

Chapter 1

Filing information

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Note

IRS Publication 17 (*Your Federal Income Tax*) has been updated by Ernst & Young LLP for 2016. Dates and dollar amounts shown are for 2016. Underlined type is used to indicate where IRS text has been updated. Places where text has been removed are indicated by the sentence: *Text intentionally omitted.*

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Ernst & Young LLP will update the *EY Tax Guide 2017* website with relevant taxpayer information as it becomes available. You can also sign up for email alerts to let you know when changes have been made.

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Tax Breaks and Deductions You Can Use Checklist

Filing a tax return when you don't have to. There are many circumstances where you should file a tax return even when you are not required to file. That may be the case, for example, if you are entitled to a refundable tax credit (such as the earned income tax credit or the additional child tax credit) or had federal income tax withheld.

Failure to file penalties. If you can't pay your tax liability in full, you should still file your tax return properly and on time and pay in as much as possible. If you do not have sufficient funds available, consider borrowing to make the payment or refer to *Installment Agreements*, later in this chapter. Just filing without full payment can save you substantial amounts in filing penalties. The failure to file penalty accrues at the rate of 5% per month or part of a month (up to a maximum of 25%) on the amount of tax your return shows you owe. The failure to pay penalty is much smaller, accruing at the rate of only ½% per month or part of a month (up to a maximum of 25%) on the amount of tax that remains unpaid from the due date of the return until the tax is paid. If you file your return by its due date and receive approval from the IRS to pay the balance of your taxes due under an installment agreement, the ½% rate decreases to ¼% for any month in which the installment agreement is in effect. The IRS applies payments to the outstanding tax balance first, then to penalties, and then to interest.

Introduction

This chapter provides the basic framework you need to know for filing your federal income tax return. It explains when you must file your tax return and what to do if you are unable to get it prepared on time. The chapter also answers many of the most frequently asked questions about procedures and calculations used to determine your income tax.

This chapter discusses such items as who is required to file a return and who should file a return even though he or she is not required to do so. It tells you which tax forms to use, how to go about preparing your tax return once you have obtained the correct forms, and where to mail your tax return once it has been completed. In addition, the chapter reviews the penalties that may be imposed if you do not pay your taxes on time and instructs you on what to do if you discover that a previous tax return contains errors. It also explains what the different accounting methods are and which method may be used in preparing your return.

What's New

Text intentionally omitted.

Achieving a Better Life Experience (ABLE) account. This is a type of savings account to help blind or disabled people save money in a tax-favored manner. For 2016, you can contribute up to \$14,000. Contributions to an ABLE account are not deductible, but distributions are tax-free, including accumulated earnings, if used to pay qualified disability expenses. For additional details, see Publication 907.

TAXPLANNER

Beginning in 2015, states can offer tax-favored ABLE accounts to people with disabilities who became disabled before age 26. Recognizing the special financial burdens faced by families raising children with disabilities, ABLE accounts are designed to enable people with disabilities and their families to save for and pay for disability-related expenses. Contributions totaling up to the annual gift tax exclusion amount—\$14,000 in 2016—can generally be made to an ABLE account each year. Though contributions are not deductible on your income tax return, distributions of contributed amounts and the earnings thereon are tax-free if used to pay qualified disability expenses. See the Tax Benefit for Disability page at irs.gov for more information.

Form W2 verification code. The IRS is testing the use of a 16-character code to verify certain Forms W-2. If you are e-filing and your Form W-2 includes a code in a box labeled “verification code,” enter the code when prompted by your software; disregard the prompt if your Form W-2 doesn't have the code. If you are filing a paper Form 1040, you do not have to use the code.

IRS offers new cash payment option. The IRS is now offering a way for taxpayers to pay their tax balance due in cash at 7-Eleven stores nationwide. Refer to Amount You Owe section later for more information.

Due date of return. The due date to file your 2016 federal income tax return is April 18, 2017. The due date is April 18, instead of April 15, because April 15 falls on a Saturday and the Emancipation Day holiday is observed by the District of Columbia on Monday, April 17, 2017. The next non-holiday weekday is Tuesday, April 18, 2017.

Text intentionally omitted.

Who must file. Generally, the amount of income you can receive before you must file a return has been increased. See Table 1-1, Table 1-2, and Table 1-3 for the specific amounts.

TAXALERT

See Changes in the tax law you should know about in the front section of this book for a comprehensive discussion of tax changes effective for 2016, including tax benefits that expired at the end of 2015. For updated information on any other tax law changes that occur after this book was published, see our website, ey.com/EYTaxGuide.

Table 1-1. **2016 Filing Requirements for Most Taxpayers**

IF your filing status is...	AND at the end of 2016 you were...¹	THEN file a return if your gross income was at least...²
single	under 65	\$10,350
	65 or older	\$11,900
married filing jointly ³	under 65 (both spouses)	\$20,700
	65 or older (one spouse)	\$21,950
	65 or older (both spouses)	\$23,200
married filing separately	any age	\$ 4,050
head of household	under 65	\$13,350
	65 or older	\$14,900
qualifying widow(er) with dependent child	under 65	\$16,650
	65 or older	\$17,900

¹ If you were born on January 1, 1952, you are considered to be age 65 at the end of 2016. (If your spouse died in 2016 or if you are preparing a return for someone who died in 2016, see Publication 501.)

² Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Do not include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time during 2016 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the instructions for Form 1040 or 1040A or Publication 915 to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, do not reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

³ If you did not live with your spouse at the end of 2016 (or on the date your spouse died) and your gross income was at least \$4,050, you must file a return regardless of your age.

Table 1-2. **2016 Filing Requirements for Dependents**

See [chapter 3](#) to find out if someone can claim you as a dependent.

<p>If your parents (or someone else) can claim you as a dependent, use this table to see if you must file a return. (See Table 1-3 for other situations when you must file.)</p> <p>In this table, earned income includes salaries, wages, tips, and professional fees. It also includes taxable scholarship and fellowship grants. (See <i>Scholarships and fellowships</i> in chapter 12.) Unearned income includes investment-type income such as taxable interest, ordinary dividends, and capital gain distributions. It also includes unemployment compensation, taxable social security benefits, pensions, annuities, cancellation of debt, and distributions of unearned income from a trust. Gross income is the total of your earned and unearned income.</p>
<p>Single dependents—Were you either age 65 or older or blind?</p> <p><input type="checkbox"/> No. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your unearned income was more than \$1,050. • Your earned income was more than \$6,300. • Your gross income was more than the larger of: <ul style="list-style-type: none"> • \$1,050, or • Your earned income (up to \$5,950) plus \$350. <p><input type="checkbox"/> Yes. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your unearned income was more than \$2,600 (\$4,150 if 65 or older and blind). • Your earned income was more than \$7,850 (\$9,400 if 65 or older and blind). • Your gross income was more than the larger of: <ul style="list-style-type: none"> • \$2,600 (\$4,150 if 65 or older and blind), or • Your earned income (up to \$5,950) plus \$1,900 (\$3,450 if 65 or older and blind).

Table 1-2. **continued**

<p>Married dependents—Were you either age 65 or older or blind?</p> <p><input type="checkbox"/> No. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your unearned income was more than \$1,050. • Your earned income was more than \$6,300. • Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions. • Your gross income was more than the larger of: <ul style="list-style-type: none"> • \$1,050, or • Your earned income (up to \$5,950) plus \$350. <p><input type="checkbox"/> Yes. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your unearned income was more than \$2,300 (\$3,550 if 65 or older and blind). • Your earned income was more than \$7,550 (\$8,800 if 65 or older and blind). • Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions. • Your gross income was more than the larger of: <ul style="list-style-type: none"> • \$2,300 (\$3,550 if 65 or older and blind), or • Your earned income (up to \$5,950) plus \$1,600 (\$2,850 if 65 or older and blind).
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Table 1-3. **Other Situations When You Must File a 2016 Return**

<p>You must file a return if any of the five conditions below apply for 2016.</p> <ol style="list-style-type: none"> 1. You owe any special taxes, including any of the following. <ol style="list-style-type: none"> a. Alternative minimum tax. b. Additional tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file Form 5329 by itself. c. Household employment taxes. But if you are filing a return only because you owe this tax, you can file Schedule H by itself. d. Social security and Medicare tax on tips you did not report to your employer or on wages you received from an employer who did not withhold these taxes. e. Recapture of first-time homebuyer credit. f. Write-in taxes, including uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance and additional taxes on health savings accounts. g. Recapture taxes. 2. You (or your spouse, if filing jointly) received health savings account, Archer MSA, or Medicare Advantage MSA distributions. 3. You had net earnings from self-employment of at least \$400. 4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes. 5. Advance payments of the premium tax credit were made for you, your spouse, or a dependent who enrolled in coverage through the Marketplace. You or whoever enrolled you should have received Form(s) 1095-A showing the amount of the advance payments.

Reminders

File online. Rather than filing a return on paper, you may be able to file electronically using IRS *e-file*. Create your own personal identification number (PIN) and file a completely paperless tax return. For more information, see *Why Should I Use IRS e-file?*, later.

Change of address. If you change your address, you should notify the IRS. You can use Form 8822 to notify the IRS of the change. See *Change of Address*, later, under *What Happens After I File*.

Enter your social security number. You must enter your social security number (SSN) in the spaces provided on your tax return. If you file a joint return, enter the SSNs in the same order as the names.

Direct deposit of refund. Instead of getting a paper check, you may be able to have your refund deposited directly into your account at a bank or other financial institution. See *IRS Direct Deposit* under *Refunds*, later. If you choose direct deposit of your refund, you may be able to split the refund among two or three accounts.

Pay online or by phone. If you owe additional tax, you may be able to pay online or by phone. See *How To Pay*, later.

Installment agreement. If you cannot pay the full amount due with your return, you may ask to make monthly installment payments. See *Installment Agreement*, later, under *Amount You Owe*. You may be able to apply online for a payment agreement if you owe federal tax, interest, and penalties.

Automatic 6-month extension. You can get an automatic 6-month extension to file your tax return if, no later than the date your return is due, you file Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. See *Automatic Extension*, later.

Service in combat zone. You are allowed extra time to take care of your tax matters if you are a member of the Armed Forces who served in a combat zone, or if you served in the combat zone in support of the Armed Forces. See *Individuals Serving in Combat Zone*, later, under *When Do I Have To File*.

Adoption taxpayer identification number. If a child has been placed in your home for purposes of legal adoption and you will not be able to get a social security number for the child in time to file your return, you may be able to get an adoption taxpayer identification number (ATIN). For more information, see *Social Security Number (SSN)*, later.

Taxpayer identification number for aliens. If you or your dependent is a nonresident or resident alien who does not have and is not eligible to get a social security number, file Form W-7, Application for IRS Individual Taxpayer Identification Number, with the IRS. For more information, see *Social Security Number (SSN)*, later.

Frivolous tax submissions. The IRS has published a list of positions that are identified as frivolous. The penalty for filing a frivolous tax return is \$5,000. Also, the \$5,000 penalty will apply to other specified frivolous submissions. For more information, see *Civil Penalties*, later.

This chapter discusses the following topics.

- Whether you have to file a return.
- Which form to use.
- How to file electronically.
- How to file for free.
- When, how, and where to file your return.
- What happens if you pay too little or too much tax.
- What records you should keep and how long you should keep them.
- How you can change a return you have already filed.

Do I Have To File a Return?

You must file a federal income tax return if you are a citizen or resident of the United States or a resident of Puerto Rico and you meet the filing requirements for any of the following categories that apply to you.

