



Department of the Treasury  
Internal Revenue Service

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# Armed Forces' Tax Guide

For use in preparing  
**2005** Returns



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## What's New

**Hurricane Katrina tax relief.** The Katrina Emergency Tax Relief Act of 2005 provides tax relief for individuals affected by the hurricane. For details, see Publication 4492.

**Exemption for dependent.** Beginning in 2005, you will use new rules to determine whether you can claim an exemption for a dependent. You can claim an exemption for a "qualifying child" or a "qualifying relative." See *Exemptions*.

**Exemption amount.** You are allowed a \$3,200 deduction for each exemption to which you are entitled.

**Earned income credit.** The maximum amount of income you can earn and still claim the earned income credit has increased. You may be able to take the credit if you earned less than \$35,263 (\$37,263 for married filing jointly) if you have two or more qualifying children; \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child; and, \$11,750 (\$13,750 for married filing jointly) if you do not have any qualifying children. See *Earned Income Credit*.

**Standard mileage rate.** The standard mileage rate for the cost of operating your car increased to 40.5 cents a mile for all business miles driven before September 1, 2005 (48.5 cents a mile for miles driven after August 31, 2005). The standard mileage rate for operating your car before September 1, 2005, to get medical care or to move increased to 15 cents a mile (22 cents a mile after August 31, 2005).

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## Reminders

**Third party designee.** You can check the Yes box in the *Third Party Designee* area of your return to authorize the IRS to discuss your return with a friend, family member, or any other person you choose. This allows the IRS to call the person you identified as your designee to answer any questions that may arise during the processing of your tax return. It also allows your designee to perform certain actions. See your income tax package for details.

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

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## Introduction

This publication covers the special tax situations of active members of the U.S. Armed Forces. It does not cover military pensions or veterans' benefits or give the basic tax rules that apply to all taxpayers. For information on military pensions or veterans' benefits, see Publication 525, *Taxable and Nontaxable Income*. If you need the basic tax rules or information on another subject not covered here, you can check our other free publications. See Publication

910, *IRS Guide to Free Tax Services*, for a list and descriptions of the different tax publications.

For federal tax purposes, the U.S. Armed Forces includes commissioned officers, warrant officers, and enlisted personnel in all regular and reserve units under control of the Secretaries of the Defense, Army, Navy, and Air Force. The U.S. Armed Forces also includes the Coast Guard. It does not include members of the U.S. Merchant Marine or the American Red Cross.

Members serving in an area designated or treated as a combat zone are granted special tax benefits. In the event an area ceases to be a combat zone (by Presidential Executive Order or by statute), the IRS will do its best to notify you. Many of the relief provisions will end at that time.

Members serving in a qualified hazardous duty area designated by statute are afforded the same benefits as members serving in a combat zone designated by Executive Order.

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

You can write to us at the following address:

Internal Revenue Service  
Individual Forms and Publications Branch  
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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at [\\*taxforms@irs.gov](mailto:*taxforms@irs.gov). (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

**Tax questions.** If you have a tax question, visit [www.irs.gov](http://www.irs.gov) or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

**Ordering forms and publications.** Visit [www.irs.gov/formspubs](http://www.irs.gov/formspubs) to download forms and publications, call 1-800-829-3676, or write to the National Distribution Center at the address shown under *How To Get Tax Help* in the back of this publication.

## Useful Items

You may want to see:

### Publication

- 54 Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 503 Child and Dependent Care Expenses
- 505 Tax Withholding and Estimated Tax

- ❑ 516 U.S. Government Civilian Employees Stationed Abroad
- ❑ 519 U.S. Tax Guide for Aliens
- ❑ 521 Moving Expenses
- ❑ 523 Selling Your Home
- ❑ 525 Taxable and Nontaxable Income
- ❑ 527 Residential Rental Property
- ❑ 529 Miscellaneous Deductions
- ❑ 553 Highlights of 2005 Tax Changes
- ❑ 559 Survivors, Executors, and Administrators
- ❑ 590 Individual Retirement Arrangements (IRAs)
- ❑ 596 Earned Income Credit (EIC)
- ❑ 970 Tax Benefits for Education
- ❑ 3920 Tax Relief for Victims of Terrorist Attacks

**Form (and Instructions)**

- ❑ 1040X Amended U.S. Individual Income Tax Return
- ❑ 1310 Statement of Person Claiming Refund Due a Deceased Taxpayer
- ❑ 2848 Power of Attorney and Declaration of Representative

- ❑ 3903 Moving Expenses
- ❑ 4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- ❑ 8822 Change of Address
- ❑ 9465 Installment Agreement Request

See *How To Get Tax Help*, near the end of this publication, for information about getting IRS publications and forms.

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## Gross Income

Members of the Armed Forces receive many different types of pay and allowances. Some are included in gross income while others are excluded from gross income. Included items (*Table 1*) are subject to tax and must be reported on your tax return. Excluded items (*Table 2*) are not subject to tax, but may have to be shown on your tax return.

For information on the exclusion of pay for service in a combat zone and other tax benefits for combat zone participants, see *Combat Zone Exclusion* and *Extension of Deadline*, later.

### Table 1. Included Items

These items are included in gross income, unless the pay is for service in a combat zone.

<p><b>Basic pay</b></p> <ul style="list-style-type: none"> <li>• Active duty</li> <li>• Attendance at a designated service school</li> <li>• Back wages</li> <li>• CONUS COLA</li> <li>• Drills</li> <li>• Reserve training</li> <li>• Training duty</li> </ul> <p><b>Special pay</b></p> <ul style="list-style-type: none"> <li>• Aviation career incentives</li> <li>• Career sea</li> <li>• Diving duty</li> <li>• Foreign duty (outside the 48 contiguous states and the District of Columbia)</li> <li>• Foreign language proficiency</li> <li>• Hardship duty</li> <li>• Hostile fire or imminent danger</li> <li>• Medical and dental officers</li> <li>• Nuclear-qualified officers</li> <li>• Optometry</li> <li>• Pharmacy</li> <li>• Special duty assignment pay</li> <li>• Veterinarian</li> </ul>	<p><b>Bonuses</b></p> <ul style="list-style-type: none"> <li>• Career status</li> <li>• Enlistment</li> <li>• Officer</li> <li>• Overseas extension</li> <li>• Reenlistment</li> </ul> <p><b>Other payments</b></p> <ul style="list-style-type: none"> <li>• Accrued leave</li> <li>• High deployment per diem</li> <li>• Personal money allowances paid to high-ranking officers</li> <li>• Student loan repayment from programs such as the Department of Defense Educational Loan Repayment Program when year's service (requirement) is not attributable to a combat zone</li> </ul> <p><b>Incentive pay</b></p> <ul style="list-style-type: none"> <li>• Submarine</li> <li>• Flight</li> <li>• Hazardous duty</li> <li>• High altitude/Low altitude (HALO)</li> </ul>
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## Table 2. Excluded Items

The exclusion for certain items applies whether the item is furnished in kind or is a reimbursement or allowance. There is no exclusion for the personal use of a government-provided vehicle.

