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Armed Forces' Tax Guide

For use in preparing
2001 Returns

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Important Changes

Tax relief for victims of terroristic or military action. The *Victims of Terrorism Tax Relief Act of 2001* provides tax relief to those injured or killed in the April 19, 1995 (Oklahoma City), September 11, 2001, or certain anthrax attacks. The Act also provides relief to survivors of those killed in the attacks and others who were affected by those attacks. It includes:

- Forgiveness of federal tax liability for those who died as a result of the attacks.
- A reduction in the estate tax of those who died as a result of the attacks.
- Tax-free treatment of qualified disaster relief payments, certain disability income, certain death benefits, and certain cancellation of indebtedness.

For more information on these relief provisions and methods for claiming tax refunds, see Publication 3920.

Afghanistan designated a combat zone. By Executive

Earned income credit. The maximum amount of income you can earn and still get the earned income credit has increased. You may be able to take the credit if you earned less than $32,121 if you have two or more qualifying children; $28,281 if you have one qualifying child; and $10,710 if you do not have any qualifying children. See *Earned Income Credit,* later.

Exemption amount increased. You are allowed a $2,900 deduction for each exemption to which you are entitled.

Child tax credit. The maximum child tax credit you can claim for each qualifying child is increased to $600. The qualifications for claiming the additional child tax credit have been changed to include a qualifying individual with fewer than 3 children. See *Child Tax Credit,* later.

Education IRAs renamed Coverdell ESAs. Education individual retirement accounts (education IRAs) are now Coverdell education savings accounts (Coverdell ESAs). These Coverdell ESAs are not individual retirement arrangements. For information on Coverdell ESAs, see Publication 970.

You can claim your child's exemption if the child is a U.S. citizen and meets the other tests. It does not matter that the child lives abroad with the nonresident alien parent.

If you are a citizen or national of the United States and you legally adopt a child who is not a U.S. citizen or resident, you can claim the child's exemption if:

a) The other tests are met,

b) The child had your home as his or her main home for the year, and

c) The child was a member of your household for the year.
Example. Sergeant John Smith is a U.S. citizen and has been in the U.S. Army for 16 years. He is stationed in Germany. He and his wife, a German citizen, have a 2-year old son who was born in Germany and who has dual citizenship (U.S. and Germany). Sergeant Smith's stepdaughter, a German citizen whom he has not adopted, also lives with them. Only his son can be considered a U.S. citizen for whom a dependency exemption can be claimed. His stepdaughter does not qualify as a U.S. citizen or resident.

3) **Joint return test.** Even if the other dependency tests are met, you generally are not allowed an exemption for your dependent if he or she files a joint return. However, the joint return test does not apply if a joint return is filed by your dependent and his or her spouse merely as a claim for refund and no tax liability would exist for either spouse on separate returns.

4) **Gross income test.** To meet the gross income test, the person must have gross income of less than $2,900. This test does not apply if the person is your child and is either under age 19 at the end of the year, or under age 24 at the end of the year and a full-time student during 5 calendar months of the year.

5) **Support test.** To be considered your dependent, the person generally must receive more than half of his or her support from you during the year. To figure if you provided more than half the support of a person, you must first determine the total support provided from all sources for that person.

Total support includes amounts spent to provide food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities.

Generally, the amount of an item of support is the amount of the expense incurred to provide it. If the item is lodging, the amount of the item is the fair rental value.

Expenses that are not directly related to any one member of a household, such as the cost of food for the household, must be divided among the members of the household.

Divorced or separated parents. Different rules apply to the support test for children of divorced or separated parents. These rules are discussed in Publication 501.

Dependency allotments. You can authorize an allotment from your pay for the support of your dependents. The amount is considered as provided by you in figuring whether you provide more than half the dependent's support.

If an allotment is used to support persons other than those you name, you can claim exemptions for them if they otherwise qualify as your dependent.

Example. Army Sergeant Jeff Banks authorizes an allotment for his widowed mother. She uses the money to support herself and Jeff's 10-year-old sister. If that amount provides more than half their support, Jeff can claim an exemption for each of them, if they otherwise qualify, even though he only authorized the allotment for his mother.

Dependent in the Armed Forces. Generally, an exemption cannot be claimed for a person who is in the Armed Forces or is at one of the Armed Forces academies for the entire year because the support test will not have been met. However, if your dependent receives only partial support from the Armed Forces, you can still claim the exemption if you provided more than half his or her support and the other tests are met.

Example. Leslie James is 18 and single. She graduated from high school in June 2001 and entered the U.S. Air Force in September 2001. Leslie provided $4,400 (her wages of $3,400 and $1,000 for other items provided by the Air Force) for her support that year. Her parents provided $4,100. Her parents cannot claim a dependency exemption for her for 2001 because they did not provide more than half her support.

Sale of Home

You generally can exclude up to $250,000 of gain ($500,000 if married filing a joint return) realized on the sale or exchange of a main home in 2001. The exclusion is allowed each time you sell or exchange a main home, but generally not more than once every two years. To be eligible, during the 5-year period ending on the date of the sale, you must have owned the home for at least 2 years, and lived in the home as your main home for at least 2 years.

Note. The maximum amount of gain that you can exclude will be reduced if you do not meet the ownership and use tests due to a move to a new permanent duty station.

For married individuals filing jointly who do not qualify for the $500,000 exclusion for gain on a sale of a home because they do not satisfy the ownership and use tests, the limit on the amount of excludable gain should be calculated separately for each spouse. In that case, the maximum exclusion for the couple is equal to the sum of the exclusions to which the spouses would otherwise be entitled if they had not been married.

For sales ***before May 7, 1997,*** different rules applied. Under those rules, you had to buy and live in a new home within a specified replacement period in order to postpone paying tax on all or part of the gain from the sale of your main home.

For more information on both the old and new laws, see Publication 523.

Property used for rental or business. You may be able to exclude your gain from the sale of a home that you have used as a rental property or for business. However, you must meet the ownership and use tests discussed in Publication 523.

Itemized Deductions

To figure your taxable income, you must subtract either your standard deduction or your itemized deductions from adjusted gross income. For information on the standard deduction, get Publication 501.

Itemized deductions are figured on Schedule A (Form 1040). This chapter discusses itemized deductions of particular interest to members of the Armed Forces. For information on other itemized deductions, get the publications listed below.

- Publication 502, *Medical and Dental Expenses*
- Publication 526, *Charitable Contributions*
- Publication 547, *Casualties, Disasters, and Thefts*
- Publication 550, *Investment Income and Expenses*

Miscellaneous Itemized Deductions

You must reduce the total of most miscellaneous itemized deductions by 2% of your adjusted gross income. For information on deductions that are not subject to the 2% limit, get Publication 529.

Employee Business Expenses

Deductible employee business expenses are miscellaneous itemized deductions subject to the 2% limit. For information on employee business expenses, get Publication 463.