1. Individuals in general. (There are special rules for surviving spouses, executors, administrators, legal representatives, U.S. citizens and residents living outside the United States, residents of Puerto Rico, and individuals with income from U.S. possessions.)
2. Dependents.
3. Certain children under age 19 or full-time students.
4. Self-employed persons.
5. Aliens.

The filing requirements for each category are explained in this chapter. The filing requirements apply even if you do not owe tax.

Individuals—In General

If you are a U.S. citizen or resident, whether you must file a return depends on three factors:

1. Your gross income,
2. Your filing status, and
3. Your age.

To find out whether you must file, see [Table 1-1](#), [Table 1-2](#), and [Table 1-3](#). Even if no table shows that you must file, you may need to file to get money back. (See *Who Should File*, later.)

TIP

Even if you do not have to file a return, it may be to your advantage to do so. See [Who Should File](#), later.

Caution

File only one federal income tax return for the year regardless of how many jobs you had, how many Forms W-2 you received, or how many states you lived in during the year. Do not file more than one original return for the same year, even if you have not received your refund or have not heard from the IRS since you filed.

Gross income. This includes all income you receive in the form of money, goods, property, and services that is not exempt from tax. It also includes income from sources outside the United States or from the sale of your main home (even if you can exclude all or part of it). Include part of your social security benefits if:

1. You were married, filing a separate return, and you lived with your spouse at any time during 2016; or
2. Half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000 if married filing jointly).

If either (1) or (2) applies, see the instructions for Form 1040 or 1040A, or Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, to figure the social security benefits you must include in gross income.

Common types of income are discussed in *Part Two* of this publication.

Community income. If you are married and your permanent home is in a community property state, half of any income described by state law as community income may be considered yours. This affects your federal taxes, including whether you must file if you do not file a joint return with your spouse. See Publication 555, *Community Property*, for more information.

TAXALERT

Following the U.S. Supreme Court ruling issued on June 26, 2015, about same-gender marriage, for all federal tax purposes for which marriage is a factor, including the subject matter covered in this chapter, same-gender couples who legally marry in the United States or a foreign jurisdiction that recognizes same-gender marriages are treated as married for U.S. federal (as well as state and local) tax purposes. However, registered domestic partners and individuals who enter into a civil union or other similar formal relationship are not treated as a married couple for federal tax purposes. For more information, see Publication 501.

Nevada, Washington, and California domestic partners. A registered domestic partner in Nevada, Washington, or California generally must report half the combined community income of the individual and his or her domestic partner. See Publication 555.

EXPLANATION

Individuals of either the same or opposite gender who are in registered domestic partnerships, civil unions, or other similar formal relationships that are not marriages under state law are not considered as married or spouses for federal tax purposes. Such couples may not file a federal return using a married filing separately or jointly filing status. Generally, they must each report half the combined community income earned by the partners. In addition to half of the community income, a partner who has income that is not community income must report that separate income.

Caution

If you do not report all of your self-employment income, your social security benefits may be lower when you retire.

Self-employed individuals. If you are self-employed, your gross income includes the amount on line 7 of Schedule C (Form 1040), Profit or Loss From Business; line 1 of Schedule C-EZ (Form 1040), Net Profit From Business; and line 9 of Schedule F (Form 1040), Profit or Loss From Farming. See *Self-Employed Persons*, later, for more information about your filing requirements.

Filing status. Your filing status depends on whether you are single or married and on your family situation. Your filing status is determined on the last day of your tax year, which is December 31 for most taxpayers. See *chapter 2* for an explanation of each filing status.

Age. If you are 65 or older at the end of the year, you generally can have a higher amount of gross income than other taxpayers before you must file. See *Table 1-1*. You are considered 65 on the day before your 65th birthday. For example, if your 65th birthday is on January 1, 2017, you are considered 65 for 2016.

EXAMPLE

You turn 65 years old on January 2, 2017 and are single. You earned \$11,000 of gross income in 2016. Per *Table 1-1*, you are required to file a return for 2016 because your gross income was at least \$10,350. Had your birthday been one day before, on January 1, 2017, you would have

been considered 65 as of December 31, 2016, and thus, would not have been required to file a return for 2016 (refer to Table 1-1 listing that a 65 year or older person filing with single status must file a tax return if gross income is in excess of \$11,900).

Surviving Spouses, Executors, Administrators, and Legal Representatives

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

- You are the surviving spouse, executor, administrator, or legal representative.
- The decedent met the filing requirements at the date of death.

For more information on rules for filing a decedent's final return, see Publication 559, *Survivors, Executors, and Administrators*.

U.S. Citizens and Resident Aliens Living Abroad

To determine whether you must file a return, include in your gross income any income you received abroad, including any income you can exclude under the foreign earned income exclusion. For information on special tax rules that may apply to you, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*. It is available online and at most U.S. embassies and consulates. See *How To Get Tax Help* in the back of this publication.

EXPLANATION

For more information about U.S. citizens living abroad, see [chapter 42](#), *U.S. citizens working abroad: Tax treatment of foreign earned income*.

Residents of Puerto Rico

If you are a U.S. citizen and also a bona fide resident of Puerto Rico, you generally must file a U.S. income tax return for any year in which you meet the income requirements. This is in addition to any legal requirement you may have to file an income tax return with Puerto Rico.

If you are a bona fide resident of Puerto Rico for the entire year, your U.S. gross income does not include income from sources within Puerto Rico. It does, however, include any income you received for your services as an employee of the United States or a U.S. agency. If you receive income from Puerto Rican sources that is not subject to U.S. tax, you must reduce your standard deduction. As a result, the amount of income you must have before you are required to file a U.S. income tax return is lower than the applicable amount in [Table 1-1](#) or [Table 1-2](#). For more information, see Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*.

Individuals With Income From U.S. Possessions

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

Dependents

If you are a dependent (one who meets the dependency tests in [chapter 3](#)), see [Table 1-2](#) to find out whether you must file a return. You also must file if your situation is described in [Table 1-3](#).

Responsibility of parent. Generally, a child is responsible for filing his or her own tax return and for paying any tax on the return. If a dependent child must file an income tax return but cannot file due to age or any other reason, then a parent, guardian, or other legally responsible person must file it for the child. If the child cannot sign the return, the parent or guardian must sign the child's name followed by the words "By (your signature), parent for minor child."

Child's earnings. Amounts a child earns by performing services are included in his or her gross income and not the gross income of the parent. This is true even if under local law the child's parent has the right to the earnings and may actually have received them. But if the child does not pay the tax due on this income, the parent is liable for the tax.

EXPLANATION

For more details about dependents, see [chapter 3](#), *Personal exemptions and dependents*.

Certain Children Under Age 19 or Full-Time Students

If a child's only income is interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends), the child was under age 19 at the end of 2016 or was a full-time student under age 24 at the end of 2016, and certain other conditions are met, a parent can elect to include the child's income on the parent's return. If this election is made, the child does not have to file a return. See *Parents Election To Report Child's Interest and Dividends* in chapter 32.

TAXALERT

The unearned income of children under age 19, or under age 24 if a full-time student, is taxed at the parent's rate. Unearned income includes interest, dividends, and capital gains.

If a child's interest, dividends, capital gains distributions, and other unearned income total more than \$2,100, part of that income is taxed at the marginal tax rate to which the child's parent is subject, rather than the child's own marginal rate. In effect, such income is treated as if the parent had received the income.

A child who is either age 18 by the end of 2016, or a full-time student between the ages of 19 and 23 by the end of 2016, is not subject to the so-called kiddie tax if he or she has earned income that exceeds one-half of the amount of support they receive. IRS Publication 501 provides a worksheet for determining support. See [chapter 32](#), *Tax on investment income of certain minor children*, for more information.

Self-Employed Persons

You are self-employed if you:

- Carry on a trade or business as a sole proprietor,
- Are an independent contractor,
- Are a member of a partnership, or
- Are in business for yourself in any other way.

Self-employment can include work in addition to your regular full-time business activities, such as certain part-time work you do at home or in addition to your regular job.

EXAMPLE

A person who delivers newspapers would be subject to self-employment tax. A person working at home in a cottage industry—woodworking or furniture making, for example—would be subject to self-employment tax. In some instances, it is to your advantage to report income from self-employment, because if you do not already qualify, you will then become eligible for social security benefits. For more information on self-employed persons, see [chapter 39](#), *Self-employment income: How to file Schedule C*.

You must file a return if your gross income is at least as much as the filing requirement amount for your filing status and age (shown in [Table 1-1](#)). Also, you must file Form 1040 and Schedule SE (Form 1040), Self-Employment Tax, if:

1. Your net earnings from self-employment (excluding church employee income) were \$400 or more, or
2. You had church employee income of \$108.28 or more. (See [Table 1-3](#).)

Use Schedule SE (Form 1040) to figure your self-employment tax. Self-employment tax is comparable to the social security and Medicare tax withheld from an employee's wages. For more information about this tax, see Publication 334, *Tax Guide for Small Business*.

TAXSAVER

You are able to deduct one-half of your self-employment tax for the year in calculating your adjusted gross income. For details see [chapter 23](#), *Taxes you may deduct*.

TAXALERT

Self-employment tax has two parts: old age, survivor, and disability insurance (OASDI) and Medicare hospital insurance (HI). (The comparable social security tax withheld on an employee's

wages consists of these same two parts.) The OASDI tax rate applied to net earnings from self-employment is 12.4% up to the 2016 cap on self-employment income subject to OASDI of \$118,500. There is no limit on the amount of self-employment income subject to the HI portion of the self-employment tax. The HI tax rate applied to net earnings from self-employment is 2.9%. In addition, self-employment income is also subject to the 0.9% Additional Medicare Tax if net earnings, whether by itself or in combination with wages received, exceed \$200,000 for a single taxpayer (\$250,000 for married couples filing jointly; \$125,000 for a married individual filing a separate return). For more information about self-employment tax, see [chapter 39, Self-employment income: How to file Schedule C](#). More information about the social security contribution and benefit base is available at www.socialsecurity.gov/OACT/COLA/cbb.html.

Employees of foreign governments or international organizations. If you are a U.S. citizen who works in the United States for an international organization, a foreign government, or a wholly owned instrumentality of a foreign government, and your employer is not required to withhold social security and Medicare taxes from your wages, you must include your earnings from services performed in the United States when figuring your net earnings from self-employment.

Ministers. You must include income from services you performed as a minister when figuring your net earnings from self-employment, unless you have an exemption from self-employment tax. This also applies to Christian Science practitioners and members of a religious order who have not taken a vow of poverty. For more information, see Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Aliens

Your status as an alien (resident, nonresident, or dual-status) determines whether and how you must file an income tax return.

The rules used to determine your alien status are discussed in Publication 519, *U.S. Tax Guide for Aliens*.

Resident alien. If you are a resident alien for the entire year, you must file a tax return following the same rules that apply to U.S. citizens. Use the forms discussed in this publication.

Nonresident alien. If you are a nonresident alien, the rules and tax forms that apply to you are different from those that apply to U.S. citizens and resident aliens. See Publication 519 to find out if U.S. income tax laws apply to you and which forms you should file.

TAXSAVER

Certain compensation paid to a nonresident alien by a foreign employer is not included in gross income. For more information, see [chapter 3](#) of IRS Publication 519.

Dual-status taxpayer. If you are a resident alien for part of the tax year and a nonresident alien for the rest of the year, you are a dual-status taxpayer. Different rules apply for each part of the year. For information on dual-status taxpayers, see Publication 519.

EXPLANATION

For more information about foreign citizens living in the United States, see [chapter 43, Foreign citizens living in the United States](#).

Who Should File

Even if you do not have to file, you should file a federal income tax return to get money back if any of the following conditions apply.