<p><b>Living allowances</b></p> <ul style="list-style-type: none"> <li>• BAH (Basic Allowance for Housing). You can deduct mortgage interest and real estate taxes on your home even if you pay these expenses with your BAH</li> <li>• BAS (Basic Allowance for Subsistence)</li> <li>• Housing and cost-of-living allowances abroad whether paid by the U.S. Government or by a foreign government</li> <li>• OHA (Overseas Housing Allowance)</li> </ul>	<p><b>Combat zone pay</b></p> <ul style="list-style-type: none"> <li>• Compensation for active service while in a combat zone or a qualified hazardous duty area. Note: Limited amount for officers</li> </ul>
<p><b>Moving allowances</b></p> <ul style="list-style-type: none"> <li>• Dislocation</li> <li>• Military base realignment and closure benefit (the exclusion is limited as described on page 4)</li> <li>• Move-in housing</li> <li>• Moving household and personal items</li> <li>• Moving trailers or mobile homes</li> <li>• Storage</li> <li>• Temporary lodging and temporary lodging expenses</li> </ul>	<p><b>Family allowances</b></p> <ul style="list-style-type: none"> <li>• Certain educational expenses for dependents</li> <li>• Emergencies</li> <li>• Evacuation to a place of safety</li> <li>• Separation</li> </ul> <p><b>Death allowances</b></p> <ul style="list-style-type: none"> <li>• Burial services</li> <li>• Death gratuity payments to eligible survivors</li> <li>• Travel of dependents to burial site</li> </ul> <p><b>Other payments</b></p> <ul style="list-style-type: none"> <li>• Defense counseling</li> <li>• Disability, including payments received for injuries incurred as a direct result of a terrorist or military action</li> <li>• Group-term life insurance</li> <li>• Professional education</li> <li>• ROTC educational and subsistence allowances</li> <li>• Survivor and retirement protection plan premiums</li> <li>• Uniform allowances</li> <li>• Uniforms furnished to enlisted personnel</li> </ul>
<p><b>Travel allowances</b></p> <ul style="list-style-type: none"> <li>• Annual round trip for dependent students</li> <li>• Leave between consecutive overseas tours</li> <li>• Reassignment in a dependent restricted status</li> <li>• Transportation for you or your dependents during ship overhaul or inactivation</li> <li>• Per diem</li> </ul>	<p><b>In-kind military benefits</b></p> <ul style="list-style-type: none"> <li>• Dependent-care assistance program</li> <li>• Legal assistance</li> <li>• Medical/dental care</li> <li>• Commissary/exchange discounts</li> <li>• Space-available travel on government aircraft</li> </ul>

**Death gratuity.** The death gratuity paid to a survivor of a member of the Armed Forces is \$12,000. The full amount is nontaxable.

**Military base realignment and closure benefit.** Payments made under the Homeowners Assistance Program (HAP) generally are excluded from income. However, the excludable amount cannot be more than the following limit:

- 95% of the fair market value of the property for which the payments were made, as determined by the Secretary of Defense before public announcement of intent to close all or part of the military base or installation, minus
- The fair market value of the property as determined by the Secretary of Defense at the time of sale.

Any part of the payment that is more than this limit is included in income.

## Foreign Source Income

If you are a U.S. citizen with income from sources outside the United States (foreign income), you must report all of that income on your tax return unless it is exempt by U.S. law. This is true whether you reside inside or outside the

United States and whether or not you receive a Form W-2, Wage and Tax Statement, or a Form 1099. This applies to earned income (such as wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents, and royalties).

Certain taxpayers can exclude income earned in foreign countries. For 2005, this exclusion amount is \$80,000. However, the foreign earned income exclusion does not apply to the wages and salaries of military and civilian employees of the U.S. Government. Employees of the U.S. Government include those who work at Armed Forces post exchanges, officers' and enlisted personnel clubs, and embassy commissaries, and similar personnel paid from nonappropriated funds. Other foreign income earned by military personnel or their spouses may be eligible for the foreign earned income exclusion. For more information on the exclusion, see Publication 54.

Residents of American Samoa may be able to exclude income from Guam, American Samoa, and the Northern Mariana Islands. This possession exclusion does not apply to wages and salaries of military and civilian employees of the U.S. Government. If you need information on the possession exclusion, see Publication 570, Tax Guide for Individuals With Income From U.S. Possessions.



## Community Property

The pay you earn as a member of the Armed Forces may be subject to community property laws depending on your marital status, your domicile, and the nature of the payment. The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

**Marital status.** Community property rules apply to married persons whose domicile during the tax year was in a community property state. The rules may affect your tax liability if you file separate returns or are divorced during the year.

**Domicile.** Your domicile is the permanent legal home you intend to use for an indefinite or unlimited period, and to which, when absent, you intend to return. It is not always where you presently live.

**Nature of the payment.** Active duty military pay is subject to community property laws. Armed Forces retired or re-tainer pay may be subject to community property laws.

For more information on community property laws, see Publication 555, Community Property.

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## Adjustments to Income

Adjusted gross income is your total income minus certain adjustments. The following adjustments are of particular interest to members of the Armed Forces.

### Armed Forces Reservists

If you are a member of a reserve component of the Armed Forces and you travel more than 100 miles away from home in connection with your performance of services as a member of the reserves, you can deduct your travel expenses as an adjustment to income on line 24 of Form 1040 rather than as a miscellaneous itemized deduction. The deduction is limited to the amount the federal government pays its employees for travel expenses. For more information about this limit, see *Per Diem and Car Allowances* in chapter 6 of Publication 463.

**Member of a reserve component.** You are a member of a reserve component of the Armed Forces if you are in the Army, Navy, Marine Corps, Air Force, or Coast Guard Reserve, the Army National Guard of the United States, the Air National Guard of the United States, or the Reserve Corps of the Public Health Service.

**How to report.** If you have reserve-related travel that takes you more than 100 miles from home, you should first complete Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses. Then enter on Form 1040, line 24, your expenses for reserve travel over 100 miles from home, up to the federal rate, from Form 2106, line 10, or Form 2106-EZ, line 6. Subtract this amount from the total on Form 2106, line 10, or Form 2106-EZ, line 6, and deduct the balance as an itemized deduction on Schedule A (Form 1040), line 20. See *Armed Forces reservists* under *Miscellaneous Itemized Deductions*, later.

## Individual Retirement Arrangements

For purposes of a deduction for contributions to a traditional individual retirement arrangement (IRA), Armed Forces' members (including reservists on active duty for more than 90 days during the year) are considered to be active participants in an employer-maintained retirement plan.

Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or spousal IRA limit, if applicable). However, if you or your spouse was covered by an employer-maintained retirement plan at any time during the year for which contributions were made, you may not be able to deduct all of the contributions. The Form W-2 you or your spouse receives from an employer has a box used to indicate whether you were covered for the year. The "Retirement plan" box should have a mark in it if you were covered.

Individuals serving in the U.S. Armed Forces or in support of the U.S. Armed Forces in designated combat zones have additional time to make a qualified retirement contribution to an IRA. For more information on this extension of deadline provision, see *Extension of Deadline*, later. For more information on IRAs, see Publication 590.

## Moving Expenses

To deduct moving expenses, you generally must meet certain time and distance tests. However, if you are a member of the Armed Forces on active duty and you move because of a permanent change of station, you do not have to meet these tests. You can deduct your unreimbursed moving expenses on Form 3903.

**Permanent change of station.** A permanent change of station includes:

- A move from your home to your first post of active duty,
- A move from one permanent post of duty to another, and
- A move from your last post of duty to your home or to a nearer point in the United States. The move must occur within 1 year of ending your active duty or within the period allowed under the Joint Federal Travel Regulations.

**Spouse and dependents.** If a member of the Armed Forces deserts, is imprisoned, or dies, a permanent change of station for the spouse or dependent includes a move to:

- The place of enlistment,
- The member's, spouse's, or dependent's home of record, or
- A nearer point in the United States.

If the military moves your spouse and dependents to or from a different location than you, the moves are treated as a single move to your new main job location.