Generally, you must file Form 2106, *Employee Business Expenses,* or Form 2106–EZ, *Unreimbursed Employee Business Expenses,* to claim these expenses. You do not have to file Form 2106 or Form 2106–EZ if you are claiming only unreimbursed expenses for uniforms, professional society dues, and work-related educational expenses (all discussed later). You can deduct these expenses directly on Schedule A (Form 1040).

Reimbursement. Generally, to receive advances, reimbursements, or other allowances from the government, you must adequately account for your expenses and return any excess reimbursement. Amounts that are not excess reimbursements that you receive under an accountable plan are not included on your Form W–2. Your reimbursed expenses are not deductible.

If your expenses are more than your reimbursement, the excess expenses are deductible (subject to the 2% limit) if you can prove them. You must file Form 2106 to report these expenses.

You can use the shorter Form 2106–EZ if you meet ***all*** three of the following conditions.

- You are an employee deducting expenses related to your job.
- You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W–2 are not considered reimbursements).
- If you claim car expenses, you use the standard mileage rate.

For 2001, the standard mileage rate is 34.5 cents a mile for all business miles driven. This rate is adjusted periodically for inflation.

Travel expenses. You can deduct unreimbursed travel expenses only if they are incurred while you are traveling away from home. To be deductible, your travel expenses must be work related. You cannot deduct any expenses for personal travel, such as visits to family while on furlough, leave, or liberty.

Away from home. Home is your permanent duty station (which can be a ship or base), regardless of where you or your family live. You are away from home if you are away from your permanent duty station substantially longer than an ordinary day's work and you need to get sleep or rest to meet the demands of your work while away from home.

Examples of deductible travel expenses include:

- Expenses for business-related meals (generally limited to 50% of your unreimbursed cost), lodging, taxicabs, business telephone calls, tips, laundry, and dry cleaning while you are away from home on temporary duty or temporary additional duty, and
- Expenses of carrying out official business while on ***No Cost*** orders.

You cannot deduct any expenses for travel away from home if the temporary assignment in a single location is realistically expected to last (and does in fact last) for more than one year. This rule may not apply if you are participating in a federal crime investigation or prosecution. For more information, see Publication 463 and the Form 2106 instructions.

Reservists. You can deduct travel expenses if you are under competent orders, with or without pay, and away from your main place of business overnight to perform drills and training duty.

If you are called to active duty, you can deduct travel expenses if you keep your regular job while on active duty,

return to your job after release, and are stationed away from the general area of your regular job or business. However, you can deduct these expenses only if you pay for them at your official military post and only to the extent the expenses exceed BAH and BAS.

Transportation expenses. Transportation expenses are the ordinary and necessary costs you have to get from one workplace to another while not traveling away from home and for certain other business-related transportation. These expenses include the costs of transportation by air, bus, rail, taxi, and driving and maintaining your car. Transportation expenses incurred while traveling away from home are travel expenses. However, if you use your car while traveling away from home overnight, see the rules in chapter 4 of Publication 463 to figure your car expense deduction.

If you must go from one workplace to another while on duty (for example, as a courier or to attend meetings) without being away from home, your unreimbursed transportation expenses are deductible. However, the expenses of getting to and from your regular place of work (commuting) are not deductible.

Temporary work location. If you have one or more regular places of business away from your home and you commute to a temporary work location in the same trade or business, you can deduct the expenses of the daily round-trip transportation between your home and the temporary location.

Generally, if your employment at a work location is realistically expected to last (and does in fact last) for 1 year or less, the employment is temporary.

If your employment at a work location is realistically expected to last for more than 1 year or if there is no realistic expectation that the employment will last for 1 year or less, the employment is not temporary, regardless of whether it actually lasts for more than 1 year. If employment at a work location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to last more than 1 year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until your expectation changes.

If you do **not** *have a regular place of business, but you ordinarily work in the metropolitan area where you live, you can deduct daily transportation expenses between your home and a temporary work site outside your metropolitan area. However, you cannot deduct daily transportation costs between your home and temporary work sites within your metropolitan area. These are nondeductible commuting costs.*

Uniforms. You usually cannot deduct the expenses for uniform cost and upkeep. Generally, you must wear uniforms when on duty and you are allowed to wear them when off duty.

If military regulations prohibit you from wearing certain uniforms off duty, you can deduct the cost and upkeep of the uniforms, but you must reduce your expenses by any allowance or reimbursement you receive.

Expenses for the cost and upkeep of the following articles are deductible.

- Military battle dress uniforms and utility uniforms if you cannot wear them off duty.
- Articles not replacing regular clothing, including insignia of rank, corps devices, epaulets, aiguillettes, and swords.
- Reservists' uniforms if you can wear the uniform only while performing duties as a reservist.

Professional dues. You can deduct dues paid to professional societies directly related to your military position. However, you cannot deduct amounts paid to an officers' club or a noncommissioned officers' club.

Example. Lieutenant Margaret Allen, an electrical engineer at Maxwell Air Force Base, can deduct professional dues paid to the American Society of Electrical Engineers.

Educational expenses. You can deduct work-related educational expenses if they meet certain rules.

Qualifications. You can deduct the costs of qualifying education. This is education that meets at least one of the following two tests.

1) The education is required by your employer or the law to keep your present salary, status, or job. The required education must serve a bona fide business purpose of your employer.
2) The education maintains or improves skills needed in your present work.

However, even if the education meets one or both of the above tests, it is not qualifying education if it:

- Is needed to meet the ***minimum educational requirements*** of your present trade or business, or
- Is part of a program of study that will ***qualify you for a new trade or business.***

You can deduct the expenses for qualifying education even if the education could lead to a degree.

Example 1. Lieutenant Colonel Mason has a degree in financial management and is in charge of base finances at her post of duty. She took an advanced finance course. She already meets the minimum qualifications for her job. By taking the course, she is improving skills in her current position. The course does not qualify her for a new trade or business. She can deduct educational expenses that are more than the educational allowance she received.

Example 2. Major Williams worked in the military base legal office as a legal intern. He was placed in ***excess leave status*** by his employer to attend law school. He paid all his educational expenses and was not reimbursed. After obtaining his law degree, he passed the state bar exam and worked as a judge advocate. His educational expenses are not deductible because the law degree quali-

fied him for a new trade or business, even though the education maintained and improved his skills in his work.

Travel expenses. You cannot deduct the cost of travel that is itself a form of education, even if it is directly related to your duties in your work or business. However, if your educational expenses qualify as a deduction, travel for that education, including transportation, meals (subject to the 50% limit), and lodging, can be deducted. Educational services provided in kind, such as base-provided transportation to or from class, are not deductible.

If you need more information on educational expenses, get Publication 508.

