and wages for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the amounts claimed on:

- Form 5884, Work Opportunity Credit, line 2;

- Form 5884-A, Credits for Affected Midwestern Disaster Area Employers, line 6;

- Form 8844, Empowerment Zone and Renewal Community Employment Credit, line 2;

- Form 8845, Indian Employment Credit, line 4; and

- Form 8932, Credit for Employer Differential Wage Payments, line 2.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

Generally, you are required to file Form W-2, Wage and Tax Statement, for each employee. See the Instructions for Forms W-2 and W-3.

Line 30

Business use of your home. You may be able to deduct certain expenses for business use of your home, subject to limitations. You must attach Form 8829 if you claim this deduction. For details, see the Instructions for Form 8829 and Pub. 587.

Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go to line 32 before entering your loss on line 31. If you answered "No" on Schedule C, line G, or are a qualified joint venture reporting only rental real estate, also see the Instructions for Form 8582. Enter the net profit or deductible loss here. Combine this amount with any profit or loss from other businesses, and enter the total on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13. Estates and trusts should enter the total on Form 1041, line 3.

Statutory employees and qualified joint ventures reporting only rental real estate income not subject to self-employment tax. Include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12, or on Form 1040NR, line 13. However, do not report this amount on Schedule SE, line 2. If you were a statutory employee and are required to file Schedule SE because of other self-employment income, see page SE-4 of the instructions for Schedule SE.

Rental real estate activity. Unless you are a qualifying real estate professional, a rental real estate activity is a passive activity, even if you materially participated in the activity. If you have a loss, you may need to file Form 8582 to figure your deductible loss to enter on line 31. See the Instructions for Form 8582.

Notary public. Do not enter your net profit from line 31 on Schedule SE, line 2, unless you are required to file Schedule SE because of other self-employment income. See page SE-3 of the instructions for Schedule SE.

Community income. If you and your spouse had community income and are filing separate returns, see page SE-2 of the instructions for Schedule SE before figuring self-employment tax.

Earned income credit. If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit (EIC).



To figure your EIC, use the instructions for Form 1040, lines 64a and 64b. Complete all applicable steps plus Worksheet B. If you are required to file Schedule SE, remember to enter one-half of your self-employment tax in Part 1, line 1d, of Worksheet B.

Line 32

At-risk rules. Generally, if you have a business loss and amounts invested in the business for which you are not at risk, you must complete Form 6198 to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the business.

Check box 32b if you have amounts invested in this business for which you are not at risk, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business that are not secured by your own property (other than property used in the business). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (other than you) having such an interest.

Figuring your deductible loss. If all amounts are at risk in this business, check box 32a. If you answered "Yes" on line G, enter your loss on line 31. But if you answered "No" on line G or are a qualified joint venture reporting only rental real estate, you may need to complete Form 8582 to figure your allowable loss to enter on line 31. See the Instructions for Form 8582 for details.

If you checked box 32b, first complete Form 6198 to determine the amount of your deductible loss. If you answered "Yes" on line G, enter that amount on line 31. But if you answered "No" on line G or are a qualified joint venture reporting only rental real estate, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter -0- on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this business not allowed for 2009 only because of the at-risk rules is treated as a deduction allocable to the business in 2010.

For details, see the Instructions for Form 6198 and Pub. 925.

Part III. Cost of Goods Sold

Generally, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (discussed next), you can account for inventoriable items in the same manner as materials and supplies that are not incidental. Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method). Enter amounts paid for all raw materials and merchandise during 2009 on line 36. The amount you can deduct for 2009 is figured on line 42.

Qualifying taxpayer. This is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$1 million or less, and (b) whose business is not a tax shelter (as defined in section 448(d)(3)).

Qualifying small business taxpayer. This is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$10 million or less, (b) whose business is not a tax shelter (as defined in section 448(d)(3)), and (c) whose principal business activity is not an ineligible activity as explained in Rev. Proc. 2002-28. You can find Rev. Proc. 2002-28 on page 815 of Internal Revenue Bulletin 2002-18 at www.irs.gov/pub/irs-irbs/irb02-18.pdf.

Changing accounting methods. File Form 3115 if you are a qualifying taxpayer or qualifying small business taxpayer and want to change to the cash method or to account for inventoriable items as non-incidental materials and supplies.

Additional information. For additional guidance on this method of accounting for inventoriable items, see the following.

- Pub. 538 discusses both exceptions.
- If you are a qualifying taxpayer, see Rev. Proc. 2001-10, on page 272 of Internal Revenue Bulletin 2001-2 at www.irs.gov/pub/irs-irbs/irb01-02.pdf.
- If you are a qualifying small business taxpayer, see Rev. Proc. 2002-28, on page 815 of Internal Revenue Bulletin 2002-18 at www.irs.gov/pub/irs-irbs/irb02-18.pdf.



Certain direct and indirect expenses may have to be capitalized or included in inventory. See the instructions for Part II on page C-4. See Pub. 538 for additional information.

Line 33

Your inventories can be valued at cost; the lower of cost or market; or any other method approved by the IRS. However, you are required to use cost if you are using the cash method of accounting.

Line 35

If you are changing your method of accounting beginning with 2009, refigure last year's closing inventory using your new method of accounting and enter the result on line 35. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring your section 481(a) adjustment. For details, see the example on page C-3 under *Line F*.

Line 41

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 41 the portion of your raw materials and merchandise purchased for resale that is included on line 40 and was not sold during the year.

Part IV. Information on Your Vehicle

Line 44b

Generally, commuting is travel between your home and a work location. If you converted your vehicle during the year from personal to business use (or vice versa), enter your commuting miles only for the period you drove your vehicle for business. For information on certain travel that is considered a business expense rather than commuting, see the Instructions for Form 2106.

Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space provided. Enter the total on lines 48 and 27. Do not include the cost of business equipment or furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you cannot deduct fines or penalties paid to a government for violating any law. For details on business expenses, see Pub. 535.

Amortization. Include amortization in this part. For amortization that begins in 2009, you must complete and attach Form 4562.

You can elect to amortize such costs as:

- The cost of pollution-control facilities;
- Amounts paid for research and experimentation;
- Qualified revitalization expenditures;
- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names;

- Goodwill and certain other intangibles; or

- Certain expenses paid or incurred to create or acquire a musical composition or its copyright.

In general, you cannot amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

For a complete list, see the Instructions for Form 4562, Part VI.

At-risk loss deduction. Any loss from this business that was not allowed as a deduction last year only because of the at-risk rules is treated as a deduction allocable to this business in 2009. For the loss to be deductible, the amount that is "at risk" must be increased.

Bad debts. Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For details, see Pub. 535.

Business start-up costs. If your business began in 2009, you can elect to deduct up to \$5,000 of certain business start-up costs. This limit is reduced (but not below zero) by the amount by which your total start-up costs exceed \$50,000. Your remaining start-up costs can be amortized over a 180-month period, beginning with the month the business began.

For details, see chapters 7 and 8 of Pub. 535. For amortization that begins in 2009, you must complete and attach Form 4562.

Costs of making commercial buildings energy efficient. You may be able to deduct part or all of the cost of modifying existing commercial buildings to make them energy efficient. For details, see section 179D, Notice 2006-52, and Notice 2008-40. Notice 2006-52, 2006-26 I.R.B. 1175, is available at www.irs.gov/irb/2006-26_IRB/ar11.html. Notice 2008-40, 2008-14 I.R.B. 725, is available at www.irs.gov/irb/2008-14_IRB/ar12.html.

Deduction for removing barriers to individuals with disabilities and the elderly. You may be able to deduct up to \$15,000 of costs paid or incurred in 2009 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both a credit (on Form 8826) and a deduction for the same expenditures.

Qualified disaster expenses. You can elect to deduct certain expenses you paid or incurred as a result of a federally declared disaster occurring before January 1, 2010. For more information, see chapter 7 of Pub. 535.

Film and television production expenses. You can elect to deduct costs of certain qualified film and television productions. For details, see Pub. 535.

Forestation and reforestation costs. Reforestation costs are generally capital expenditures. However, for each qualified timber property, you can elect to expense up to \$10,000 (\$5,000 if married filing sep-

Principal Business or Professional Activity Codes (continued)

<p>Motor Vehicle & Parts Dealers 441300 Automotive parts, accessories, & tire stores 441222 Boat dealers 441221 Motorcycle dealers 441110 New car dealers 441210 Recreational vehicle dealers (including motor home & travel trailer dealers) 441120 Used car dealers 441229 All other motor vehicle dealers</p>	<p>Nonstore Retailers 454112 Electronic auctions 454111 Electronic shopping 454310 Fuel dealers 454113 Mail-order houses 454210 Vending machine operators 454390 Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p>488000 Support activities for transportation (including motor vehicle towing) Couriers & Messengers 492000 Couriers & messengers Warehousing & Storage Facilities 493100 Warehousing & storage (except leases of miniwarehouses & self-storage units)</p>	<p>423990 Other miscellaneous durable goods Merchant Wholesalers, Nondurable Goods 424300 Apparel, piece goods, & notions 424800 Beer, wine, & distilled alcoholic beverage 424920 Books, periodicals, & newspapers 424600 Chemical & allied products 424210 Drugs & druggists' sundries 424500 Farm product raw materials 424910 Farm supplies 424930 Flower, nursery stock, & florists' supplies 424400 Grocery & related products 424950 Paint, varnish, & supplies 424100 Paper & paper products 424700 Petroleum & petroleum products 424940 Tobacco & tobacco products 424990 Other miscellaneous nondurable goods</p>
<p>Sporting Goods, Hobby, Book, & Music Stores 451211 Book stores 451120 Hobby, toy, & game stores 451140 Musical instrument & supplies stores 451212 News dealers & newsstands 451220 Prerecorded tape, compact disc, & record stores 451130 Sewing, needlework, & piece goods stores 451110 Sporting goods stores Miscellaneous Store Retailers 453920 Art dealers 453110 Florists 453220 Gift, novelty, & souvenir stores 453930 Manufactured (mobile) home dealers 453210 Office supplies & stationery stores 453910 Pet & pet supplies stores 453310 Used merchandise stores 453990 All other miscellaneous store retailers (including tobacco, candle, & trophy shops)</p>	<p>Transportation & Warehousing 481000 Air transportation 485510 Charter bus industry 484110 General freight trucking, local 484120 General freight trucking, long distance 485210 Interurban & rural bus transportation 486000 Pipeline transportation 482110 Rail transportation 487000 Scenic & sightseeing transportation 485410 School & employee bus transportation 484200 Specialized freight trucking (including household moving vans) 485300 Taxi & limousine service 485110 Urban transit systems 483000 Water transportation 485990 Other transit & ground passenger transportation</p>	<p>Utilities 221000 Utilities Wholesale Trade Merchant Wholesalers, Durable Goods 423600 Electrical & electronic goods 423200 Furniture & home furnishing 423700 Hardware, & plumbing & heating equipment & supplies 423940 Jewelry, watch, precious stone, & precious metals 423300 Lumber & other construction materials 423800 Machinery, equipment, & supplies 423500 Metal & mineral (except petroleum) 423100 Motor vehicle & motor vehicle parts & supplies 423400 Professional & commercial equipment & supplies 423930 Recyclable materials 423910 Sporting & recreational goods & supplies 423920 Toy & hobby goods & supplies</p>	<p>Wholesale Electronic Markets and Agents & Brokers 425110 Business to business electronic markets 425120 Wholesale trade agents & brokers</p>
			<p>999999 Unclassified establishments (unable to classify)</p>



2009 Instructions for Schedule D

Capital Gains and Losses

Use Schedule D (Form 1040) to report the following.

- The sale or exchange of a capital asset (defined on this page) not reported on another form or schedule.
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit.
- Capital gain distributions not reported directly on Form 1040, line 13 (or effectively connected capital gain distributions not reported directly on Form 1040NR, line 14).
- Nonbusiness bad debts.

Additional information. See Pub. 544 and Pub. 550 for more details. For a comprehensive filled-in example of Schedule D, see Pub. 550.

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Sale of your home. Gain from the sale of your main home that is from a period of nonqualified use can no longer be excluded from your income. A period of nonqualified use is any time after 2008 when the property was not used as your main home. See Pub. 523 for details and exceptions.

General Instructions

Other Forms You May Have To File

Use Form 4797 to report the following.

1. The sale or exchange of:
 - a. Property used in a trade or business;
 - b. Depreciable and amortizable property;
 - c. Oil, gas, geothermal, or other mineral property; and
 - d. Section 126 property.
2. The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held for business or profit.
3. The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
4. Ordinary loss on the sale, exchange, or worthlessness of small business investment company (section 1242) stock.
5. Ordinary loss on the sale, exchange, or worthlessness of small business (section 1244) stock.
6. Ordinary gain or loss on securities held in connection with your trading business, if you previously made a mark-to-market election. See *Traders in Securities* on page D-3.

Use Form 4684 to report involuntary conversions of property due to casualty or theft.

Use Form 6781 to report gains and losses from section 1256 contracts and straddles.

Use Form 8824 to report like-kind exchanges. A like-kind exchange occurs when you exchange business or investment property for property of a like kind.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property held by you except the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers. But see the *Tip* on this page.
- Accounts or notes receivable for services performed in the ordinary course of your trade or business or as an employee, or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in your trade or business, even if it is fully depreciated.
- Real estate used in your trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property (a) created by your personal efforts; (b) prepared or produced for you (in the case of letters, memoranda, or similar property); or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner. But see the *Tip* on this page.
- U.S. Government publications, including the Congressional Record, that you received from the Government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.

- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).

- Certain hedging transactions entered into in the normal course of your trade or business. See section 1221(a)(7).

- Supplies regularly used in your trade or business.



You can elect to treat as capital assets certain musical compositions or copyrights you sold or exchanged. See Pub. 550 for

details.

Basis and Recordkeeping

Basis is the amount of your investment in property for tax purposes. You need to know your basis to figure any gain or loss on the sale or other disposition of the property. You must keep accurate records that show the basis and adjusted basis of your property. Your records should show the purchase price, including commissions; increases to basis, such as the cost of improvements; and decreases to basis, such as depreciation, nondividend distributions on stock, and stock splits.

For more information on basis, see page D-7 and these publications.

- Pub. 551, Basis of Assets.
- Pub. 550, Investment Income and Expenses (Including Capital Gains and Losses).
- Pub. 564, Mutual Fund Distributions.

If you lost or did not keep records to determine your basis in securities, contact your broker for help.



The IRS partners with companies that offer Schedule D software that can import trades from many brokerage firms and accounting software to help you keep track of your adjusted basis in securities. To find out more, go to www.irs.gov/efile.

Short Term or Long Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for short-term capital gains and losses is 1 year or less. The holding period for long-term capital

gains and losses is more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.

If you disposed of property that you acquired by inheritance, report the disposition as a long-term gain or loss, regardless of how long you held the property.

A nonbusiness bad debt must be treated as a short-term capital loss. See Pub. 550 for what qualifies as a nonbusiness bad debt and how to enter it on Schedule D.

Capital Gain Distributions

These distributions are paid by a mutual fund (or other regulated investment company) or real estate investment trust from its net realized long-term capital gains. Distributions of net realized short-term capital gains are not treated as capital gains. Instead, they are included on Form 1099-DIV as ordinary dividends.

Enter on line 13 the total capital gain distributions paid to you during the year, regardless of how long you held your investment. This amount is shown in box 2a of Form 1099-DIV.

If there is an amount in box 2b, include that amount on line 11 of the Unrecaptured Section 1250 Gain Worksheet on page D-9 if you complete line 19 of Schedule D.

If there is an amount in box 2c, see *Exclusion of Gain on Qualified Small Business (QSB) Stock* on page D-4.

If there is an amount in box 2d, include that amount on line 4 of the 28% Rate Gain Worksheet on page D-8 if you complete line 18 of Schedule D.

If you received capital gain distributions as a nominee (that is, they were paid to you but actually belong to someone else), report on line 13 only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Instructions for Schedule B for filing requirements for Forms 1099-DIV and 1096.

Sale of Your Home

If you sold or exchanged your main home, do not report it on your tax return unless you cannot exclude all of your gain from income. Any gain you cannot exclude is taxable. Generally, if you meet the two following tests, you can exclude up to \$250,000 of gain. If both you and your spouse meet these tests and you file a joint return, you can exclude up to \$500,000 of gain (but only one spouse needs to meet the ownership requirement in *Test 1*).

Test 1. You owned and used the home as your main home for 2 years or more during the 5-year period ending on the date you sold or exchanged your home.

Test 2. You have not excluded gain on the sale or exchange of another main home during the 2-year period ending on the date of the sale or exchange of your home.

Even if you do not meet one or both of the above two tests, you still can claim an exclusion if you sold or exchanged the home because of a change in place of employment, health, or certain unforeseen cir-

cumstances. In this case, the maximum amount of gain you can exclude is reduced.

If your spouse died before the sale or exchange, you can exclude up to \$500,000 of gain if:

- The sale or exchange is no later than 2 years after your spouse's death,
- Just before your spouse's death, both spouses met the use requirement of *Test 1*, at least one spouse met the ownership requirement of *Test 1*, and both spouses met *Test 2*, and
- You did not remarry before the sale or exchange.

You can choose to have the 5-year test period for ownership and use in *Test 1* suspended during any period you or your spouse serve outside the United States as a Peace Corps volunteer or serve on qualified official extended duty as a member of the uniformed services or Foreign Service of the United States, as an employee of the intelligence community, or outside the United States as an employee of the Peace Corps. This means you may be able to meet *Test 1* even if, because of your service, you did not actually use the home as your main home for at least the required 2 years during the 5-year period ending on the date of sale.

You cannot exclude any gain if:

- You acquired your home in a like-kind exchange in which all or part of the gain was not recognized, and
- You sold or exchanged the home during the 5-year period beginning on the date you acquired it.

See Pub. 523 for details, including how to report any taxable gain if:

- You (or your spouse if married) used any part of the home for business or rental purposes after May 6, 1997,
- There was a period of time after 2008 when the home was not your main home, or
- You cannot exclude all of your gain.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income, collectibles gain (28% rate gain), or unrecaptured section 1250 gain. For details on 28% rate gain, see the instructions for line 18 on page D-8. For details on unrecaptured section 1250 gain, see the instructions for line 19 that begin on page D-8.

Capital Assets Held for Personal Use

Generally, gain from the sale or exchange of a capital asset held for personal use is a capital gain. Report it on Schedule D, Part I or Part II. However, if you converted depreciable property to personal use, all or part of the gain on the sale or exchange of that property may have to be recaptured as ordinary income. Use Part III of Form 4797 to figure the amount of ordinary income recapture. The recapture amount is included on line 31 (and line 13) of Form 4797. Do not enter any gain from this property on line 32 of Form 4797. If you are not completing Part III for any other properties, enter "N/A" on line 32. If the total gain is

more than the recapture amount, enter "From Form 4797" in column (a) of line 1 or line 8 of Schedule D, skip columns (b) through (e), and in column (f) enter the excess of the total gain over the recapture amount.

Loss from the sale or exchange of a capital asset held for personal use is not deductible. But if you had a loss from the sale or exchange of real estate held for personal use for which you received a Form 1099-S, you must report the transaction on Schedule D even though the loss is not deductible. For example, you have a loss on the sale of a vacation home that is not your main home and you received a Form 1099-S for the transaction. Report the transaction on line 1 or 8, depending on how long you owned the home. Complete columns (a) through (e). Because the loss is not deductible, enter -0- in column (f).

Capital Losses

You can deduct capital losses up to the amount of your capital gains plus \$3,000 (\$1,500 if married filing separately). You may be able to use capital losses that exceed this limit in future years. For details, see the instructions for line 21 on page D-9. Be sure to report all of your capital gains and losses (except nondeductible losses) even if you cannot use all of your losses in 2009.

Nondeductible Losses

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following.