**Services or reimbursements provided by the government.** Do not include in your income the value of moving and storage services provided by the government

because of a permanent change of station. Similarly, do not include in income amounts received as a dislocation allowance, temporary lodging expense, temporary lodging allowance, or move-in housing allowance. Generally, if the total reimbursements or allowances that you receive from the government because of the move are more than your actual moving expenses, the excess is included in your wages on Form W-2. However, if any reimbursements or allowances (other than dislocation, temporary lodging, temporary lodging expense, or move-in housing allowances) exceed the cost of moving and the excess is not included in your wages on Form W-2, the excess still must be included in gross income on Form 1040, line 7.

Use Form 3903 to deduct qualified expenses that exceed your reimbursements and allowances (including dislocation, temporary lodging, temporary lodging expense, or move-in housing allowances that are excluded from gross income).

If you must relocate and your spouse and dependents move to or from a different location, do not include in income reimbursements, allowances, or the value of moving and storage services provided by the government to move you and your spouse and dependents to and from the separate locations.

Do not deduct any expenses for moving services that were provided by the government. Also, do not deduct any expenses that were reimbursed by an allowance you did not include in income.

**Deductible moving expenses.** If you meet the requirements discussed earlier, you can deduct the reasonable unreimbursed expenses that are incurred by you and members of your household.

You can deduct expenses (if not reimbursed or furnished in kind) for the following items.

1. Moving household goods and personal effects, including expenses for hauling a trailer, packing, crating, in-transit storage, and insurance. You cannot deduct expenses for moving furniture or other goods you bought on the way from the old home to the new home.
2. Travel and lodging expenses from the old home to the new home, including car expenses and air fare. You can deduct as car expenses either:
  - a. Your actual out-of-pocket expenses such as gas and oil, or
  - b. The standard mileage rate of 15 cents a mile for miles driven before September 1, 2005, and 22 cents a mile for miles driven after August 31, 2005.

You can add parking fees and tolls to the amount claimed under either method. You cannot deduct any expenses for meals. You cannot deduct the cost of unnecessary side trips or lavish and extravagant lodging.



*You can include only the cost of storing and insuring household goods and personal effects within any period of 30 consecutive days after the day these goods and effects are moved from your former home and before they are delivered to your new home.*

**Member of your household.** A member of your household is anyone who has both your former home and your new home as his or her main home. It does not include a tenant or employee unless you can claim that person as a dependent.

**Foreign moves.** A foreign move is a move from the United States or its possessions to a foreign country or from one foreign country to another foreign country. It is not a move from a foreign country to the United States or its possessions.

For a foreign move, the deductible moving expenses described earlier are expanded to include the reasonable expenses of:

- Moving your household goods and personal effects to and from storage, and
- Storing these items for part or all of the time the new job location remains your main job location. The new job location must be outside the United States.

**Reporting moving expenses.** Figure moving expense deductions on Form 3903. Carry the deduction from Form 3903 to Form 1040, line 26. For more information, see Publication 521 and Form 3903.

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## Combat Zone Exclusion

If you are a member of the U.S. Armed Forces who serves in a combat zone (defined later), you can exclude certain pay from your income. You do not actually need to show the exclusion on your tax return because income that qualifies for the combat zone exclusion is not included in the wages reported on your Form W-2. (See *Form W-2*, later.)

You do not have to receive the excluded pay while you are in a combat zone, are hospitalized, or in the same year you served in a combat zone. However, your entitlement to the pay must have fully accrued in a month during which you served in the combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. Enlisted personnel, warrant officers, and commissioned warrant officers can exclude the following amounts from their income. (Other officer personnel are discussed under *Amount of Exclusion*, later.)

- Active duty pay earned in any month you served in a combat zone.
- Imminent danger/hostile fire pay.
- A reenlistment bonus if the voluntary extension or reenlistment occurs in a month you served in a combat zone.
- Pay for accrued leave earned in any month you served in a combat zone. The Department of Defense must determine that the unused leave was earned during that period.
- Pay received for duties as a member of the Armed Forces in clubs, messes, post and station theaters, and other nonappropriated fund activities. The pay must be earned in a month you served in a combat zone.

- Awards for suggestions, inventions, or scientific achievements you are entitled to because of a submission you made in a month you served in a combat zone.
- Student loan repayments. If the entire year of service required to earn the repayment was performed in a combat zone, the entire repayment made because of that year of service is excluded. If only part of that year of service was performed in a combat zone, only part of the repayment qualifies for exclusion.

Retirement pay and pensions do not qualify for the combat zone exclusion.

**Partial (month) service.** If you serve in a combat zone for any part of one or more days during a particular month, you are entitled to an exclusion for that entire month.

**Form W-2.** The wages shown in box 1 of your 2005 Form W-2 should not include military pay excluded from your income under the combat zone exclusion provisions. If it does, you will need to get a corrected Form W-2 from your finance office.

You cannot exclude as combat pay any wages shown in box 1 of Form W-2.

## Combat Zone

A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

**Afghanistan area.** By Executive Order No. 13239, Afghanistan (and airspace above) was designated as a combat zone beginning September 19, 2001.

**The Kosovo area.** By Executive Order No. 13119 and Public Law 106-21, the following locations (including air space above) were designated as a combat zone and a qualified hazardous duty area beginning March 24, 1999.

- Federal Republic of Yugoslavia (Serbia/Montenegro).
- Albania.
- The Adriatic Sea.
- The Ionian Sea—north of the 39th parallel.

**Persian Gulf area.** By Executive Order No. 12744, the following locations (and airspace above) were designated as a combat zone beginning January 17, 1991.

- The Persian Gulf.
- The Red Sea.
- The Gulf of Oman.
- The part of the Arabian Sea that is north of 10 degrees north latitude and west of 68 degrees east longitude.
- The Gulf of Aden.

- The total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.

**Qualified hazardous duty area.** Beginning November 21, 1995, a qualified hazardous duty area in the former Yugoslavia is treated as if it were a combat zone. The qualified hazardous duty area includes:

- Bosnia and Herzegovina.
- Croatia.
- Macedonia.

**Note.** Members of the Armed Forces deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty area, but outside the qualified hazardous duty area, are treated as if they are in a combat zone solely for the purposes of the extension of deadlines. These personnel are not entitled to other combat zone tax benefits. However, if they satisfy additional requirements, they may be entitled to full combat zone tax benefits. See *Qualifying service outside combat zone*, later.

## Serving in a Combat Zone

Service in a combat zone includes any periods you are absent from duty because of sickness, wounds, or leave. If, as a result of serving in a combat zone, a person becomes a prisoner of war or is missing in action, that person is considered to be serving in the combat zone so long as he or she keeps that status for military pay purposes.

**Note.** You are considered to be serving in a combat zone if you are either assigned on official temporary duty to a combat zone or you qualify for hostile fire/imminent danger pay while in a combat zone.

**Qualifying service outside combat zone.** Military service outside a combat zone is considered to be performed in a combat zone if:

- The service is in direct support of military operations in the combat zone, and
- The service qualifies you for special military pay for duty subject to hostile fire or imminent danger.

Military pay received for this service will qualify for the combat zone exclusion if the other requirements are met and the pay is verifiable by reference to military pay records.

**Nonqualifying presence in combat zone.** None of the following types of military service qualify as service in a combat zone.

- Presence in a combat zone while on leave from a duty station located outside the combat zone.
- Passage over or through a combat zone during a trip between two points that are outside a combat zone.
- Presence in a combat zone solely for your personal convenience.