Credits

After you have figured your taxable income and tax liability, you can determine if you are entitled to any tax credits. Most tax credits do not have special rules for members of the Armed Forces. However, the rate reduction credit, the earned income credit, and the child tax credit may be of interest to you.

Rate Reduction Credit

Under new law, the IRS sent an advance payment check to you in 2001 if you paid tax in 2000. This payment reduced your tax and is ***not*** taxable income.

The amount of the 2001 advance payment was a maximum of:

- $300 if you filed single or married filing separately,
- $500 if you filed head of household, and
- $600 if you filed married filing jointly or you filed qualifying widow(er).

If you meet all of the rules below, complete the rate reduction worksheet in your tax forms instructions package to figure the amount of your credit.

You may be able to claim a rate reduction credit on your 2001 tax return if:

- Your advance payment was less than the maximum dollar amount for your filing status (explained above), up to the difference between your maximum amount and the advance payment you already received, or
- You had a tax liability for 2001 although you did not have one for 2000. (You must be otherwise eligible.)

The rate reduction credit is claimed on line 47, Form 1040; line 30, Form 1040A; or line 7, Form 1040EZ.

Example 1. Faye is single, not able to be claimed as a dependent by anyone, had a 2000 taxable income of $4,000, and claimed no tax credits. For 2000, she received an advance payment of $200 (5% of $4,000) in 2001. If her taxable income for 2001 rises to $6,000, she could claim a ***rate reduction credit*** of $100 in 2001 ($300 total maximum credit for a single filer minus $200 advance payment she received in 2001.)

For more information on the rate reduction credit, see the instructions for Forms 1040, 1040A, or 1040EZ.

Earned Income Credit

The earned income credit (EIC) is a special credit for certain persons who work. The credit reduces the amount of tax you owe (if any) and is intended to offset some of the increases in living expenses and social security taxes.

If you claim the EIC and it is later disallowed, you may have to complete an additional form if you want to claim the credit in a following year. See chapter 5 in Publication 596 for more information, including how to claim the EIC after disallowance.

Persons With a Qualifying Child

If you have a qualifying child, you must meet all the following rules to claim the earned income credit.

1) You must have earned income during 2001.
2) Your earned income and modified adjusted gross income (AGI) must each be less than:
   a) $28,281 if you have one qualifying child, or
   b) $32,121 if you have more than one qualifying child. If you do not have a qualifying child and earn less than $10,710, see *Persons Without a Qualifying Child,* later.
3) Your filing status cannot be married filing separate.
4) You (or your spouse, if filing a joint return) cannot be a qualifying child of another person.
5) Your qualifying child cannot be the qualifying child of another person with a higher modified AGI.
6) You cannot file Form 2555, *Foreign Earned Income,* or Form 2555–EZ, *Foreign Earned Income Exclusion,* to exclude income earned in foreign countries, or to deduct or exclude a foreign housing amount. See Publication 54 for more information.
7) You must be a U.S. citizen or resident all year unless:
   a) You are married to a U.S. citizen or a resident alien, and
   b) You choose to be treated as a resident alien for the entire year. See Publication 519 for more information.
8) Your investment income must be $2,450 or less during the year. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.

9) You must have a valid social security number for yourself, your spouse (if filing a joint return), and any qualifying child.

Qualifying child of more than one person. If you and someone else have the same qualifying child, the person with the higher modified AGI is the only one who may be able to claim the credit. The person with the lower modified AGI cannot claim the credit. This is true even if the person with the higher modified AGI does not claim the credit or does not meet all the rules to claim the credit.

Modified AGI for most people is the amount on line 34, Form 1040, or line 20, Form 1040A. See Publication 596 if you file Schedule E or you are claiming a loss from the rental of personal property not used in a trade or business.

Qualifying child of another person. If you are a qualifying child of another person, you cannot claim the credit—no matter how many qualifying children you have.

How to report. If you meet all these rules, fill out Schedule EIC and attach it to either Form 1040 or Form 1040A. Also complete the worksheet in the instructions for Form 1040 or Form 1040A to figure the amount of your credit. If you have a qualifying child, you cannot claim the credit on Form 1040EZ.

Enter "NO" directly to the right of line 61a (Form 1040) or line 39a (Form 1040A) if you cannot claim the credit because:

1) Your total taxable and nontaxable earned income was $28,281 or more if you have one qualifying child (or $32,121 or more if you have more than one qualifying child),
2) You were a qualifying child for another person in 2001,
3) Your qualifying child was also the qualifying child of another person whose modified AGI is higher than yours, or
4) You, your spouse, or qualifying child does not have a valid social security number.

Social security number. You must provide a correct and valid social security number (SSN) issued by the Social Security Administration for yourself, your spouse, and any qualifying child. If a social security card for you, your spouse, or your qualifying child says "Not valid for employment," you cannot get the credit.

If you need to get an SSN, file Form SS–5 with your local Social Security Administration office. It takes approximately two weeks to receive an SSN. If the filing deadline is approaching and you do not have an SSN, you can:

- Request an automatic extension to August 15 using Form 4868, or
- File the return on time without claiming the credit. After you receive the SSN, file an amended return (Form 1040X) claiming the credit and attach a filled-in Schedule EIC.

If an SSN for you, your spouse, or your qualifying child is missing from your tax return, or is incorrect, you may not get the credit.

Married persons. Married persons usually must file a joint return to claim the earned income credit. Even though you are married, you may file as head of household and claim the credit on your return if:

1) Your spouse did not live in your home at any time during the last 6 months of the year,
2) You paid more than half the cost to keep up your home for the entire year, and
3) You and your child lived in the same main home for more than half the year. You also must be entitled to claim an exemption for your child.

You will meet (3), even if you cannot claim your child, if:

- You gave that right to your child's other parent by filling out Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents,* or similar written statement, or
- There is a pre-1985 agreement (decree of divorce or separate maintenance or written agreement) granting the exemption to your child's other parent.

Qualifying Child

You have a qualifying child if your child meets three tests:

1) Relationship,
2) Residency, and
3) Age.

Relationship test. To meet the relationship test, the child must be your:

- Son, daughter, or adopted child (or a descendant of your son, daughter, or adopted child—for example, your grandchild),
- Stepson or stepdaughter, or
- Eligible foster child.

Married child. Generally, a married child can be your qualifying child only if you can claim an exemption for the child. If you cannot claim an exemption for your married child, he or she can still be your qualifying child if the only reason you cannot claim the exemption is one of the following.

- You gave the right to claim the child's exemption to your child's other parent by filling out Form 8332, or a similar written statement, or
- You gave the right to claim the child's exemption to your child's other parent in a pre-1985 agreement (such as a separation agreement or divorce decree).

If you need more information about either of these exceptions or when you can claim an exemption for your child, see Publication 501, or Publication 504, *Divorced or Separated Individuals.*

Residency test. To meet the residency test:

- A qualifying child must have lived in your home for more than half the year (for the whole year if your child is an eligible foster child), and
- The home must be in the United States. (U.S. military personnel stationed outside the United States on extended active duty are considered to be living in the United States.)