- Members of a family.
- A corporation and an individual owning more than 50% of the corporation's stock (unless the loss is from a distribution in complete liquidation of a corporation).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a beneficiary of another trust created by the same grantor.
- An executor of an estate and a beneficiary of that estate, unless the sale or exchange was to satisfy a pecuniary bequest (that is, a bequest of a sum of money).
- An individual and a tax-exempt organization controlled by the individual or the individual's family.

See Pub. 544 for more details on sales and exchanges between related parties.

If you disposed of (a) an asset used in an activity to which the at-risk rules apply or (b) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the Instructions for Form 6198.

If the loss is allowable under the at-risk rules, it then may be subject to the passive activity rules. See Form 8582 and its instructions for details on reporting capital gains and losses from a passive activity.

Items for Special Treatment

- Transactions by a securities dealer. See section 1236.

- Bonds and other debt instruments. See Pub. 550.

- Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.

- Gain on the sale of depreciable property to a more than 50% owned entity or to a trust of which you are a beneficiary. See Pub. 544.

- Gain on the disposition of stock in an interest charge domestic international sales corporation. See section 995(c).

- Gain on the sale or exchange of stock in certain foreign corporations. See section 1248.

- Transfer of property to a partnership that would be treated as an investment company if it were incorporated. See Pub. 541.

- Sales of stock received under a qualified public utility dividend reinvestment plan. See Pub. 550.

- Transfer of appreciated property to a political organization. See section 84.

- If you give up your U.S. citizenship after June 16, 2008, you may be treated as having sold all your property for its fair market value on the day before you gave up your citizenship. This also applies to long-term U.S. residents who cease to be lawful permanent residents after June 16, 2008. For details, exceptions, and rules for reporting these deemed sales, see Pub. 519 and Form 8854.

- In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. See Pub. 504.

- Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument. See Pub. 550.

- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain is reported as ordinary income on Form 4797.

- If qualified dividends that you reported on Form 1040, line 9b, or Form 1040NR, line 10b, include extraordinary dividends, any loss on the sale or exchange of the stock is a long-term capital loss to the extent of the extraordinary dividends. An extraordinary dividend is a dividend that equals or exceeds 10% (5% in the case of preferred stock) of your basis in the stock.

- Amounts received by shareholders in corporate liquidations. See Pub. 550.

- Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See Pub. 550.

- Load charges to acquire stock in a regulated investment company (including a mutual fund), which may not be taken into account in determining gain or loss on certain dispositions of the stock if reinvestment rights were exercised. See Pub. 564.

- The sale or exchange of S corporation stock or an interest in a trust held for more than 1 year, which may result in col-

lectibles gain (28% rate gain). See the instructions for line 18 on page D-8.

- Gain or loss on the disposition of securities futures contracts. See Pub. 550.

- Gain on the constructive sale of certain appreciated financial positions. See Pub. 550.

- Certain constructive ownership transactions. Gain in excess of the gain you would have recognized if you had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260. If any portion of the constructive ownership transaction was open in any prior year, you may have to pay interest. See section 1260(b) for details, including how to figure the interest. Include the interest as an additional tax on Form 1040, line 60 (or Form 1040NR, line 57). Write "Section 1260(b) interest" and the amount of the interest to the left of line 60 (or Form 1040NR, line 57). This interest is not deductible.

- The sale of publicly traded securities, if you elect to postpone gain by purchasing common stock or a partnership interest in a specialized small business investment company during the 60-day period that began on the date of the sale. See Pub. 550.

- The sale of qualified securities, held for at least 3 years, to an employee stock ownership plan or eligible worker-owned cooperative, if you elect to postpone gain by purchasing qualified replacement property. See Pub. 550.

- Gain or loss from the disposition of stock or other securities in an investment club. See Pub. 550.

Wash Sales

A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, you:

1. Buy substantially identical stock or securities,
2. Acquire substantially identical stock or securities in a fully taxable trade,
3. Enter into a contract or option to acquire substantially identical stock or securities, or
4. Acquire substantially identical stock or securities for your individual retirement arrangement (IRA) or Roth IRA.

You cannot deduct losses from wash sales unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical property (or contract or option to acquire such property) is its cost increased by the disallowed loss (except in the case of (4) above). For more details on wash sales, see Pub. 550.

Report a wash sale transaction on line 1 or 8. Enter the full amount of the (loss) in column (f). Directly below the line on which you reported the loss, enter "Wash Sale" in column (a), and enter as a positive amount in column (f) the amount of the loss not allowed.

Traders in Securities

You are a trader in securities if you are engaged in the business of buying and selling securities for your own account. To be engaged in business as a trader in securities, all of the following statements must be true.

- You must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation.

- Your activity must be substantial.

- You must carry on the activity with continuity and regularity.

The following facts and circumstances should be considered in determining if your activity is a business.

- Typical holding periods for securities bought and sold.

- The frequency and dollar amount of your trades during the year.

- The extent to which you pursue the activity to produce income for a livelihood.

- The amount of time you devote to the activity.

You are considered an investor, and not a trader, if your activity does not meet the above definition of a business. It does not matter whether you call yourself a trader or a "day trader."

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format. However, if a trader previously made the mark-to-market election (see below), each transaction is reported in Part II of Form 4797 instead of on Schedules D and D-1. Regardless of whether a trader reports his or her gains and losses on Schedules D and D-1 or Form 4797, the gain or loss from the disposition of securities is not taken into account when figuring net earnings from self-employment on Schedule SE. See the Instructions for Schedule SE for an exception that applies to section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business on Schedule C (instead of Schedule A).

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between your trading business and your investment securities.

Mark-To-Market Election for Traders

A trader may make an election under section 475(f) to report all gains and losses from securities held in connection with a trading business as ordinary income (or loss), including those from securities held at the end of the year. Securities held at the

end of the year are “marked to market” by treating them as if they were sold (and reacquired) for fair market value on the last business day of the year. Generally, the election must be made by the due date (not including extensions) of the tax return for the year prior to the year for which the election becomes effective. To be effective for 2009, the election must have been made by April 15, 2009.

Starting with the year the election becomes effective, a trader reports all gains and losses from securities held in connection with the trading business, including securities held at the end of the year, in Part II of Form 4797. If you previously made the election, see the Instructions for Form 4797. For details on making the mark-to-market election for 2010, see Pub. 550 or Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 on page 52 of Internal Revenue Bulletin 1999-7 at www.irs.gov/pub/irs-irbs/irb99-07.pdf.

If you hold securities for investment, you must identify them as such in your records on the day you acquired them (for example, by holding the securities in a separate brokerage account). Securities held for investment are not marked-to-market.

Short Sales

A short sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but did not want to transfer at the time of the sale. Usually, your holding period is the amount of time you actually held the property eventually delivered to the lender to close the short sale. However, your gain when closing a short sale is short term if you (a) held substantially identical property for 1 year or less on the date of the short sale, or (b) acquired property substantially identical to the property sold short after the short sale but on or before the date you close the short sale. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is a long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Gain or Loss From Options

Report on Schedule D gain or loss from the closing or expiration of an option that is not a section 1256 contract but is a capital asset in your hands. If an option you purchased expired, enter the expiration date in column (c) and enter “EXPIRED” in column (d). If an option that was granted (written) expired, enter the expiration date in column (b) and enter “EXPIRED” in column (e). Fill in the other columns as appropriate. See Pub. 550 for details.

Undistributed Capital Gains

Include on line 11 the amount from box 1a of Form 2439. This represents your share of the undistributed long-term capital gains of the regulated investment company (including a mutual fund) or real estate investment trust.

If there is an amount in box 1b, include that amount on line 11 of the Unrecaptured

Section 1250 Gain Worksheet on page D-9 if you complete line 19 of Schedule D.

If there is an amount in box 1c, see *Exclusion of Gain on Qualified Small Business (QSB) Stock* on this page.

If there is an amount in box 1d, include that amount on line 4 of the 28% Rate Gain Worksheet on page D-8 if you complete line 18 of Schedule D.

Include on Form 1040, line 70, or Form 1040NR, line 64, the tax paid as shown in box 2 of Form 2439. Also check the box for Form 2439. Add to the basis of your stock the excess of the amount included in income over the amount of the credit for the tax paid. See Pub. 550 for details.

Installment Sales

If you sold property (other than publicly traded stocks or securities) at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to. Use Form 6252 to report the sale on the installment method. Also use Form 6252 to report any payment received in 2009 from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on Schedule D on a timely filed return (including extensions) for the year of the sale. If your original return was filed on time, you can make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write “Filed pursuant to section 301.9100-2” at the top of the amended return.

Demutualization of Life Insurance Companies

Demutualization of a life insurance company occurs when a mutual life insurance company changes to a stock company. If you were a policyholder or annuitant of the mutual company, you may have received either stock in the stock company or cash in exchange for your equity interest in the mutual company. The basis of your equity interest in the mutual company is considered to be zero.

If the demutualization transaction qualifies as a tax-free reorganization, no gain is recognized on the exchange of your equity interest in the mutual company for stock. The company can advise you if the transaction is a tax-free reorganization. Because the basis of your equity interest in the mutual company is considered to be zero, your basis in the stock received is zero. Your holding period for the new stock includes the period you held an equity interest in the mutual company. If you received cash in exchange for your equity interest, you must recognize a capital gain in an amount equal to the cash received. If you held the equity interest for more than 1 year, report the gain as a long-term capital gain on line 8. If you held the equity interest for 1 year or less, report the gain as a short-term capital gain on line 1.

If the demutualization transaction does not qualify as a tax-free reorganization, you must recognize a capital gain in an amount equal to the cash and fair market value of the stock received. If you held the equity interest for more than 1 year, report the gain as a long-term capital gain on line 8. If you held the equity interest for 1 year or less, report the gain as a short-term capital gain on line 1. Your holding period for the new stock begins on the day after you received the stock.

Exclusion of Gain on Qualified Small Business (QSB) Stock

Section 1202 allows for an exclusion of up to 50% of the eligible gain on the sale or exchange of QSB stock. The section 1202 exclusion applies only to QSB stock held for more than 5 years. The exclusion can be up to 60% for certain empowerment zone business stock. See *Empowerment Zone Business Stock* on page D-5.

To be QSB stock, the stock must meet all of the following tests.

1. It must be stock in a C corporation (that is, not S corporation stock).
2. It must have been originally issued after August 10, 1993.
3. As of the date the stock was issued, the corporation was a domestic C corporation with total gross assets of \$50 million or less (a) at all times after August 9, 1993, and before the stock was issued, and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.
4. You must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, you may meet this test if you acquired the stock from another person who met the test (such as by gift or inheritance) or through a conversion or exchange of QSB stock you held.
5. During substantially all the time you held the stock:
 - a. The corporation was a C corporation,
 - b. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and
 - c. The corporation was not a foreign corporation, DISC, former DISC, regulated investment company, real estate investment trust, REMIC, FASIT, cooperative, or a corporation that has made (or that has a subsidiary that has made) a section 936 election.



SSBIC. A specialized small business investment company (SSBIC) is treated as having met test 5b.

Qualified Business

A qualified business is any business that is not one of the following.

- A business involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.

- A business whose principal asset is the reputation or skill of one or more employees.

- A banking, insurance, financing, leasing, investing, or similar business.

- A farming business (including the raising or harvesting of trees).

- A business involving the production of products for which percentage depletion can be claimed.

- A business of operating a hotel, motel, restaurant, or similar business.

For more details about limits and additional requirements that may apply, see section 1202.

Empowerment Zone Business Stock

You generally can exclude up to 60% of your gain if you meet the following additional requirements.

1. The stock you sold or exchanged was stock in a corporation that qualified as an empowerment zone business during substantially all of the time you held the stock.

2. You acquired the stock after December 21, 2000.

Requirement 1 will still be met if the corporation ceased to qualify after the 5-year period that began on the date you acquired the stock. However, the gain that qualifies for the 60% exclusion cannot be more than the gain you would have had if you had sold the stock on the date the corporation ceased to qualify.

For more information about empowerment zone businesses, see Pub. 954.

Pass-Through Entities

If you held an interest in a pass-through entity (a partnership, S corporation, or mutual fund or other regulated investment company) that sold QSB stock, to qualify for the exclusion you must have held the interest on the date the pass-through entity acquired the QSB stock and at all times thereafter until the stock was sold.

How To Report

Report on line 8 the entire gain realized on the sale of QSB stock. Complete all columns as indicated. Directly below the line on which you reported the gain, enter in column (a) "Section 1202 exclusion" and enter as a loss in column (f) the amount of the allowable exclusion. If you are completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet on page D-8; if you excluded 60% of the gain, enter $\frac{2}{3}$ of the exclusion.

Gain from Form 1099-DIV. If you received a Form 1099-DIV with a gain in box 2c, part or all of that gain (which is also included in box 2a) may be eligible for the section 1202 exclusion. In column (a) of

line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. If you are completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet on page D-8; if you excluded 60% of the gain, enter $\frac{2}{3}$ of the exclusion.

Gain from Form 2439. If you received a Form 2439 with a gain in box 1c, part or all of that gain (which is also included in box 1a) may be eligible for the section 1202 exclusion. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. If you are completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet on page D-8; if you excluded 60% of the gain, enter $\frac{2}{3}$ of the exclusion.

Gain from an installment sale of QSB stock. If all payments are not received in the year of sale, a sale of QSB stock that is not traded on an established securities market generally is treated as an installment sale and is reported on Form 6252. Figure the allowable section 1202 exclusion for the year by multiplying the total amount of the exclusion by a fraction, the numerator of which is the amount of eligible gain to be recognized for the tax year and the denominator of which is the total amount of eligible gain. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. If you are completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet on page D-8; if you excluded 60% of the gain, enter $\frac{2}{3}$ of the exclusion.

Alternative minimum tax. You must enter 7% of your allowable exclusion for the year on line 14 of Form 6251.

Rollover of Gain From QSB Stock

If you sold QSB stock (defined on page D-4) that you held for more than 6 months, you can elect to postpone gain if you purchase other QSB stock during the 60-day period that began on the date of the sale. A pass-through entity also can make the election to postpone gain. The benefit of the postponed gain applies to your share of the entity's postponed gain if you held an interest in the entity for the entire period the entity held the QSB stock. If a pass-through entity sold QSB stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you also can elect to postpone gain if you, rather than the pass-through entity, purchase the replacement QSB stock within the 60-day period. If you were a partner in a partnership that sold or bought QSB stock, see box 11 of the Schedule K-1 (Form 1065) sent to you by the partnership and Regulations section 1.1045-1.

You must recognize gain to the extent the sale proceeds exceed the cost of the

replacement stock. Reduce the basis of the replacement stock by any postponed gain.

You must make the election no later than the due date (including extensions) for filing your tax return for the tax year in which the QSB stock was sold. If your original return was filed on time, you can make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

To make the election, report the entire gain realized on the sale on line 1 or 8. Directly below the line on which you reported the gain, enter in column (a) "Section 1045 rollover," and enter the amount of the postponed gain as a (loss) in column (f).

Rollover of Gain From Empowerment Zone Assets

If you sold a qualified empowerment zone asset that you held for more than 1 year, you may be able to elect to postpone part or all of the gain that you would otherwise include on Schedule D. If you make the election, the gain on the sale generally is recognized only to the extent, if any, that the amount realized on the sale exceeds the cost of qualified empowerment zone assets (replacement property) you purchased during the 60-day period beginning on the date of the sale. The following rules apply.

- No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.

- The replacement property must qualify as an empowerment zone asset with respect to the same empowerment zone as the asset sold.

- You must reduce the basis of the replacement property by the amount of postponed gain.

- This election does not apply to any gain (a) treated as ordinary income or (b) attributable to real property, or an intangible asset, that is not an integral part of an enterprise zone business.

- The District of Columbia enterprise zone is not treated as an empowerment zone for this purpose.

- The election is irrevocable without IRS consent.

See Pub. 954 for the definition of empowerment zone and enterprise zone business. You can find out if your business is located within an empowerment zone by using the RC/EZ/EC Address Locator at www.hud.gov/crlocator.

Qualified empowerment zone assets are:

1. Tangible property, if:

- a. You acquired the property after December 21, 2000,

- b. The original use of the property in the empowerment zone began with you, and

- c. Substantially all of the use of the property, during substantially all of the

time that you held it, was in your enterprise zone business; and

2. Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:

a. You acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;

b. The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time you acquired the stock or partnership interest; and

c. The business qualified as an enterprise zone business during substantially all of the time you held the stock or partnership interest.

How to report. Report the entire gain realized from the sale as you otherwise would without regard to the election. On Schedule D, line 8, enter “Section 1397B Rollover” in column (a) and enter as a loss in column (f) the amount of gain included on Schedule D that you are electing to postpone. If you are reporting the sale directly on Schedule D, line 8, use the line directly below the line on which you are reporting the sale.

See section 1397B for more details.

Exclusion of Gain From DC Zone Assets

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you acquired after 1997 and before 2010 and held for more than 5 years, you may be able to exclude the amount of qualified capital gain that you would otherwise include on Schedule D. The exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

DC Zone asset. A DC Zone asset is any of the following.

- DC Zone business stock.
- DC Zone partnership interest.
- DC Zone business property.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset that is a capital asset or property used in a trade or business. It does not include any of the following gains.

- Gain treated as ordinary income under section 1245.
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
- Gain attributable to real property, or an intangible asset, that is not an integral part of a DC Zone business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

See Pub. 954 and section 1400B for more details on DC Zone assets and special rules.

How to report. Report the entire gain realized from the sale or exchange as you otherwise would without regard to the

exclusion. On Schedule D, line 8, enter “DC Zone Asset” in column (a) and enter as a loss in column (f) the amount of the allowable exclusion. If you are reporting the sale directly on Schedule D, line 8, use the line directly below the line on which you are reporting the sale.

Exclusion of Gain From Qualified Community Assets

If you sold or exchanged a qualified community asset that you acquired after 2001 and held for more than 5 years, you may be able to exclude the qualified capital gain that you would otherwise include on Schedule D. The exclusion applies to an interest in, or property of, certain renewal community businesses.

Qualified community asset. A qualified community asset is any of the following.

- Qualified community stock.
- Qualified community partnership interest.
- Qualified community business property.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a qualified community asset but does not include any of the following.

- Gain treated as ordinary income under section 1245.
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
- Gain attributable to real property, or an intangible asset, that is not an integral part of a qualified community business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

See Pub. 954 and section 1400F for more details and special rules.

How to report. Report the entire gain realized from the sale or exchange as you otherwise would without regard to the exclusion. On Schedule D, line 8, enter “Qualified Community Asset” in column (a) and enter as a loss in column (f) the amount of the allowable exclusion. If you are reporting the sale directly on Schedule D, line 8, use the line directly below the line on which you are reporting the sale.

Specific Instructions

Lines 1 and 8

Enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, or 8824). But do not report the sale or exchange of your main home unless required (see page D-2). Include these transactions even if you did not receive a Form 1099-B or 1099-S (or substitute statement) for the transaction. You can use stock ticker symbols or abbreviations to describe the property as long as they are based on the descriptions of the property as shown on Form 1099-B or 1099-S (or substitute statement).

You must enter the details of each transaction on a separate line of Schedule D. If you have more than five transactions to report on line 1 or line 8, you can report the additional transactions on Schedule D-1. Instead of reporting your transactions on Schedules D and D-1, you can report them on an attached statement containing all the same information as Schedules D and D-1 and in a similar format. Use as many Schedules D-1 or attached statements as you need. Enter on Schedule D, lines 2 and 9, the combined totals from all your Schedules D-1 or the attached statements. Do not enter “available upon request” and summary totals in lieu of reporting the details of each transaction on Schedules D and D-1 or attached statements.

If you *e-file* your return but elect not to include your transactions on the electronic short-term capital gain (or loss) or long-term capital gain (or loss) records, you must attach Schedule D-1 (or a statement with the same information) to Form 8453 and mail the forms to the IRS.