1. You had federal income tax withheld or made estimated tax payments.
2. You qualify for the earned income credit. See [chapter 38](#) for more information.
3. You qualify for the additional child tax credit. See [chapter 35](#) for more information.
4. You qualify for the premium tax credit. See [chapter 37](#) for more information.
5. You qualify for the health coverage tax credit. See [chapter 38](#) for more information.
6. You qualify for the American opportunity credit. See [chapter 36](#) for more information.
7. You qualify for the credit for federal tax on fuels. See [chapter 38](#) for more information.

Tip

See the discussion under Form 1040 for when you must use that form.

Which Form Should I Use?

You must use one of three forms to file your return: Form 1040EZ, Form 1040A, or Form 1040. (But also see *Why Should I Use IRS efile?*, later.)

Form 1040EZ

Form 1040EZ is the simplest form to use.

You can use Form 1040EZ if all of the following apply.

1. Your filing status is single or married filing jointly. If you were a nonresident alien at any time in 2016, your filing status must be married filing jointly.
2. You (and your spouse if married filing a joint return) were under age 65 and not blind at the end of 2016. If you were born on January 1, 1952, you are considered to be age 65 at the end of 2016.
3. You do not claim any dependents.
4. Your taxable income is less than \$100,000.
5. Your income is only from wages, salaries, tips, unemployment compensation, Alaska Permanent Fund dividends, taxable scholarship and fellowship grants, and taxable interest of \$1,500 or less.
6. You do not claim any adjustments to income, such as a deduction for IRA contributions or student loan interest.
7. You do not claim any credits other than the earned income credit.
8. You do not owe any household employment taxes on wages you paid to a household employee.
9. If you earned tips, they are included in boxes 5 and 7 on your Form W-2.
10. You are not a debtor in a chapter 11 bankruptcy case filed after October 16, 2005.

You must meet all of these requirements to use Form 1040EZ. If you do not, you must use Form 1040A or Form 1040.

TAXPLANNER

Even though it might be easier for you to file Form 1040EZ, you should carefully review your situation before doing so, especially if your income is close to the Form 1040EZ maximum level listed above. Check what deductions you may be able to claim if you itemize. You cannot claim itemized deductions on Form 1040EZ. If you have deductions that can be itemized and you do not claim them, you could be significantly overpaying your tax.

Figuring tax. On Form 1040EZ, you can use only the tax table to figure your income tax. You can find the tax table in the instructions for Form 1040EZ. You cannot use Form 1040EZ to report any other tax.

Form 1040A

If you do not qualify to use Form 1040EZ, you may be able to use Form 1040A.

You can use Form 1040A if all of the following apply.

1. Your income is only from:
 - a. Wages, salaries, and tips,
 - b. Interest,
 - c. Ordinary dividends (including Alaska Permanent Fund dividends),
 - d. Capital gain distributions,
 - e. IRA distributions,
 - f. Pensions and annuities,
 - g. Unemployment compensation,
 - h. Taxable social security and railroad retirement benefits, and
 - i. Taxable scholarship and fellowship grants.

If you receive a capital gain distribution that includes unrecaptured section 1250 gain, section 1202 gain, or collectibles (28%) gain, you cannot use Form 1040A. You must use Form 1040.

2. Your taxable income is less than \$100,000.
3. Your adjustments to income are for only the following items.
 - a. IRA deduction.
 - b. Student loan interest deduction.
4. You do not itemize your deductions.
5. You claim only the following tax credits.

- a. The credit for child and dependent care expenses. (See [chapter 33](#).)
 - b. The credit for the elderly or the disabled. (See [chapter 34](#).)
 - c. The education credits. (See [chapter 36](#).)
 - d. The retirement savings contributions credit. (See [chapter 38](#).)
 - e. The child tax credit. (See [chapter 35](#).)
 - f. The earned income credit. (See [chapter 38](#).)
 - g. The additional child tax credit. (See [chapter 35](#).)
 - h. The premium tax credit. (See [chapter 37](#).)
6. You did not have an alternative minimum tax adjustment on stock you acquired from the exercise of an incentive stock option. (See Publication 525, *Taxable and Nontaxable Income*.)

You can also use Form 1040A if you received employer-provided dependent care benefits or if you owe tax from the recapture of an education credit or the alternative minimum tax.

You must meet all these requirements to use Form 1040A. If you do not, you must use Form 1040.

TAXALERT

Form 1040A lets you report most retirement income, including pension and annuity payments, taxable social security and railroad retirement benefits, and payments from your IRA. Furthermore, it allows you to claim the credit for the elderly or the disabled and report your estimated tax payments. If you have been filing a Form 1040 because of these items, you can qualify for the easier-to-file Form 1040A. Be aware that you still cannot claim itemized deductions on Form 1040A. If you have deductions that can be itemized, you may be better off continuing to file a Form 1040.

Form 1040

If you cannot use Form 1040EZ or Form 1040A, you must use Form 1040. You can use Form 1040 to report all types of income, deductions, and credits.

You may pay less tax by filing Form 1040 because you can take itemized deductions, some adjustments to income, and credits you cannot take on Form 1040A or Form 1040EZ.

You must use Form 1040 if any of the following apply.

1. Your taxable income is \$100,000 or more.
2. You itemize your deductions on Schedule A.
3. You had income that cannot be reported on Form 1040EZ or Form 1040A, including tax-exempt interest from private activity bonds issued after August 7, 1986.
4. You claim any adjustments to gross income other than the adjustments listed earlier under *Form 1040A*.
5. Your Form W-2, box 12, shows uncollected employee tax (social security and Medicare tax) on tips (see [chapter 6](#)) or group-term life insurance (see [chapter 5](#)).
6. You received \$20 or more in tips in any 1 month and did not report all of them to your employer. (See [chapter 6](#).)
7. You were a bona fide resident of Puerto Rico and exclude income from sources in Puerto Rico.
8. You claim any credits other than the credits listed earlier under *Form 1040A*.
9. You owe the excise tax on insider stock compensation from an expatriated corporation.
10. Your Form W-2 shows an amount in box 12 with a code Z.
11. You had a qualified health savings account funding distribution from your IRA.
12. You are an employee and your employer did not withhold social security and Medicare tax.
13. You have to file other forms with your return to report certain exclusions, taxes, or transactions, such as Form 8959 or Form 8960.
14. You are a debtor in a bankruptcy case filed after October 16, 2005.
15. You must repay the first-time homebuyer credit.
16. You have adjusted gross income of more than \$155,650 and must reduce the dollar amount of your exemptions.
17. You received a Form W-2 that incorrectly includes in box 1 amounts that are payments under a Medicaid waiver program, and you cannot get a corrected Form W-2.

Why Should I Use IRS e-file?

IRS e-file is a safe and secure way to file your tax return. Combined with direct deposit, it is the fastest way to receive a refund. Approximately 85 percent of taxpayers use IRS e-file.

TAXPLANNER

As of the date this book went to press, the maximum amount of adjusted gross income (AGI) that qualified for free filing had not yet been announced. In 2015, the maximum AGI was \$62,000. For more information about e-filing and the IRS's Free File program, see [chapter 46, *Everything you need to know about e-filing*](#).

IRS e-file

IRS *e-file* uses automation to replace most of the manual steps needed to process paper returns. As a result, the processing of *e-file* returns is faster and more accurate than the processing of paper returns. However, as with a paper return, you are responsible for making sure your return contains accurate information and is filed on time.

Most paid tax return preparers are required to use IRS *e-file*, and almost all US taxpayers are eligible for e-filing. If your adjusted gross income (AGI) is less than a certain amount, you are eligible for *Free File*, a free tax software service offered by IRS partners, to prepare and *e-file* your return for free. If your income is over the amount, you are still eligible for Free File Fillable Forms, an electronic version of IRS paper forms. [Table 1-4](#) lists the free ways to *e-file* your return.

If your return is filed with IRS *e-file*, you will receive an acknowledgment that your return was received and accepted. If you owe tax, you can *e-file* and pay electronically. The IRS has processed more than one billion *e-filed* returns safely and securely. Using *e-file* doesn't affect your chances of an IRS examination of your return.

Table 1-4. **Free Ways to e-file**

Use Free File for free tax software and free e-file.

- IRS partners offer name-brand products for free.
- Seventy percent of taxpayers are eligible for Free File software.
- Everyone is eligible for Free File Fillable Forms, electronic version of IRS paper forms.
- Free File software and Free File Fillable Forms are available only at www.irs.gov/freefile.

Use VITA/TCE for free tax help from volunteers and free-file.

- Volunteers prepare your return and e-file it for free.
- Some sites also offer do-it-yourself software.
- You are eligible based either on your income or age.
- Sites are located nationwide. Find one near you by visiting www.irs.gov/vita.

EXPLANATION

For a detailed discussion about e-filing, see [chapter 46, *Everything you need to know about e-filing*](#).

EXPLANATION

Composition of an Electronic Return

In total, an electronic return contains the same information as a comparable return filed entirely on paper documents. An electronic return consists of:

1. Electronic portion of return—Data transmitted to the IRS electronically
2. Nonelectronic portion of return—Paper documents (filed with the IRS within three days of the IRS acceptance of the electronic portion of the return) that contain information that cannot be electronically transmitted, such as documents prepared by third parties

Electronic Portion of Return

For 2016 returns, most forms and schedules, including Form 1040 and Form 1040A, can be transmitted electronically and are considered the "electronic portion" of the return. With the modernized e-filing system, most documents (capital gain reports, etc.) can be attached as a pdf within the electronic file, depending on the tax software you use, avoiding the need for the non-electronic portion of the return.

Nonelectronic Portion of Return

If you have portions of your tax return that cannot be submitted electronically, you will need to mail them in with Form 8453, *U.S. Individual Income Tax Transmittal for an IRS e-file Return*. See [chapter 46, *Everything you need to know about e-filing*](#), for more information.

TAXPLANNER

There are many variables that impact the speed of a tax refund. Using e-file with direct deposit is usually the fastest option. By doing so, your refund could be deposited into your designated account in as few as ten days. Filing an electronic return could allow you to receive a refund sooner and invest the amount you receive. However, some companies charge a separate fee for electronically filing a return, so you will need to weigh the advantage of investing your refund earlier against additional costs you may incur.

Electronic return signatures. To file your return electronically, you must sign the return electronically using a personal identification number (PIN). If you are filing online, you must use a Self-Select PIN. If you are filing electronically using a tax practitioner, you can use a Self-Select PIN or a Practitioner PIN.

Self-Select PIN. The Self-Select PIN method allows you to create your own PIN. If you are married filing jointly, you and your spouse will each need to create a PIN and enter these PINs as your electronic signatures.

A PIN is any combination of five digits you choose except five zeros. If you use a PIN, there is nothing to sign and nothing to mail—not even your Forms W-2.

TAXALERT

If your return contains certain forms or information that the IRS requires be transmitted separately (see Form 8453 mentioned above), and the software you are using will not allow you to attach a pdf version of the documents, you will need to mail them in with Form 8453. See [chapter 46](#), *Everything you need to know about e-filing*, for more information.

To verify your identity, you will be prompted to enter your adjusted gross income (AGI) from your originally filed 2015 federal income tax return, if applicable. Do not use your AGI from an amended return (Form 1040X) or a math error correction made by the IRS. AGI is the amount shown on your 2015 Form 1040, line 38; Form 1040A, line 22; or Form 1040EZ, line 4. If you do not have your 2015 income tax return, you can request a transcript by using the automated self-service tool. Visit IRS.gov and click on [Get Transcript of Your Tax Records](#). (If you filed electronically last year, you may use your prior year PIN to verify your identity instead of your prior year AGI. The prior year PIN is the five digit PIN you used to electronically sign your 2015 return.) You will also be prompted to enter your date of birth.