Birth or death of a child. The child is considered to have lived with you for all of 2001 if:

- The child was born or died during the year, and
- The child lived with you for the part of the year he or she was alive.

Temporary absences. Count time that you or the qualifying child is away from home on a temporary absence due to a special circumstance as time lived at home. Examples of special circumstances include:

- Illness,
- Attending school,
- Detention in a juvenile facility,
- Business,
- Vacation, or
- Military service.

You may be eligible for the earned income credit if you are absent temporarily only because of military service. To be eligible for the credit, you must plan to return to your main home where your qualifying child lives, at the end of your assignment. Service in a combat zone is a temporary absence.

Age test. The age test is met if your child is:

- Under age 19 at the end of the year,
- A full-time student under age 24 at the end of the year, or
- Permanently and totally disabled at any time during the tax year, regardless of age.

Persons Without a Qualifying Child

If you do not have a qualifying child, you can take the credit if you meet ***all*** of the following rules.

1) You must have earned income during 2001.
2) Your earned income and modified adjusted gross income must each be less than $10,710.
3) Your filing status cannot be ***married filing separate return***.
4) You (or your spouse, if filing a joint return) cannot be a qualifying child of another person. See *Qualifying child of another person,* earlier.
5) You (or your spouse if filing a joint return) must be at least age 25 but under age 65 at the end of your tax year.
6) No one else is able to claim an exemption for you as a dependent on his or her return.
7) Your main home must be in the United States for more than half the year. (U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States.)
8) You cannot file Form 2555, *Foreign Earned Income,* or Form 2555–EZ, *Foreign Earned Income Exclusion.*
9) You must be a U.S. citizen or resident alien all year unless:
   a) You are married to a U.S. citizen or a resident alien, and
   b) You choose to be treated as a resident alien for the entire year.
10) Your investment income must be $2,450 or less during the year. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.
11) You (and your spouse, if filing a joint return) must have a valid SSN. In either case, you can use only a valid SSN issued by the Social Security Administration. If a social security card for you or your spouse says, "Not valid for employment," you cannot get the credit.

How to report. If you meet all of these rules, fill out the worksheet in your tax forms instructions for EIC to figure the amount of your credit.

Enter "No" directly to the right of line 61a (Form 1040), next to line 39a (Form 1040A), or on line 9a (Form 1040EZ) if you cannot claim the credit because:

1) Your total taxable and nontaxable earned income was $10,710 or more,
2) You (and your spouse if filing a joint return) were under age 25 or age 65 or more,
3) Your home was not in the United States for more than half the year,
4) You were a qualifying child of another person in 2001, or
5) You or your spouse did not have a valid SSN.

Earned Income

For purposes of the earned income credit, earned income includes:

- Wages, salaries, and tips,
- Long-term disability benefits you received before minimum retirement age,
- Salary deferrals and reductions,
- Housing and subsistence allowances and in kind equivalents received by military members,
- Combat zone excluded pay (box 12, code Q of your Form W–2),
- Net earnings from self-employment, and
- Anything else of value, even if not taxable, that you received for providing services.

For purposes of the earned income credit, the term ***housing and subsistence allowances*** means the Basic Allowance for Housing (BAH) and the Basic Allowance for Subsistence (BAS) received by military personnel (with respect to grade and status) and the value of meals and lodging furnished in kind to military personnel residing on military bases. To calculate the value of meals and lodging furnished in kind, you may assume that the value is equal to the combined BAH and BAS that the military member would have received had he or she been entitled to the allowance. Earned income that is not taxable, such as combat pay, BAH, BAS, and certain in kind equivalents, is reported in box 12, Code Q, of Form W–2.

Earned income does ***not*** include:

- Interest and dividends,
- Social security and railroad retirement payments,
- Certain workfare payments,
- Pensions or annuities,
- Veterans' benefits (including VA rehabilitation payments),
- Workers' compensation,
- Unemployment compensation, or
- Alimony and child support.

Example 1. Corporal John Andrews and his wife Doris will file a joint return for 2001. They have two children—Mark who is age 3 and Connie who was born in May of 2001. Their total earned income is $23,650 (basic pay $16,104, BAH $4,896, BAS $2,650). John and Doris qualify for the earned income credit.

Example 2. Staff Sergeant Brad Wilson and his wife Judy will file a joint return for 2001. They have two children—Angela who is 6 years old and Eric who is 4 years old. Their total earned income is $34,054 (basic pay $25,140, which includes $7,780 nontaxable pay for service in a combat zone, plus BAH $6,264 and BAS $2,650). Even though the Wilsons' modified AGI is $17,360, they do not qualify for the earned income credit because their total earned income is not less than $32,121.

Military members should receive a *Leave and Earnings Statement* at the end of the year that includes some of the pertinent allowance information. You should refer to that statement or your Form W–2 when determining earned income for EIC purposes. You can also contact your legal assistance office or unit tax advisor if you need additional help.

Advance Earned Income Credit

You must meet all the following rules to qualify for the advance earned income credit in 2002. You must:

- Work and expect that your earned income and AGI will each be less than a certain amount. The amount in 2001 was $28,281. The amount for 2002 will be higher. See Form W–5, *Earned Income Credit Advance Payment Certificate,* for the 2002 amount.
- Have a qualifying child.
- Meet all the rules explained in the instructions for Form W–5.

If you expect to qualify for the earned income credit for 2002, you can choose to get part of the credit in advance by giving a completed 2002 Form W–5 to your appropriate finance office. The credit will be included regularly in your pay.

If you received advance earned income credit payments in 2001, you must file either Form 1040 or Form 1040A for 2001 to report the payments.

IRS Will Figure Your Credit for You

There are certain instructions you must follow before the IRS can figure the credit for you. See Publication 967, *The IRS Will Figure Your Tax.*

Child Tax Credit

The child tax credit reduces your tax. If you have children, you may be able to take a child tax credit on your tax return for each of your qualifying children.

The child tax credit is **not** *the same as the credit for child and dependent care expenses. See Publication 503 for more information on the credit for child and dependent care expenses.*

Qualifying Child

A qualifying child for purposes of the child tax credit must be all of the following.

1) Under age 17 at the end of 2001.
2) A citizen or resident alien of the United States.
3) Claimed as your dependent.
4) Your:

   a) Son or daughter,

b) Stepson or stepdaughter,

c) Adopted child,

d) Grandchild, or

e) Eligible foster child.

Adopted child. A child placed with you by an authorized placement agency for legal adoption is an adopted child even if the adoption is not final.

Grandchild. A grandchild is any descendant of your son, daughter, or adopted child and includes your great-grandchild, great-great-grandchild, etc.