Add the following amounts reported to you for 2009 on Forms 1099-B and 1099-S (or substitute statements) that you are not reporting on another form or schedule included with your return: (a) proceeds from transactions involving stocks, bonds, and other securities; and (b) gross proceeds from real estate transactions (other than the sale of your main home if you are not required to report it). If this total is more than the total of lines 3 and 10, attach an explanation of the difference (for example, you were the nominee for the actual owner of the property).

Column (b)—Date Acquired

Enter in this column the date you acquired the asset. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date the stock or property was delivered to the broker or lender to close the short sale.

The date acquired for an asset you held on January 1, 2001, for which you made an election to recognize any gain in a deemed sale is the date of the deemed sale and reacquisition.

If you disposed of property that you acquired by inheritance, report the gain or (loss) on line 8 and enter “INHERITED” in column (b) instead of the date you acquired the property.

If you sold a block of stock (or similar property) that you acquired through several different purchases, you may report the sale on one line and enter “VARIOUS” in column (b). However, you still must report the short-term gain or (loss) on the sale in Part I and the long-term gain or (loss) in Part II.

Column (c)—Date Sold

Enter in this column the date you sold the asset. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date you sold the stock or property you borrowed to open the short sale transaction.

Column (d)—Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. If you sold stocks or bonds and you received a Form 1099-B (or substitute statement) from your broker that shows gross sales price, enter that amount in column (d). But if Form 1099-B (or substitute statement) indicates that gross proceeds minus commissions and option premiums were reported to the IRS, enter that net amount in column (d). If you enter the net amount in column (d), do not include the commissions and option premiums from the sale in column (e).

You should not have received a Form 1099-B (or substitute statement) for a transaction merely representing the return of your original investment in a nontransferable obligation, such as a savings bond or a certificate of deposit. But if you did, report the amount shown on Form 1099-B (or substitute statement) in both columns (d) and (e).



Be sure to add all sales price entries on lines 1 and 8, column (d), to amounts on lines 2 and 9, column (d). Enter the totals on lines 3 and 10.

Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements, minus depreciation,

amortization, and depletion. If you inherited the property, got it as a gift, or received it in a tax-free exchange, involuntary conversion, or "wash sale" of stock, you may not be able to use the actual cost as the basis. If you do not use the actual cost, attach an explanation of your basis.

If you sold stock, adjust your basis by subtracting all the nondividend distributions you received before the sale. Also adjust your basis for any stock splits. See Pub. 550 for details.

If you elected to recognize gain on an asset held on January 1, 2001, your basis in the asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale and reacquisition, whether the deemed sale resulted in a gain or an unallowed loss.

You may elect to use an average basis for all shares of a mutual fund (or other regulated investment company) if you acquired the shares at various times and prices and you left the shares on deposit in an account handled by a custodian or agent who acquired or redeemed those shares. If you are reporting an average basis, include "AVGB" in column (a) of Schedule D. For details on making the election and how to figure average basis, see Pub. 564.

The basis of property acquired by gift is generally the basis of the property in the hands of the donor. The basis of property

acquired from a decedent is generally the fair market value at the date of death. See Pub. 551 for details.

Increase the cost or other basis of an original issue discount (OID) debt instrument by the amount of OID that has been included in gross income for that instrument. See Pub. 550 for details.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount that has the same ratio to the adjusted basis as the amount realized has to the fair market value. See Pub. 544 for details.

Increase your cost or other basis by any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums, before making an entry in column (e), unless you reported the net sales price in column (d).

For more details, see Pub. 551.

Column (f)—Gain or (Loss)

You must make a separate entry in this column for each transaction reported on lines 1 and 8 and any other line(s) that applies to you. For lines 1 and 8, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

Capital Loss Carryover Worksheet—Lines 6 and 14

Keep for Your Records



Use this worksheet to figure your capital loss carryovers from 2008 to 2009 if your 2008 Schedule D, line 21, is a loss and **(a)** that loss is a smaller loss than the loss on your 2008 Schedule D, line 16, **or (b)** the amount on your 2008 Form 1040, line 41 (or your 2008 Form 1040NR, line 38, if applicable), reduced by any amount on your 2008 Form 8914, line 2, is less than zero. Otherwise, you do not have any carryovers.

1. Enter the amount from your 2008 Form 1040, line 41, or your 2008 Form 1040NR, line 38. If a loss, enclose the amount in parentheses	1.	_____
2. Did you file Form 8914 (to claim an exemption amount for housing a Midwestern displaced individual) for 2008? <input type="checkbox"/> No. Enter -0- <input type="checkbox"/> Yes. Enter the amount from your 2008 Form 8914, line 2	2.	_____
3. Subtract line 2 from line 1. If the result is less than zero, enclose it in parentheses	3.	_____
4. Enter the loss from your 2008 Schedule D, line 21, as a positive amount	4.	_____
5. Combine lines 3 and 4. If zero or less, enter -0-	5.	_____
6. Enter the smaller of line 4 or line 5	6.	_____
If line 7 of your 2008 Schedule D is a loss, go to line 7; otherwise, enter -0- on line 7 and go to line 11.		
7. Enter the loss from your 2008 Schedule D, line 7, as a positive amount	7.	_____
8. Enter any gain from your 2008 Schedule D, line 15. If a loss, enter -0-	8.	_____
9. Add lines 6 and 8	9.	_____
10. Short-term capital loss carryover for 2009. Subtract line 9 from line 7. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 6	10.	_____
If line 15 of your 2008 Schedule D is a loss, go to line 11; otherwise, skip lines 11 through 15.		
11. Enter the loss from your 2008 Schedule D, line 15, as a positive amount	11.	_____
12. Enter any gain from your 2008 Schedule D, line 7. If a loss, enter -0-	12.	_____
13. Subtract line 7 from line 6. If zero or less, enter -0-	13.	_____
14. Add lines 12 and 13	14.	_____
15. Long-term capital loss carryover for 2009. Subtract line 14 from line 11. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 14	15.	_____

Line 18

If you checked "Yes" on line 17, complete the worksheet below if either of the following apply for 2009.

- You reported in Part II a section 1202 exclusion from the eligible gain on qualified small business stock (see page D-4).
- You reported in Part II a collectibles gain or (loss). A collectibles gain or (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Include on the worksheet any gain (but not loss) from the sale or exchange of an interest in a partnership, S corporation, or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also, attach the statement required under Regulations section 1.1(h)-1(e).

Line 19

If you checked "Yes" on line 17, complete the worksheet on page D-9 if any of the following apply for 2009.

- You sold or otherwise disposed of section 1250 property (generally, real property that you depreciated) held more than 1 year.
- You received installment payments for section 1250 property held more than 1 year for which you are reporting gain on the installment method.
- You received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows "unrecaptured section 1250 gain."
- You received a Form 1099-DIV or Form 2439 from a real estate investment trust or regulated investment company (including a mutual fund) that reports "unrecaptured section 1250 gain."

- You reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned section 1250 property.

Instructions for the Unrecaptured Section 1250 Gain Worksheet

Lines 1 through 3. If you had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

Line 4. To figure the amount to enter on line 4, follow the steps below for each installment sale of trade or business property held more than 1 year.

Step 1. Figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2009 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2009 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Step 3. Generally, the amount of section 1231 gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2009 as the smaller of (a) the amount from line 26 or line 37 of your 2009 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unre-

captured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 4.

Line 10. Include on line 10 your share of the partnership's unrecaptured section 1250 gain that would result if the partnership had transferred all of its section 1250 property in a fully taxable transaction immediately before you sold or exchanged your interest in that partnership. If you recognized less than all of the realized gain, the partnership will be treated as having transferred only a proportionate amount of each section 1250 property. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 12. An example of an amount to include on line 12 is unrecaptured section 1250 gain from the sale of a vacation home you previously used as a rental property but converted to personal use prior to the sale. To figure the amount to enter on line 12, follow the applicable instructions below.

Installment sales. To figure the amount to include on line 12, follow the steps below for each installment sale of property held more than 1 year for which you did not make an entry in Part I of your Form 4797 for the year of sale.

- Step 1. Figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2009 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.
- Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2009 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.
- Step 3. Generally, the amount of capital gain on each installment payment is

28% Rate Gain Worksheet—Line 18

Keep for Your Records



1. Enter the total of all collectibles gain or (loss) from items you reported on line 8, column (f), of Schedules D and D-1	1.	_____
2. Enter as a positive number the amount of any section 1202 exclusion you reported on line 8, column (f), of Schedules D and D-1, for which you excluded 50% of the gain, plus 2/3 of any section 1202 exclusion you reported on line 8, column (f), of Schedules D and D-1, for which you excluded 60% of the gain	2.	_____
3. Enter the total of all collectibles gain or (loss) from Form 4684, line 4 (but only if Form 4684, line 15, is more than zero); Form 6252; Form 6781, Part II; and Form 8824	3.	_____
4. Enter the total of any collectibles gain reported to you on: <ul style="list-style-type: none"> • Form 1099-DIV, box 2d; • Form 2439, box 1d; and • Schedule K-1 from a partnership, S corporation, estate, or trust. 	4.	_____
5. Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), box 11, code C	5.	(_____)
6. If Schedule D, line 7, is a (loss), enter that (loss) here. Otherwise, enter -0-	6.	(_____)
7. Combine lines 1 through 6. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 18	7.	_____

treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2009 as the smaller of (a) the amount from line 26 or line 37 of your 2009 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 12.

Other sales or dispositions of section 1250 property. For each sale of property held more than 1 year (for which you did not make an entry in Part I of Form 4797), figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of Form 4797 for the property. Next, reduce that amount by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of Form 4797 for the property. The result is the total unrecaptured section 1250 gain for the sale. Include this amount on line 12.

Line 21

You have a capital loss carryover from 2009 to 2010 if you have a loss on line 16 and either:

- That loss is more than the loss on line 21, or

- The amount on Form 1040, line 41 (or Form 1040NR, line 38, if applicable), reduced by any amount on line 6 of Form 8914 (relating to an exemption for housing a Midwestern displaced individual), is less than zero.

To figure any capital loss carryover to 2010, you will use the Capital Loss Carryover Worksheet in the 2010 Instructions for Schedule D. If you want to figure your carryover to 2010 now, see Pub. 550.



You will need a copy of your 2009 Form 1040 and Schedule D to figure your capital loss carryover to 2010.

Unrecaptured Section 1250 Gain Worksheet—Line 19

Keep for Your Records



If you are not reporting a gain on Form 4797, line 7, skip lines 1 through 9 and go to line 10.		
1. If you have a section 1250 property in Part III of Form 4797 for which you made an entry in Part I of Form 4797 (but not on Form 6252), enter the smaller of line 22 or line 24 of Form 4797 for that property. If you did not have any such property, go to line 4. If you had more than one such property, see instructions	1.	
2. Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1	2.	
3. Subtract line 2 from line 1	3.	
4. Enter the total unrecaptured section 1250 gain included on line 26 or line 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions)	4.	
5. Enter the total of any amounts reported to you on a Schedule K-1 from a partnership or an S corporation as "unrecaptured section 1250 gain"	5.	
6. Add lines 3 through 5	6.	
7. Enter the smaller of line 6 or the gain from Form 4797, line 7	7.	
8. Enter the amount, if any, from Form 4797, line 8	8.	
9. Subtract line 8 from line 7. If zero or less, enter -0-	9.	
10. Enter the amount of any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain (see instructions)	10.	
11. Enter the total of any amounts reported to you on a Schedule K-1, Form 1099-DIV, or Form 2439 as "unrecaptured section 1250 gain" from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company)	11.	
12. Enter the total of any unrecaptured section 1250 gain from sales (including installment sales) or other dispositions of section 1250 property held more than 1 year for which you did not make an entry in Part I of Form 4797 for the year of sale (see instructions)	12.	
13. Add lines 9 through 12	13.	
14. If you had any section 1202 gain or collectibles gain or (loss), enter the total of lines 1 through 4 of the 28% Rate Gain Worksheet on page D-8. Otherwise, enter -0-	14.	
15. Enter the (loss), if any, from Schedule D, line 7. If Schedule D, line 7, is zero or a gain, enter -0-	15.	()
16. Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), box 11, code C*	16.	()
17. Combine lines 14 through 16. If the result is a (loss), enter it as a positive amount. If the result is zero or a gain, enter -0-	17.	
18. Unrecaptured section 1250 gain. Subtract line 17 from line 13. If zero or less, enter -0-. If more than zero, enter the result here and on Schedule D, line 19	18.	
*If you are filing Form 2555 or 2555-EZ (relating to foreign earned income), see the footnote in the Foreign Earned Income Tax Worksheet on page 38 of the Form 1040 instructions before completing this line.		



Complete this worksheet only if line 18 or line 19 of Schedule D is more than zero. Otherwise, complete the Qualified Dividends and Capital Gain Tax Worksheet on page 39 of the Instructions for Form 1040 (or in the Instructions for Form 1040NR) to figure your tax.

Exception: Do not use the Qualified Dividends and Capital Gain Tax Worksheet or this worksheet to figure your tax if:

- Line 15 or line 16 of Schedule D is zero or less and you have no qualified dividends on Form 1040, line 9b (or Form 1040NR, line 10b); or
Form 1040, line 43 (or Form 1040NR, line 40) is zero or less.

Instead, see the instructions for Form 1040, line 44 (or Form 1040NR, line 41).

1. Enter your taxable income from Form 1040, line 43 (or Form 1040NR, line 40). (However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter instead the amount from line 3 of the Foreign Earned Income Tax Worksheet on page 38 of the Form 1040 instructions) ... 1.
2. Enter your qualified dividends from Form 1040, line 9b (or Form 1040NR, line 10b) ... 2.
3. Enter the amount from Form 4952 (used to figure investment interest expense deduction), line 4g ... 3.
4. Enter the amount from Form 4952, line 4e* ... 4.
5. Subtract line 4 from line 3. If zero or less, enter -0- ... 5.
6. Subtract line 5 from line 2. If zero or less, enter -0-** ... 6.
7. Enter the smaller of line 15 or line 16 of Schedule D ... 7.
8. Enter the smaller of line 3 or line 4 ... 8.
9. Subtract line 8 from line 7. If zero or less, enter -0-** ... 9.
10. Add lines 6 and 9 ... 10.
11. Add lines 18 and 19 of Schedule D** ... 11.
12. Enter the smaller of line 9 or line 11 ... 12.
13. Subtract line 12 from line 10 ... 13.
14. Subtract line 13 from line 1. If zero or less, enter -0- ... 14.
15. Enter the smaller of:
- The amount on line 1 or
- \$33,950 if single or married filing separately;
- \$67,900 if married filing jointly or qualifying widow(er); or
- \$45,500 if head of household
... 15.
16. Enter the smaller of line 14 or line 15 ... 16.
17. Subtract line 10 from line 1. If zero or less, enter -0- ... 17.
18. Enter the larger of line 16 or line 17 ... 18.
19. Subtract line 16 from line 15 ... 19.
20. Enter the smaller of line 1 or line 13 ... 20.
21. Enter the amount from line 19 (if line 19 is blank, enter -0-) ... 21.
22. Subtract line 21 from line 20. If zero or less, enter -0- ... 22.
23. Multiply line 22 by 15% (.15) ... 23.
24. Enter the smaller of line 9 above or Schedule D, line 19 ... 24.
25. Add lines 10 and 18 ... 25.
26. Enter the amount from line 1 above ... 26.
27. Subtract line 26 from line 25. If zero or less, enter -0- ... 27.
28. Subtract line 27 from line 24. If zero or less, enter -0- ... 28.
29. Multiply line 28 by 25% (.25) ... 29.
30. Add lines 18, 19, 22, and 28 ... 30.
31. Subtract line 30 from line 1 ... 31.
32. Multiply line 31 by 28% (.28) ... 32.
33. Figure the tax on the amount on line 18. Use the Tax Table or Tax Computation Worksheet, whichever applies ... 33.
34. Add lines 23, 29, 32, and 33 ... 34.
35. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies ... 35.
36. Tax on all taxable income (including capital gains and qualified dividends). Enter the smaller of line 34 or line 35. Also include this amount on Form 1040, line 44 (or Form 1040NR, line 41). (If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet in the Form 1040 instructions) ... 36.

*If applicable, enter instead the smaller amount you entered on the dotted line next to line 4e of Form 4952.

**If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet on page 38 of the Form 1040 instructions before completing this line.



2009 Instructions for Schedule E (Form 1040)

Supplemental Income and Loss

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Other Schedules and Forms You May Have To File

- Schedule A to deduct interest, taxes, and casualty losses not related to your business.
- Form 3520 to report certain transactions with foreign trusts and receipt of certain large gifts or bequests from certain foreign persons.
- Form 4562 to claim depreciation (including the special allowance) on assets placed in service in 2009, to claim amortization that began in 2009, to make an election under section 179 to expense certain property, or to report information on listed property.
- Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.
- Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.
- Form 6198 to figure your allowable loss from an at-risk activity.
- Form 8082 to notify the IRS of any inconsistent tax treatment for an item on your return.
- Form 8582 to figure your amount of allowable passive activity loss.
- Form 8824 to report like-kind exchanges.
- Form 8826 to claim a credit for expenditures to improve access to your business for individuals with disabilities.
- Form 8873 to figure your extraterritorial income exclusion.

Use Schedule E (Form 1040) to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs.

You can attach your own schedule(s) to report income or loss from any of these sources. Use the same format as on Schedule E.

Enter separately on Schedule E the total income and the total loss for each part. Enclose loss figures in (parentheses).

- Form 8910 to claim a credit for placing a new alternative motor vehicle in service for business use.

Single-member limited liability company (LLC). Generally, a single-member domestic LLC is not treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule E (or Schedule C, C-EZ, or F, if applicable). However, you can elect to treat a domestic LLC as a corporation. See Form 8832 for details on the election and the tax treatment of a foreign LLC.

Information returns. You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You generally use Form 1099-MISC, Miscellaneous Income, to report rents and payments of fees and other nonemployee compensation. For details, see the 2009 General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file Form 8300. For details, see Pub. 1544.

Reportable Transaction Disclosure Statement

Use Form 8886 to disclose information for each reportable transaction in which you participated. Form 8886 must be filed for each tax year that your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. The following are reportable transactions.

- Any listed transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.
- Any transaction offered to you or a related party under conditions of confidentiality for which you paid an advisor a fee of at least \$50,000.

- Certain transactions for which you or a related party have contractual protection against disallowance of the tax benefits.

- Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years. (At least \$50,000 for a single tax year if the loss arose from a foreign currency transaction defined in section 988(c)(1), whether or not the loss flows through from an S corporation or partnership.)

- Certain transactions of interest entered into after November 1, 2006, that are the same or substantially similar to transactions that the IRS has identified by notice, regulation, or other form of published guidance as transactions of interest.

See the Instructions for Form 8886 for more details.

At-Risk Rules

Generally, you must complete Form 6198 to figure your allowable loss if you have:

- A loss from an activity carried on as a trade or business or for the production of income, and
- Amounts in the activity for which you are not at risk.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987. They also do not apply to losses from your interest acquired before 1987 in a pass-through entity that is engaged in such activity. The activity of holding mineral property does not qualify for this exception.

In most cases, you are not at risk for amounts such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed

by you in connection with the activity of holding real property (other than mineral property). See *Qualified nonrecourse financing* below.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity (other than as a creditor) or who is related, under section 465(b)(3)(C), to a person (other than you) having such an interest.

Qualified nonrecourse financing. Qualified nonrecourse financing is treated as an amount at risk if it is secured by real property used in an activity of holding real property that is subject to the at-risk rules. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with the activity of holding real property (other than mineral property),
- Not convertible from a debt obligation to an ownership interest, and
- Loaned or guaranteed by any federal, state, or local government, or borrowed by you from a qualified person.