## Amount of Exclusion

If you are an enlisted member, warrant officer, or commissioned warrant officer and you serve in a combat zone during any part of a month, all of your military pay for that month is excluded from your income. You also can exclude military pay earned while you are hospitalized as a result of wounds, disease, or injury incurred in the combat zone. The exclusion of your military pay while you are hospitalized does not apply to any month that begins more than 2 years after the end of combat activities in that combat zone. Your hospitalization does not have to be in the combat zone.

If you are a commissioned officer (other than a commissioned warrant officer), you may exclude your pay according to the rules just discussed. However, the amount of your exclusion is limited to the highest rate of enlisted pay (plus imminent danger/hostile fire pay you received) for each month during any part of which you served in a combat zone or were hospitalized as a result of your service there.

**Hospitalized while serving in the combat zone.** If you are hospitalized while serving in the combat zone, the wound, disease, or injury causing the hospitalization will be presumed to have been incurred while serving in the combat zone unless there is clear evidence to the contrary.

**Example.** You are hospitalized for a specific disease in a combat zone where you have been serving for 3 weeks, and the disease for which you are hospitalized has an incubation period of 2 to 4 weeks. The disease is presumed to have been incurred while you were serving in the combat zone. On the other hand, if the incubation period of the disease is 1 year, the disease would not have been incurred while you were serving in the combat zone.

**Hospitalized after leaving the combat zone.** In some cases, the wound, disease, or injury may have been incurred while you were serving in the combat zone, even though you were not hospitalized until after you left.

**Example.** You were hospitalized for a specific disease 3 weeks after you left the combat zone. The incubation period of the disease is from 2 to 4 weeks. The disease is presumed to have been incurred while serving in the combat zone.

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## Alien Status

For tax purposes, an alien is an individual who is not a U.S. citizen. An alien is in one of three categories: resident, nonresident, or dual-status. Placement in the correct category is crucial in determining what income to report and what forms to file.

Most members of the Armed Forces are U.S. citizens or resident aliens. However, if you have questions about your alien status or the alien status of your dependents or spouse, you should read the information in the following paragraphs and see Publication 519.

Under peacetime enlistment rules, you generally cannot enlist in the Armed Forces unless you are a citizen or have been legally admitted to the United States for permanent residence. If you are an alien enlistee in the Armed Forces,

you are probably a resident alien. If, under an income tax treaty, you are considered a resident of a foreign country, see your base legal officer. Other aliens who are in the United States only because of military assignments and who have a home outside the United States are nonresident aliens. Guam and Puerto Rico have special rules. Residents of those areas should contact their taxing authority with their questions.

## Resident Aliens

You are considered a resident alien of the United States for tax purposes if you meet either the “green card test” or the “substantial presence test” for the calendar year (January 1 – December 31). These tests are explained in Publication 519. Generally, resident aliens are taxed on their worldwide income and file the same tax forms as U.S. citizens.

**Treating nonresident alien spouse as resident alien.** A nonresident alien spouse can be treated as a resident alien if all the following conditions are met.

- One spouse is a U.S. citizen or resident alien at the end of the tax year.
- That spouse is married to the nonresident alien at the end of the tax year.
- You both choose to treat the nonresident alien spouse as a resident alien.

**Making the choice.** Both you and your spouse must sign a statement and attach it to your joint return for the first tax year for which the choice applies. Include in the statement:

- A declaration that one spouse was a nonresident alien and the other was a U.S. citizen or resident alien on the last day of the year,
- A declaration that both spouses choose to be treated as U.S. residents for the entire tax year, and
- The name, address, and taxpayer identification number (social security number or individual taxpayer identification number) of each spouse. If the nonresident alien spouse is not eligible to get a social security number, he or she should file Form W-7, Application for IRS Individual Taxpayer Identification Number (ITIN).



*Once you make this choice, the nonresident alien spouse's worldwide income is subject to U.S. tax. If the nonresident alien spouse has substantial foreign income, there may be no advantage to making this choice.*

**Ending the choice.** Once you make this choice, it applies to all later years unless one of the following situations occurs.

- You or your spouse revokes the choice.
- You or your spouse dies.
- You and your spouse become legally separated under a decree of divorce or separate maintenance.



- The Internal Revenue Service ends the choice because of inadequate records.

For specific details on these situations, see Publication 519.

If the choice is ended for any of these reasons, neither spouse can make the choice for any later year.

**Choice not made.** If you and your nonresident alien spouse do not make this choice:

- You cannot file a joint return. You can file as married filing separately, or head of household if you qualify.
- You can claim an exemption for your nonresident alien spouse if he or she has no gross income for U.S. tax purposes and is not another taxpayer's dependent (see *Exemptions*, later).
- The nonresident alien spouse generally does not have to file a federal income tax return if he or she had no income from sources in the United States. If a return has to be filed, see the next discussion.
- The nonresident alien spouse is not eligible for the earned income credit if he or she has to file a return.

## Nonresident Aliens

An alien who does not meet the requirements to be a resident alien, as discussed earlier, is a nonresident alien. If required to file a federal tax return, nonresident aliens must file either Form 1040NR, U.S. Nonresident Alien Income Tax Return, or Form 1040NR-EZ, U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents. See the form instructions for information on who must file and filing status.

Nonresident aliens generally must pay tax on income from sources in the United States. A nonresident alien's income that is from conducting a trade or business in the United States is taxed at graduated U.S. tax rates. Other income from U.S. sources is taxed at a flat 30% (or lower treaty) rate. For example, dividends from a U.S. corporation paid to a nonresident alien generally are subject to a 30% (or lower treaty) rate.

## Dual-Status Aliens

You can be both a nonresident and resident alien during the same tax year. This usually occurs in the year you arrive in or depart from the United States. Dual-status aliens are taxed on income from all sources for the part of

the year they are resident aliens. Generally, they are taxed only on income from sources in the United States for the part of the year they are nonresident aliens.

## Exemptions

Exemptions reduce your income before you figure your tax. There are two types of exemptions.

- Personal exemptions.
- Exemptions for dependents.

While both types of exemptions are worth the same amount, different rules apply to each.

You generally can claim one exemption for yourself. If you are married and file a joint return, you can claim your own exemption and one for your spouse. If you file a separate return, you can claim the exemption for your spouse only if your spouse had no gross income and was not a dependent of another taxpayer. You also can claim one exemption for each person qualifying as your dependent. Beginning in 2005, the term "dependent" means a qualifying child or a qualifying relative. Both terms are defined later.

For 2005, you generally can deduct \$3,200 for each exemption you claim for yourself, your spouse, and each person who qualifies as your dependent.

If another taxpayer can claim an exemption for you or your spouse, you cannot claim that exemption on your tax return. If you can claim an exemption for a dependent, that dependent cannot claim an exemption on his or her own tax return.

To claim an exemption for a dependent on your tax return, you must list either the social security number (SSN), individual taxpayer identification number (ITIN), or adoption taxpayer identification number (ATIN) for that person on your return.

For more information on exemptions, see Publication 501.



*If you do not list the dependent's SSN, ITIN, or ATIN, the exemption may be disallowed.*

**Exemption for individual displaced by Hurricane Katrina.** You may be able to claim a \$500 exemption if you provided housing to a person displaced by Hurricane Katrina. You cannot claim this amount for housing your spouse or any of your dependents.