Eligible foster child. An eligible foster child is any child you cared for as your own and who:

- Is **(1)** your brother, sister, stepbrother, or stepsister; **(2)** a descendant (such as a child) of your brother, sister, stepbrother, or stepsister; or **(3)** a child placed with you by an authorized placement agency, and
- Lived with you for all of 2001. A child who was born or died in 2001 is considered to have lived with you for all of 2001 if your home was the child's home for the entire time he or she was alive during 2001.

Amount of Credit

The maximum credit that you can claim is $600 for each qualifying child.

Limits on the credit. You must reduce your child tax credit if either (1) or (2), below, applies.

1) The amount on line 42 (Form 1040) or line 26 (Form 1040A) is less than the credit. If the amount is zero, you cannot take this credit because there is no tax to reduce. But you may be able to take the ***additional child tax credit.*** See *Additional Child Tax Credit,* later.
2) Your modified adjusted gross income (AGI) is above 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

Modified AGI. For purposes of the child tax credit, your modified AGI is your AGI plus the following amounts that may apply to you.

- Any amount excluded from income because of the exclusion of income from Puerto Rico.
- Any amount on lines 43 and 48 of Form 2555, *Foreign Earned Income.*
- Any amount on line 18 of Form 2555–EZ, *Foreign Earned Income Exclusion.*
- Any amount on line 15 of Form 4563, *Exclusion of Income for Bona Fide Residents of American Samoa.*

If you do not have any of the above, modified AGI is the AGI amount on line 34 (Form 1040) or line 20 (Form 1040A).

Claiming the Credit

To claim the child tax credit, you must file Form 1040 or Form 1040A. You must provide the name and identification number (usually a social security number) on your tax return for each qualifying child.

Answer the *Questions* in your form instructions for line 48 (Form 1040) or line 31 (Form 1040A) to find out which child tax credit worksheet you can use to compute the credit.

*If you answer **Yes** to question 1, 2, or 3 in your Form 1040 instructions or question 1 or 2 in your Form 1040A instructions, you must complete the* Child Tax Credit Worksheet *in Publication 972,* Child Tax Credit.

For more information on the child tax credit, see the instructions for Form 1040 or Form 1040A.

Additional Child Tax Credit

This credit is for certain individuals who get less than the full amount of the child tax credit. The additional child tax credit may give you a refund even if you do not owe any tax.

How to claim the additional child tax credit. To claim the additional child tax credit, follow the steps below.

- Make sure you figured the amount, if any, of your child tax credit. See *Claiming the Credit,* earlier.
- Use Form 8812, *Additional Child Tax Credit,* to see if you can take the additional child tax credit only if you answered ***Yes*** on line 4 or line 5 of the *Child Tax Credit Worksheet*.
- If you have an additional child tax credit on line 13 of Form 8812, carry it to line 63 (Form 1040) or line 40 (Form 1040A).

Decedents

If a member of the Armed Forces dies, a surviving spouse or ***personal representative*** handles duties such as filing any tax returns and claims for refund of withheld or estimated tax. A personal representative can be an executor, administrator, or anyone who is in charge of the decedent's assets.

This section discusses the special tax provisions that apply to individuals who:

- Die while serving in a combat zone or from wounds, disease, or injury incurred while serving in a combat zone, or
- Die from wounds or injury incurred in a terroristic or military action while a U.S. employee.

For information on the tax relief provisions that apply to individuals who died as a result of the terrorist attacks on April 19, 1995 (Oklahoma City), or September 11, 2001, or the terrorist attacks involving anthrax, see Publication 3920. For other information concerning decedents, get Publication 559.

Combat Zone Forgiveness

If a member of the U.S. Armed Forces dies while in active service in a combat zone or from wounds, disease, or other injury received in a combat zone, the decedent's income tax liability is forgiven for the tax year in which death occurred and for any earlier tax year ending on or after the first day the member served in a combat zone in active service. (Forgiven tax is tax that does not have to be paid.) Any forgiven tax liability that has already been paid will be refunded, and any unpaid tax liability at the date of death will be forgiven.

In addition, any unpaid taxes for prior years will be forgiven and any prior year taxes paid after the date of death will be refunded.

This provision also applies to a member of the Armed Forces serving outside the combat zone if the service:

- Was in direct support of military operations in the zone, and
- Qualified the member for special military pay for duty subject to hostile fire or imminent danger.

For a description of combat zone, see *Combat Zone,* earlier.

Missing status. The date of death for a member of the Armed Forces who was in a missing status (missing in action or prisoner of war) is the date his or her name is removed from missing status for military pay purposes. This is true even if death actually occurred earlier.

Terroristic or Military Action Forgiveness

Tax liability is forgiven for an individual who:

1) Is a military or civilian U.S. employee at death, and
2) Dies from wounds or injury incurred while a U.S. employee in a terroristic or military action.

Beginning September 11, 2001, tax liability is forgiven for an individual who dies from wounds or injury incurred while a U.S. employee in a terroristic or military action regardless of where the terroristic or military action occurred.

The forgiveness applies to the tax year death occurred and for any earlier tax year beginning with the year before the year in which the wounds or injury occurred. A ***terroristic or military action*** is any terroristic activity primarily directed against the United States or its allies or any military action involving the U.S. Armed Forces resulting from violence or aggression against the United States or its allies.

Any multinational force in which the United States participates is considered an ally of the United States.

Example. Army Private John Kane died in 2001 of wounds incurred outside the United States in a terroristic attack in 2000. His income tax liability is forgiven for all tax years from 1999 through 2001. Refunds are allowed for the tax years for which the period for filing a claim for refund has not ended.

Claims for Tax Forgiveness

If the tax-forgiveness provisions apply to a prior year's tax that has been paid and the period for filing a refund claim has not ended, the tax will be refunded. If any tax is still due, it will be canceled. Generally, the period for filing a claim for credit or refund of income tax is 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever is later.

If death occurred in a combat zone or from wounds, disease, or injury incurred in a combat zone, the deadline for filing a claim for credit or refund is extended using the rules discussed later under *Extension of Deadline*.

If the death occurred as a result of wounds or injuries received in the Oklahoma City, September 11, or anthrax attacks, see Publication 3920 for procedures on how to claim tax forgiveness and for the time limits on those claims.

Procedures for claiming forgiveness. If the individual died in a combat zone or as a result of a terroristic or military action, use the following procedures for filing a claim for income tax forgiveness.

- File Form 1040 if a tax return has not been filed for the tax year. Form W–2 must accompany the return.
- File Form 1040X if a tax return has been filed. A separate Form 1040X must be filed for each year in question.