Practitioner PIN. The Practitioner PIN method allows you to authorize your tax practitioner to enter or generate your PIN. The practitioner can provide you with details.

Form 8453. You must send in a paper Form 8453 if you have to attach certain forms or other documents that cannot be electronically filed. For details, see Form 8453.

For more details, visit www.irs.gov/efile and click on “Individuals.”

Identity Protection PIN. If the IRS gave you an identity protection personal identification number (IP PIN) because you were a victim of identity theft, enter it in the spaces provided on your tax form. If the IRS has not given you this type of number, leave these spaces blank. For more information, see the instructions for Form 1040A or Form 1040.

TAXALERT

If you reported identity theft to the IRS and did not receive an identity protection PIN, you will need to file a paper copy of your tax return.

Power of attorney. If an agent is signing your return for you, a power of attorney (POA) must be filed. Attach the POA to Form 8453 and file it using that form’s instructions. See [Signatures](#), later, for more information on POAs.

State returns. In most states, you can file an electronic state return simultaneously with your federal return. For more information, check with your local IRS office, state tax agency, tax professional, or the IRS website at www.irs.gov/efile.

Refunds. You can have a refund check mailed to you, or you can have your refund deposited directly to your checking or savings account or split among two or three accounts. With *e-file*, your refund will be issued faster than if you filed on paper.

Caution

You cannot use the Self-Select PIN method if you are a first-time filer under age 16 at the end of 2016.

Tip

If you cannot locate your prior year AGI or prior year PIN, use the Electronic Filing PIN Request. This can be found at IRS.gov. Click on [Request an Electronic Filing PIN](#). Or you can call 1-866-704-7388.

As with a paper return, you may not get all of your refund if you owe certain past-due amounts, such as federal tax, state income tax, state unemployment compensation debts, child support, spousal support, or certain other federal nontax debts, such as student loans. See *Offset against debts* under *Refunds*, later.

TAXALERT

The IRS will allow you to deposit your refund into up to three different accounts that may be with the same or different financial institutions. For instance, a refund could be split between a savings account, a checking account, an Individual Retirement Account (IRA), or a *myRA* account (see *myRA*, later, for more information about this starter retirement account available through the U.S. Treasury). See Form 8888, *Allocation of Refund (including Savings Bond Purchases)*, for more information.

On the other hand, as part of its efforts to combat fraud and identity theft, the IRS now limits the number of refunds that can be directly deposited to a single financial account or prepaid debit card to three a year. After this limit is exceeded, paper checks will be sent instead.

TAXPLANNER

Some banks do not allow a joint refund to be deposited into an individual account. You should check with your bank to make sure your direct deposit will be accepted.

EXPLANATION

Direct Deposit Refunds

Direct deposit refunds will be issued in as few as ten days from the date the electronic return is accepted. However, the Treasury Department does not guarantee that a refund will be issued by a specific date or for the anticipated amount. Direct deposit is usually quickest when used in conjunction with e-filing; however, it can be used regardless of the method used to file your return. The IRS reports that eight of ten taxpayers choose direct deposit for their refunds and nine out of ten refunds are issued in less than 21 days.

TAXALERT

You can use the "Where's My Refund?" feature at www.irs.gov to determine the status of your return. This service is available 24 hours after the IRS receives your e-filed tax return or four weeks after you mail your paper return. The data on this system is updated on a daily basis, so there is no reason to check more than once per day. You should call the IRS if notified to do so by the "Where's My Refund?" tool OR if you have not received your tax refund and it has been more than 21 days since you e-filed your return or more than 6 weeks if you mailed in a paper return.

The following conditions may delay refunds and/or change refund amounts. Direct deposit elections generally will not be honored in these cases:

1. You owe back taxes, either individual or business.
2. You owe delinquent child support.
3. You have certain delinquent debts, such as student loans.
4. The last name and social security number of the primary taxpayer are not the same as on last year's return. If this is the case, the return will be delayed for re-matching.
5. The estimated tax payments reported on the return do not match the estimated tax payments recorded on the IRS master file. This generally occurs when:
 - a. The spouse made separate payments and filed a joint return, or vice versa; or
 - b. The return was filed before the last estimated tax payment was credited to the taxpayer's account (i.e., before January 17, 2017).
6. You have a Schedule E claiming a deduction for a questionable tax shelter.
7. You are claiming a blatantly unallowable deduction.

TAXSAVER

If you are consistently receiving large refunds, you should consider adjusting your annual withholding adjusted during the year by filing a Form W-4. This could enable you to keep more of your income throughout the year, instead of waiting to receive a large refund after filing your tax return. See [chapter 4](#), *Tax withholding and estimated tax*.

Refund inquiries. Information about your return will generally be available within 24 hours after the IRS receives your e-filed return. See *Refund Information*, later.

Amount you owe. To avoid late-payment penalties and interest, pay your taxes in full by April 18, 2017. (The due date is extended to April 18, instead of April 15, because April 15 is a Saturday and the District of Columbia observes Emancipation Day on Monday, April 17, 2017.). See *How To Pay*, later, for information on how to pay the amount you owe.

Using Your Personal Computer

You can file your tax return in a fast, easy, and convenient way using your personal computer. A computer with Internet access and tax preparation software are all you need. Best of all, you can *e-file* from the comfort of your home 24 hours a day, 7 days a week.

IRS approved tax preparation software is available for online use on the Internet, for download from the Internet, and in retail stores.

For information, visit www.irs.gov/efile.

Through Employers and Financial Institutions

Some businesses offer free *e-file* to their employees, members, or customers. Others offer it for a fee. Ask your employer or financial institution if they offer IRS *e-file* as an employee, member, or customer benefit.

Free Help With Your Return

Free help in preparing your return is available nationwide from IRS-trained volunteers available through the Volunteer Income Tax Assistance (VITA) program is designed to help low to moderate income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 or older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about the credits and deductions you may be entitled to claim. To find a site near you, call 1-800-906-9887. Or to find the nearest AARP TaxAide site, visit AARP's website at www.aarp.org/taxaide or call 1-888-227-7669. For more information on these programs, go to IRS.gov and enter keyword "VITA" in the search box.

TAXPLANNER

VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations. For more information and to find locations, refer to www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers.

TAXPLANNER

Free help is also available through the Tax Counseling for the Elderly (TCE) program. For more information, refer to www.irs.gov/Individuals/Tax-Counseling-for-the-Elderly. TCE is designed to assist taxpayers age 60 or older with their tax returns. Volunteers are specially trained to assist with questions about pensions and retirement issues unique to seniors.

TAXPLANNER

The U.S. military also has a strong Volunteer Income Tax Assistance (VITA) program to provide free tax advice, tax preparation, and assistance to Army, Air Force, Navy, Marine Corps, and Coast Guard personnel. This special worldwide tax program is overseen by the Armed Forces Tax Council (AFTC). The AFTC, in coordination with the IRS, trains and equips volunteers for serving military-specific tax issues, such as combat zone tax benefits and the Earned Income Tax Credit. More information can be found via www.irs.gov by entering the keyword "AFTC" in the upper right-hand corner.

Using a Tax Professional

Many tax professionals electronically file tax returns for their clients. You may personally enter your PIN or complete Form 8879, IRS *e-file* Signature Authorization, to authorize the tax professional to enter your PIN on your return.

Note. Tax professionals may charge a fee for IRS *e-file*. Fees can vary depending on the professional and the specific services rendered.

When Do I Have To File?

April 18, 2017, is the due date for filing your 2016 income tax return if you use the calendar year. For a quick view of due dates for filing a return with or without an extension of time to file (discussed later), see [Table 1-5](#).

Table 1-5. **When To File Your 2015 Return**
For U.S. citizens and residents who file returns on a calendar year.

	For Most Taxpayers	For Certain Taxpayers Outside the U.S.
No extension requested	April 18, 2017	June 15, 2017
Automatic extension	October 17, 2017	October 17, 2017

TAXALERT

While the filing deadline is normally April 15, if the 15th falls on a Saturday, Sunday, or legal holiday, a return is considered timely filed if it is filed on the succeeding day that is not a Saturday, Sunday or legal holiday.

The District of Columbia's observation of Emancipation Day is defined as a legal holiday. Because Emancipation Day is observed on April 16th and April 16, 2017, falls on Sunday, it will be observed on Monday, April 17th. As a result, the tax return filing deadline is pushed to Tuesday, April 18, 2017 for all taxpayers.

TAXPLANNER

Certain taxpayers outside the U.S. qualify for a two-month automatic extension time to file their income tax return; e.g., their Form 1040 would be due June 15, 2017. This extension gives the taxpayer an extra 2 months to file and pay the tax. However interest will be charged on the unpaid tax liability from April 15, 2017, until paid. If you expect a balance will be due with your return, you may want to consider paying it by April 18, 2017, to minimize the interest. Refer to *When and Where Should You File?* in Form 1040 instructions for more details.

If you use a fiscal year (a year ending on the last day of any month except December, or a 52-53-week year), your income tax return is due by the 15th day of the 4th month after the close of your fiscal year.

When the due date for doing any act for tax purposes—filing a return, paying taxes, etc.—falls on a Saturday, Sunday, or legal holiday, the due date is delayed until the next business day.

Filing paper returns on time. Your paper return is filed on time if it is mailed in an envelope that is properly addressed, has enough postage, and is postmarked by the due date. If you send your return by registered mail, the date of the registration is the postmark date. The registration is evidence that the return was delivered. If you send a return by certified mail and have your receipt postmarked by a postal employee, the date on the receipt is the postmark date. The postmarked certified mail receipt is evidence that the return was delivered.

Private delivery services. If you use a private delivery service designated by the IRS to send your return, the postmark date generally is the date the private delivery service records in its database or marks on the mailing label. The private delivery service can tell you how to get written proof of this date.

The following are designated private delivery services.

- Federal Express (FedEx): FedEx First Overnight, FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, [FedEx International Next Flight Out](#), FedEx International Priority, FedEx International First, and [FedEx International Economy](#).
- United Parcel Service (UPS): UPS Next Day Air Early AM, 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.

- [DHL Express: DHL Express 9:00, DHL Express 10:30, 3. DHL Express 12:00, DHL Express Worldwide, DHL Express Envelope, DHL Import Express 10:30, DHL Import Express 12:00, and DHL Import Express Worldwide](#)

For more information, go to [IRS.gov](http://irs.gov) and enter “private delivery service” in the search box. The search results will direct you to the IRS mailing address to use if you are using a private delivery service. You will also find any updates to the list of designated private delivery services.

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

TAXPLANNER

Private Delivery Services cannot deliver to post office boxes. If you need to locate information on the specific address for mailing go to www.irs.gov and enter the keyword “Private Delivery Service” in the upper right-hand corner search box and click on “Search.” Then, choose the link for Submission Processing Center Street Addresses for Private Delivery Service (PDS).

Filing electronic returns on time. If you use IRS *e-file*, your return is considered filed on time if the authorized electronic return transmitter postmarks the transmission by the due date. An authorized electronic return transmitter is a participant in the IRS *e-file* program that transmits electronic tax return information directly to the IRS.

The electronic postmark is a record of when the authorized electronic return transmitter received the transmission of your electronically filed return on its host system. The date and time in your time zone controls whether your electronically filed return is timely.

Filing late. If you do not file your return by the due date, you may have to pay a failure-to-file penalty and interest. For more information, see *Penalties*, later. Also see *Interest* under *Amount You Owe*.

If you were due a refund but you did not file a return, you generally must file within 3 years from the date the return was due (including extensions) to get that refund.