Qualified person. A qualified person is a person who actively and regularly engages in the business of lending money, such as a bank or savings and loan association. A qualified person cannot be:

- Related to you (unless the nonrecourse financing obtained is commercially reasonable and on substantially the same terms as loans involving unrelated persons),
- The seller of the property (or a person related to the seller), or
- A person who receives a fee due to your investment in real property (or a person related to that person).

For more details about the at-risk rules, see the Instructions for Form 6198 and Pub. 925.

Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. These rules apply to losses in Parts I, II, and III, and line 40 of Schedule E.

Losses from passive activities may be subject first to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity loss rules.

You generally can deduct losses from passive activities only to the extent of income from passive activities. An exception applies to certain rental real estate activities (explained later on this page).

Passive Activity

A passive activity is any business activity in which you did not materially participate and any rental activity, except as explained later on this page. If you are a limited partner, you generally are not treated as having materially participated in the partnership's activities for the year.

The rental of real or personal property is generally a rental activity under the passive activity loss rules, but exceptions apply. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity, and if so, whether you materially participated in the activity for the tax year.

See the Instructions for Form 8582 to determine whether you materially participated in the activity and for the definition of "rental activity."

See Pub. 925 for special rules that apply to rentals of:

- Substantially nondepreciable property,
- Property incidental to development activities, and
- Property related to activities in which you materially participate.

Activities That Are Not Passive Activities

Activities of real estate professionals. If you were a real estate professional for 2009, any rental real estate activity in which you materially participated is not a passive activity. You were a real estate professional for the year, only if you met both of the following conditions.

- More than half of the personal services you performed in trades or businesses during the year were performed in real property trades or businesses in which you materially participated.
- You performed more than 750 hours of services during the year in real property trades or businesses in which you materially participated.

If you are married filing jointly, either you or your spouse must meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all your interests in rental real estate as one activity. To make this election, attach a statement to your

original tax return that declares you are a qualifying taxpayer for the year and you are making the election under section 469(c)(7)(A). The election applies for the year made and all later years in which you are a real estate professional. You can revoke the election only if your facts and circumstances materially change.

If you were a real estate professional for 2009, complete Schedule E, line 43.

Other activities. The rental of your home that you also used for personal purposes is not a passive activity. See the instructions for line 2 on page E-3.

A working interest in an oil or gas well that you held directly or through an entity that did not limit your liability is not a passive activity even if you did not materially participate.

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E generally is not considered income from a passive activity.

For more details on passive activities, see the Instructions for Form 8582 and Pub. 925.

Exception for Certain Rental Real Estate Activities

If you meet all of the following conditions, your rental real estate losses are not limited by the passive activity loss rules. If you do not meet all of these conditions, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582 to figure any losses allowed.

1. Rental real estate activities are your only passive activities.
2. You do not have any prior year unallowed losses from any passive activities.
3. All of the following apply if you have an overall net loss from these activities:
 - a. You actively participated (defined below) in all of the rental real estate activities;
 - b. If married filing separately, you lived apart from your spouse all year;
 - c. Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately);
 - d. You have no current or prior year unallowed credits from passive activities; and
 - e. Your modified adjusted gross income (defined on page E-3) is \$100,000 or less (\$50,000 or less if married filing separately).

Active participation. You can meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:

- Approving new tenants,

- Deciding on rental terms,
- Approving capital or repair expenditures, and
- Other similar decisions.

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% by value of all interests in the activity. If you are a limited partner, you are also not treated as actively participating in a partnership's rental real estate activities.

Modified adjusted gross income. This is your adjusted gross income from Form 1040, line 38, or Form 1040NR, line 36, without taking into account:

- Any allowable passive activity loss,
- Rental real estate losses allowed for real estate professionals (see *Activities of real estate professionals* on page E-2),
- Taxable social security or tier 1 railroad retirement benefits,
- Deductible contributions to a traditional IRA or certain other qualified retirement plans under section 219,
- The student loan interest deduction,
- The tuition and fees deduction,
- The domestic production activities deduction,
- The deduction for one-half of self-employment tax,
- The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher education expenses, and
- Any excluded amounts under an employer's adoption assistance program.

Recordkeeping

You must keep records to support items reported on Schedule E in case the IRS has questions about them. If the IRS examines your tax return, you may be asked to explain the items reported. Good records will help you explain any item and arrive at the correct tax with a minimum of effort. If you do not have records, you may have to spend time getting statements and receipts from various sources. If you cannot produce the correct documents, you may have to pay additional tax and be subject to penalties.

Specific Instructions

Filers of Form 1041. If you are a fiduciary filing Schedule E with Form 1041, enter the estate's or trust's employer identification number (EIN) in the space for "Your social security number."

Part I



Before you begin, see the instructions for lines 3 and 4 on page E-4 to determine if you should report your rental real

estate and royalty income on Schedule C, Schedule C-EZ, or Form 4835 instead of Schedule E.

Income or Loss From Rental Real Estate and Royalties

Use Part I to report:

- Income and expenses from rental real estate (including personal property leased with real estate), and
- Royalty income and expenses.
- For an estate or trust **only**, farm rental income and expenses based on crops or livestock produced by the tenant. **Do not** use Form 4835 or Schedule F (Form 1040) for this purpose.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

Complete lines 1 and 2 for each rental real estate property. Leave these lines blank for each royalty property.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But fill in the "Totals" column on only one Schedule E. The figures in the "Totals" column on that Schedule E should be the combined totals for all properties reported on your Schedules E. If you are also using page 2 of Schedule E, use the same Schedule E on which you entered the combined totals for Part I.

Personal property. Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C or C-EZ if you are in the business of renting personal property. You are in the business of renting personal property if the primary purpose for renting the property is income or profit and you are involved in the rental activity with continuity and regularity.

If your rental of personal property is not a business, see the instructions for Form 1040, lines 21 and 36, to find out how to report the income and expenses.

Husband-wife qualified joint venture. Do not use Schedule E to report income and expenses from a rental real estate business that is a qualified joint venture conducted by you and your spouse, if you file a joint return for the tax year.

Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are taxed as a partnership. However, if you and your spouse each materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make an election to be treated as a qualified joint venture instead of a partnership. For an explanation of "material participation," see

the instructions for Schedule C, line G, on page C-3.

To make the election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C or C-EZ. On each line of your separate Schedule C or C-EZ, you must enter your share of the applicable income, deduction, or loss. See the instructions for Schedule C or C-EZ and Publication 527 for more details.

As long as you remain qualified, your election cannot be revoked without IRS consent.

Note. Rental income reported on Schedule E is not taxable for self-employment tax purposes. Electing qualified joint venture status and using the Schedule C or C-EZ does not alter the application of the self-employment tax or the passive loss limitation rules.

Extraterritorial income exclusion. Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income under certain circumstances. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule E as explained in the Instructions for Form 8873.

Chapter 11 bankruptcy cases. If you were a debtor in a chapter 11 bankruptcy case, see page 21 of the instructions for Form 1040.

Line 1

For rental real estate property only, show all of the following.

- The kind of property you rented (for example, townhouse, commercial building, mobile home, and self-storage unit).
- The street address, city or town, state, and ZIP code. If the property is located in a foreign country, enter the city, province or state, country, and postal code.
- Your percentage of ownership in the property, if less than 100%.

Line 2

If you rented out a dwelling unit that you also used for personal purposes during the year, you may not be able to deduct all the expenses for the rental part. "Dwelling unit" (unit) means a house, apartment, condominium, or similar property.

A day of personal use is any day, or part of a day, that the unit was used by:

- You for personal purposes,
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a "shared equity" financing agreement),

- Anyone in your family (or in the family of someone else who owns part of the unit), unless the unit is rented at a fair rental price to that person as his or her main home,

- Anyone who pays less than a fair rental price for the unit, or
- Anyone under an agreement that lets you use some other unit.

Do not count as personal use:

- Any day you spent working substantially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day, or
- Any days you used the unit as your main home before or after renting it or offering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

Check "Yes" if you or your family used the unit for personal purposes in 2009 more than the greater of:

- 14 days, or
- 10% of the total days it was rented to others at a fair rental price.

Otherwise, check "No."

If you checked "No" you can deduct all your expenses for the rental part, subject to the *At-Risk Rules* and the *Passive Activity Loss Rules* explained beginning on page E-1.

If you checked "Yes" and rented the unit out for fewer than 15 days in 2009, do not report the rental income and do not deduct any rental expenses. If you itemize deductions on Schedule A, you can deduct allowable interest, taxes, and casualty losses. If you do not itemize, you can increase your standard deduction by certain state or local real estate taxes, a net disaster loss attributable to a federally declared disaster, and new motor vehicle taxes.

If you checked "Yes" and rented the unit out for at least 15 days in 2009, you may not be able to deduct all your rental expenses. You can deduct all of the following expenses for the rental part on Schedule E.

- Mortgage interest.
- Real estate taxes.
- Casualty losses.
- Other rental expenses not related to your use of the unit as a home, such as advertising expenses and rental agents' fees.

If any income is left after deducting these expenses, you can deduct other expenses, including depreciation, up to the amount of remaining income. You can carry over to 2010 the amounts you cannot deduct.



Regardless of whether you answered "No" or "Yes" to Question 2, expenses related to days of personal use do not qualify as rental expenses. You must allocate your expenses based on the number of days of personal use to total use of the property. For example, you used your property for personal use for 7 days and rented it for 63 days. Generally, 10% (7÷70) of your expenses are not rental expenses and cannot be deducted on Schedule E.

See Pub. 527 for details.

Line 3

If you received rental income from real estate (including personal property leased with real estate) and you were not in the real estate business, report the income on line 3. Use a separate column (A, B, or C) for each rental property. Include income received for renting a room or other space. If you received services or property instead of money as rent, report the fair market value of what you received as rental income.

Be sure to enter the total of all your rents in the "Totals" column even if you have only one property.

If you provided significant services to the renter, such as maid service, report the rental activity on Schedule C or C-EZ, not on Schedule E. Significant services do not include the furnishing of heat and light, cleaning of public areas, trash collection, or similar services.

If you were in the real estate sales business, include on line 3 only the rent received from real estate (including personal property leased with real estate) you held for investment or speculation. Do not use Schedule E to report income and expenses from rentals of real estate held for sale to customers in the ordinary course of your real estate sales business. Instead, use Schedule C or C-EZ for these rentals.

For more details on rental income use TeleTax topic 414 (see the Instructions for Form 1040, page 93), or see Pub. 527.

Rental income from farm production or crop shares. Report farm rental income and expenses on Form 4835 if:

- You are an individual,
- You received rental income based on crops or livestock produced by the tenant, and
- You did not materially participate in the management or operation of the farm.

Line 4

Report on line 4 royalties from oil, gas, or mineral properties (not including operating interests); copyrights; and patents. Use a separate column (A, B, or C) for each royalty property. Be sure to enter the total of all your royalties in the "Totals" column even if you have only one source of royalties.

If you received \$10 or more in royalties during 2009, the payer should send you a Form 1099-MISC or similar statement by February 1, 2010, showing the amount you received.

If you are in business as a self-employed writer, inventor, artist, etc., report your royalty income and expenses on Schedule C or C-EZ.

You may be able to treat amounts received as "royalties" for the transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, see Pub. 544.

Enter on line 4 the gross amount of royalty income, even if state or local taxes were withheld from oil or gas payments you received. Include taxes withheld by the producer on line 16.

General Instructions for Lines 5 Through 21

Enter your rental and royalty expenses for each property in the appropriate column. You can deduct all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, agents' commissions, and depreciation.

Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements.

Enter your total expenses for mortgage interest (line 12), total expenses before depreciation expense or depletion (line 19), and depreciation expenses or depletion (line 20) in the "Totals" column even if you have only one property.

Renting out part of your home. If you rent out only part of your home or other property, deduct the part of your expenses that applies to the rented part.

Credit or deduction for access expenditures. You may be able to claim a tax credit for eligible expenditures paid or incurred in 2009 to provide access to your business for individuals with disabilities. See Form 8826 for details.

You can also elect to deduct up to \$15,000 of qualified costs paid or incurred in 2009 to remove architectural or transportation barriers to individuals with disabilities and the elderly.

You cannot take both the credit and the deduction for the same expenditures.

Line 6

You can deduct ordinary and necessary auto and travel expenses related to your rental activities, including 50% of meal expenses incurred while traveling away from home. You generally can either deduct your actual expenses or take the standard mileage rate. You must use actual expenses if you used more than four vehicles simultaneously in your rental activities (as in fleet operations). You cannot use actual expenses for a leased vehicle if you previ-

ously used the standard mileage rate for that vehicle.

You can use the standard mileage rate for 2009 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you take the standard mileage rate, multiply the number of miles driven in connection with your rental activities by 55 cents. Include this amount and your parking fees and tolls on line 6.



You cannot deduct rental or lease payments, depreciation, or your actual auto expenses if you use the standard mileage

rate.

If you deduct actual auto expenses:

- Include on line 6 the rental activity portion of the cost of gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show auto rental or lease payments on line 18 and depreciation on line 20.

If you claim any auto expenses (actual or the standard mileage rate), you must complete Part V of Form 4562 and attach Form 4562 to your tax return.

See Pub. 527 and Pub. 463 for details.

Line 10

Include on line 10 fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties.

Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property, or to develop or improve property. Instead, you must capitalize these fees and add them to the property's basis.

Lines 12 and 13

In general, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment. See Pub. 535 for details.

If you have a mortgage on your rental property, enter on line 12 the amount of interest you paid for 2009 to banks or other financial institutions. Be sure to enter the total of all your mortgage interest in the "Totals" column even if you have only one property.

Do not deduct prepaid interest when you paid it. You can deduct it only in the year to which it is properly allocable. Points, including loan origination fees, charged only for the use of money must be deducted over the life of the loan.

If you paid \$600 or more in interest on a mortgage during 2009, the recipient should send you a Form 1098 or similar statement by February 1, 2010, showing the total interest received from you.

If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see Pub. 535 to find out if you can deduct part or all of the additional interest. If you can, enter the entire deductible amount on line 12. Attach a statement to your return explaining the difference. On the dotted line next to line 12, enter "See attached."

Note. If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 13.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received Form 1098, report your share of the deductible interest on line 13. Attach a statement to your return showing the name and address of the person who received Form 1098. On the dotted line next to line 13, enter "See attached."

Line 14

You can deduct the cost of repairs made to keep your property in good working condition. Repairs generally do not add significant value to the property or extend its life. Examples of repairs are fixing a broken lock or painting a room. Improvements that increase the value of the property or extend its life, such as replacing a roof or renovating a kitchen, must be capitalized and depreciated (that is, they cannot be deducted in full in the year they are paid or incurred). See the instructions for line 20 on this page.

Line 17

You can deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income (for example, calls to the renter). However, the base rate (including taxes and other charges) for local telephone service for the first telephone line into your residence is a personal expense and is not deductible.

Line 18

Enter on line 18 any ordinary and necessary expenses that are not listed on lines 5 through 17 and line 20.

You may be able to deduct, on line 18, part or all of the cost of modifying existing commercial buildings to make them energy efficient. For details, see section 179D, Notice 2006-52, and Notice 2008-40. You can find Notice 2006-52 on page 1175 of Internal Revenue Bulletin 2006-26 at www.irs.gov/irb/2006-26_IRB/ar11.html. You can find Notice 2008-40 on page 725 of Internal Revenue Bulletin 2008-14 at www.irs.gov/irb/2008-14_IRB/ar12.html.

Line 20

Depreciation is the annual deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you deduct all your depreciable cost or other basis or no longer use the property in your business or for the production of income.

See the Instructions for Form 4562 to figure the amount of depreciation to enter on line 20. Be sure to enter the total of all your depreciation in the "Totals" column even if you have only one property.

You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property first placed in service during 2009,
- Depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service, or
- A section 179 expense deduction or amortization of costs that began in 2009.

See Pub. 527 for more information on depreciation of residential rental property. See Pub. 946 for a more comprehensive guide to depreciation.

If you have an economic interest in mineral property, you may be able to take a deduction for depletion. Mineral property includes oil and gas wells, mines, and other natural deposits (including geothermal deposits). See Pub. 535 for details.

Separating cost of land and buildings. If you buy buildings and your cost includes the cost of the land on which they stand, you must divide the cost between the land and the buildings to figure the basis for depreciation of the buildings. The part of the cost that you allocate to each asset is the ratio of the fair market value of that asset to the fair market value of the whole property at the time you buy it.

If you are not certain of the fair market values of the land and the buildings, you can divide the cost between them based on their assessed values for real estate tax purposes.

Line 22

If you have amounts for which you are not at risk, use Form 6198 to determine the amount of your deductible loss. Enter that amount in the appropriate column of Schedule E, line 22. In the space to the left of line 22, enter "Form 6198." Attach Form 6198 to your return. For details on the at-risk rules, see page E-1.

Line 23

Do not complete line 23 if the amount on line 22 is from royalty properties.

If you have a rental real estate loss from a passive activity (defined on page E-2), the amount of loss you can deduct may be limited by the passive activity loss rules. You may need to complete Form 8582 to figure the amount of loss, if any, to enter on line 23. See the Instructions for Form 8582 to determine if your loss is limited.

If your rental real estate loss is not from a passive activity or you meet the exception for certain rental real estate activities (explained on page E-2), you do not have to complete Form 8582. Enter the loss from line 22 on line 23.

If you have an unallowed rental real estate loss from a prior year that after completing Form 8582 you can deduct this year, include that loss on line 23.

Parts II and III

If you need more space in Part II or III to list your income or losses, attach a continuation sheet using the same format as shown in Part II or III. However, be sure to complete the "Totals" columns for lines 29a and 29b, or lines 34a and 34b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

Tax preference items. If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of preferences and adjustments from these entities for the alternative minimum tax on Form 6251 or Schedule I (Form 1041).

Part II

Income or Loss From Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder in an S corporation, use Part II to report your share of the partnership or S corporation income (even if not received) or loss.

You should receive a Schedule K-1 from the partnership or S corporation. You should also receive a copy of the Partner's or Shareholder's Instructions for Schedule K-1. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items. If you did not receive these instructions with your Schedule K-1, see the instructions for Form 1040 or Form 1040NR for how to get tax forms, instructions, and publications. Do not attach Schedules K-1 to your return. Keep them for your records.

If you are treating items on your tax return differently from the way the partnership (other than an electing large partner-

ship) or S corporation reported them on its return, you may have to file Form 8082. If you are a partner in an electing large partnership, you must report the items shown on Schedule K-1 (Form 1065-B) on your tax return the same way that the partnership reported the items on Schedule K-1.

Special rules that limit losses. Please note the following.

- If you have a current year loss, or a prior year unallowed loss, from a partnership or an S corporation, see *At-Risk Rules* and *Passive Activity Loss Rules* beginning on page E-1.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. If you are subject to the at-risk rules for any activity, check the box on the appropriate line in Part II, column (e) of Schedule E, and use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter any deductible loss from Form 6198 on the appropriate line in Part II, column (h) of Schedule E.

- If you have a passive activity loss, you generally need to complete Form 8582 to figure the amount of the allowable loss to enter in Part II, column (f), for that activity. But if you are a general partner or an S corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity and you meet all of the conditions listed on page E-2 under *Exception for Certain Rental Real Estate Activities*, you do not have to complete Form 8582. Instead, enter your allowable loss in Part II, column (f).

If you have passive activity income, complete Part II, column (g), for that activity.

If you have nonpassive income or losses, complete Part II, columns (h) through (j), as appropriate.

Domestic Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

You can deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. See the instructions for line 27 on page E-7 for how to report these expenses.

Report allowable interest expense paid or incurred from debt-financed acquisitions in Part II or on Schedule A depending on the type of expenditure to which the interest is allocated. See Pub. 535 for details.

If you claimed a credit for federal tax on gasoline or other fuels on your 2008 Form 1040, or Form 1040NR, based on information received from the partnership, enter as income in column (g) or column (j), which-

ever applies, the amount of the credit claimed for 2008.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on Schedule SE. Enter the amount from Schedule K-1 (Form 1065), box 14, code A (or from Schedule K-1 (Form 1065-B), box 9 (code J1)), on Schedule SE, after you reduce this amount by any allowable expenses attributable to that income.