All returns and claims must be identified by writing "Enduring Freedom—KIA," "Kosovo Operation—KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" in bold letters on the top of page 1 of the return or claim. On Forms 1040 and 1040X, the phrase "Enduring Freedom—KIA," "Kosovo Operation—KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" must be written on the line for *total tax*. If the individual was killed in a terroristic action, write "KITA" on the front of the return and on the line for *total tax*. For example, write "KITA—Oklahoma City," "KITA—9/11," or "KITA—Anthrax," on the front of the return and on the line for *total tax* when referring to one of these attacks.

An attachment that includes a computation of the decedent's tax liability before any amount is forgiven and the amount that is to be forgiven should accompany any return or claim. For joint returns, see *Joint returns,* later.

Necessary documents. The following documents must accompany all returns and claims for refund (other than returns and claims relating to individuals who died as a result of the Oklahoma City, September 11, 2001, or anthrax terrorist attacks, which are discussed in Publication 3920).

- Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer,* and
- A certification from the Department of Defense or the Department of State.

For military and civilian employees of the Department of Defense, certification must be made by the Department on Form DoD 1300, *REPORT OF CASUALTY.* For civilian employees of all other agencies, certification must be a letter signed by the Director General of the Foreign Service, Department of State, or his or her delegate. The certification must include the deceased individual's name and social security number, the date of injury, the date of death, and a statement that the individual died in a combat zone or from a terroristic or military action. If the individual died as a result of a terroristic or military action, the statement must also include the fact that the individual was a U.S. employee at the date of injury and at the date of death.

If the certification has been received but there is not enough tax information to file a timely claim for refund, file Form 1040X with Form 1310. Include a statement saying that an amended claim will be filed as soon as the necessary tax information is available.

Where to file. These returns and claims must be filed at one of the following addresses.

U.S. Postal Service. If you use the U.S. Postal Service, file these returns and claims at the following address.

Internal Revenue Service
P.O. Box 4053
Woburn, MA 01888

Designated private delivery service. Private delivery services cannot deliver items to P.O. boxes. If you use a private delivery service, file these returns and claims at the following address.

Internal Revenue Service
310 Lowell St.
Stop 661
Andover, MA 01810

You can use the following private delivery services to file these returns and claims.

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, and Second Day Service.
- DHL Worldwide Express (DHL); DHL "Same Day " Service, and DHL USA Overnight.
- Federal Express (FedEx); FedEx Priority Overnight, FedEx Standard Overnight, and FedEx 2Day.
- 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.

Joint returns. Only the decedent's part of the joint income tax liability is eligible for the refund or tax forgiveness. To determine the decedent's part, the person filing the claim must:

1) Figure the income tax for which the decedent would have been liable as if a separate return had been filed,
2) Figure the income tax for which the spouse would have been liable as if a separate return had been filed, and
3) Multiply the joint tax liability by a fraction. The top number of the fraction is the amount in (1), above. The bottom number of the fraction is the total of (1) and (2).

The amount in (3) is the decedent's tax liability that is eligible for the refund or tax forgiveness. If you are unable to complete this process, you should attach a statement of all income and deductions, indicating the part that belongs to each spouse. The IRS will make the proper allocation.

Residents of community property states. If the member of the Armed Forces was domiciled in a community property state and the spouse reported half the military pay on a separate return, the spouse can get a refund of taxes paid on his or her share of the pay for the years involved. The forgiveness of unpaid tax on the military pay would also apply to the half owed by the spouse for the years involved.

Filing Returns

This section discusses the special procedures for military personnel when filing federal tax returns. For information on filing returns for those involved in a combat zone, see *Extension of Deadline,* later.

Where To File

Send your federal tax return to the Internal Revenue Service center for the place where you live. For example, Sgt. Kane, who is stationed in Maine but whose permanent home address is in California, should send her federal return to the service center for Maine. The instructions for Forms 1040, 1040A, and 1040EZ give the addresses for the service centers. If you are overseas and have an APO

or FPO address, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255–0215.

When To File

Most individual tax returns cover a calendar year, January through December. The regular due date for these tax returns is April 15 of the following year. If April 15 falls on a Saturday, Sunday, or legal holiday, your tax return is considered timely filed if it is filed by the next business day that is not a Saturday, Sunday, or legal holiday. For 2001 tax returns, the due date is April 15, 2002.

Extensions

You can receive an extension of time to file your return. Different rules apply depending on whether you live inside or outside the United States.

Inside the United States. You can receive an automatic 4-month extension to file your return if by the regular due date you do any of the following.

- File a paper Form 4868.
- File Form 4868 by phone or over the Internet through one of the service providers listed in the instructions for Form 4868.
- Pay part or all of your estimate of income tax due electronically by using a credit card. (If you use this option, you do not have to file Form 4868.)

The extension of time to file is automatic, and you will not receive any notice of approval. However, your request for an extension will be denied if it is not made timely. The IRS will inform you of the denial.

You cannot use the automatic extension if (1) you choose to have IRS figure the tax or (2) you are under a court order to file your return by the regular due date.

Payment of tax. An extension of time to file does not mean you have an extension of time to pay any tax due. You must estimate your tax due. You do not have to send in any payment of tax due when you file Form 4868. However, if you pay the tax after the regular due date, you will be charged interest from the regular due date to the date the tax is paid. You also may be charged a penalty for paying the tax late unless you have reasonable cause for not paying your tax when due.

If you file Form 4868 electronically, you can make your tax payment by authorizing an electronic funds withdrawal (direct debit) from your checking or savings account or by using a credit card.

For more details on how to pay the tax due, see the Form 4868 instructions.

When you file your return. Enter the amount you paid on line 64, Form 1040. On Form 1040A, include the amount in the total on line 41. On Form 1040EZ, include the amount in the total on line 10. To the left of line 41or line 10, enter “Form 4868” and show the amount paid.

Outside the United States and Puerto Rico. If you are a U.S. citizen or resident alien, you can qualify for an automatic extension of time until June 15 without filing Form 4868 (or making a payment) if either of the following situations applies to you.

1) 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, or
2) You are in military or naval service on an assigned tour of duty outside the United States and Puerto Rico for a period that includes the entire due date of the return.

You will be charged interest on any amount not paid by the regular due date until the date the tax is paid.

If you use this automatic extension, you must attach a statement to the return showing that you met the requirement.

You can request an additional 2-month extension to file by August 15, 2002 by filing a paper Form 4868 by June 17, 2002, for a 2001 calendar year tax return. Write “Taxpayer Abroad ”across the top of Form 4868.

Joint returns. For married persons filing a joint return, only one spouse needs to meet the requirements to take advantage of the automatic extension to June 15.

Separate returns. For married persons filing separate returns, only the spouse who meets the requirements qualifies for the automatic extension to June 15.

Additional extension beyond August 15. You can request an extension beyond the 4-month extension by filing Form 2688 or by writing a letter to the IRS. Except in undue hardship cases, this additional extension will be granted only if Form 4868 has already been filed. Form 2688 or your letter will not be considered if it is filed after the extended due date. If you file Form 2688 and are granted an extension and the IRS discovers that the information you gave was false or misleading, the extension is void. You may then be subject to a penalty for filing late.