Nonresident alien. If you are a nonresident alien and earn wages subject to U.S. income tax withholding, your 2016 U.S. income tax return (Form 1040NR or Form 1040NR-EZ) is due by:

- April 18, 2017, if you use a calendar year, or
- The 15th day of the 4th month after the end of your fiscal year if you use a fiscal year.

If you do not earn wages subject to U.S. income tax withholding, your return is due by:

- June 15, 2017, if you use a calendar year, or
- The 15th day of the 6th month after the end of your fiscal year, if you use a fiscal year.

See Publication 519 for more filing information.

Filing for a decedent. If you must file a final income tax return for a taxpayer who died during the year (a decedent), the return is due by the 15th day of the 4th month after the end of the decedent’s normal tax year. See Publication 559.

Extensions of Time To File

You may be able to get an extension of time to file your return. There are three types of situations where you may qualify for an extension:

- Automatic extensions,
- You are outside the United States, or
- You are serving in a combat zone.

Automatic Extension

If you cannot file your 2016 return by the due date, you may be able to get an automatic 6-month extension of time to file.

Example. If your return is due on April 18, 2017, you will have until October 17, 2017, to file.

How to get the automatic extension. You can get the automatic extension by:

1. Using IRS *e-file* (electronic filing), or
2. Filing a paper form.

E-file options. There are two ways you can use *e-file* to get an extension of time to file. Complete Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to use as a worksheet. If you think you may owe tax when you file your return, use *Part II* of the form to estimate your balance due. If you *e-file* Form 4868 to the IRS, do not also send a paper Form 4868.

E-file using your personal computer or a tax professional. You can use a tax software package with your personal computer or a tax professional to file Form 4868 electronically. Free File and

Caution

If you do not pay the tax due by the regular due date (generally, April 15), you will owe interest. You may also be charged penalties, discussed later.

Free File Fillable Forms, both available at IRS.gov, allows you to prepare and *e-file* Form 4868 for free. You will need to provide certain information from your 2015 tax return. If you wish to make a payment by direct transfer from your bank account, see *Pay online*, under *How To Pay*, later in this chapter.

E-file and pay by credit or debit card or by direct transfer from your bank account. You can get an extension by paying part or all of your estimate of tax due by using a credit or debit card or by direct transfer from your bank account. You can do this by phone or over the Internet. You do not file Form 4868. See *Pay online*, under *How To Pay*, later in this chapter.

Filing a paper Form 4868. You can get an extension of time to file by filing a paper Form 4868. Mail it to the address shown in the form instructions.

If you want to make a payment with the form, make your check or money order payable to “United States Treasury.” Write your SSN, daytime phone number, and “2016 Form 4868” on your check or money order.

TAXPLANNER

The IRS offers some relief to taxpayers unable to pay the amount owed with the filing of Form 4868. The IRS permits Form 4868 to be filed and an automatic 6-month extension obtained even though the tax properly estimated to be due is not paid in full when the form is filed. No late filing penalty will be assessed under these circumstances. However, it is still required that the tax liability shown on Form 4868 be properly estimated based on the information available to the taxpayer. Furthermore, unless at least 90% of the taxpayer’s actual tax liability was paid prior to the original due date of the return through withholding or estimated payments, a late payment penalty of 0.5% per month will be assessed for each month from the original due date to the date of payment plus the regular rate of interest on underpayments. If you file your return by its due date and are approved to pay the balance of taxes due under an installment agreement with the IRS, the ½% rate decreases to ¼% for any month in which the installment agreement is in effect.

When to file. You must request the automatic extension by the due date for your return. You can file your return any time before the 6-month extension period ends.

TAXSAVER

An extension of time to file will not be valid if it does not show a “proper” estimate of tax liability. A proper estimate is based on all the facts and information you have at the time of filing. If your estimate is found to be improper, your extension will be invalid and you will be subject to failure-to-file penalties. See *Penalties*, later. Some tax experts contend that you should request an extension to file your return, arguing that your chances of an audit are reduced, because IRS field agents will have less time to conduct the audit. Other tax experts contend that you’re better off filing on April 15, because that way you get lost in the crowd. Both theories are gross oversimplifications of IRS procedures.

When you file your return. Enter any payment you made related to the extension of time to file on Form 1040, line 70. If you file Form 1040EZ or Form 1040A, include that payment in your total payments on Form 1040EZ, line 9, or Form 1040A, line 46. Also enter “Form 4868” and the amount paid in the space to the left of line 9 or line 46.

TAXPLANNER

An extension of time to file is not an extension of time to pay. If you are unable to pay the full amount of tax due with your tax return because of financial hardship, you should still file the tax return along with a “good faith” payment of as much of the tax due as you can afford to pay. If you can pay in full within 120 days, you should call 1-800-829-1040 to establish the request. Alternatively, you can apply online by going to www.irs.gov and entering the keyword “OPA” in the upper right-hand corner to locate the link for the “Online Payment Agreement Application.” If you cannot pay within 120 days, you should complete Form 9465 or Form 9465-FS to request the privilege of paying the remaining tax in installments. For more information about this topic see *Installment Agreements* later in this chapter.

Individuals Outside the United States

You are allowed an automatic 2-month extension, without filing Form 4868 (until June 15, 2017, if you use the calendar year) to file your 2016 return and pay any federal income tax due if:

1. You are a U.S. citizen or resident, and
2. On the due date of your return:
 - a. You are living 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
 - b. You are in military or naval service on duty outside the United States and Puerto Rico.

However, if you pay the tax due after the regular due date (generally, April 15), interest will be charged from that date until the date the tax is paid.

If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file. See *Individuals Serving in Combat Zone*, later, for special rules that apply to you.

Married taxpayers. If you file a joint return, only one spouse has to qualify for this automatic extension. If you and your spouse file separate returns, this automatic extension applies only to the spouse who qualifies.

How to get the extension. To use this automatic extension, you must attach a statement to your return explaining what situation qualified you for the extension. (See the situations listed under (2), earlier.)

Extensions beyond 2 months. If you cannot file your return within the automatic 2-month extension period, you may be able to get an additional 4-month extension, for a total of 6 months. File Form 4868 and check the box on line 8.

No further extension. An extension of more than 6 months will generally not be granted. However, if you are outside the United States and meet certain tests, you may be granted a longer extension. For more information, see *When To File and Pay* in Publication 54.

Individuals Serving in Combat Zone

The deadline for filing your tax return, paying any tax you may owe, and filing a claim for refund is automatically extended if you serve in a combat zone. This applies to members of the Armed Forces, as well as merchant marines serving aboard vessels under the operational control of the Department of Defense, Red Cross personnel, accredited correspondents, and civilians under the direction of the Armed Forces in support of the Armed Forces.

Combat zone. For purposes of the automatic extension, the term “combat zone” includes the following areas.

1. The Arabian peninsula area, effective January 17, 1991.
2. The Kosovo area, effective March 24, 1999.
3. Afghanistan area, effective September 19, 2001.

See Publication 3, *Armed Forces' Tax Guide*, for more detailed information on the locations comprising each combat zone. The publication also has information about other tax benefits available to military personnel serving in a combat zone.

Extension period. The deadline for filing your return, paying any tax due, and filing a claim for refund is extended for at least 180 days after the later of:

1. The last day you are in a combat zone or the last day the area qualifies as a combat zone, or
2. The last day of any continuous qualified hospitalization for injury from service in the combat zone.

In addition to the 180 days, your deadline is also extended by the number of days you had left to take action with the IRS when you entered the combat zone. For example, you have 3 ½ months (January 1 - April 15) to file your tax return. Any days left in this period when you entered the combat zone (or the entire 3 ½ months if you entered it before the beginning of the year) are added to the 180 days. See *Extension of Deadlines* in Publication 3 for more information.

The rules on the extension for filing your return also apply when you are deployed outside the United States (away from your permanent duty station) while participating in a designated contingency operation.

TAXPLANNER

In addition to the three combat zones listed above, certain areas that support active military operations receive the same combat zone tax benefits (for example, Qualified Hazardous Duty Areas). These areas are listed at www.irs.gov and can be found by entering the keyword "Combat Zone" in the upper right-hand corner.

EXPLANATION

You may obtain tax forms via the Internet by visiting the IRS site at www.irs.gov.

How Do I Prepare My Return?

This section explains how to get ready to fill in your tax return and when to report your income and expenses. It also explains how to complete certain sections of the form. You may find [Table 1-6](#) helpful when you prepare your paper return.

Table 1-6. **Six Steps for Preparing Your Paper Return**

- 1 – Get your records together for income and expenses.
- 2 – Get the forms, schedules, and publications you need.
- 3 – Fill in your return.
- 4 – Check your return to make sure it is correct.
- 5 – Sign and date your return.
- 6 – Attach all required forms and schedules.

Electronic returns. For information you may find useful in preparing a paperless return, see [Why Should I Use IRS efile?](#), earlier.

Substitute tax forms. You cannot use your own version of a tax form unless it meets the requirements explained in Publication 1167, *General Rules and Specifications for Substitute Forms and Schedules*.

Form W-2. If you were an employee, you should receive Form W-2 from your employer. You will need the information from this form to prepare your return. See [Form W-2](#) under *Credit for Withholding and Estimated Tax* in chapter 4.

Your employer is required to provide or send Form W-2 to you no later than January 31, 2017. If it is mailed, you should allow adequate time to receive it before contacting your employer. If you still do not get the form by February 15, the IRS can help you by requesting the form from your employer. When you request IRS help, be prepared to provide the following information.

- Your name, address (including ZIP code), and phone number.
- Your SSN.
- Your dates of employment.
- Your employer's name, address (including ZIP code), and phone number.

Form 1099. If you received certain types of income, you may receive a Form 1099. For example, if you received taxable interest of \$10 or more, the payer is required to provide or send Form 1099 to you no later than January 31, 2017 (or by February 15, 2017, if furnished by a broker). If it is mailed, you should allow adequate time to receive it before contacting the payer. If you still do not get the form by February 15 (or by March 1, 2017, if furnished by a broker), call the IRS for help.

When Do I Report My Income and Expenses?

You must figure your taxable income on the basis of a tax year. A "tax year" is an annual accounting period used for keeping records and reporting income and expenses. You must account for your income and expenses in a way that clearly shows your taxable income. The way you do this is called an accounting method. This section explains which accounting periods and methods you can use.

Accounting Periods

Most individual tax returns cover a calendar year—the 12 months from January 1 through December 31. If you do not use a calendar year, your accounting period is a fiscal year. A regular fiscal year is a 12-month period that ends on the last day of any month except December. A 52-53-week fiscal year varies from 52 to 53 weeks and always ends on the same day of the week.

You choose your accounting period (tax year) when you file your first income tax return. It cannot be longer than 12 months.

TAXPLANNER

To operate on a fiscal year accounting basis, you must keep your books and records based on that fiscal year. Because most individual taxpayers keep their personal financial records on a calendar year basis, it is easier to use a calendar year period. It is virtually impossible for an individual to obtain approval from the IRS to change to a fiscal year accounting period without justification. Usually, the justification must be that you are involved in a cyclical business from which self-employment or partnership income flows. Furthermore, in most cases, that income has to be your sole or principal source of income.

More information. For more information on accounting periods, including how to change your accounting period, see Publication 538, *Accounting Periods and Methods*.

Accounting Methods

Your accounting method is the way you account for your income and expenses. Most taxpayers use either the cash method or an accrual method. You choose a method when you file your first income tax return. If you want to change your accounting method after that, you generally must get IRS approval. Use Form 3115, *Application for Change in Accounting Method*, to request an accounting method change.

Cash method. If you use this method, report all items of income in the year in which you actually or constructively receive them. Generally, you deduct all expenses in the year you actually pay them. This is the method most individual taxpayers use.