**Table 3. Overview of the Rules for Claiming an Exemption for a Dependent**

**Caution:** This table is only an overview of the rules. For details, see Publication 501.

<ul style="list-style-type: none"> <li>You cannot claim any dependents if you, or your spouse if filing jointly, could be claimed as a dependent by another taxpayer.</li> <li>You cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.</li> <li>You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident, U.S. national, or a resident of Canada or Mexico, for some part of the year.<sup>1</sup></li> <li>You cannot claim a person as a dependent unless that person is your <b>qualifying child</b> or <b>qualifying relative</b>.</li> </ul>	
Tests To Be a Qualifying Child	Tests To Be a Qualifying Relative
<ol style="list-style-type: none"> <li>The child must be your son, daughter, stepchild, eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.</li> <li>The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.</li> <li>The child must have lived with you for more than half of the year.<sup>2</sup></li> <li>The child must not have provided more than half of his or her own support for the year.</li> <li>If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.</li> </ol>	<ol style="list-style-type: none"> <li>The person cannot be your qualifying child or the qualifying child of anyone else.</li> <li>The person either (a) must be related to you in one of the ways listed under <i>Relatives who do not have to live with you</i>, or (b) must live with you all year as a member of your household.<sup>2</sup></li> <li>The person's gross income for the year must be less than \$3,200.<sup>3</sup></li> <li>You must provide more than half of the person's total support for the year.<sup>4</sup></li> </ol>
<p><sup>1</sup>There is an exception for certain adopted children.  <sup>2</sup>There are exceptions for temporary absences, children who were born or died during the year, children of divorced or separated parents, and kidnapped children.  <sup>3</sup>There is an exception if the person is disabled and has income from a sheltered workshop.  <sup>4</sup>There is an exception for multiple support agreements.</p>	

## Dependents

You can take an exemption for a dependent only if you and the person you wish to claim as a dependent meet the following requirements.

- The person you wish to claim as a dependent must be a U.S. citizen, U.S. resident, U.S. national, or a resident of Canada or Mexico for some part of the year. If you are a U.S. citizen or U.S. national and your adopted child lived with you as a member of your household all year, that child meets this requirement.
- You generally cannot claim the exemption for the person you wish to claim as a 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.
- You, and your spouse if filing jointly, cannot be claimed as a dependent of another taxpayer.
- The person you wish to claim as a dependent must be either a qualifying child or a qualifying relative.

All the requirements for claiming an exemption for a dependent are summarized in Table 3.

**Qualifying child.** There are five tests that must be met for a child to be your qualifying child. The five tests are:

- Relationship test.
- Age test.
- Residency test.
- Support test, and
- Special test for qualifying child of more than one person.

**Relationship test.** To meet this test, a child must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew).

**Age test.** To meet this test, a child must be under age 19 at the end of the year, or under age 24 and a student, or any age and permanently and totally disabled.

**Residency test.** To meet this test, your child must have lived with you for more than half of the year. There are

exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.

**Support test.** To meet this test, a child cannot have provided over half of his or her own support for the year.

**Special test for qualifying child of more than one person.** Sometimes, a child meets the relationship, age, residency, and support tests to be a qualifying person of more than one person. Although the child is a qualifying child of each of these persons, only one person can actually treat the child as a qualifying child. To meet this special test, you must be the person who can treat the child as a qualifying child. See Publication 501 for details.

**Qualifying relative.** There are four tests that must be met for a person to be your qualifying relative.

- Not a qualifying child test.
- Member of household or relationship test.
- Support test.
- Gross income test.

**Not a qualifying child test.** To meet this to be your qualifying relative, a person cannot be your qualifying child or the qualifying child of anyone else.

**Member of household or relationship test.** To meet this test, a person either must live with you all year as a member of your household or must be related to you in one of the ways listed under *Relatives who do not have to live with you* in Publication 501.

**Support test.** To meet this test, you generally must provide more than half of a person's total support for the year.

**Gross income test.** To meet this test, the gross income of the person you wish to claim as a dependent must be less than \$3,200 for the year. There is an exception for a disabled dependent working at a sheltered workshop.

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## Sale of Home

You may not have to pay tax on all or part of the gain from the sale of your main home. Usually, your main home is the one in which you live most of the time. It can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

See Publication 523 for more information.

## Rules for Sales in 2005

You generally can exclude up to \$250,000 of gain (\$500,000, in most cases, if married filing a joint return) realized on the sale or exchange of a main home in 2005. The exclusion is allowed each time you sell or exchange a main home, but generally not more than once every 2

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 (the ownership test), and lived in the home as your main home for at least 2 years (the use test).

**Exception to ownership and use tests.** You can exclude gain, but the maximum amount of gain 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.

**5-year test period suspended.** You can choose to have the 5-year test period for ownership and use suspended during any period you or your spouse serve on qualified official extended duty as a member of the Armed Forces. This means that you may be able to meet the 2-year use test even if, because of your service, you did not actually live in your home for at least the required 2 years during the 5-year period ending on the date of sale.

**Example.** David bought and moved into a home in 1997. He lived in it as his main home for 2½ years. For the next 6 years, he did not live in it because he was on qualified official extended duty with the Army. He then sold the home at a gain in 2005. To meet the use test, David chooses to suspend the 5-year test period for the 6 years he was on qualifying official extended duty. This means he can disregard those 6 years. Therefore, David's 5-year test period consists of the 5 years before he went on qualifying official extended duty. He meets the ownership and use tests because he owned and lived in the home for 2½ years during this test period.

**Period of suspension.** The period of suspension cannot last more than 10 years. You cannot suspend the 5-year period for more than one property at a time. You can revoke your choice to suspend the 5-year period at any time.

**Qualified official extended duty.** You are on qualified official extended duty if you serve on extended duty either:

- At a duty station at least 50 miles from your main home, or
- While you live in Government quarters under Government orders.

You are on extended duty when you are called or ordered to active duty for a period of more than 90 days or for an indefinite period.

**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.

**Loss.** You cannot deduct a loss from the sale of your main home.

**More information.** For more information on the laws affecting the sale of a home in 2004, see Publication 523.

## Sale of a Home Before May 7, 1997

See *Rules for Sales Before May 7, 1997*, in the 2004 Publication 3 if you sold your main home at a gain before

May 7, 1997, and all three of the following statements are true.

1. You postponed the gain.
2. The 2-year period you had to replace that home (your replacement period) was suspended while you served in the Armed Forces.
3. You have not already reported to the IRS either your purchase of a new home within your replacement period or a taxable gain resulting from the end of your replacement period.

The 2004 Publication 3 is available at [www.irs.gov](http://www.irs.gov).

## 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, see 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, see 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, see Publication 529.

## Employee Business Expenses

Deductible employee business expenses are miscellaneous itemized deductions subject to the 2% limit. For information on employee business expenses, see 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 Form W-2 are not considered reimbursements.)
- If you claim car expenses, you use the standard mileage rate.



*For 2005, the standard mileage rate is 40.5 cents a mile for all business miles driven before September 1, 2005 (48.5 cents for miles driven after August 31, 2005). This rate is adjusted periodically.*

**Travel expenses.** You can deduct unreimbursed travel expenses only if they are incurred while you are traveling away from home. If you are a member of the U.S. Armed Forces on a permanent duty assignment overseas, you are not traveling away from home. You cannot deduct your expenses for meals and lodging while at your permanent duty station. You cannot deduct these expenses even if you have to maintain a home in the United States for your family members who are not allowed to accompany you overseas. (A naval officer assigned to permanent duty aboard a ship that has regular eating and living facilities has a tax home aboard ship for travel expense purposes.)