If you are unable to pay the tax owed by the end of the extension period, you may want to file Form 9465 to arrange an installment payment agreement with the IRS that reflects your ability to pay the tax owed.

Signing Returns

Generally, you must sign your return. However, if you are overseas or incapacitated, you can grant a ***power of attorney*** to an agent to file and sign your return.

A power of attorney can be granted by filing Form 2848. These forms are available at your nearest legal assistance office. While other power of attorney forms may be used, they must contain the information required by Form 2848.

In Part I of the form, you must indicate that you are granting the power to sign the return, the tax form number, and the tax year for which the form is being filed. Attach the power of attorney to the tax return. If you are acting on behalf of someone serving in a combat zone, see *Filing*

Returns for Combat Zone/Qualified Hazardous Duty Area Participants, later.

Joint returns. Generally, joint returns must be signed by both spouses. However, when a spouse is overseas, in a combat zone or qualified hazardous duty area, in a missing status, incapacitated, or deceased, a power of attorney may be needed to file a joint return.

Spouse overseas. If one spouse is overseas on military duty, there are two options when filing a joint return. One spouse can prepare the return, sign it, and send it to the other spouse to sign early enough so that it can be filed by the due date. Or, the spouse who expects to be overseas on the due date of the return can file Form 2848 specifically designating that the spouse who remains in the United States can sign the return for the absent spouse.

Spouse in combat zone/qualified hazardous duty area. If your spouse is unable to sign the return because he or she is serving in a combat zone/qualified hazardous duty area or is performing qualifying service outside of a combat zone/qualified hazardous duty area, such as the Persian Gulf Area or Yugoslavia, or a qualified hazardous duty area (Bosnia and Herzegovina, Croatia, and Macedonia), and you do not have a power of attorney or other statement, you can sign for your spouse. Attach a signed statement to your return that explains that your spouse is serving in a combat zone.

Spouse in missing status. The spouse of a member of the Armed Forces who is in a missing status in a combat zone can still file a joint return. A joint return can be filed for any year beginning not more than 2 years after the end of the combat zone activities. A joint return filed under these conditions is valid even if it is later determined that the missing spouse died before the year covered by the return.

Spouse incapacitated. If your spouse cannot sign because of disease or injury and he or she tells you to sign, you can sign your spouse's name in the proper space on the return, followed by the words "by [your name], Husband (or Wife)." Be sure to sign your name in the space provided for your signature. Attach a dated statement, signed by you, to your return. The statement should include the form number of the return you are filing, the tax year, the reason your spouse could not sign, and that your spouse has agreed to your signing for him or her.

Spouse died during the year. If one spouse died during the year and the surviving spouse did not remarry before the end of the year, the surviving spouse can file a joint return for that year writing in the signature area "Filing as surviving spouse." If an executor or administrator has been appointed, both he or she and the surviving spouse must sign the return filed for the decedent.

Refunds

In general, military personnel follow the same rules as other taxpayers concerning tax refunds. See your tax form instructions for information on what to do if you do not receive an expected refund and how to call to check on your refund status.

Use Form 8822 to notify the IRS if you move or change your address after filing your return. See How To Get Tax Help, *near the end of this publication for information about getting this form.*

Extension of Deadline

Certain periods of time are disregarded when determining whether certain tax matters have been taken care of on time. For ease of understanding, this publication refers to these provisions as "extensions of deadlines." These deadline extensions should not be confused with other parts of the tax law that refer to extensions of time for performing acts.

Combat Zone/Qualified Hazardous Duty Area Extension

The deadline for filing tax returns, paying taxes, filing claims for refund, and taking other actions with the IRS is automatically extended if you serve in the Armed Forces in a combat zone/qualified hazardous duty area, or have qualifying service outside of a combat zone/qualified hazardous duty area. See *Qualifying service outside combat zone*, earlier.

Additionally, if you are deployed overseas away from your permanent duty station in support of operations in a qualified hazardous duty area, but outside the qualified hazardous duty area, you also receive these extensions (but not other combat zone benefits). The deadline for IRS to take certain actions, such as collection and examination actions, is also extended. See *Combat Zone,* earlier, for the beginning dates for the Afghanistan area combat zone, the Kosovo area combat zone, the Persian Gulf area combat zone, and the qualified hazardous duty areas.

Your deadline for taking actions with the IRS is extended for 180 days after the later of:

- The last day you are in a combat zone/qualified hazardous duty area or have qualifying service outside of the combat zone/qualified hazardous duty area (or the last day the area qualifies as a combat zone or qualified hazardous duty area), or
- The last day of any continuous qualified hospitalization (defined later) for injury from service in the combat zone/qualified hazardous duty area or while performing qualifying service outside of the combat zone/qualified hazardous duty area.

In addition to the 180 days, your deadline is also extended by the number of days that were left for you to take the action with the IRS when you entered a combat zone/qualified hazardous duty area (or began performing qualifying service outside the combat zone/qualified hazardous duty area). If you entered the combat zone/qualified hazardous duty area (or began performing qualifying service outside the combat zone/qualified hazardous duty area) before the period of time to take the action began, your deadline is extended by the entire period of time you have

to take the action. For example, you had 3½ months (January 1 – April 15) to file your 2000 tax return. Any days of this 3½ month period that were left when you entered the combat zone (or the entire 3½ months if you entered the combat zone by January 1) are added to the 180 days when determining the last day allowed for filing your 2000 tax return.

Example 1. Captain Margaret Jones entered Saudi Arabia on December 1, 1999. She remained there through March 31, 2001, when she departed for the United States. She was not injured and did not return to the combat zone. The deadlines for filing Captain Jones' 1999, 2000, and 2001 returns are figured as follows.

The 1999 tax return. The deadline is January 11, 2002. This deadline is 286 days (180 plus 106) after Captain Jones' last day in the combat zone (March 31, 2001). The 106 additional days are the number of days in the 3½ month filing period that were left when she entered the combat zone (January 1 – April 15, 2000).

The 2000 tax return. The deadline is January 10, 2002. The deadline is 285 days (180 plus 105) after Capt. Jones' last day in the combat zone (March 31, 2001).

The 2001 tax return. The deadline is not extended because the 180-day extension period after March 31, 2001, ends on September 27, 2001, which is before the start of the filing period for her 2001 return (January 1 – April 15, 2002).

Example 2. Petty Officer Leonard Brown's ship entered the Persian Gulf on January 5, 2000. On February 15, 2000, Leonard was injured and was flown to a U.S. hospital. He remained in the hospital through April 20, 2001. The deadlines for filing Petty Officer Brown's 1999, 2000, and 2001 returns are figured as follows.