Foreign Partnerships

Follow the instructions below in addition to the instructions above for *Domestic Partnerships*.

If you are a U.S. person, you may have received Forms 1099-B, 1099-DIV, and 1099-INT reporting your share of certain partnership income, because payors of income to the foreign partnership generally are required to allocate and report payments of that income directly to each of the partners of the foreign partnership. If you received both Schedule K-1 and Form 1099 for the same type and source of partnership income, report only the income shown on Schedule K-1 in accordance with its instructions.

If you are not a U.S. person, you may have received Forms 1042-S reporting your share of certain partnership income, because payors of income to the foreign partnership generally are required to allocate and report payments of that income directly to each of the partners of the foreign partnership. If you received both Schedule K-1 and Form 1042-S for the same type and source of partnership income, report the income on your return as follows.

- For all income effectively connected with the conduct of a trade or business in the United States, report only the income shown on Schedule K-1 in accordance with its instructions.

- For all income **not** effectively connected with the conduct of a trade or business in the United States, report on page 4 of Form 1040NR only the income shown on Form 1042-S (if you are required to file Form 1040NR).

Requirement to file Form 8865. If you are a U.S. person, you may have to file Form 8865 if any of the following applies.

1. You controlled a foreign partnership (that is, you owned more than a 50% direct or indirect interest in the partnership).

2. You owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.

3. You had an acquisition, disposition, or change in proportional interest of a foreign partnership that:

- a. Increased your direct interest to at least 10% or reduced your direct interest of at least 10% to less than 10%, or

b. Changed your direct interest by at least a 10% interest.

4. You contributed property to a foreign partnership in exchange for a partnership interest if:

a. Immediately after the contribution, you owned, directly or indirectly, at least a 10% interest in the partnership, or

b. The value of the property you contributed, when added to the value of any other property you or any related person contributed to the partnership during the 12-month period ending on the date of transfer, exceeds \$100,000.

Also, you may have to file Form 8865 to report certain dispositions by a foreign partnership of property you previously contributed to that partnership if you were a partner at the time of the disposition.

For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

S Corporations

If you are a shareholder in an S corporation, your share of the corporation's aggregate losses and deductions (combined income, losses, and deductions) is generally limited to the adjusted basis of your corporate stock and any debt the corporation owes you. Any loss or deduction not allowed this year because of the basis limitation can be carried forward and deducted in a later year subject to the basis limitation for that year.

If you are claiming a deduction for your share of an aggregate loss, attach to your return a computation of the adjusted basis of your corporate stock and of any debt the corporation owes you. See the Schedule K-1 instructions for details.

After applying the basis limitation, the deductible amount of your aggregate losses and deductions may be further reduced by the at-risk rules and the passive activity loss rules. See pages E-1 and E-2.

Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040, line 9a.

Interest expense relating to the acquisition of shares in an S corporation may be fully deductible on Schedule E. For details, see Pub. 535.

Your share of the net income of an S corporation is not subject to self-employment tax.

Line 27

If you answered "Yes" on line 27, follow the instructions below. If you fail to follow these instructions, the IRS may send you a notice of additional tax due because the amounts reported by the partnership or S corporation on Schedule K-1 do not match the amounts you reported on your tax return.

Losses Not Allowed in Prior Years Due to the At-Risk or Basis Limitations

- Enter your total prior year unallowed losses that are now deductible on a separate line in column (h) of line 28. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.

- Enter "PYA" in column (a) of the same line.

Prior Year Unallowed Losses From a Passive Activity Not Reported on Form 8582

- Enter on a separate line in column (f) of line 28 your total prior year unallowed losses not reported on Form 8582. Such losses include prior year unallowed losses that are now deductible because you did not have an overall loss from all passive activities or you disposed of your entire interest in a passive activity in a fully taxable transaction. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.

- Enter "PYA" in column (a) of the same line.

Unreimbursed Partnership Expenses

- You can deduct unreimbursed ordinary and necessary partnership expenses you paid on behalf of the partnership on Schedule E if you were required to pay these expenses under the partnership agreement (except amounts deductible only as itemized deductions, which you must enter on Schedule A).

- Enter unreimbursed partnership expenses from nonpassive activities on a separate line in column (h) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.

- If the expenses are from a passive activity and you are not required to file Form 8582, enter the expenses related to a passive activity on a separate line in column (f) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.

- Enter "UPE" in column (a) of the same line.

Line 28

For nonpassive income or loss (and passive income or losses for which you are not filing Form 8582), enter in the applicable column of line 28 your current year ordinary income or loss from the partnership or S corporation. Report each related item required to be reported on Schedule E (including items of income or loss stated separately on Schedule K-1) in the applicable column of a separate line following the line on which you reported the current year ordinary income or loss. Also enter a

description of the related item (for example, depletion) in column (a) of the same line.

If you are required to file Form 8582, see the Instructions for Form 8582 before completing Schedule E.

Part III

Income or Loss From Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a Schedule K-1 (Form 1041) from the fiduciary. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1. Do not attach Schedule K-1 to your return. Keep it for your records.

If you are treating items on your tax return differently from the way the estate or trust reported them on its return, you may have to file Form 8082.

If you have estimated taxes credited to you from a trust (Form 1041, Schedule K-1, box 13, code A), enter "ES payment claimed" and the amount on the dotted line next to line 37. Do not include this amount in the total on line 37. Instead, enter the amount on Form 1040, line 62, or Form 1040NR, line 59.

A U.S. person who transferred property to a foreign trust may have to report the income received by the trust as a result of the transferred property if, during 2009, the trust had a U.S. beneficiary. See section 679. An individual who received a distribution from, or who was the grantor of or transferor to, a foreign trust must also complete Part III of Schedule B (Form 1040) and may have to file Form 3520. In addition, the owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A.

Part IV

Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)

If you are the holder of a residual interest in a REMIC, use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive Schedule Q (Form 1066) and instructions from the REMIC for each quarter. Do not attach Schedules Q to your return. Keep them for your records.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the combined totals of columns (d) and (e) on Schedule E, line 39. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

REMIC income or loss is not income or loss from a passive activity.

Note. If you are the holder of a regular interest in a REMIC, do not use Schedule E to report the income you received. Instead, report it on Form 1040, line 8a.

Column (c). Report the total of the amounts shown on Schedule(s) Q, line 2c. This is the smallest amount you are allowed to report as your taxable income (Form 1040, line 43). It is also the smallest amount you are allowed to report as your alternative minimum taxable income (AMTI) on Form 6251, line 29.

If the amount in column (c) is larger than your taxable income would otherwise be, enter the amount from column (c) on Form 1040, line 43. Similarly, if the amount in column (c) is larger than your AMTI would otherwise be, enter the amount from column (c) on Form 6251, line 29. Enter "Sch. Q" on the dotted line to the left of this amount on Form 1040, line 43, and Form 6251, line 29, if applicable.

Note. These rules also apply to estates and trusts that hold a residual interest in a REMIC. Be sure to make the appropriate entries on the comparable lines on Form 1041.



Do not include the amount shown in column (c) in the total on Schedule E, line 39.

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 3b. If you itemize your deductions, include this amount on Form 1040, Schedule A, line 23.

Part V Summary

Line 42

You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 2008 or 2009 is at least two-thirds of your gross income, and
2. You file your 2009 tax return and pay the tax due by March 1, 2010.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is sub-

ject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control number 1545-1972 and is shown below.

Recordkeeping	3 hr.
Learning about the law or the form	1 hr., 13 min.
Preparing the form	1 hr., 27 min.
Copying, assembling, and sending the form to the IRS	34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

ticipation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. For more information on reportable transactions, see *Reportable Transaction Disclosure Statement* on page C-2 of the instructions for Schedule C.

Husband-Wife Farm

If you and your spouse jointly own and operate a farm as an unincorporated business and share in the profits and losses, you are partners in a partnership whether or not you have a formal partnership agreement. File Form 1065 instead of Schedule F.

Exception—Qualified Joint Venture

If you and your spouse each materially participate as the only members of a jointly owned and operated farm, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. For an explanation of “material participation,” see the instructions for Schedule C, line G, on page C-3, and the instructions for line E on this page.

Making the election. To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the farming business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule F. On each line of your separate Schedule F, you must enter your share of the applicable income, deduction, or loss. Each of you must also file a separate Schedule SE to pay self-employment tax, as applicable.

As long as you remain qualified, your election cannot be revoked without IRS consent.

For more information, see *Exception—Qualified Joint Venture* on page C-2 of the instructions for Schedule C.

Exception—Community Income

If you and your spouse wholly own an unincorporated farming business as community property under the community property laws of a state, foreign country, or U.S. possession, the income and deductions are reported as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both you and your spouse are partners in a partnership, see Pub. 541.
- If you and your spouse elected to treat the business as qualifying joint venture, see *Exception—Qualified Joint Venture* on this page.

The only states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

Estimated Tax

If you had to make estimated tax payments for 2009 and you underpaid your estimated tax, you will not be charged a penalty if both of the following apply.

- Your gross farming or fishing income for 2008 or 2009 is at least two-thirds of your gross income.
- You file your 2009 tax return and pay the tax due by March 1, 2010.

For details, see chapter 15 of Pub. 225.

Specific Instructions

Filers of Forms 1041, 1065, and 1065-B. Do not complete the block labeled “Social security number (SSN).” Instead, enter the employer identification number (EIN) issued to the estate, trust, or partnership on line D.

Line B

On line B, enter one of the 14 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income.

Line C

If you use the cash method, check box 1, “Cash.” Complete Schedule F, Parts I and II. Generally, report income in the year in which you actually or constructively received it and deduct expenses in the year you paid them. However, if the payment of an expenditure creates an asset having a useful life that extends substantially beyond the close of the year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 2 of Pub. 225.

If you use an accrual method, check box 2, “Accrual.” Complete Schedule F, Parts II, III, and Part I, line 11. Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you did not pay them in that year. Accrual basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

Farming syndicates. Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

- The interests in the business have at any time been offered for sale in a way that would require registration with any federal or state agency, or
- More than 35% of the loss during any tax year is shared by limited partners or limited entrepreneurs. A limited partner is one who can lose only the amount invested or required to be invested in the partnership. A limited entrepreneur is a person

who does not take any active part in managing the business.

Line D

Enter on line D the employer identification number (EIN) that was issued to you. Do not enter your SSN. Do not enter another taxpayer’s EIN (for example, from any Forms 1099-MISC that you received). **If you do not have an EIN, leave line D blank.**

You need an EIN only if you have a qualified retirement plan or are required to file employment, excise, alcohol, tobacco, or firearms returns, or are a payer of gambling winnings. If you need an EIN, see the Instructions for Form SS-4.

Single-member LLCs. If you are the sole owner of an LLC that is not treated as a separate entity for federal income tax purposes, you may have an EIN that was issued to the LLC (and in the LLC’s legal name) if you are required to file employment tax returns and certain excise tax returns. However, you should **enter on line D only the EIN issued to you and in your name as the sole proprietor of your farming business.** If you do not have such an EIN, leave line D blank. Do not enter on line D the EIN issued to the LLC.

Filers of Forms 1041, 1065, and 1065-B. Enter on line D the EIN issued to the estate, trust, or partnership.

Line E

Material participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for Schedule C, line G, on page C-3. If you meet any of the material participation tests described in those instructions, check the “Yes” box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 or more of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if he or she actively manages the farm and the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent.

Check the “No” box if you did not materially participate. If you checked “No” and you have a loss from this business, see *Limit on passive losses* below. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive activity losses, see the Instructions for Form 8582.

Limit on passive losses. If you checked the “No” box and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see Pub. 925.



2009 Instructions for Schedule J

Income Averaging for Farmers and Fishermen

Use Schedule J (Form 1040) to elect to figure your 2009 income tax by averaging, over the previous 3 years (base years), all or part of your 2009 taxable income from your trade or business of farming or fishing. This election may give you a lower tax if your 2009 income from farming or fishing is high and your taxable income for one or more of the 3 prior years was low.

In order to qualify for this election, you are not required to have been in the business of farming or fishing during any of the base years.

You may elect to average farming or fishing income even if your filing status was not the same in the election year and the base years.

This election does not apply when figuring your alternative minimum tax on Form 6251. Also, you do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

General Instructions

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 2006, 2007, and 2008 to figure your tax on Schedule J.

If you need copies of your tax returns, use Form 4506. There is a \$57 fee (subject to change) for each return requested. If your main home, principal place of business, or tax records are located in a federally declared disaster area, this fee will be waived. If you want a free transcript of your tax return or account, use Form 4506-T. See your Form 1040 instruction booklet to find out how to get these forms.

Keep a copy of your 2009 income tax return to use for income averaging in 2010, 2011, or 2012.

Definitions

Farming business. A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

1. Operating a nursery or sod farm;
2. Raising or harvesting of trees bearing fruits, nuts, or other crops;
3. Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);
4. Raising, shearing, feeding, caring for, training, and managing animals; and
5. Leasing land to a tenant engaged in a farming business, but only if the lease payments are (a) based on a share of the tenant's production (not a fixed amount), and (b) determined under a written agree-

ment entered into before the tenant begins significant activities on the land.

A farming business does not include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else, or
- Merely buying or reselling plants or animals grown or raised by someone else.

Fishing business. A fishing business is the trade or business of fishing in which the fish harvested, either in whole or in part, are intended to enter commerce or enter commerce through sale, barter, or trade. This includes:

1. The catching, taking, or harvesting of fish;
2. The attempted catching, taking, or harvesting of fish;
3. Any other activity which can reasonably be expected to result in the catching, taking, or harvesting of fish;
4. Any operations at sea in support of, or in preparation for, any activity described in (1) through (3) above;
5. Leasing a fishing vessel, but only if the lease payments are (a) based on a share of the catch (or a share of the proceeds from the sale of the catch) from the lessee's use of the vessel in a fishing business (not a fixed payment), and (b) determined under a written lease entered into before the lessee begins any significant fishing activities resulting in the catch; and
6. Compensation as a crew member on a vessel engaged in a fishing business, but only if the compensation is based on a share of the catch (or a share of the proceeds from the sale of the catch).

The word fish means finfish, mollusks, crustaceans, and all other forms of marine animal and plant life other than marine mammals and birds.

A fishing business does not include any scientific research activity which is conducted by a scientific research vessel.

Settlement from Exxon Valdez litigation. You will be treated as engaged in a fishing business with respect to any qualified settlement income you received if either of the following applies.

1. You were a plaintiff in the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D.Alaska); or
2. All of the following apply.
 - a. You were a beneficiary of a plaintiff described in (1) above,
 - b. You acquired the right to receive qualified settlement income from that plaintiff, and
 - c. You were the spouse or an immediate relative of that plaintiff.

Qualified settlement income is any taxable interest and punitive damage awards you received (whether as lump sums or periodic payments) in connection with the Exxon Valdez civil action described above. Qualified settlement income includes all such awards, whether received before or after the judgment and whether related to a settlement or a judgment.

Additional Information

See Pub. 225 and Regulations section 1.1301-1T for more information.

Specific Instructions

Line 2a

Elected Farm Income

To figure your elected farm income, first figure your taxable income from farming or fishing. This includes all income, gains, losses, and deductions attributable to your farming or fishing business. If you conduct both farming and fishing businesses, you must figure your elected farm income by combining income, gains, losses, and deductions attributable to your farming and fishing businesses.

Elected farm income also includes any gain or loss from the sale or other disposition of property regularly used in your farming or fishing business for a substantial period of time. However, if such gain or loss is realized after cessation of the farming or fishing business, the gain or loss is treated as attributable to a farming or fishing business only if the property is sold within a reasonable time after cessation of the farming or fishing business. A sale or other disposition within one year of the cessation is considered to be within a reasonable time.

Elected farm income does not include income, gain, or loss from the sale or other disposition of land or from the sale of development rights, grazing rights, and other similar rights.

You should find your income, gains, losses, and deductions from farming or fishing reported on different tax forms, such as:

- Form 1040, line 7, or Form 1040NR, line 8, income from wages and other compensation you received (a) as a shareholder in an S corporation engaged in a farming or fishing business or (b) as a crew member on a vessel engaged in a fishing business (but see *Fishing business* on page J-1);
- Form 1040, line 21, or Form 1040NR, line 21, income from Exxon Valdez litigation;
- Form 1040, line 27, deduction for one-half of self-employment tax, but only to the extent that deduction is attributable to your farming or fishing business;
- Form 1040, line 43, or Form 1040NR, line 40, CCF reduction, except to the extent that any earnings (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States or in the foreign or domestic commerce of the United States are not attributable to your fishing business;
- Schedule C or C-EZ;
- Schedule D;
- Schedule E, Part II;
- Schedule F;
- Form 4797; and
- Form 4835.

Your elected farm income is the amount of your taxable income from farming or fishing that you elect to include on line 2a. However, you do not have to include all of your taxable income from farming or fishing on line 2a. It may be to your advantage to include less than the entire amount, depending on how the amount you include on line 2a affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income.

Lines 2b and 2c

Complete lines 2b and 2c if the amount of your elected farm income on line 2a includes net capital gain. Net capital gain is the excess, if any, of net long-term capital gain over net short-term capital loss.

Line 2b. Enter on line 2b the portion of your elected farm income on line 2a treated as a net capital gain. The amount you enter on line 2b cannot exceed the **smaller** of your total net capital gain or the net capital gain attributable to your farming or fishing business.

Line 2c. Enter on line 2c the **smaller** of line 2b or the unrecaptured section 1250 gain attributable to your farming or fishing business, if any.

Line 4

Figure the tax on the amount on line 3 using:

- The 2009 Tax Table, Tax Computation Worksheet, Qualified Dividends and Capital Gain Tax Worksheet, or Foreign Earned Income Tax Worksheet from the 2009 Instructions for Form 1040 or Form 1040NR; or
- The Schedule D Tax Worksheet in the 2009 Instructions for Schedule D.

Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for:

- 2008 (that is, you entered the amount from the 2008 Schedule J, line 22, on line 44 of your 2008 Form 1040, on line 41 of your 2008 Form 1040NR, or on Form 1040X for 2008), enter on line 5 the amount from your 2008 Schedule J, line 11.
- 2007 but not 2008, enter on line 5 the amount from your 2007 Schedule J, line 15.
- 2006 but not 2007 or 2008, enter on line 5 the amount from your 2006 Schedule J, line 3.

If you figured your tax for 2006, 2007, and 2008 without using Schedule J, enter on line 5 the taxable income from your 2006 tax return (or as previously adjusted by the IRS, or corrected on an amended return). But if that amount is zero or less,

complete the worksheet on page J-3 to figure the amount to enter on line 5.

If you did not file a tax return for 2006, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2006 for at least 3 years after April 15, 2010 (or the date you file your 2009 tax return, if later).

Instructions for 2006 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2006 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2007. This could happen if the taxable income before subtracting exemptions—shown on your 2006 Form 1040, line 41, or your 2006 Form 1040NR, line 38 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2006 capital loss carryover to 2007 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2006 Schedule D, line 16, over the loss on your 2006 Schedule D, line 21. If you had any net operating loss (NOL) carrybacks to 2006, be sure you refigured your 2006 capital loss carryover to 2007.

Line 3. If you had an NOL for 2006, enter the amount of that NOL from line 25 of the 2006 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2006, enter the portion, if any, of the NOL carryovers and carrybacks to 2006 that were not used in 2006 and were carried to years after 2006.