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 1 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.*

**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.*

**Armed Forces reservists.** A meeting of an Armed Forces reserve unit is a second place of business if the meeting is held on a day on which you work at your regular job. You can deduct the expense of getting from one workplace to the other. You usually cannot deduct the expense if the reserve meeting is held on a day on which you do not work at your regular job. In this case, your transportation generally is a nondeductible commuting expense. However, you can deduct your transportation expenses if the location of the meeting is temporary and you have one or more regular places of work.

If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your transportation expenses. If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. See *Armed Forces Reservists under Adjustments to Income*, earlier.

**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.

- 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.
- 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 qualified 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, see Publication 970.

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## Credits

After you have figured your taxable income and tax liability, you can determine if you are entitled to any tax credits. Some credits require that you have a qualifying child. Only the earned income credit and child tax credit are discussed here. For information on other credits, see your tax form instructions.

### 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). It may also give you a refund.



*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 (defined later), you must meet all the following rules to claim the earned income credit.

1. You must have earned income (defined later).
2. Your earned income and adjusted gross income (AGI) must each be less than:
  - a. \$35,263 (\$37,263 for married filing jointly) if you have two or more qualifying children, or
  - b. \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child.
3. Your filing status cannot be married filing separately.
4. You cannot be a qualifying child of another person. If filing a joint return, your spouse also cannot be a qualifying child of another person.
5. Your qualifying child cannot be used by more than one person to claim the credit. If your qualifying child is the qualifying child of more than one person, you must be the person who can treat the child as a qualifying child. For details, see *Rule 9* in Publication 596.

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 about these forms.
7. 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. If you need more information about making this choice, see *Resident Aliens*, earlier.
8. Your investment income must be \$2,700 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.

**How to report.** If you meet all these rules, fill out Schedule EIC and attach it to either Form 1040 or Form 1040A.

**Qualifying child.** The term “qualifying child” is defined for exemption purposes under *Dependents*, earlier. The definition of “qualifying child” for the EIC is the same as the definition under *Dependents*, with the following exceptions.

- For the EIC, you and your child do not have to meet the support test described under *Dependents*.
- The exception to the residency test for children of divorced or separated parents that applies for exemption purposes does not apply for the EIC.
- To meet the residency test for the EIC, your child must have lived with you in the United States for more than half the year. But there is an exception for U.S. military personnel stationed outside the United States on extended active duty.

**More information.** For more information, see Publication 596.

### Persons Without a Qualifying Child

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

1. You must have earned income (defined later).
2. Your earned income and adjusted gross income must each be less than \$11,750 (\$13,750 for married filing jointly).
3. Your filing status cannot be married filing separately.
4. You cannot be a qualifying child of another person. If filing a joint return, your spouse also cannot be a qualifying child of another person.

5. You must be at least age 25 but under age 65 at the end of the year. If filing a joint return, either you or your spouse must be at least age 25 but under age 65 at the end of the year.
6. You cannot be claimed as a dependent by anyone else on that person's return. If filing a joint return, your spouse also cannot be claimed as a dependent by anyone else on that person's 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 \$2,700 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 social security number.

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

**More information.** For more information, see Publication 596.

## Earned Income

For purposes of the earned income credit, earned income includes the following.

- Wages, salaries, tips, and other taxable employee pay.
- Net earnings from self-employment.
- Gross income received as a statutory employee.
- Nontaxable combat pay if you elect to include it in earned income. See *Nontaxable combat pay election*, later.

For purposes of the earned income credit, earned income does not include:

- Basic pay or special, bonus, or other incentive pay that is subject to the combat zone exclusion (unless you make the nontaxable combat pay election described later),
- Basic Allowance for Housing (BAH),
- Basic Allowance for Subsistence (BAS),
- Any other nontaxable employee compensation,

- 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.

**Prior year earned income.** You may be able to elect to use your 2004 earned income to figure your EIC for 2005 if your 2005 earned income is less than your 2004 earned income. See Pub. 4492 for additional requirements.

**Nontaxable combat pay election.** You can elect to have your nontaxable combat pay included in earned income for the earned income credit. If you make the election, you must include in earned income all nontaxable combat pay you received. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election. The amount of your nontaxable combat pay should be shown on your Form W-2 in box 12 with code Q. Electing to include nontaxable combat pay in earned income may increase or decrease your EIC. Figure the credit with and without your nontaxable combat pay before making the election. Whether the election increases or decreases your EIC depends on your total earned income, filing status, and number of qualifying children. If your earned income without your combat pay is less than the amount shown below for your number of children, you may benefit from electing to include your nontaxable combat pay in earned income and you should figure the credit both ways. If your earned income without your combat pay is equal to or more than these amounts, you will not benefit from including your combat pay in your earned income.

- \$5,200 if you have no qualifying children.
- \$7,800 if you have one qualifying child.
- \$11,000 if you have two qualifying children.

The following examples illustrate the effect of including nontaxable combat pay in earned income for the EIC.

**Example 1—election increases the EIC.** George and Janice are married and will file a joint return. They have one qualifying child. George was in the Army and earned \$15,000 (\$5,000 taxable wages + \$10,000 nontaxable combat pay). Janice worked part of the year and earned \$2,000. Their taxable earned income and AGI are both \$7,000. George and Janice qualify for the earned income credit and fill out the EIC Worksheet and Schedule EIC.

When they complete the EIC worksheet without adding the nontaxable combat pay to their earned income, they find their credit to be \$2,389. When they complete the EIC worksheet with the nontaxable combat pay added to their earned income, they find their credit to be \$2,558. Because making the election will increase their EIC, they elect to add the nontaxable combat pay to their earned income for the EIC. They enter \$2,558 on line 41a of their Form 1040A



and enter the amount of their nontaxable combat pay on line 41b.

**Example 2—election does not increase the EIC.** The facts are the same as in Example 1 except George had nontaxable combat pay of \$22,000. When George and Janice add their nontaxable combat pay to their earned income, they find their credit to be \$640. Because the credit they can get if they do not add the nontaxable combat pay to their earned income is \$2,389, they decide not to make the election. They enter \$2,389 on line 41a of their Form 1040A.

## 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*.

## Advance Earned Income Credit

If you expect to qualify for the earned income credit for 2006, you can choose to get part of the credit in advance by giving a completed 2006 Form W-5 to your appropriate finance office. The credit will be included regularly in your pay. To get this advance payment, you must have a qualifying child. For details, see Form W-5 and its instructions.

If you received advance earned income credit payments in 2005, you must file either Form 1040 or Form 1040A for 2005 to report the payments.

## 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 qualifying child.



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

**Qualifying child.** The term “qualifying child” is defined for exemption purposes under *Dependents*, earlier. The definition of “qualifying child” for the child tax credit is the same as the definition under *Dependents*, with the following exceptions.

- For the child tax credit, the child must be under age 17 at the end of the year.
- For the child tax credit, the child must be a U.S. citizen, U.S. resident, or U.S. national. There is an exception for certain adopted children.

## Amount of Credit

The maximum credit you can claim is \$1,000 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 Form 1040, line 46, or Form 1040A, line 28, is less than the credit. If the amount is zero, 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 *Additional Child Tax Credit*, later.

2. Your modified adjusted gross income (AGI) is more than 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.

## Claiming the Credit

To claim the child tax credit, you must file Form 1040 or Form 1040A. 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.

For more information, see the instructions for Form 1040 or 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 terrorist 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 September 11, 2001, or the terrorist attacks involving anthrax, see Publication 3920. For other information concerning decedents, see Publication 559.*

## Combat Zone Tax 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. No tax liability will be imposed on the beneficiary or trustee of the estate of a deceased individual to the extent the liability is attributable to an amount received that would have been includible in the individual's gross income for the taxable year in which the date of death falls (determined as if the individual had survived).