EXPLANATION

Accounting methods are important because they determine when you recognize income and when you deduct expenses for tax purposes. The cash method allows you more flexibility and control over your tax liability. Individuals who do not own and operate their own business must use the cash method. However, the IRS generally will not permit you to use the cash method if you own your own business and cash method accounting doesn't clearly show your income. The cash method is generally not permitted if your business maintains inventory, or production materials are on hand at the end of the year. See IRS Publication 538, *Accounting Periods and Methods*, for more information.

TAXALERT

IRS officials have expressed the view that you may not use the cash method for any substantial business activity, even one providing only personal or professional services. The law does not support this view. Nevertheless, in conducting audits, the IRS has been aggressive in urging taxpayers to change to the accrual method of accounting.

TAXPLANNER

Generally, most taxpayers who expect to be in the same tax bracket from one year to the next and who want to reduce their current tax bill as much as possible should attempt to defer income to a subsequent year and to take deductions in the current year. If you suspect you might be in a higher tax bracket in a subsequent year, however, you would want to do just the opposite.

If you find yourself facing higher tax rates next year, it may make sense for you to rethink traditional tax strategies. For such taxpayers, it may be beneficial to accelerate and recognize income in an earlier year, while deferring deductions to a later year. This approach may allow you to pay tax on the accelerated income at a lower tax rate. Deductions deferred until future years could produce a greater tax benefit for you. When deciding to accelerate income/deductions into 2016, or defer them until 2017, keep in mind the following:

- a. In some states and cities, you may pay property, state, and local income taxes in either December or January, giving you the opportunity to pay 2 years' worth of these taxes in a single calendar year.

- b. You can control when you make charitable contributions.
- c. To some extent, you can control when you make interest payments on a mortgage.
- d. You can choose when to sell assets with unrealized gains or losses in order to recognize the gain or loss.
- e. Contributions to an IRA for the tax year 2016 may be made as late April 18, 2017.
- f. The phase out of allowable itemized deductions based on your adjusted gross income and filing status.

See *Year-End and Ongoing Tax Planning Considerations* in chapter 50, *Planning ahead for 2017 and beyond*, for more information. We also recommend that you consult your tax advisor for planning assistance in anticipation of forthcoming tax law changes.

Constructive receipt. Generally, you constructively receive income when it is credited to your account or set apart in any way that makes it available to you. You do not need to have physical possession of it. For example, interest credited to your bank account on December 31, 2016, is taxable income to you in 2016 if you could have withdrawn it in 2016 (even if the amount is not entered in your records or withdrawn until 2017).

TAXALERT

Profits from a brokerage account, or similar account, are fully taxable in the year you earn them. This is true even if:

1. You do not withdraw the earnings,
2. You automatically reinvest your earnings (i.e., a dividend reinvestment plan),
3. The credit balance in the account may be reduced or eliminated by losses in later years, or
4. Current profits are used to reduce or eliminate a debit balance from a prior year.

Example

You sold your ABC Company stock on December 15, 2016, realizing a gain of \$5,000. You did not withdraw the cash in your account until January 5, 2017. The gain is taxable income to you for 2016.

Garnisheed wages. If your employer uses your wages to pay your debts, or if your wages are attached or garnished, the full amount is constructively received by you. You must include these wages in income for the year you would have received them.

Debts paid for you. If another person cancels or pays your debts (but not as a gift or loan), you have constructively received the amount and generally must include it in your gross income for the year. See *Canceled Debts* in chapter 12 for more information.

EXAMPLE

Your new employer pays the balance of the mortgage due on your home that is not covered by the selling price so you can move to Florida to work for him. The payments are not intended to be a gift or a loan to you. The amount your employer pays on the mortgage is income to you in the year that it is paid off.

Payment to third party. If a third party is paid income from property you own, you have constructively received the income. It is the same as if you had actually received the income and paid it to the third party.

Payment to an agent. Income an agent receives for you is income you constructively received in the year the agent receives it. If you indicate in a contract that your income is to be paid to another person, you must include the amount in your gross income when the other person receives it.

EXPLANATION

The IRS considers you to have received income in the year that your agent receives it, but if a person who is not your agent or creditor receives your income, you do not have to consider that amount as income until you personally receive it. The key question is whether you can control the receipt of the income during the year. If you can, the income is taxable to you in that year. In general, when you receive income, or incur deductions right before or after year-end, you should be careful to document the circumstances related to the receipt or payment of the item. The IRS

document-matching program will be used to identify income reported on a 2016 Form 1099 as having been paid to you in 2016.

Example

ABC Company mailed you a \$500 dividend check on December 8, 2016. The post office inadvertently delivered the check on December 31 to Mr. Wheat on the other side of town. You didn't receive the check until January 5, 2017. The \$500 in dividends is taxable to you in 2017, because Mr. Wheat was not your agent and you were not in control of the income. You should carefully explain this turn of events when you prepare your return because the IRS document-matching program will have a Form 1099 from ABC Company on file that lists the \$500 as having been paid to you in 2016.

By contrast, suppose ABC Company mailed you a \$500 dividend check on December 9, 2016, and you received but *did not cash or deposit* the check until January 5, 2017. The \$500 in dividends is taxable to you in 2016, because you were in control of the income, even though you chose not to cash the check until 2017.

Check received or available. A valid check that was made available to you before the end of the tax year is constructively received by you in that year. A check that was "made available to you" includes a check you have already received, but not cashed or deposited. It also includes, for example, your last paycheck of the year that your employer made available for you to pick up at the office before the end of the year. It is constructively received by you in that year whether or not you pick it up before the end of the year or wait to receive it by mail after the end of the year.

No constructive receipt. There may be facts to show that you did not constructively receive income.

Example. Alice Johnson, a teacher, agreed to her school board's condition that, in her absence, she would receive only the difference between her regular salary and the salary of a substitute teacher hired by the school board. Therefore, Alice did not constructively receive the amount by which her salary was reduced to pay the substitute teacher.

EXPLANATION

The IRS does not consider you to have paid an expense if you use a note in lieu of cash to make the payment. In this case, you have only made a promise to pay sometime in the future. However, the IRS considers you to have made a payment if you use cash borrowed from a third party to pay an expense.

Example

If you give a note to your doctor promising to pay him for medical services already rendered, you have not yet paid the expense in the IRS's eyes. However, if you borrow money from your bank and use the cash to pay your doctor, you have paid the expense for tax purposes. Similarly, if you pay by credit card, you have made the payment for tax purposes. Paying by credit card is just like borrowing from a third party.

More information. For more information on the determination of medical and dental expenses, see [chapter 22, Medical and dental expenses](#), and Publication 502, *Medical and Dental Expenses*.

Exception

Individual Retirement Arrangements. If you qualify for a tax-deductible contribution, you may take a deduction for a contribution to an individual retirement arrangement (IRA) in one year, even though you do not make the actual cash contribution to your account until the following year; that is, you may file your tax return showing a deduction for a contribution to your IRA, although you have not yet made the contribution. The deduction is valid as long as you make the contribution on or before April 15 of the following year, even if you get a filing extension. For more information, see [chapter 17, Individual retirement arrangements \(IRAs\)](#), and Publication 590, *Individual Retirement Arrangements (IRAs)*. This similar rule also applies for contributions to Self-Employed Plans (SEPs).

Accrual method. If you use an accrual method, you generally report income when you earn it, rather than when you receive it. You generally deduct your expenses when you incur them, rather than when you pay them.

Income paid in advance. An advance payment of income is generally included in gross income in the year you receive it. Your method of accounting does not matter as long as the income is available to you. An advance payment may include rent or interest you receive in advance and pay for services you will perform later.

A limited deferral until the next tax year may be allowed for certain advance payments. See Publication 538 for specific information.

Additional information. For more information on accounting methods, including how to change your accounting method, see Publication 538.

Social Security Number (SSN)

You must enter your SSN on your return. If you are married, enter the SSNs for both you and your spouse, whether you file jointly or separately.

If you are filing a joint return, include the SSNs in the same order as the names. Use this same order in submitting other forms and documents to the IRS.

Check that both the name and SSN on your Form 1040, W-2, and 1099 agree with your social security card. If they do not, certain deductions and credits on your Form 1040 may be reduced or disallowed and you may not receive credit for your social security earnings. If your Form W-2 shows an incorrect SSN or name, notify your employer or the form-issuing agent as soon as possible to make sure your earnings are credited to your social security record. If the name or SSN on your social security card is incorrect, call the SSA at 1-800-772-1213.

Name change. If you changed your name because of marriage, divorce, etc., be sure to report the change to your local Social Security Administration (SSA) office before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits.

Dependent's SSN. You must provide the SSN of each dependent you claim, regardless of the dependent's age. This requirement applies to all dependents (not just your children) claimed on your tax return.

Exception. If your child was born and died in 2016 and did not have an SSN, enter "DIED" in column (2) of line 6c (Form 1040 or 1040A) and include a copy of the child's birth certificate, death certificate, or hospital records. The document must show that the child was born alive.

No SSN. File Form SS-5, Application for a Social Security Card, with your local SSA office to get an SSN for yourself or your dependent. It usually takes about 2 weeks to get an SSN. If you or your dependent is not eligible for an SSN, see *Individual taxpayer identification number (ITIN)*, later.

If you are a U.S. citizen or resident alien, you must show proof of age, identity, and citizenship or alien status with your Form SS-5. If you are 12 or older and have never been assigned an SSN, you must appear in person with this proof at an SSA office.

Form SS-5 is available at any SSA office, on the Internet at www.socialsecurity.gov, or by calling 1-800-772-1213. If you have any questions about which documents you can use as proof of age, identity, or citizenship, contact your SSA office.

If your dependent does not have an SSN by the time your return is due, you may want to ask for an extension of time to file, as explained earlier under *When Do I Have To File*.

If you do not provide a required SSN or if you provide an incorrect SSN, your tax may be increased and any refund may be reduced.

Adoption taxpayer identification number (ATIN). If you are in the process of adopting a child who is a U.S. citizen or resident and cannot get an SSN for the child until the adoption is final, you can apply for an ATIN to use instead of an SSN.

File Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions, with the IRS to get an ATIN if all of the following are true.

- You have a child living with you who was placed in your home for legal adoption.
- You cannot get the child's existing SSN even though you have made a reasonable attempt to get it from the birth parents, the placement agency, and other persons.
- You cannot get an SSN for the child from the SSA because, for example, the adoption is not final.
- You are eligible to claim the child as a dependent on your tax return.

After the adoption is final, you must apply for an SSN for the child. You cannot continue using the ATIN.

See Form W-7A for more information.

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

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

Tip

If you are applying for an ITIN for yourself, your spouse, or a dependent in order to file your tax return, attach your completed tax return to your Form W-7. See the Form W-7 instructions for how and where to file.

If your spouse is not eligible for an SSN, see *the following discussion on ITINs*.

Individual taxpayer identification number (ITIN). The IRS will issue you an ITIN if you are a nonresident or resident alien and you do not have and are not eligible to get an SSN. This also applies to an alien spouse or dependent. To apply for an ITIN, file Form W-7 with the IRS. It usually takes about 7 weeks to get an ITIN. Enter the ITIN on your tax return wherever an SSN is requested.

TAXALERT

The *Protecting Americans From Tax Hikes Act of 2015* (the "Act"), that was signed by President Obama on December 18, 2015, contains new provisions regarding the issuance of ITINs. As of the time of this book was published, the IRS was still evaluating changes to be made to implement the new rules. In the meantime ITINs will still be issued in accordance with the 2014 guidance in IR-2014-76.

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

Penalty for not providing social security number. If you do not include your SSN or the SSN of your spouse or dependent as required, you may have to pay a penalty. See the discussion on *Penalties*, later, for more information.