Example. John Farmington, who is single, did not use income averaging for 2006, 2007, or 2008. For 2009, John has \$18,000 of elected farm income on Schedule J, line 2a. The taxable income before subtracting exemptions on his 2006 Form 1040, line 41, is \$4,150. A deduction for exemptions of \$3,300 is shown on line 42, and line 43, taxable income, is \$850. However, John had a \$21,550 NOL for 2007, \$9,000 of which was remaining to carry to 2006 after the NOL was carried back to 2005. To complete line 1 of the 2006 Taxable Income Worksheet, John combines the \$9,000 NOL deduction with the \$850 from his 2006 Form 1040, line 43. The result is a negative \$8,150, John's 2006 taxable income, which he enters as a positive amount on line 1 of the 2006 Taxable Income Worksheet.

When John filed his 2006 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$4,000 capital loss carryover to 2007. However, when John carried back the 2007 NOL (\$9,000 of which was carried to 2006), he refigured his 2006 capital loss carryover to 2007 as \$7,000. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the \$10,000 result the

\$7,000 loss on his Schedule D, line 16, and enters \$3,000 on line 2 of the worksheet.

John had \$850 of taxable income in 2006 that reduced the 2007 NOL carryback. The \$3,300 exemption deduction and \$3,000 net capital loss deduction also reduced the amount of the 2007 NOL car-

ryback. Therefore, only \$1,850 was available to carry to 2008 and later years, as shown on line 10 of his 2007 Form 1045, Schedule B. John enters the \$1,850 on line 3 of the worksheet, and \$4,850 (\$1,850 plus the \$3,000 line 2 amount) on line 4. He then subtracts the \$4,850 from the \$8,150 on

line 1 and enters the result, \$3,300, on line 5 of the worksheet. He enters a negative \$3,300 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$2,700 on Schedule J, line 7.

2006 Taxable Income Worksheet—Line 5

Keep for Your Records



Complete this worksheet if you **did not** use Schedule J to figure your tax for both 2007 and 2008 **and** your 2006 taxable income was zero or less. See the instructions that begin on page J-2 before completing this worksheet.

1. Figure the taxable income from your 2006 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2006, do not include any NOL carryovers or carrybacks to 2006. Enter the result as a positive amount	1.	<input type="text"/>
2. If there is a loss on your 2006 Schedule D, line 21, add that loss (as a positive amount) and your 2006 capital loss carryover to 2007. Subtract from that sum the amount of the loss on your 2006 Schedule D, line 16, and enter the result	2.	<input type="text"/>
3. If you had an NOL for 2006, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2006 that were not used in 2006 and were carried to years after 2006	3.	<input type="text"/>
4. Add lines 2 and 3	4.	<input type="text"/>
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 5	5.	<input type="text"/>

Line 8

If line 7 is zero, enter -0- on line 8. Otherwise, figure the tax on the amount on line 7 using:

- The 2006 Tax Rate Schedules below,
- The 2006 Qualified Dividends and Capital Gain Tax Worksheet on the next page,
- The 2006 Schedule D Tax Worksheet in the 2006 Schedule D instructions (but use the 2006 Tax Rate Schedules below

when figuring the tax on lines 34 and 36 of the Schedule D Tax Worksheet), or

- The 2006 Foreign Earned Income Tax Worksheet below.

If your elected farm income includes net capital gain, you must use the 2006 Schedule D Tax Worksheet to figure the tax on the amount on line 7. However, if you filed Form 2555 or 2555-EZ for 2006, you must first complete the 2006 Foreign Earned Income Tax Worksheet, and then use the

2006 Schedule D Tax Worksheet to figure the tax on the amount on line 5 of that worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on line 2b (and 1/3 of the amount on line 2c, if any) to 2006. If for 2006 you had a capital loss that resulted in a capital loss carryover to 2007, do not reduce the elected farm income allocated to 2006 by any part of the carryover.

2006 Tax Rate Schedules—Line 8

Schedule X—Use if your 2006 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2006 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8	of the amount over—		If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8	of the amount over—	
\$0	\$7,550	.....	10%	\$0	\$0	\$7,550	.....	10%	\$0
7,550	30,650	\$755.00 +	15%	7,550	7,550	30,650	\$755.00 +	15%	7,550
30,650	74,200	4,220.00 +	25%	30,650	30,650	61,850	4,220.00 +	25%	30,650
74,200	154,800	15,107.50 +	28%	74,200	61,850	94,225	12,020.00 +	28%	61,850
154,800	336,550	37,675.50 +	33%	154,800	94,225	168,275	21,085.00 +	33%	94,225
336,550	.....	97,653.00 +	35%	336,550	168,275	.....	45,521.50 +	35%	168,275
Schedule Y-1—Use if your 2006 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2006 filing status was Head of household				
If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8	of the amount over—		If Schedule J, line 7, is: Over—	But not over—	Enter on Schedule J, line 8	of the amount over—	
\$0	\$15,100	.....	10%	\$0	\$0	\$10,750	.....	10%	\$0
15,100	61,300	\$1,510.00 +	15%	15,100	10,750	41,050	\$1,075.00 +	15%	10,750
61,300	123,700	8,440.00 +	25%	61,300	41,050	106,000	5,620.00 +	25%	41,050
123,700	188,450	24,040.00 +	28%	123,700	106,000	171,650	21,857.50 +	28%	106,000
188,450	336,550	42,170.00 +	33%	188,450	171,650	336,550	40,239.50 +	33%	171,650
336,550	.....	91,043.00 +	35%	336,550	336,550	.....	94,656.50 +	35%	336,550

2006 Foreign Earned Income Tax Worksheet—Line 8

Keep for Your Records



Use this worksheet if you claimed the foreign earned income exclusion or the housing exclusion on your 2006 Form 1040 using Form 2555 or Form 2555-EZ.

1. Enter the amount from your 2009 Schedule J, line 7	1.	<input type="text"/>
2. Enter the amount from your (and your spouse's, if filing jointly) 2006 Form 2555, line 45, or Form 2555-EZ, line 18	2.	<input type="text"/>
3. Enter the total amount of any itemized deductions you could not claim in 2006 because they were related to excluded income	3.	<input type="text"/>
4. Subtract line 3 from line 2. If zero or less, enter -0-	4.	<input type="text"/>
5. Combine lines 1 and 4. If zero or less, enter -0-	5.	<input type="text"/>
6. Tax on amount on line 5. Use the 2006 Tax Rate Schedules above, the 2006 Schedule D Tax Worksheet,* or the 2006 Qualified Dividends and Capital Gain Tax Worksheet,* whichever applies.	6.	<input type="text"/>
7. Tax on amount on line 4. Use the 2006 Tax Rate Schedules above	7.	<input type="text"/>
8. Subtract line 7 from line 6. Enter the result here and on your 2009 Schedule J, line 8	8.	<input type="text"/>

*Enter the amount from line 5 above on line 1 of the 2006 Qualified Dividends and Capital Gain Tax Worksheet on page J-5 or the 2006 Schedule D Tax Worksheet in the 2006 Schedule D instructions if you use either of those worksheets to figure the tax on line 6 above. Complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 7 and 8 above.



Use this worksheet **only** if both of the following apply.

- Your elected farm income on your 2009 Schedule J, line 2a, does not include any net capital gain.
- You (a) entered qualified dividends on your 2006 Form 1040, line 9b (or your 2006 Form 1040A, line 9b, or 2006 Form 1040NR, line 10b); (b) entered capital gain distributions directly on your 2006 Form 1040, line 13 (or your 2006 Form 1040A, line 10, or 2006 Form 1040NR, line 14) and were not required to file Schedule D; or (c) filed Schedule D in 2006 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from your 2009 Schedule J, line 7. If for 2006 you filed Form 2555 or 2555-EZ, enter the amount from line 5 of the worksheet on page J-4	1.	
2. Amount from your 2006 Form 1040, line 9b (or your 2006 Form 1040A, line 9b, or 2006 Form 1040NR, line 10b)	2.	
3. Did you file Schedule D in 2006? <input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2006 Schedule D, but do not enter less than -0- <input type="checkbox"/> No. Enter the amount from your 2006 Form 1040, line 13 (or your 2006 Form 1040A, line 10, or 2006 Form 1040NR, line 14)	3.	
4. Add lines 2 and 3	4.	
5. Amount, if any, from your 2006 Form 4952, line 4g	5.	
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	
8. Enter the smaller of: <ul style="list-style-type: none"> • The amount on line 1, or • \$30,650 if single or married filing separately or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR; \$61,300 if married filing jointly or qualifying widow(er), or if you checked filing status box 6 on Form 1040NR; \$41,050 if head of household. 	8.	
9. Is the amount on line 7 equal to or more than the amount on line 8? <input type="checkbox"/> Yes. Skip lines 9 through 11; go to line 12 and check the “No” box. <input type="checkbox"/> No. Enter the amount from line 7	9.	
10. Subtract line 9 from line 8	10.	
11. Multiply line 10 by 5% (.05)	11.	
12. Are the amounts on lines 6 and 10 the same? <input type="checkbox"/> Yes. Skip lines 12 through 15; go to line 16. <input type="checkbox"/> No. Enter the smaller of line 1 or line 6	12.	
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	
14. Subtract line 13 from line 12	14.	
15. Multiply line 14 by 15% (.15)	15.	
16. Figure the tax on the amount on line 7. Use the 2006 Tax Rate Schedules on page J-4	16.	
17. Add lines 11, 15, and 16	17.	
18. Figure the tax on the amount on line 1. Use the 2006 Tax Rate Schedules on page J-4	18.	
19. Tax. Enter the smaller of line 17 or line 18 here and on your 2009 Schedule J, line 8. If for 2006 you filed Form 2555 or 2555-EZ, do not enter this amount on Schedule J, line 8. Instead, enter it on line 6 of the worksheet on page J-4	19.	

Line 9

If you used Schedule J to figure your tax for:

- 2008 (that is, you entered the amount from the 2008 Schedule J, line 22, on line 44 of your 2008 Form 1040, on line 41 of 2008 Form 1040NR, or on Form 1040X for 2008), enter on line 9 the amount from your 2008 Schedule J, line 15.

- 2007 but not 2008, enter on line 9 the amount from your 2007 Schedule J, line 3.

If you figured your tax for both 2007 and 2008 without using Schedule J, enter on line 9 the taxable income from your 2007 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you did not file a tax return for 2007, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2007 until at least 3 years after April 15, 2010 (or the date you file your 2009 tax return, if later).

Instructions for 2007 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2007 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2008. This could happen if the

taxable income before subtracting exemptions—shown on your 2007 Form 1040, line 41, or your 2007 Form 1040NR, line 38 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2007 capital loss carryover to 2008 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2007 Schedule D, line 16, over the loss on your 2007 Schedule D, line 21. If you had any NOL carrybacks to 2007, be sure you refigured your 2007 capital loss carryover to 2008.

Line 3. If you had an NOL for 2007, enter the amount of that NOL from line 25 of the 2007 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2007, enter the portion, if any, of the NOL carryovers and carrybacks to 2007 that were not used in 2007 and were carried to years after 2007.

Example. John Farmington did not use income averaging for 2006, 2007, or 2008. The taxable income before subtracting exemptions on his 2007 Form 1040, line 41, is a negative \$29,900. A deduction for exemptions of \$3,400 is shown on line 42, and line 43, taxable income, is limited to zero. John subtracts from the \$29,900 loss the \$3,400 deduction for exemptions. The result is a negative \$33,300. John's 2007 taxable income, which he enters as a positive amount on line 1 of the 2007 Taxable Income Worksheet.

When John filed his 2007 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), and a \$7,000 loss on Schedule D, line 16 (as adjusted). He also had a \$7,000 capital loss carryover to 2008. John adds the \$3,000 from Schedule D, line 21, and the \$7,000 carryover. He subtracts from the \$10,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$3000 on line 2 of the worksheet.

John enters \$21,550 on line 3 of the worksheet, the 2007 NOL from his 2007 Form 1045, Schedule A, line 25. Of the \$33,300 negative taxable income, the \$3,400 deduction for exemptions, the \$3,000 capital loss deduction, and his \$5,350 standard deduction were not allowed in figuring the NOL. John had a \$21,550 loss on his 2007 Schedule F, the only other item on his 2007 tax return.

John enters \$24,550 (the \$3,000 line 2 amount plus the \$21,550 line 3 amount) on line 4 and \$8,750 (the \$33,300 line 1 amount minus the \$24,550 line 4 amount) on line 5. He enters \$8,750 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$2,750 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2010, he will enter the negative \$2,750 amount on his 2010 Schedule J as his 2007 taxable income for income averaging purposes.

2007 Taxable Income Worksheet—Line 9

Keep for Your Records



Complete this worksheet if you **did not** use Schedule J to figure your tax for 2008 **and** your 2007 taxable income was zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2007 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2007, do not include any NOL carryovers or carrybacks to 2007. Enter the result as a positive amount	1.	<input type="text"/>
2. If there is a loss on your 2007 Schedule D, line 21, add that loss (as a positive amount) and your 2007 capital loss carryover to 2008. Subtract from that sum the amount of the loss on your 2007 Schedule D, line 16, and enter the result	2.	<input type="text"/>
3. If you had an NOL for 2007, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2007 that were not used in 2007 and were carried to years after 2007	3.	<input type="text"/>
4. Add lines 2 and 3	4.	<input type="text"/>
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 9	5.	<input type="text"/>

Line 12

If line 11 is zero or less, enter -0- on line 12. Otherwise, figure the tax on the amount on line 11 using:

- The 2007 Tax Rate Schedules below,
- The 2007 Qualified Dividends and Capital Gain Tax Worksheet on page J-8,
- The 2007 Schedule D Tax Worksheet in the 2007 Schedule D instructions (but use the 2007 Tax Rate Schedules below

when figuring the tax on the Schedule D Tax Worksheet, lines 34 and 36), or

- The 2007 Foreign Earned Income Tax Worksheet on page J-9.

If your elected farm income includes net capital gain, you must use the 2007 Schedule D Tax Worksheet to figure the tax on the amount on line 11. However, if you filed Form 2555 or 2555-EZ for 2007, you must first complete the 2007 Foreign Earned Income Tax Worksheet, and then

use the 2007 Schedule D Tax Worksheet to figure the tax on the amount on line 3 of that worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on line 2b (and 1/3 of the amount on line 2c, if any) to 2007. If for 2007 you had a capital loss that resulted in a capital loss carryover to 2008, do not reduce the elected farm income allocated to 2007 by any part of the carryover.

2007 Tax Rate Schedules—Line 12

Keep for Your Records



Schedule X—Use if your 2007 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2—Use if your 2007 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—		If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—	
\$0	\$7,825	.....	10%	\$0	\$0	\$7,825	.....	10%	\$0
7,825	31,850	\$782.50 +	15%	7,825	7,825	31,850	\$782.50 +	15%	7,825
31,850	77,100	4,386.25 +	25%	31,850	31,850	64,250	4,386.25 +	25%	31,850
77,100	160,850	15,698.75 +	28%	77,100	64,250	97,925	12,486.25 +	28%	64,250
160,850	349,700	39,148.75 +	33%	160,850	97,925	174,850	21,915.25 +	33%	97,925
349,700	.....	101,469.25 +	35%	349,700	174,850	.....	47,300.50 +	35%	174,850
Schedule Y-1—Use if your 2007 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z—Use if your 2007 filing status was Head of household				
If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—		If Schedule J, line 11, is: Over—	But not over—	Enter on Schedule J, line 12	of the amount over—	
\$0	\$15,650	.....	10%	\$0	\$0	\$11,200	.....	10%	\$0
15,650	63,700	\$1,565.00 +	15%	15,650	11,200	42,650	\$1,120.00 +	15%	11,200
63,700	128,500	8,772.50 +	25%	63,700	42,650	110,100	5,837.50 +	25%	42,650
128,500	195,850	24,972.50 +	28%	128,500	110,100	178,350	22,700.00 +	28%	110,100
195,850	349,700	43,830.50 +	33%	195,850	178,350	349,700	41,810.00 +	33%	178,350
349,700	.....	94,601.00 +	35%	349,700	349,700	.....	98,355.50 +	35%	349,700



Use this worksheet **only** if both of the following apply.

- Your elected farm income on your 2009 Schedule J, line 2a, does not include any net capital gain.
- You (a) entered qualified dividends on your 2007 Form 1040, line 9b (or your 2007 Form 1040A, line 9b, or 2007 Form 1040NR, line 10b); (b) entered capital gain distributions directly on your 2007 Form 1040, line 13 (or your 2007 Form 1040A, line 10, or 2007 Form 1040NR, line 14) and were not required to file Schedule D; or (c) filed Schedule D in 2007 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1. Amount from your 2009 Schedule J, line 11. If for 2007 you filed Form 2555 or 2555-EZ, enter the amount from line 3 of the worksheet on page J-9	1.	<input type="text"/>
2. Amount from your 2007 Form 1040, line 9b* (or your 2007 Form 1040A, line 9b, or 2007 Form 1040NR, line 10b)	2.	<input type="text"/>
3. Did you file Schedule D in 2007?*		
<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2007 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
<input type="checkbox"/> No. Enter the amount from your 2007 Form 1040, line 13 (or your 2007 Form 1040A, line 10, or 2007 Form 1040NR, line 14)		
4. Add lines 2 and 3	4.	<input type="text"/>
5. Amount, if any, from your 2007 Form 4952, line 4g	5.	<input type="text"/>
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	<input type="text"/>
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	<input type="text"/>
8. Enter the smaller of:		
• The amount on line 1, or	8.	<input type="text"/>
• \$31,850 if single or married filing separately or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR;		
\$63,700 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR;		
\$42,650 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> Yes. Skip lines 9 through 11; go to line 12 and check the “No” box.	9.	<input type="text"/>
<input type="checkbox"/> No. Enter the amount from line 7		
10. Subtract line 9 from line 8	10.	<input type="text"/>
11. Multiply line 10 by 5% (.05)	11.	<input type="text"/>
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> Yes. Skip lines 12 through 15; go to line 16.	12.	<input type="text"/>
<input type="checkbox"/> No. Enter the smaller of line 1 or line 6		
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	<input type="text"/>
14. Subtract line 13 from line 12	14.	<input type="text"/>
15. Multiply line 14 by 15% (.15)	15.	<input type="text"/>
16. Figure the tax on the amount on line 7. Use the 2007 Tax Rate Schedules on page J-7	16.	<input type="text"/>
17. Add lines 11, 15, and 16	17.	<input type="text"/>
18. Figure the tax on the amount on line 1. Use the 2007 Tax Rate Schedules on page J-7	18.	<input type="text"/>
19. Tax. Enter the smaller of line 17 or line 18 here and on your 2009 Schedule J, line 12. If for 2007 you filed Form 2555 or 2555-EZ, do not enter this amount on Schedule J, line 12. Instead, enter it on line 4 of the worksheet on page J-9	19.	<input type="text"/>

*If for 2007 you filed Form 2555 or 2555-EZ, see the footnote in the worksheet on page J-9 before completing this line.



Use this worksheet if you claimed the foreign earned income exclusion or housing exclusion on your 2007 Form 1040 using Form 2555 or 2555-EZ. However, if Schedule J, line 11, is zero or less do not complete this worksheet.

1. Enter the amount from your 2009 Schedule J, line 11	1.	_____
2. Enter the amount from your (and your spouse's, if filing jointly) 2007 Form 2555, line 45, or Form 2555-EZ, line 18	2.	_____
3. Add lines 1 and 2	3.	_____
4. Tax on the amount on line 3. Use the 2007 Tax Rate Schedules on page J-7, the 2007 Qualified Dividends and Capital Gain Tax Worksheet on page J-8,* or the 2007 Schedule D Tax Worksheet in the 2007 Schedule D instructions,* whichever applies.	4.	_____
5. Tax on the amount on line 2. Use the 2007 Tax Rate Schedules on page J-7.	5.	_____
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2009 Schedule J, line 12	6.	_____

**Enter the amount from line 3 above on line 1 of the 2007 Qualified Dividends and Capital Gain Tax Worksheet or the 2007 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2009 Schedule J, line 11, from line 6 of your 2007 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2007 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

If you did not have a capital gain excess, complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 5 and 6 above.