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.

## Terrorist or Military Action Tax Forgiveness

Tax liability is forgiven for an individual who:

- Is a military or civilian U.S. employee at death, and
- Dies from wounds or injury incurred while a U.S. employee in a terrorist or military action.

The forgiveness applies to:

- The tax year death occurred, and
- Any earlier tax year in the period beginning with the year before the year in which the wounds or injury occurred.

A terrorist or military action is any terrorist activity primarily directed against the United States or its allies or any military action involving the U.S. Armed Forces and 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.

No tax liability will be imposed on the beneficiary or trustee of the estate of a deceased individual to the extent the liability is attributable to an amount received that would have been includible in the individual's gross income for the taxable year in which the date of death falls (determined as if the individual had survived).

**Example.** Army Private John Kane died in 2005 of wounds incurred in a terrorist attack in 2004. His income tax liability is forgiven for all tax years from 2003 through 2005.

## 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 refund claim is 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever is later. Returns filed before they are due are considered filed on the due date, usually April 15.

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*.

**Procedures for claiming forgiveness.** If the individual died in a combat zone or as a result of a terrorist 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 terrorist action, write "KITA" on the front of the return and on the line for total tax. For example, write "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 September 11, 2001, or anthrax terrorist attacks that 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 terrorist or military action. If the individual died as a result of a terrorist or military action, the statement also

must 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  
Stop 661  
Andover, MA 05501

Designated private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd 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.

**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 also would apply to the half owed by the spouse for the years involved.

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## 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, Austin, TX 73301-0215.

## 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 2005 tax returns, the due date is April 17, 2006.

## 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 6-month extension to file your return if you file Form 4868 by the regular due date of your return. You can file it electronically or on paper. See Form 4868 for details.

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 you choose to have IRS figure the tax or you are under a court order to file your return by the regular due date.*

**When you file your return.** Enter the amount you paid on Form 1040, line 69. On Form 1040A, include the amount in the total on line 43. On Form 1040EZ, include the amount in the total on line 9. To the left of line 43 or line 9, 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 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 4-month extension by filing Form 4868 by June 15, 2006, for a 2005 calendar year tax return. Check the box on line 8.

**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.

**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.

**Exception.** If you are a member of the Armed Forces, you may qualify to defer (delay) payment of income tax that becomes due before or during your military service. You must notify the Internal Revenue Service that your ability to pay the income tax has been materially affected by your military service.

Your income tax will be deferred for a period not to exceed 180 days after termination or release from military service. If you pay the income tax in full by the end of the deferral period, you will not be charged interest or penalty for that period.

This exception does not apply to the employee's share of social security and Medicare taxes you may owe.

For more information see *Not in a combat zone* under *Extension of Deadline*, later.



*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.

If you are acting on behalf of someone serving in a combat zone, see *Filing Returns for Combat Zone or Contingency Operation Participants*, later.

A power of attorney also 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.

**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, 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 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.

### Service That Qualifies for an Extension of Deadline

The deadline for filing tax returns, paying taxes, filing claims for refund, and taking other actions with the IRS is automatically extended if any of the following statements is true.

- You serve in the Armed Forces in a combat zone or you have qualifying service outside of a combat zone. (See *Qualifying service outside combat zone*, earlier.)
- You serve in the Armed Forces in a qualified hazardous duty area or are deployed overseas away from your permanent duty station in support of operations in a qualified hazardous duty area, but your deployment station is outside the qualified hazardous duty area. (In the rest of this discussion, the term "combat zone" includes a qualified hazardous duty area.)
- You serve in the Armed Forces on deployment outside the United States away from your permanent duty station while participating in a contingency operation. A contingency operation is a military operation that is designated by the Secretary of Defense or results in calling members of the uniformed services to active duty (or retains them on active duty) during a war or a national emergency declared by the President or Congress.

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.

**Deadline extension period.** 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, have qualifying service outside of the combat zone, or serve in a contingency operation (or the last day the area qualifies as a combat zone or the operation qualifies as a contingency operation), or
- The last day of any continuous qualified hospitalization (defined later) for injury from service in the combat zone or contingency operation or while performing qualifying service outside of the combat zone.

In addition to the 180 days, your deadline is extended also by the number of days that were left for you to take the action with the IRS when you entered a combat zone (or began performing qualifying service outside the combat zone) or began serving in a contingency operation. If you entered the combat zone or began serving in the contingency operation 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, 2005) to file your 2004 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, 2005) are added to the 180 days when determining the last day allowed for filing your 2004 tax return.

**Example 1.** Captain Margaret Jones entered Saudi Arabia on December 1, 2003. She remained there through March 31, 2005, 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' 2003, 2004, and 2005 returns are figured as follows.

**The 2003 tax return.** The deadline is January 11, 2006. This deadline is 286 days (180 plus 106) after Captain Jones' last day in the combat zone (March 31, 2005). 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, 2004).

**The 2004 tax return.** The deadline is January 10, 2006. The deadline is 285 days (180 plus 105) after Captain Jones' last day in the combat zone (March 31, 2005).

**The 2005 tax return.** The deadline is not extended because the 180-day extension period after March 31, 2005, ends on September 27, 2005, which is before the start of the filing period for her 2005 return (January 1 – April 17, 2006).

**Example 2.** Petty Officer Leonard Brown's ship entered the Persian Gulf on January 5, 2004. On February 15, 2004, Leonard was injured and was flown to a U.S. hospital. He remained in the hospital through April 21, 2005. The deadlines for filing Petty Officer Brown's 2003, 2004, and 2005 returns are figured as follows.



**The 2003 tax return.** The deadline is January 27, 2006. Petty Officer Brown has 281 days (180 plus 101) after his last day in the hospital (April 21, 2005) to file his 2003 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, 2004).

**The 2004 tax return.** The deadline is January 31, 2006. Petty Officer Brown has 285 days (180 plus 105) after April 21, 2005, to file his 2004 tax return. The 105 additional days are the number of days in the 2005 filing period that were left when he entered the combat zone.

**The 2005 tax return.** The deadline is not extended because the 180-day extension period after April 21, 2005, ends on October 18, 2005, which is before the start of the filing period for his 2005 return (January 1 – April 17, 2006).

**Example 3.** You generally have 3 years from April 15, 2002, to file a claim for refund against your timely filed 2001 tax return. This means that your claim normally must be filed by April 15, 2005. However, if you served in a combat zone from November 1, 2004, through March 23, 2005, 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, 2006. 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, 2004 – April 15, 2005).

**Missing status.** Time in a missing status (missing in action or prisoner of war) counts as time in a combat zone or a contingency operation.

**Support personnel.** The deadline extension provision also applies if you are serving in a combat zone or a contingency operation 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 contingency operation. 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,

- 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.

Other actions to which the deadline extension provision applies are listed in Revenue Procedure 2005-27, 2005-20 I.R.B. 1050, available at [http://www.irs.gov/irb/2005-20\\_IRB/ar09.html](http://www.irs.gov/irb/2005-20_IRB/ar09.html).



*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 or contingency operation 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 or the operation ceases to be a contingency operation.
- 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 or contingency operation.

**Not in a combat zone.** If you are a member of the Armed Forces, you may qualify to defer (delay) payment of income tax that becomes due before or during your military service. To qualify, you must:

- Be performing military service, and
- Notify the Internal Revenue Service that your ability to pay the income tax has been materially affected by your military service.

You will then be allowed up to 180 days after termination or release from military service to pay the tax. If you pay the tax in full by the end of the deferral period, you will not be charged interest or penalty for that period.