SSN on correspondence. If you write to the IRS about your tax account, be sure to include your SSN (and the name and SSN of your spouse, if you filed a joint return) in your correspondence. Because your SSN is used to identify your account, this helps the IRS respond to your correspondence promptly.

Presidential Election Campaign Fund

This fund helps pay for Presidential election campaigns. The fund also helps pay for pediatric medical research. If you want \$3 to go to this fund, check the box. If you are filing a joint return, your spouse can also have \$3 go to the fund. If you check a box, your tax or refund will not change.

Computations

The following information may be useful in making the return easier to complete.

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

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

Example. You receive two Forms W-2: one showing wages of \$5,000.55 and one showing wages of \$18,500.73. On Form 1040, line 7, you would enter \$23,501 ($\$5,000.55 + \$18,500.73 = \$23,501.28$), not \$23,502 ($\$5,001 + \$18,501$).

Equal amounts. If you are asked to enter the smaller or larger of two equal amounts, enter that amount.

Example. Line 1 is \$500. Line 3 is \$500. Line 5 asks you to enter the smaller of line 1 or 3. Enter \$500 on line 5.

Negative amounts. If you file a paper return and you need to enter a negative amount, put the amount in parentheses rather than using a minus sign. To combine positive and negative amounts, add all the positive amounts together and then subtract the negative amounts.

Attachments

Depending on the form you file and the items reported on your return, you may have to complete additional schedules and forms and attach them to your paper return.

Form W-2. Form W-2 is a statement from your employer of wages and other compensation paid to you and taxes withheld from your pay. You should have a Form W-2 from each employer. If you file a paper return, be sure to attach a copy of Form W-2 in the place indicated on the front page of your return. Attach it to the front page of your paper return, not to any attachments. For more information, see *Form W-2* in chapter 4.

Caution

You cannot e-file a return using an ITIN in the calendar year the ITIN is issued; however, you can e-file returns in the following years.

Tip

You may be able to file a paperless return using IRS e-file. There's nothing to attach or mail, not even your Forms W-2. See *Why Should I Use IRS e-file?*, earlier.

If you received a Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., showing federal income tax withheld, and you file a paper return, attach a copy of that form in the place indicated on the front page of your return.

Form 1040EZ. There are no additional schedules to file with Form 1040EZ.

Form 1040A. If you file a paper return, attach any forms and schedules behind Form 1040A in order of the “Attachment Sequence Number” shown in the upper right corner of the form or schedule. Then arrange all other statements or attachments in the same order as the forms and schedules they relate to and attach them last. Do not attach items unless required to do so.

Form 1040. If you file a paper return, attach any forms and schedules behind Form 1040 in order of the “Attachment Sequence Number” shown in the upper right corner of the form or schedule. Then arrange all other statements or attachments in the same order as the forms and schedules they relate to and attach them last. Do not attach items unless required to do so.

TAXPLANNER

If you fail to organize your return according to the prescribed sequence numbers, which appear in upper right hand corner of each schedule or form, the IRS, upon receipt of your return, will disassemble it and put it back together in the proper order. This procedure may result in the loss of a page of your return, causing some delay in its processing. To avoid this problem, you can electronically file your return. See [chapter 46, Everything you need to know about e-filing](#).

Third-Party Designee

You can authorize the IRS to discuss your return with your preparer, a friend, family member, or any other person you choose. If you check the “Yes” box in the *Third party designee* area of your 2016 tax return and provide the information required, you are authorizing:

1. The IRS to call the designee to answer any questions that arise during the processing of your return, and
2. The designee to:
 - a. Give information that is missing from your return to the IRS,
 - b. Call the IRS for information about the processing of your return or the status of your refund or payments,
 - c. Receive copies of notices or transcripts related to your return, upon request, and
 - d. Respond to certain IRS notices about math errors, offsets (see [Refunds](#), later), and return preparation.

The authorization will automatically end no later than the due date (without any extensions) for filing your 2017 tax return. This is April 17, 2018, for most people.

See your form instructions for more information.

Signatures

You must sign and date your return. If you file a joint return, both you and your spouse must sign the return, even if only one of you had income.

If you are due a refund, it cannot be issued unless you have signed your return.

Enter your occupation. If you file a joint return, enter both your occupation and your spouse’s occupation. Entering your daytime phone number may help speed the processing of your return.

When someone can sign for you. You can appoint an agent to sign your return if you are:

1. Unable to sign the return because of disease or injury,
2. Absent from the United States for a continuous period of at least 60 days before the due date for filing your return, or
3. Given permission to do so by the IRS office in your area.

Power of attorney. A return signed by an agent in any of these cases must have a power of attorney (POA) attached that authorizes the agent to sign for you. You can use a POA that states that the agent is granted authority to sign the return, or you can use Form 2848, Power of Attorney and Declaration of Representative. Part I of Form 2848 must state that the agent is granted authority to sign the return.

Caution

If you file a joint return, both spouses are generally liable for the tax, and the entire tax liability may be assessed against either spouse. See [chapter 2](#).

Tip

If you e-file your return, you can use an electronic signature to sign your return. See [Why Should I Use IRS e-filer?](#), earlier.

TAX PLANNER

If you and your spouse want to appoint an agent to sign your jointly filed individual income tax return, both of you need to complete and file Form 2848.

Court-appointed, conservator, or other fiduciary. If you are a court-appointed conservator, guardian, or other fiduciary for a mentally or physically incompetent individual who has to file a tax return, sign your name for the individual. File Form 56, Notice Concerning Fiduciary Relationship.

Unable to sign. If the taxpayer is mentally competent but physically unable to sign the return or POA, a valid “signature” is defined under state law. It can be anything that clearly indicates the taxpayer’s intent to sign. For example, the taxpayer’s “X” with the signatures of two witnesses might be considered a valid signature under a state’s law.

Spouse unable to sign. If your spouse is unable to sign for any reason, see *Signing a joint return* in chapter 2.

Child’s return. If a child has to file a tax return but cannot sign the return, the child’s parent, guardian, or another legally responsible person must sign the child’s name, followed by the words “By (your signature), parent for minor child.”

Paid Preparer

Generally, anyone you pay to prepare, assist in preparing, or review your tax return must sign it and fill in the other blanks, including their Preparer Tax Identification Number (PTIN), in the paid preparer’s area of your return.

Many preparers are required to *e-file* the tax returns they prepare. They sign these e-filed returns using their tax preparation software. However, you can choose to have your return completed on paper if you prefer. In that case, the paid preparer can sign the paper return manually or use a rubber stamp or mechanical device. The preparer is personally responsible for affixing his or her signature to the return.

If the preparer is self-employed (that is, not employed by any person or business to prepare the return), he or she should check the self-employed box in the *Paid Preparer Use Only* space on the return.

The preparer must give you a copy of your return in addition to the copy filed with the IRS.

If you prepare your own return, leave this area blank. If another person prepares your return and does not charge you, that person should not sign your return.

If you have questions about whether a preparer must sign your return, contact any IRS office.

TAXALERT

A person who is paid to prepare all or a substantial portion of your income tax return must sign it. In addition, the IRS says that a tax consultant who is paid to review a tax return that you have already prepared and signed is also considered a tax return preparer and must sign it.

If an individual who prepares your return refuses to sign it, you are probably dealing with someone you should not rely on. While you could still file the return, you should probably consider using another tax preparer. If you have to pay the first preparer, you should report the matter to the IRS.

The IRS has launched a new online public directory of federal tax return preparers that includes information such as the preparer’s credentials, qualifications, and locations. You can find this directory by going to www.irs.gov and typing “directory of tax return preparers” in the search box.

TAXALERT

The IRS Tax Professional PTIN System now provides a listing of the number of returns filed under one’s PTIN number. It can be a good idea for tax preparers to check this because it is possible that they could be victims of identity theft and that someone else could be using their PTIN.

Refunds

When you complete your return, you will determine if you paid more income tax than you owed. If so, you can get a refund of the amount you overpaid or, if you file Form 1040 or Form 1040A, you can choose to apply all or part of the overpayment to your next year’s (2017) estimated tax. You cannot have your overpayment applied to your 2017 estimated tax if you file Form 1040EZ.

Caution

If you choose to have a 2016 overpayment applied to your 2017 estimated tax, you cannot change your mind and have any of it refunded to you after the due date (without extensions) of your 2016 return.

Tip

If your refund for 2016 is large, you may want to decrease the amount of income tax withheld from your pay in 2017. See [chapter 4](#) for more information.

Follow the form instructions to complete the entries to claim your refund and/or to apply your overpayment to your 2017 estimated tax.

EXPLANATION

If you choose to apply all or part of your overpayment to your next year's estimated tax, the estimated tax installment payment is considered made on April 15. Your first installment may be reduced accordingly. For more information, see [chapter 4, Tax withholding and estimated tax](#), and Publication 505, *Tax Withholding and Estimated Tax*.

Direct Deposit: Simple. Safe. Secure. Instead of getting a paper check, you may be able to have your refund deposited directly into your checking or savings account, including an individual retirement arrangement. Follow the form instructions to request direct deposit. If the direct deposit cannot be done, the IRS will send a check instead.

Do not request a deposit of any part of your refund to an account that is not in your name. Do not allow your tax preparer to deposit any part of your refund into his or her account. The number of direct deposits to a single account or prepaid debit card is limited to three refunds a year. After this limit is exceeded, paper checks will be sent instead. Learn more at www.irs.gov/Individuals/Direct-Deposit-Limits.

EXPLANATION

Instead of getting a paper check, you may be able to have your refund deposited directly into your checking or savings account, including an individual retirement arrangement. Follow the form instructions to request direct deposit.

myRA®. If you already have a myRA® account, you can request a deposit of your refund (or part of it) to your myRA account. A myRA is a starter retirement account offered by the Department of the Treasury. For more information on myRA and to open a myRA account online, visit www.myRA.gov.

IRA. You can have your refund (or part of it) directly deposited to a traditional IRA, Roth IRA (including a myRA), or SEP-IRA, but not a SIMPLE IRA. You must establish the IRA at a bank or financial institution before you request direct deposit.

Treasury Direct®. You can request a deposit of your refund to a Treasury Direct® online account to buy U.S. Treasury marketable securities and savings bonds. For more information, go to www.treasurydirect.gov.

Split refunds. If you choose direct deposit, you may be able to split the refund and have it deposited among two or three accounts or buy up to \$5,000 in paper series I savings bonds. Complete Form 8888, Allocation of Refund (Including Savings Bond Purchases), and attach it to your return.

Overpayment less than one dollar. If your overpayment is less than one dollar, you will not get a refund unless you ask for it in writing.

Cashing your refund check. Cash your tax refund check soon after you receive it. Checks expire the last business day of the 12th month of issue.

If your check has expired, you can apply to the IRS to have it reissued.

Refund more or less than expected. If you receive a check for a refund you are not entitled to, or for an overpayment that should have been credited to estimated tax, do not cash the check. Call the IRS.

If you receive a check for more than the refund you claimed, do not cash the check until you receive a notice explaining the difference.

If your refund check is for less than you claimed, it should be accompanied by a notice explaining the difference. Cashing the check does not stop you from claiming an additional amount of refund.

If you did not receive a notice and you have questions about the amount of your refund, you should wait 2 weeks. If you still have not received a notice, call the IRS.

Offset against debts. If you are due a refund but have not paid certain amounts you owe, all or part of your refund may be used to pay all or part of the past-due amount. This includes past-due federal income tax, other federal debts (such as student loans), state income tax, child and spousal support payments, and state unemployment compensation debt. You will be notified if the refund you claimed has been offset against your debts.