If you had a capital gain excess, complete a second 2007 Qualified Dividends and Capital Gain Tax Worksheet or 2007 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2007 Foreign Earned Income Tax Worksheet above.

- 1. Reduce the amount you would otherwise enter on line 3 of your 2007 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2007 Schedule D Tax Worksheet (but not below zero) by your capital gain excess.*
- 2. Reduce the amount you would otherwise enter on your 2007 Form 1040, line 9b, (but not below zero) by any of your capital gain excess not used in (1) above.*
- 3. Reduce the amount on your 2007 Schedule D (Form 1040), line 18, (but not below zero) by your capital gain excess.*
- 4. Include your capital gain excess as a loss on line 16 of your 2007 Unrecaptured Section 1250 Gain Worksheet on page D-9 of the 2007 Instructions for Schedule D (Form 1040).*

Line 13

If you used Schedule J to figure your tax for 2008 (that is, you entered the amount from the 2008 Schedule J, line 22, on line 44 of your 2008 Form 1040, on line 41 of your 2008 Form 1040NR, or on Form 1040X for 2008), enter on line 13 the amount from your 2008 Schedule J, line 3.

If you did not use Schedule J to figure your tax for 2008, enter on line 13 the taxable income from your 2008 tax return (or as previously adjusted by the IRS or corrected on an amended return). But if that amount is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you did not file a tax return for 2008, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2008 until at least 3 years after April 15, 2010 (or the date you file your 2009 tax return, if later).

Instructions for 2008 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2008 Schedule D, line 21, is not allowed for income averaging purposes to the extent it did not reduce your capital loss carryover to 2009. This could happen if the taxable income before subtracting exemptions—shown on your 2008 Form 1040, line 41, or your 2008 Form 1040NR, line 38 (or as previously adjusted)—was less than zero. Enter on line 2 the amount by which your 2008 capital loss carryover to 2009 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2008 Schedule D, line 16, over the loss on your 2008 Schedule D, line 21.

Line 3. If you had an NOL for 2008, enter the amount of that NOL from line 25 of the 2008 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2008, enter the por-

tion, if any, of the NOL carryovers and carrybacks to 2008 that were not used in 2008 and were carried to years after 2008.

Example. John Farmington did not use income averaging for 2006, 2007, or 2008. The taxable income before subtracting exemptions on his 2008 Form 1040, line 41, is a negative \$1,000. This amount includes an NOL deduction on his 2008 Form 1040, line 21, of \$1,850. The \$1,850 is the portion of the 2007 NOL that was remaining from 2006 to be carried to 2008. See the examples on pages J-2 and J-6. A deduction for exemptions of \$3,500 is shown on Form 1040, line 42, and line 43, taxable income, is limited to zero. John does not have an NOL for 2008. John subtracts from the \$1,000 negative amount on Form 1040, line 41, the \$3,500 deduction for exemptions. The result is a negative \$4,500, John's 2008 taxable income, which he enters as a positive amount on line 1 of the 2008 Taxable Income Worksheet.

When John filed his 2008 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 21 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 16, and a \$5,000 capital loss carryover to 2009 (his 2008 capital loss carryover to 2009 was \$5,000, not \$4,000, because the amount on his Form 1040, line 41, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 21, and the \$5,000 carryover. He subtracts from the \$8,000 result the \$7,000 loss on his Schedule D, line 16, and enters \$1,000 on line 2 of the worksheet.

John enters -0- on line 3 of the worksheet because he does not have an NOL for 2008 and did not have an NOL carryover from 2008 available to carry to 2009 and later years. The NOL deduction for 2008 of \$1,850 was reduced to zero because it did not exceed his modified taxable income of \$3,850. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$3,500 exemption deduction to negative taxable income (figured

without regard to the NOL deduction) of \$2,650. John enters \$1,000 on line 4 and \$3,500 on line 5. He enters \$3,500 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$2,500 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2010, he will enter \$2,500 on his 2010 Schedule J as his 2008 taxable income for income averaging purposes.

Line 16

If line 15 is zero or less, enter -0- on line 16. Otherwise, figure the tax on the amount on line 15 using:

- The 2008 Tax Rate Schedules on page J-11,
- The 2008 Qualified Dividends and Capital Gain Tax Worksheet on page J-12,
- The 2008 Schedule D Tax Worksheet in the 2008 Schedule D instructions (but use the 2008 Tax Rate Schedules on page J-11 when figuring the tax on the Schedule D Tax Worksheet, lines 33 and 35), or
- The 2008 Foreign Earned Income Tax Worksheet on page J-13.

If your elected farm income includes net capital gain, you must use the 2008 Schedule D Tax Worksheet to figure the tax on the amount on line 15. However, if you filed Form 2555 or 2555-EZ for 2008, you must first complete the 2008 Foreign Earned Income Tax Worksheet, and then use the 2008 Schedule D Tax Worksheet to figure the tax on the amount on line 3 of that worksheet.

When completing the Schedule D Tax Worksheet, you must allocate 1/3 of the amount on line 2b (and 1/3 of the amount on line 2c, if any) to 2008. If for 2008 you had a capital loss that resulted in a capital loss carryover to 2009, do not reduce the elected farm income allocated to 2008 by any part of the carryover.

2008 Taxable Income Worksheet—Line 13

Keep for Your Records



Complete this worksheet if your 2008 taxable income was zero or less. See the instructions above before completing this worksheet.

- | | | |
|---|----|----------------------|
| 1. Figure the taxable income from your 2008 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2008, do not include any NOL carryovers or carrybacks to 2008. Enter the result as a positive amount | 1. | <input type="text"/> |
| 2. If there is a loss on your 2008 Schedule D, line 21, add that loss (as a positive amount) and your 2008 capital loss carryover to 2009. Subtract from that sum the amount of the loss on your 2008 Schedule D, line 16, and enter the result | 2. | <input type="text"/> |
| 3. If you had an NOL for 2008, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2008 that were not used in 2008 and were carried to years after 2008 | 3. | <input type="text"/> |
| 4. Add lines 2 and 3 | 4. | <input type="text"/> |
| 5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 13 | 5. | <input type="text"/> |

2008 Tax Rate Schedules—Line 16

Schedule X —Use if your 2008 filing status was Single or you checked filing status box 1 or 2 on Form 1040NR					Schedule Y-2 —Use if your 2008 filing status was Married filing separately or you checked filing status box 3, 4, or 5 on Form 1040NR				
If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$8,025	.....	10%	\$0	\$0	\$8,025	.....	10%	\$0
8,025	32,550	\$802.50 +	15%	8,025	8,025	32,550	\$802.50 +	15%	8,025
32,550	78,850	4,481.25 +	25%	32,550	32,550	65,725	4,481.25 +	25%	32,550
78,850	164,550	16,056.25 +	28%	78,850	65,725	100,150	12,775.00 +	28%	65,725
164,550	357,700	40,052.25 +	33%	164,550	100,150	178,850	22,414.00 +	33%	100,150
357,700	.....	103,791.75 +	35%	357,700	178,850	.....	48,385.00 +	35%	178,850
Schedule Y-1 —Use if your 2008 filing status was Married filing jointly or Qualifying widow(er) or you checked filing status box 6 on Form 1040NR					Schedule Z —Use if your 2008 filing status was Head of household				
If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>		If Schedule J, line 15, is: Over—	<i>But not over—</i>	Enter on Schedule J, line 16	<i>of the amount over—</i>	
\$0	\$16,050	.....	10%	\$0	\$0	\$11,450	.....	10%	\$0
16,050	65,100	\$1,605.00 +	15%	16,050	11,450	43,650	\$1,145.00 +	15%	11,450
65,100	131,450	8,962.50 +	25%	65,100	43,650	112,650	5,975.00 +	25%	43,650
131,450	200,300	25,550.00 +	28%	131,450	112,650	182,400	23,225.00 +	28%	112,650
200,300	357,700	44,828.00 +	33%	200,300	182,400	357,700	42,755.00 +	33%	182,400
357,700	.....	96,770.00 +	35%	357,700	357,700	.....	100,604.00 +	35%	357,700



Use this worksheet **only** if both of the following apply.

- Your elected farm income on your 2009 Schedule J, line 2a, does not include any net capital gain.
- You (a) entered qualified dividends on your 2008 Form 1040, line 9b (or your 2008 Form 1040A, line 9b, or 2008 Form 1040NR, line 10b); (b) entered capital gain distributions directly on your 2008 Form 1040, line 13 (or your 2008 Form 1040A, line 10, or 2008 Form 1040NR, line 14) and were not required to file Schedule D; or (c) filed Schedule D in 2008 and you answered “Yes” on lines 17 and 20 of that Schedule D.

1.	Amount from your 2009 Schedule J, line 15. If for 2008 you filed Form 2555 or 2555-EZ, enter the amount from line 3 of the worksheet on page J-13	1.	<input type="text"/>
2.	Amount from your 2008 Form 1040, line 9b* (or your 2008 Form 1040A, line 9b, or 2008 Form 1040NR, line 10b)	2.	<input type="text"/>
3.	Did you file Schedule D in 2008?*		
	<input type="checkbox"/> Yes. Enter the smaller of line 15 or 16 of your 2008 Schedule D, but do not enter less than -0-	3.	<input type="text"/>
	<input type="checkbox"/> No. Enter the amount from your 2008 Form 1040, line 13 (or your 2008 Form 1040A, line 10, or 2008 Form 1040NR, line 14)		
4.	Add lines 2 and 3	4.	<input type="text"/>
5.	Amount, if any, from your 2008 Form 4952, line 4g	5.	<input type="text"/>
6.	Subtract line 5 from line 4. If zero or less, enter -0-	6.	<input type="text"/>
7.	Subtract line 6 from line 1. If zero or less, enter -0-	7.	<input type="text"/>
8.	Enter the smaller of:		
	• The amount on line 1, or	8.	<input type="text"/>
	• \$32,550 if single or married filing separately, or if you checked filing status box 1, 2, 3, 4, or 5 on Form 1040NR; \$65,100 if married filing jointly or qualifying widow(er) or if you checked filing status box 6 on Form 1040NR; \$43,650 if head of household.		
9.	Is the amount on line 7 equal to or more than the amount on line 8?		
	<input type="checkbox"/> Yes. Skip lines 9 and 10; go to line 11 and check the “No” box.		
	<input type="checkbox"/> No. Enter the amount from line 7	9.	<input type="text"/>
10.	Subtract line 9 from line 8	10.	<input type="text"/>
11.	Are the amounts on lines 6 and 10 the same?		
	<input type="checkbox"/> Yes. Skip lines 11 through 14; go to line 15.		
	<input type="checkbox"/> No. Enter the smaller of line 1 or line 6	11.	<input type="text"/>
12.	Enter the amount from line 10 (if line 10 is blank, enter -0-)	12.	<input type="text"/>
13.	Subtract line 12 from line 11	13.	<input type="text"/>
14.	Multiply line 13 by 15% (.15)	14.	<input type="text"/>
15.	Figure the tax on the amount on line 7. Use the 2008 Tax Rate Schedules on page J-11	15.	<input type="text"/>
16.	Add lines 14 and 15	16.	<input type="text"/>
17.	Figure the tax on the amount on line 1. Use the 2008 Tax Rate Schedules on page J-11	17.	<input type="text"/>
18.	Tax. Enter the smaller of line 16 or line 17 here and on your 2009 Schedule J, line 16. If for 2008 you filed Form 2555 or 2555-EZ, do not enter this amount on Schedule J, line 16. Instead, enter it on line 4 of the worksheet on page J-13	18.	<input type="text"/>

*If for 2008 you filed Form 2555 or 2555-EZ, see the footnote in the worksheet on page J-13 before completing this line.



Use this worksheet if you claimed the foreign earned income exclusion or housing exclusion on your 2008 Form 1040 using Form 2555 or 2555-EZ. However, if Schedule J, line 15, is zero or less do not complete this worksheet.

1. Enter the amount from your 2009 Schedule J, line 15	1.	_____
2. Enter the amount from your (and your spouse's, if filing jointly) 2008 Form 2555, lines 45 and 50, or Form 2555-EZ, line 18	2.	_____
3. Add lines 1 and 2	3.	_____
4. Tax on the amount on line 3. Use the 2008 Tax Rate Schedules on page J-11, the 2008 Qualified Dividends and Capital Gain Tax Worksheet on page J-12,* or the 2008 Schedule D Tax Worksheet in the 2008 Schedule D instructions,* whichever applies.	4.	_____
5. Tax on the amount on line 2. Use the 2008 Tax Rate Schedules on page J-11.	5.	_____
6. Subtract line 5 from line 4. Enter the result. If zero or less, enter -0-. Also include this amount on your 2009 Schedule J, line 16	6.	_____

**Enter the amount from line 3 above on line 1 of the 2008 Qualified Dividends and Capital Gain Tax Worksheet or the 2008 Schedule D Tax Worksheet if you use either of those worksheets to figure the tax on line 4 above. Complete the rest of that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, you must determine if you had a capital gain excess. To find out if you had a capital gain excess, subtract the amount from your 2009 Schedule J, line 15, from line 6 of your 2008 Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your 2008 Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.*

If you did not have a capital gain excess, complete the rest of either of those worksheets according to the worksheet's instructions. Then complete lines 5 and 6 above.

If you had a capital gain excess, complete a second 2008 Qualified Dividends and Capital Gain Tax Worksheet or 2008 Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above. These modifications are to be made only for purposes of filling out the 2008 Foreign Earned Income Tax Worksheet above.

- 1. Reduce the amount you would otherwise enter on line 3 of your 2008 Qualified Dividends and Capital Gain Tax Worksheet or line 9 of your 2008 Schedule D Tax Worksheet (but not below zero) by your capital gain excess.*
- 2. Reduce the amount you would otherwise enter on your 2008 Form 1040, line 9b, (but not below zero) by any of your capital gain excess not used in (1) above.*
- 3. Reduce the amount on your 2008 Schedule D (Form 1040), line 18, (but not below zero) by your capital gain excess.*
- 4. Include your capital gain excess as a loss on line 16 of your 2008 Unrecaptured Section 1250 Gain Worksheet on page D-9 of the 2008 Instructions for Schedule D (Form 1040).*

Lines 19, 20, and 21

If you amended your return or the IRS made changes to it, enter the corrected amount.



2009 Instructions for Schedule M (Form 1040A or 1040)

Making Work Pay and Government Retiree Credits

Use Schedule M to figure the following credits.

- Making work pay credit.
- Government retiree credit.

The credits may give you a refund even if you do not owe tax.

General Instructions Who Can Take the Credits

Overview. Use Schedule M to figure the following two credits.

- Making work pay credit.
- Government retiree credit.

Both credits are included in the combined total on line 14 of Schedule M. Each credit has different rules. Carefully read the information below about each credit. Even if you cannot take the making work pay credit (for example, because your adjusted gross income is too high), you may be able to take the government retiree credit.

Making work pay credit. You may be able to take a credit of up to \$400 (\$800 if married filing jointly) if you have earned income from work. Even if your federal income tax withholding was reduced during 2009 because of the credit, you must complete Schedule M and claim the credit on your return to benefit from it. You cannot take the credit if the amount you enter on line 5 is \$95,000 (\$190,000 if married filing jointly) or more, you are a nonresident alien, or you can be claimed as a dependent on someone else's return. The credit is reduced if either of the following statements is true.

- You (or your spouse, if filing jointly) received a \$250 economic recovery payment during 2009. You may have received an economic recovery payment if you received social security benefits, supplemental security income (SSI) benefits, railroad retirement benefits, or veterans disability compensation or pension benefits.
- You take the government retiree credit discussed next.

Government retiree credit. You can take a credit of \$250 (\$500 if married filing jointly and both spouses qualify) if you (or your spouse, if filing jointly) received a pension or annuity payment in 2009 for

service performed for the U.S. Government or any U.S. state or local government (or any agency of one or more of these) and the service was not covered by social security. But you cannot take the credit if you and your spouse both received a \$250 economic recovery payment during 2009. You may have received an economic recovery payment if you received social security benefits, SSI benefits, railroad retirement benefits, or veterans disability compensation or pension benefits.

Social security number. To take either credit, you must include your social security number (if filing a joint return, the number of either you or your spouse) on your return. A social security number does not include an identification number issued by the IRS.

Effect of Credits on Welfare Benefits

Any refund you receive as a result of either credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them. But if the refund you receive because of either credit is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and SSI.
- Supplemental Nutrition Assistance Program (food stamps) and low-income housing.

Specific Instructions

Line 1a

If you are filing Form 1040NR or can be claimed as someone else's dependent, skip lines 1a through 8, enter -0- on line 9, and

go to line 10. You are not eligible for the making work pay credit, but you may be eligible for the government retiree credit.

Wages. The amount of your wages is generally the amount reported on line 7 of Form 1040A or 1040.

Earned income. If you checked the "No" box on line 1a, complete the worksheet on page M-2 and enter on line 1a the amount you figured using the worksheet.

Line 1b

Enter on line 1b the total nontaxable combat pay you, and your spouse if filing jointly, received in 2009. This amount should be shown in Form W-2, box 12, with code Q.

Line 5

If you are filing Form 2555, 2555-EZ, or 4563, or are excluding income from Puerto Rico, enter on line 5 the following total instead of the amount on Form 1040, line 38:

1. Form 1040, line 38, plus
2. Any exclusion of income from Puerto Rico, plus
3. Any amounts from—
 - a. Form 2555, lines 45 and 50,
 - b. Form 2555-EZ, line 18, and
 - c. Form 4563, line 15.

Line 10

An economic recovery payment is a \$250 payment sent to you by the U.S. Treasury during 2009 if you received one of the types of benefits listed on line 10 during November 2008, December 2008, or January 2009. If both you and your spouse received those benefits, you each may have received an economic recovery payment.



Before you begin:

- ✓ If you are claiming the additional child tax credit and have already completed Form 8812, enter on line 1a of Schedule M the amount from line 4a of your Form 8812. Do not complete the worksheet below.
- ✓ Disregard community property laws when figuring the amounts to enter on this worksheet.
- ✓ If married filing jointly, include your spouse's amounts with yours when completing this worksheet.

1. **a.** Enter the amount from line 7 of Form 1040A or Form 1040 **1a.** _____
- b.** Enter the amount of any nontaxable combat pay received. Also enter this amount on Schedule M, line 1b. This amount should be shown in Form(s) W-2, box 12, with code Q. **1b.** _____
 Next, if you are filing Schedule C, C-EZ, F, or SE, or you received a Schedule K-1 (Form 1065 or Form 1065-B), go to line 2a. Otherwise, skip lines 2a through 2e and go to line 3.
2. **a.** Enter any statutory employee income reported on line 1 of Schedule C or C-EZ **2a.** _____
- b.** Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1.* Reduce this amount by any partnership section 179 expense deduction, any depletion on oil and gas properties, and any unreimbursed nonfarm partnership expenses deducted on Schedule E. **Do not** include any statutory employee income or any other amounts exempt from self-employment tax. Options and commodities dealers must add any gain or subtract any loss (in the normal course of dealing in or trading section 1256 contracts) from section 1256 contracts or related property **2b.** _____
- c.** Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A.* Reduce this amount by any partnership section 179 expense deduction, any depletion on oil and gas properties, and any unreimbursed farm partnership expenses deducted on Schedule E. **Do not** include any amounts exempt from self-employment tax **2c.** _____
- d.** If you used the farm optional method to figure net earnings from self-employment, enter the amount from Schedule SE, Section B, line 15. Otherwise, skip this line and enter on line 2e the amount from line 2c **2d.** _____
- e.** If line 2c is a profit, enter the **smaller** of line 2c or line 2d. If line 2c is a (loss), enter the (loss) from line 2c. . . . **2e.** _____
3. Combine lines 1a, 1b, 2a, 2b, and 2e. If zero or less, **stop.** Do not complete the rest of this worksheet. Instead, enter -0- on line 1a of Schedule M, skip lines 1b through 8, enter -0- on line 9, and go to line 10 of Schedule M **3.** _____
4. Enter any amount included on line 1a that is:
 - a.** A scholarship or fellowship grant not reported on Form W-2 **4a.** _____
 - b.** For work done while an inmate in a penal institution (enter "PRI" and this amount on the dotted line next to line 7 of Form 1040A or 1040) **4b.** _____
 - c.** A pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and this amount on the dotted line next to line 7 of Form 1040A or 1040). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity **4c.** _____
5. **a.** Enter any amount included on line 3 that is also included on Form 2555, line 43, or Form 2555-EZ, line 18. **Do not** include any amount that is also included on line 4a, 4b, or 4c above **5a.** _____
- b.** Enter the amount, if any, from Form 2555, line 44, that is also deducted on Schedule C, C-EZ, or F, or included on Schedule E in partnership net income or (loss) **5b.** _____
- c.** Subtract line 5b from line 5a **5c.** _____
6. Enter the amount from Form 1040, line 27 **6.** _____
7. Add lines 4a through 4c, 5c, and 6 **7.** _____
8. Subtract line 7 from line 3. Enter the result here and on Schedule M, line 1a **8.** _____

**If you have any Schedule K-1 amounts and you are not required to file Schedule SE, complete the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.*



2009 Instructions for Schedule SE (Form 1040)

Self-Employment Tax

Use Schedule SE (Form 1040) to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are and even if you are already getting social security or Medicare benefits.