The 1999 tax return. The deadline is January 28, 2002. Petty Officer Brown has 281 days (180 plus 101) after his last day in the hospital (April 21, 2001) to file his 1999 return. The 101 additional days are the number of days in the 3½ month filing period that were left when he entered the combat zone (January 5 – April 15). January 27, 2002, falls on a Sunday so the return must be filed by January 28, 2002.

The 2000 tax return. The deadline is January 31, 2002. Petty Officer Brown has 285 days (180 plus 105) after April 21, 2001, to file his 2000 tax return. The 105 additional days are the number of days in the 2001 filing period that were left when he entered the combat zone.

The 2001 tax return. The deadline is not extended because the 180-day extension period after April 21, 2001, ends on October 18, 2001, which is before the start of the filing period for his 2001 return (January 1 – April 15, 2002).

Example 3. You generally have 3 years from April 15, 1998, to file a claim for refund against your timely filed 1997 tax return. This means that your claim normally must be filed by April 15, 2001. However, if you served in a combat zone from November 1, 2000, through March 23, 2001, and were not injured, your deadline for filing that claim is extended 346 days (180 plus 166) after you leave the combat zone. This extends your deadline to March 4, 2002. The 166 additional days are the number of days in the 3-year period for filing the refund claim that were left when you entered the combat zone on November 1 (November 1, 2000 – April 15, 2001).

Missing status. Time in a missing status (missing in action or prisoner of war) counts as time in a combat zone or a qualified hazardous duty area.

Support personnel. The deadline extension provision also applies if you are serving in a combat zone or a qualified hazardous duty area in support of the Armed Forces. This includes Red Cross personnel, accredited correspondents, and civilian personnel acting under the direction of the Armed Forces in support of those forces.

Qualified hospitalization. The hospitalization must be the result of an injury received while serving in a combat zone or a qualified hazardous duty area. Qualified hospitalization means:

- Any hospitalization outside the United States, and
- Up to 5 years of hospitalization in the United States.

Actions extended. The actions to which the deadline extension provision applies include:

- Filing any return of income, estate, or gift tax (except employment and withholding taxes),
- Paying any income, estate, or gift tax (except employment and withholding taxes),
- Filing a petition with the Tax Court for redetermination of a deficiency, or for review of a Tax Court decision,
- Filing a claim for credit or refund of any tax,
- Bringing suit for any claim for credit or refund,
- Purchasing a replacement home to postpone paying tax on the gain on the sale (before May 7, 1997) of your old home,
- Making a qualified retirement contribution to an IRA,
- Allowing a credit or refund of any tax by the IRS,
- Assessment of any tax by the IRS,
- Giving or making any notice or demand by the IRS for the payment of any tax, or for any liability for any tax,
- Collection by the IRS of any tax due, and
- Bringing suit by the United States for any tax due.

If the IRS takes any actions covered by these provisions or sends you a notice of examination before learning that you are entitled to an extension of the deadline, contact

your legal assistance office. No penalties or interest will be imposed for failure to file a return or pay taxes during the extension period.

Even though the deadline is extended, you may want to file a return earlier to receive any refund due. See Filing Returns, *earlier.*

Spouses. Spouses of individuals who served in a combat zone are entitled to the same deadline extension with two exceptions.

- The extension does not apply to a spouse for any tax year beginning more than 2 years after the date the area ceases to be a combat zone.
- The extension does not apply to a spouse for any period the qualifying individual is hospitalized in the United States for injuries incurred in a combat zone.

Not in a combat zone. If you are a reservist called to active duty or a regular military member but are not in a combat zone, you may still qualify to defer the payment of back taxes. To qualify, you must be serving your initial period of service, and you must show that your ability to pay the back taxes has been materially impaired.

Initial period of service. The initial period of service is defined as the period of active duty following recall to active duty from an inactive reserve or National Guard unit. For regular military personnel, it is the period following induction or first enlistment in the Armed Forces or the first period of reenlistment for a person who has been out of the service for a year or more. For an officer, the initial period of service is limited to two years of active service after one of the above occurrences.

Material impairment. To indicate material impairment, you must show that your income dropped as a result of going into military service.

Request for deferment. If you have a current payment agreement, you must make a written request for deferment to the IRS office where you have the agreement.

If you have received a notice requesting payment, you must make a written request for deferment to the IRS office that issued the notice.

If you do not have a current payment agreement, you must wait until you receive a notice asking for payment before you request a deferral.

Your request must include your name, social security number, monthly income and source of income before military service, current monthly income, military rank, date you entered military service, and date you are eligible for discharge. If possible, enclosing a copy of your orders would be helpful.

The IRS will review your request and advise you in writing of its decision. Should you need further assistance, you can call the IRS at **1–800–829–1040** to discuss your situation.

If your request for deferment is granted by the IRS, you will be able to defer payment of back taxes until 6 months after the end of your initial period of service.

Maximum rate of interest. Section 526 of the ***Soldiers' and Sailors' Relief Act*** limits the maximum interest rate you can be charged to 6% per year for obligations or liabilities incurred before your entry into active service. The reduced rate applies only if your service materially affects your ability to pay. This rate applies only to that interest charged during the period of your active duty.

To substantiate your claim for this reduced interest rate, you must furnish the IRS a copy of your orders or reporting instructions that detail the call to active duty.

Filing Returns for Combat Zone/ Qualified Hazardous Duty Area Participants

You can choose to file your return before the end of your extension period. File your return in accordance with instructions provided by the Armed Forces.

If you are acting on behalf of someone serving in a combat zone/qualified hazardous duty area and you do not have a power of attorney from that person specifying that you can handle federal tax matters, the IRS will accept a general power of attorney or other statement signed by that person that authorizes you to act on his or her behalf. A copy must be attached to the tax return.

If it is not possible for the spouse of someone serving in a combat zone/qualified hazardous duty area to obtain that person's signature on a joint return, power of attorney form, or other signed authorization to act on his or her behalf, the IRS will accept a written statement explaining that the husband or wife is serving in a combat zone/ qualified hazardous duty area. The statement must be signed by the spouse filing the tax return and attached to the return.

Outside The Combat Zone/Qualified Hazardous Duty Area

If you do not qualify for the deadline extension provision, your 2001 return is due by the regular due date, April 15, 2002 (June 17, 2002, if you are stationed outside the United States and Puerto Rico on April 15). Interest on any unpaid tax will be charged from April 15.

There are other provisions that extend the time for filing your return. See *Extensions,* earlier.

How To Get Tax Help

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

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

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and

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

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

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

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

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

- Find answers to questions you may have.
- Download forms and publications or search for forms and publications by topic or keyword.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Get information on starting and operating a small business.

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

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

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

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829– 4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

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

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

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

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

P.O. Box 85074
Richmond, VA 23261–5074

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

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for record-keeping.
- Internal Revenue Bulletins.

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

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

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