This exception does not apply to the employee's share of social security and Medicare taxes you may owe.

**Military service.** The term military service means the period beginning on the date on which you enter military service and ending on the date on which you are released from military service or die while in military service. In the case of a member of the National Guard, this includes service under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under section 502(f) of title 32,

United States Code, for purposes of responding to a national emergency declared by the President and supported by federal funds.

**Request for deferment.** If you have a current payment agreement (such as an installment 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.

**Maximum rate of interest.** Section 207 of the “Servicemembers Civil Relief Act” limits the maximum interest rate you can be charged to 6% per year for obligations or liabilities incurred before your entry into military 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 military service.

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 military service. You must do so no later than 180 days after the date of your termination or release from military service.

## Filing Returns for Combat Zone or Contingency Operation 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 or contingency operation 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 or contingency operation 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 or contingency operation. The statement must be signed by the spouse filing the tax return and attached to the return.

## Outside the Combat Zone or Contingency Operation

If you do not qualify for the deadline extension provision, your 2005 return is due by the regular due date, April 17, 2006 (June 15, 2006, 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.

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## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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 independently 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 toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit [www.irs.gov/advocate](http://www.irs.gov/advocate).

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

**Free tax services.** To find out what services are available, get Publication 910, IRS 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.



**Internet.** You can access the IRS website 24 hours a day, 7 days a week, at [www.irs.gov](http://www.irs.gov) to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where’s My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your

social security number, your filing status, and the exact whole dollar amount of your refund.

- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* 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](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.
- *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 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



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

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to [www.irs.gov/localcontacts](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.



**Mail.** You can send your order for forms, instructions, and publications to the address below and receive a response within 10 business days after your request is received.

National Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903



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

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$25 (plus a \$5 handling fee).





**CD-ROM for small businesses.** Publication 3207, The Small Business Resource Guide CD-ROM for 2005, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.

- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz).

## Index



To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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## Tax Publications for Individual Taxpayers

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

### General Guides

- 1** Your Rights as a Taxpayer
- 17** Your Federal Income Tax (For Individuals)
- 334** Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509** Tax Calendars for 2006
- 553** Highlights of 2005 Tax Changes
- 910** IRS Guide to Free Tax Services

### Specialized Publications

- 3** Armed Forces' Tax Guide
- 54** Tax Guide for U.S. Citizens and Residents Aliens Abroad
- 225** Farmer's Tax Guide
- 463** Travel, Entertainment, Gift, and Car Expenses
- 501** Exemptions, Standard Deduction, and Filing Information
- 502** Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- 503** Child and Dependent Care Expenses
- 504** Divorced or Separated Individuals
- 505** Tax Withholding and Estimated Tax
- 514** Foreign Tax Credit for Individuals
- 516** U.S. Government Civilian Employees Stationed Abroad
- 517** Social Security and Other Information for Members of the Clergy and Religious Workers
- 519** U.S. Tax Guide for Aliens
- 521** Moving Expenses
- 523** Selling Your Home
- 524** Credit for the Elderly or the Disabled
- 525** Taxable and Nontaxable Income
- 526** Charitable Contributions
- 527** Residential Rental Property
- 529** Miscellaneous Deductions
- 530** Tax Information for First-Time Homeowners

- 531** Reporting Tip Income
- 536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537** Installment Sales
- 541** Partnerships
- 544** Sales and Other Dispositions of Assets
- 547** Casualties, Disasters, and Thefts
- 550** Investment Income and Expenses
- 551** Basis of Assets
- 552** Recordkeeping for Individuals
- 554** Older Americans' Tax Guide
- 555** Community Property
- 556** Examination of Returns, Appeal Rights, and Claims for Refund
- 559** Survivors, Executors, and Administrators
- 561** Determining the Value of Donated Property
- 564** Mutual Fund Distributions
- 570** Tax Guide for Individuals With Income From U.S. Possessions
- 571** Tax-Sheltered Annuity Plans (403(b) Plans)
- 575** Pension and Annuity Income
- 584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587** Business Use of Your Home (Including Use by Daycare Providers)
- 590** Individual Retirement Arrangements (IRAs)
- 593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594** What You Should Know About the IRS Collection Process
- 596** Earned Income Credit (EIC)
- 721** Tax Guide to U.S. Civil Service Retirement Benefits
- 901** U.S. Tax Treaties
- 907** Tax Highlights for Persons with Disabilities

- 908** Bankruptcy Tax Guide
- 915** Social Security and Equivalent Railroad Retirement Benefits
- 919** How Do I Adjust My Tax Withholding?
- 925** Passive Activity and At-Risk Rules
- 926** Household Employer's Tax Guide
- 929** Tax Rules for Children and Dependents
- 936** Home Mortgage Interest Deduction
- 946** How To Depreciate Property
- 947** Practice Before the IRS and Power of Attorney
- 950** Introduction to Estate and Gift Taxes
- 967** The IRS Will Figure Your Tax
- 969** Health Savings Accounts and Other Tax-Favored Health Plans
- 970** Tax Benefits for Education
- 971** Innocent Spouse Relief
- 972** Child Tax Credit
- 1542** Per Diem Rates
- 1544** Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546** The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

### Spanish Language Publications

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

## Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, phone, and mail.

Form Number and Title	Form Number and Title
<b>1040</b> U.S. Individual Income Tax Return	<b>2106</b> Employee Business Expenses
<b>Sch A&amp;B</b> Itemized Deductions & Interest and Ordinary Dividends	<b>2106-EZ</b> Unreimbursed Employee Business Expenses
<b>Sch C</b> Profit or Loss From Business	<b>2210</b> Underpayment of Estimated Tax by Individuals, Estates, and Trusts
<b>Sch C-EZ</b> Net Profit From Business	<b>2441</b> Child and Dependent Care Expenses
<b>Sch D</b> Capital Gains and Losses	<b>2848</b> Power of Attorney and Declaration of Representative
<b>Sch D-1</b> Continuation Sheet for Schedule D	<b>3903</b> Moving Expenses
<b>Sch E</b> Supplemental Income and Loss	<b>4562</b> Depreciation and Amortization
<b>Sch EIC</b> Earned Income Credit	<b>4868</b> Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
<b>Sch F</b> Profit or Loss From Farming	<b>4952</b> Investment Interest Expense Deduction
<b>Sch H</b> Household Employment Taxes	<b>5329</b> Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
<b>Sch J</b> Income Averaging for Farmers and Fishermen	<b>6251</b> Alternative Minimum Tax—Individuals
<b>Sch R</b> Credit for the Elderly or the Disabled	<b>8283</b> Noncash Charitable Contributions
<b>Sch SE</b> Self-Employment Tax	<b>8582</b> Passive Activity Loss Limitations
<b>1040A</b> U.S. Individual Income Tax Return	<b>8606</b> Nondeductible IRAs
<b>Sch 1</b> Interest and Ordinary Dividends for Form 1040A Filers	<b>8812</b> Additional Child Tax Credit
<b>Sch 2</b> Child and Dependent Care Expenses for Form 1040A Filers	<b>8822</b> Change of Address
<b>Sch 3</b> Credit for the Elderly or the Disabled for Form 1040A Filers	<b>8829</b> Expenses for Business Use of Your Home
<b>1040EZ</b> Income Tax Return for Single and Joint Filers With No Dependents	<b>8863</b> Education Credits
<b>1040-ES</b> Estimated Tax for Individuals	<b>9465</b> Installment Agreement Request
<b>1040X</b> Amended U.S. Individual Income Tax Return	