Additional information. See Pub. 225 or Pub. 334.

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Maximum income subject to social security tax. For 2009, the maximum amount of self-employment income subject to social security tax is \$106,800.

Optional methods to figure net earnings. For 2009, the amount of gross and net income from self-employment you may have when using the farm optional method or nonfarm optional method has increased. Electing taxpayers can secure up to four credits of social security benefits coverage with \$4,360 of net earnings in 2009. See *Optional Methods* on page SE-4.

General Instructions

Who Must File Schedule SE

You must file Schedule SE if:

- Your net earnings from self-employment (see page SE-3) from other than church employee income were \$400 or more, or
- You had church employee income of \$108.28 or more—see *Employees of Churches and Church Organizations* below.

Who Must Pay Self-Employment (SE) Tax?

Self-Employed Persons

You must pay SE tax if you had net earnings of \$400 or more as a self-employed person. If you are in business (farm or non-farm) for yourself, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See *Partnership Income or Loss* on page SE-3.

Employees of Churches and Church Organizations

If you had church employee income of \$108.28 or more, you must pay SE tax. Church employee income is wages you received as an employee (other than as a minister or member of a religious order) of a church or qualified church-controlled organization that has a certificate in effect

electing an exemption from employer social security and Medicare taxes.

Ministers and Members of Religious Orders

In most cases, you must pay SE tax on salaries and other income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. But if you filed Form 4361 and received IRS approval, you will be exempt from paying SE tax on those net earnings. If you had no other income subject to SE tax, enter "Exempt—Form 4361" on Form 1040, line 56. However, if you had other earnings of \$400 or more subject to SE tax, see line A at the top of Long Schedule SE.



If you have ever filed Form 2031 to elect social security coverage on your earnings as a minister, you cannot revoke that election.

If you must pay SE tax, include this income on either Short or Long Schedule SE, line 2. But do not report it on Long Schedule SE, line 5a; it is not considered church employee income. Also, include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities), and
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

However, do not include on line 2:

- Retirement benefits you received from a church plan after retirement, or
- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) after retirement.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. However, when figuring SE tax, subtract on line 2 the allowable expenses from your self-employment earnings and attach an explanation.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you cannot reduce your net earnings by the foreign earned in-

come exclusion or the foreign housing exclusion or deduction.

See Pub. 517 for details.

Members of Certain Religious Sects

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you received IRS approval by filing Form 4029. In this case, do not file Schedule SE. Instead, enter "Exempt—Form 4029" on Form 1040, line 56. See Pub. 517 for details.

U.S. Citizens Employed by Foreign Governments or International Organizations

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) for services performed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the U.S. Virgin Islands. Report income from this employment on either Short or Long Schedule SE, line 2. If you performed services elsewhere as an employee of a foreign government or an international organization, those earnings are exempt from SE tax.

Exception—Dual citizens. A person with dual U.S.-foreign citizenship is generally considered to be a U.S. citizen for social security purposes. However, if you are a U.S. citizen and also a citizen of a country with which the United States has a bilateral social security agreement, other than Canada or Italy, your work for the government of that foreign country is always exempt from U.S. social security taxes. For further information about these agreements, see the exception shown in the next section.

U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You cannot reduce your foreign earnings

from self-employment by your foreign earned income exclusion.

Exception. The United States has social security agreements with many countries to eliminate dual taxes under two social security systems. Under these agreements, you must generally pay social security and Medicare taxes to only the country you live in.

The United States now has social security agreements with the following countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, and the United Kingdom. Additional agreements are expected in the future.

If you have questions about international social security agreements, you can:

1. Visit the Social Security Administration (SSA) website at www.socialsecurity.gov/international;
2. Call the SSA's Office of International Programs at:
 - a. (410) 965-0144 for questions on benefits under agreements, or
 - b. (410) 965-3549 for questions on the coverage rules of the agreements; or
3. Write to:
 - a. Social Security Administration, Office of International Programs, P.O. Box 17741, Baltimore, MD 21235-7741 USA for information about an agreement, or
 - b. Social Security Administration, OIO—Totalization, P.O. Box 17769, Baltimore, MD 21235-7769 USA for information about a claim for benefits.

If your self-employment income is exempt from SE tax, you should get a statement from the appropriate agency of the foreign country verifying that your self-employment income is subject to social security coverage in that country. If the foreign country will not issue the statement, contact the SSA at the address shown in (3a) above. Do not complete Schedule SE. Instead, attach a copy of the statement to Form 1040 and enter "Exempt, see attached statement" on Form 1040, line 56.

Chapter 11 Bankruptcy Cases

While you are a debtor in a chapter 11 bankruptcy case, your net profit or loss from self-employment (for example, from Schedule C or Schedule F) will not be included in your Form 1040 income. Instead, it will be included on the income tax return (Form 1041) of the bankruptcy estate. However, you (not the bankruptcy estate) are responsible for paying self-employment tax on your net earnings from self-employment.

Enter on the dotted line to the left of Schedule SE, line 3, "Chap. 11 bankruptcy income" and the amount of your net profit or (loss). Combine that amount with the total of lines 1a, 1b, and 2 (if any) and enter the result on line 3.

For other reporting requirements, see page 21 in the instructions for Form 1040.

More Than One Business

If you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with self-employment income on Schedule SE. If both spouses have self-employment income, each must file a separate Schedule SE. However, if one spouse qualifies to use Short Schedule SE (front of form) and the other must use Long Schedule SE (back of form), both can use the same form. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Enter the combined SE tax on Form 1040, line 56.

Community Income

If any of the income from a business (including farming) is community income, then the income and deductions are reported based on the following.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both you and your spouse are partners in a partnership, see *Partnership Income or Loss* on page SE-3.
- If you and your spouse elected to treat the business as a qualifying joint venture, see *Qualified Joint Ventures* on this page.

Married filing separately. If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the self-employment income. Also, attach Schedule(s) C, C-EZ, or F (showing the spouse's share of community income and expenses) to the return of each spouse.

If you are the spouse who carried on the business, you must include on Schedule SE, line 3, the net profit or (loss) reported on the other spouse's Schedule C, C-EZ, or F (except income not included in net earnings from self-employment as explained beginning on page SE-3). Enter on the dotted line to the left of Schedule SE, line 3, "Community income taxed to spouse" and the amount of any net profit or (loss) allocated to your spouse as community income. Combine that amount with the total of lines 1a, 1b, and 2 and enter the result on line 3.

If you are not the spouse who carried on the business and you had no other income subject to SE tax, enter "Exempt community income" on Form 1040, line 56; do not file Schedule SE. However, if you had

\$400 or more of other earnings subject to SE tax, include on Schedule SE, line 1a or 2, the net profit or (loss) from Schedule(s) C, C-EZ, or F allocated to you as community income. Also, enter on the dotted line to the left of Schedule SE, line 3, "Exempt community income" and the allocated amount. If that amount is a net profit, subtract it from the total of lines 1a, 1b, and 2, and enter the result on line 3. If that amount is a loss, treat it as a positive amount, add it to the total of lines 1a, 1b, and 2, and enter the result on line 3.



Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes based on the community property laws of your state. See Pub. 555 for more information.

Qualified Joint Ventures

If you and your spouse materially participate (see *Material participation* in the 2009 Instructions for Schedule C) as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be taxed as a qualified joint venture instead of a partnership.

To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. Each of you also must file a separate Schedule SE to pay SE tax, as applicable.

For more information on qualified joint ventures, go to www.irs.gov. Enter "QJV election" in the search box and select "Election for Husband and Wife Unincorporated Businesses."

Rental real estate business. If you and your spouse make the election for your rental real estate business, the income generally is not subject to SE tax (for an exception, see item 3 under *Other Income and Losses Included in Net Earnings From Self-Employment* on page SE-3).

If the election is made for a farm rental business that is not included in self-employment, file two Forms 4835, Farm Rental Income and Expenses.

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the flowchart on page 1 of Schedule SE to see if you can use Section A—Short Schedule SE, or if you must use Section B—Long Schedule SE. For either section, you need to know what to include as net

earnings from self-employment. Read the following instructions to see what to include as net earnings and how to fill in either Short or Long Schedule SE, lines 1a, 1b, and 2. Enter all negative amounts in parentheses.

Line 1b (Short or Long Schedule SE)

If you were receiving social security retirement or social security disability benefits at the time you received your Conservation Reserve Program (CRP) payment(s), enter the amount of your taxable CRP payment(s) on line 1b. These payments are included on Schedule F, line 6b, or listed on Schedule K-1 (Form 1065), box 20, code Y.

Net Earnings From Self-Employment

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the following instructions.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1a or line 2, whichever applies, the amount of net earnings from self-employment from Schedule K-1 (Form 1065), box 14, code A, and Schedule K-1 (Form 1065-B), box 9, code J1. General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. However, if you reduce the amount you enter on Schedule SE, attach an explanation. See Partner's Instructions for Schedule K-1 (Form 1065) for details. Limited partners include only guaranteed payments for services actually rendered to or on behalf of the partnership.

If a partner died and the partnership continued, include in self-employment income the deceased's distributive share of the partnership's ordinary income or loss through the end of the month in which he or she died. See section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must report your net earnings from self-employment from the partnership. Each of you must file a Schedule SE and report the partnership income or loss on Schedule E (Form 1040), Part II, for income tax purposes. If only one of you was a partner in a partnership, the spouse who was the partner must report his or her net earnings from self-employment from the partnership.

Community income. Your own distributive share of partnership income is included in figuring your net earnings from self-employment. Unlike the division of that income between spouses for figuring income tax, no part of your share can be included in figuring your spouse's net earnings from self-employment.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on Schedule F (Form 1040) and for SE tax purposes on Schedule SE. See Pub. 225 for details.

Other Income and Losses Included in Net Earnings From Self-Employment

1. Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests for landlords are explained in chapter 12 of Pub. 225.

2. Cash or a payment-in-kind from the Department of Agriculture for participating in a land diversion program.

3. Payments for the use of rooms or other space when you also provided substantial services for the convenience of your tenants. Examples are hotel rooms, boarding houses, tourist camps or homes, trailer parks, parking lots, warehouses, and storage garages. See chapter 5 of Pub. 334 for more information.

4. Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.

5. Income you receive as a direct seller. Newspaper carriers or distributors of any age are direct sellers if certain conditions apply. See chapter 5 of Pub. 334 for details.

6. Amounts received by current or former self-employed insurance agents and salespersons that are:

a. Paid after retirement but figured as a percentage of commissions received from the paying company before retirement,

b. Renewal commissions, or

c. Deferred commissions paid after retirement for sales made before retirement.

However, certain termination payments received by former insurance salespersons are not included in net earnings from self-employment (as explained in item 10 under *Income and Losses Not Included in Net Earnings From Self-Employment* beginning on this page).

7. Income of certain crew members of fishing vessels with crews of normally fewer than 10 people. See chapter 10 of Pub. 334 for details.

8. Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a federal-state social security coverage agreement.

9. Interest received in the course of any trade or business, such as interest on notes or accounts receivable.

10. Fees and other payments received by you for services as a director of a corporation.

11. Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition of property. See Form 4797.

12. Fees you received as a professional fiduciary. This may also apply to fees paid to you as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

13. Gain or loss from section 1256 contracts or related property by an options or commodities dealer in the normal course of dealing in or trading section 1256 contracts.

Income and Losses Not Included in Net Earnings From Self-Employment

1. Salaries, fees, etc., subject to social security or Medicare tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained in item 8 under *Other Income and Losses Included in Net Earnings From Self-Employment* on this page) or as an employee or employee representative under the railroad retirement system.

2. Fees received for services performed as a notary public. If you had no other income subject to SE tax, enter "Exempt—Notary" on Form 1040, line 56; do not file Schedule SE. However, if you had other earnings of \$400 or more subject to SE tax, enter "Exempt—Notary" and the amount of your net profit as a notary public from Schedule C or Schedule C-EZ on the dotted line to the left of Schedule SE, line 3. Subtract that amount from the total of lines 1a, 1b, and 2 and enter the result on line 3.

3. Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.

4. Income from real estate rentals if you did not receive the income in the course of a trade or business as a real estate dealer. Report this income on Schedule E, or on Schedule C or C-EZ if you and your spouse made an election to be taxed as a qualified joint venture.

5. Income from farm rentals (including rentals paid in crop shares) if, as landlord, you did not materially participate in the production or management of the production of farm products on the land. See chapter 12 of Pub. 225 for details.

Report this income on Form 4835. Use two Forms 4835 if you and your spouse made an election to be taxed as a qualified joint venture.

6. Payments you receive from the Conservation Reserve Program if you are receiving social security benefits for retirement or disability. Deduct these payments on line 1b of Schedule SE.

7. Dividends on shares of stock and interest on bonds, notes, etc., if you did not receive the income in the course of your trade or business as a dealer in stocks or securities.

8. Gain or loss from:

a. The sale or exchange of a capital asset;

b. The sale, exchange, involuntary conversion, or other disposition of property unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or

c. Certain transactions in timber, coal, or domestic iron ore.

9. Net operating losses from other years.

10. Termination payments you received as a former insurance salesperson if all of the following conditions are met.

a. The payment was received from an insurance company because of services you performed as an insurance salesperson for the company.

b. The payment was received after termination of your agreement to perform services for the company.

c. You did not perform any services for the company after termination and before the end of the year in which you received the payment.

d. You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date of termination.

e. The amount of the payment depended primarily on policies sold by or credited to your account during the last year of the agreement, or the extent to which those policies remain in force for some period after termination, or both.

f. The amount of the payment did not depend to any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payment depended on length of service).

Statutory Employee Income

If you were required to check the box on Schedule C or C-EZ, line 1, because you were a statutory employee, do not include the net profit or (loss) from that Schedule C, line 31 (or the net profit from Schedule C-EZ, line 3), on Short or Long Schedule SE, line 2. But if you file Long Schedule SE, be sure to include statutory employee social security wages and tips from Form W-2 on line 8a.

Optional Methods

How Can the Optional Methods Help You?

Social security coverage. The optional methods may give you credit toward your social security coverage even though you have a loss or a small amount of income from self-employment.

Earned income credit (EIC). Using the optional methods may qualify you to claim the EIC or give you a larger credit if your net earnings from self-employment (determined without using the optional methods) are less than \$4,360. Figure the EIC with and without using the optional methods to see if the optional methods will benefit you.

Additional child tax credit. Using the optional methods may qualify you to claim the additional child tax credit or give you a larger credit if your net earnings from self-employment (determined without using the optional methods) are less than \$4,360. Figure the additional child tax credit with and without using the optional methods to see if the optional methods will benefit you.

Child and dependent care credit. The optional methods may help you qualify for this credit or give you a larger credit if your net earnings from self-employment (determined without using the optional methods) are less than \$4,360. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

Self-employed health insurance deduction. The optional methods of computing net earnings from self-employment may be used to figure your self-employed health insurance deduction.



Using the optional methods may give you the benefits described above, but they may also increase your SE tax.

Changing Your Method

You can change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do this, file Form 1040X.

Farm Optional Method

You may use this method to figure your net earnings from farm self-employment if your gross farm income was \$6,540 or less or your net farm profits were less than \$4,721. Net farm profits are:

- The total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), box 14, code A, minus
- The amount you would have entered on Schedule SE, line 1b, had you not used the optional method.

There is no limit on how many years you can use this method.

Under this method, report in Part II, line 15, two-thirds of your gross farm income, up to \$4,360, as your net earnings. This method can increase or decrease your net

earnings from farm self-employment even if the farming business had a loss.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments made by the partnership. If you were a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Nonfarm Optional Method

You may be able to use this method to figure your net earnings from nonfarm self-employment if your net nonfarm profits were less than \$4,721 and also less than 72.189% of your gross nonfarm income. Net nonfarm profits are the total of the amounts from:

- Schedule C (Form 1040), line 31,
- Schedule C-EZ (Form 1040), line 3,
- Schedule K-1 (Form 1065), box 14, code A (from other than farm partnerships), and
- Schedule K-1 (Form 1065-B), box 9, code J1.

To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were \$400 or more in 2 of the 3 years preceding the year you use the nonfarm optional method. The net earnings of \$400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax.

Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, report in Part II, line 17, two-thirds of your gross nonfarm income, up to the amount on line 16, as your net earnings. But you cannot report less than your actual net earnings from nonfarm self-employment.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See *Farm Optional Method* on this page for details.

Using Both Optional Methods

If you can use both methods, you can report less than your total actual net earnings from farm and nonfarm self-employment, but you cannot report less than your actual net earnings from nonfarm self-employment alone.

If you use both methods to figure net earnings, you cannot report more than \$4,360 of net earnings from self-employment.



Where Do You File?

If an envelope came with this booklet, please use it. If you do not have one or if you moved during the year, mail your return to the address shown below that applies to you. If you want to use a private delivery service, see page 8.



Envelopes without enough postage will be returned to you by the post office. Your envelope may need additional postage if it contains more than five pages or is oversized (for example, it is over 1/4" thick). Also, include your complete return address.

IF you live in...	THEN use this address if you:	
	Are not enclosing a check or money order...	Are enclosing a check or money order...
Florida, Georgia, North Carolina, South Carolina	Department of the Treasury Internal Revenue Service Center Atlanta, GA 39901-0002	Department of the Treasury Internal Revenue Service Center Atlanta, GA 39901-0102
Arkansas, Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia	Department of the Treasury Internal Revenue Service Center Kansas City, MO 64999-0002	Department of the Treasury Internal Revenue Service Center Kansas City, MO 64999-0102
Alabama, Kentucky, Louisiana, Mississippi, Tennessee, Texas	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0002	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0102
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming	Department of the Treasury Internal Revenue Service Center Fresno, CA 93888-0002	Department of the Treasury Internal Revenue Service Center Fresno, CA 93888-0102
A foreign country, American Samoa, or Puerto Rico (or are excluding income under Internal Revenue Code section 933), or use an APO or FPO address, or file Form 2555, 2555-EZ, or 4563, or are a dual-status alien or nonpermanent resident of Guam or the Virgin Islands*	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0215 USA	Department of the Treasury Internal Revenue Service Center Austin, TX 73301-0215 USA

* Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921; permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802.

What's Inside? (see Index for page numbers)

Instructions for Form 1040
Table of contents
IRS e-file and free file options
Index (inside back cover)
When to file
What's new
How to comment on forms

How to avoid common mistakes
Help with unresolved tax issues
Free tax help
How to get forms and publications
Tax table
How to make a gift to reduce debt held by the public