Joint return and injured spouse. When a joint return is filed and only one spouse owes a past-due amount, the other spouse can be considered an injured spouse. An injured spouse should file Form 8379, Injured Spouse Allocation, if both of the following apply and the spouse wants a refund of his or her share of the overpayment shown on the joint return.

1. You are not legally obligated to pay the past-due amount.
2. You made and reported tax payments (such as federal income tax withheld from your wages or estimated tax payments), or claimed a refundable tax credit (see the credits listed under *Who Should File*, earlier).

Note. If the injured spouse's residence was in a community property state at any time during the tax year, special rules may apply. See the Instructions for Form 8379.

If you have not filed your joint return and you know that your joint refund will be offset, file Form 8379 with your return. You should receive your refund within 14 weeks from the date the paper return is filed or within 11 weeks from the date the return is filed electronically.

If you filed your joint return and your joint refund was offset, file Form 8379 by itself. When filed after offset, it can take up to 8 weeks to receive your refund. Do not attach the previously filed tax return, but do include copies of all Forms W-2 and W-2G for both spouses and any Forms 1099 that show income tax withheld. The processing of Form 8379 may be delayed if these forms are not attached, or if the form is incomplete when filed.

A separate Form 8379 must be filed for each tax year to be considered.

Amount You Owe

When you complete your return, you will determine if you have paid the full amount of tax that you owe. If you owe additional tax, you should pay it with your return.

If the IRS figures your tax for you, you will receive a bill for any tax that is due. You should pay this bill within 30 days (or by the due date of your return, if later). See *Tax Figured by IRS* in chapter 31.

How To Pay

You can pay online, by phone, by check or money order, or by cash at 7-Eleven stores. Do not include any estimated tax payment for 2017 in this payment. Instead, make the estimated tax payment separately.

Bad check or payment. The penalty for writing a bad check to the IRS is \$25 or 2% of the check, whichever is more. This penalty also applies to other forms of payment if the IRS does not receive the funds.

Pay online. Paying online is convenient and secure and helps make sure we get your payments on time.

You can pay online with a direct transfer from your bank account using IRS Direct Pay, the Electronic Federal Tax Payment System, or by debit or credit card.

To pay your taxes online or for more information, go to www.irs.gov/Payments.

Pay by phone. Paying by phone is another safe and secure method of paying electronically. Use one of the following methods.

- Direct transfer from your bank account.
- Debit or credit card.

To pay by direct transfer from your bank account, call 1-800-555-4477 (English) or 1-800-244-4829 (Español). People who are deaf, hard of hearing, or have a speech disability and have access to TTY/TDD equipment can call 1-800-733-4829.

To pay using a debit or credit card, you can call one of the following service providers. There is a convenience fee charged by these providers that varies by provider, card type, and payment amount.

Official Payments Corporation
1-888-UPAY-TAX™ (1-888-872-9829)
www.officialpayments.com

Link2Gov Corporation
1-888-PAY-1040™ (1-888-729-1040)
www.PAY1040.com

Caution

An injured spouse claim is different from an innocent spouse relief request. An injured spouse uses Form 8379 to request the division of the tax overpayment attributed to each spouse. An innocent spouse uses Form 8857, Request for Innocent Spouse Relief, to request relief from joint liability for tax, interest, and penalties on a joint return for items of the other spouse (or former spouse) that were incorrectly reported on the joint return. For information on innocent spouses, see [Relief from joint responsibility under Filing a Joint Return](#) in chapter 2.

Tip

You do not have to pay if the amount you owe is under \$1.

Caution

If you do not pay your tax when due, you may have to pay a failure-to-pay penalty. See [Penalties](#), later. For more information about your balance due, see [Publication 594, The IRS Collection Process](#).

Tip

If the amount you owe for 2016 is large, you may want to increase the amount of income tax withheld from your pay or make estimated tax payments for 2017. See [chapter 4](#) for more information.

World Pay US, Inc.
1-844-PAY-TAX-8™ (1-844-729-8298)
www.payUSAtax.com

For the latest details on how to pay by phone, go to www.irs.gov/Payments.

Pay by check or money order. Make your check or money order payable to “United States Treasury” for the full amount due. Do not send cash. Do not attach the payment to your return. Show your correct name, address, SSN, daytime phone number, and the tax year and form number on the front of your check or money order. If you are filing a joint return, enter the SSN shown first on your tax return.

Pay by cash. You can pay by cash at participating 7-Eleven stores. In order to set this up, you must visit the IRS.gov payments page, select the cash option in the other ways you can pay section and follow the instructions. There are several steps involved so you are encouraged to start the process well in advance of the deadline to avoid interest and penalty charges. There is a \$1,000 payment limit per day and a \$3.99 fee per payment.

Estimated tax payments. Do not include any 2017 estimated tax payment in the payment for your 2016 income tax return. See [chapter 4](#) for information on how to pay estimated tax.

TAXPLANNER

Be careful about paying your taxes by credit card. Most of the payment options demand that you pay a “convenience fee” for using your card. Also, use caution if you won’t be paying off your balance right away. The interest your credit card charges may be much higher than the interest the IRS charges for late payment. The IRS e-pay service providers are World Pay US, Inc., Official Payments Corporation, and Link2Gov Corporation. As of the date this book went to press, the convenience fee for paying by credit card ranged from 2.35% to 2.49%. If you choose to pay your tax liability with a debit card, each provider charges a flat fee per transaction rather than a convenience fee. The minimum flat fee is \$3.95 per transaction. Since both the convenience fee and the flat fee are subject to change, you should contact the service providers for the most up-to-date information before deciding if paying by credit or debit card makes sense for you. The fees above are based on e-filing and may be different if you paper file. For additional information, go to the IRS website at www.irs.gov and type in “pay taxes by credit or debit card” in the search box in the upper right-hand corner of the screen.

Tip

If the IRS figures your tax for you, to avoid interest for late payment, you must pay the bill within 30 days of the date of the bill or by the due date of your return, whichever is later. For information, see [Tax Figured by IRS](#) in [chapter 31](#).

Interest

Interest is charged on tax you do not pay by the due date of your return. Interest is charged even if you get an extension of time for filing.

Interest on penalties. Interest is charged on the failure-to-file penalty, the accuracy-related penalty, and the fraud penalty from the due date of the return (including extensions) to the date of payment. Interest on other penalties starts on the date of notice and demand, but is not charged on penalties paid within 21 calendar days from the date of the notice (or within 10 business days if the notice is for \$100,000 or more).

Interest due to IRS error or delay. All or part of any interest you were charged can be forgiven if the interest is due to an unreasonable error or delay by an officer or employee of the IRS in performing a ministerial or managerial act.

A ministerial act is a procedural or mechanical act that occurs during the processing of your case. A managerial act includes personnel transfers and extended personnel training. A decision concerning the proper application of federal tax law is not a ministerial or managerial act.

The interest can be forgiven only if you are not responsible in any important way for the error or delay and the IRS has notified you in writing of the deficiency or payment. For more information, see [Publication 556, Examination of Returns, Appeal Rights, and Claims for Refund](#).

Interest and certain penalties may also be suspended for a limited period if you filed your return by the due date (including extensions) and the IRS does not provide you with a notice specifically stating your liability and the basis for it before the close of the 36-month period beginning on the later of:

- The date the return is filed, or
- The due date of the return without regard to extensions.

For more information, see Publication 556.

TAXPLANNER

If you owe additional tax, it is not a good idea to paper file your return by January 31. As long as you have planned well and have paid enough in estimated taxes to avoid a penalty, you would be better off keeping any other tax you owe in your savings account, where it will earn interest for 2½ months, rather than paying your tax bill early. If you e-file your return, you can prepare and submit it before the due date and authorize an electronic funds withdrawal on April 15th (Since April 15th falls on Saturday in 2017, and the District of Columbia observes the Emancipation Day holiday on Monday, April 17, 2017, the due date for filing federal tax returns and paying tax balances due is extended to Tuesday, April 18, 2017.) See *When Do I Have to File*, earlier, for more information on 2017 filing due dates.)

Installment Agreement

If you cannot pay the full amount due with your return, you can ask to make monthly installment payments for the full or a partial amount. However, you will be charged interest and may be charged a late payment penalty on the tax not paid by the date your return is due, even if your request to pay in installments is granted. If your request is granted, you must also pay a fee. To limit the interest and penalty charges, pay as much of the tax as possible with your return. But before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan or credit card payment.

To apply for an installment agreement on-line, go to IRS.gov and click on “Tools” and then *Online Payment Agreement*. You can also use Form 9465.

In addition to paying by check or money order, you can use a credit or debit card or direct payment from your bank account to make installment agreement payments. See *How To Pay*, earlier.

TAXPLANNER

An extension of time to file is not an extension of time to pay. If you are unable to pay the full amount of tax due with your tax return because of financial hardship, you should still file the tax return along with a “good faith” payment of as much of the tax due as you can afford to pay. If you can pay in full within 120 days, you should call 1-800-829-1040 to establish the request. Alternatively, you can apply online by going to www.irs.gov and entering the keyword “OPA” in the upper right-hand corner to locate the link for the “Online Payment Agreement Application.” If you cannot pay within 120 days, you should complete Form 9465 or Form 9465-FS to request the privilege of paying the remaining tax in installments. This form should be attached to the front of the return when it is filed. However, the IRS will impose a fee of \$120 (\$52 if you make your payments by electronic funds withdrawal) for entering into an installment agreement. (If your income is below a certain level, you may qualify to pay a reduced fee of \$43.) You can expect a decision back from the IRS within 30 days regarding your installment request, but **you still will be subject to interest and the failure-to-pay penalty on the unpaid tax.**

The IRS will continue to send you a bill for the unpaid tax, interest, and penalty until the total amount is paid. After the tax is completely paid, you can request in writing that the penalty be waived due to reasonable cause because of financial hardship. The IRS has total discretion in waiving penalties and may require you to prove your financial hardship.

If your tax return is already in the formal collection process (i.e., you have been contacted by an IRS official regarding a delinquent tax liability) and you are unable to pay the tax due, you may request an installment agreement with the IRS officer. If he or she agrees, the installment agreement is made using Form 433-D, and you will be required to provide financial information. You may need to seek professional tax advice if this is the case.

Gift To Reduce Debt Held by the Public

You can make a contribution (gift) to reduce debt held by the public. If you wish to do so, make a separate check payable to “Bureau of the Fiscal Service.”

Send your check to:

Bureau of the Fiscal Service
ATTN: Department G
P.O. Box 2188
Parkersburg, WV 26106-2188

Or, enclose your separate check in the envelope with your income tax return. Do not add this gift to any tax you owe.

For information on making this type of gift online, go to www.treasurydirect.gov and click on “How To Make a Contribution to Reduce the Debt.”

You may be able to deduct this gift as a charitable contribution on next year’s tax return if you itemize your deductions on Schedule A (Form 1040).

Name and Address

After you have completed your return, fill in your name and address in the appropriate area of the Form 1040, Form 1040A, or Form 1040EZ.

P.O. box. If your post office does not deliver mail to your street address and you have a P.O. box, enter your P.O. box number on the line for your present home address instead of your street address.

Foreign address. If your address is outside the United States or its possessions or territories, enter the city name on the appropriate line of your return. Do not enter any other information on that line, but also complete the line listing:

1. Foreign country name,
2. Foreign province/state/county, and
3. Foreign postal code.

Follow the country’s practice for entering the postal code and the name of the province, county, or state.

Caution

You must include your SSN in the correct place on your tax return.

TAXALERT

You are not excused from filing a return because you have not received the proper forms from the IRS. The IRS has free tax forms and publications on a wide variety of topics. If you need IRS forms or information, try one of these easy options:

- **Internet.** You can access forms and publications on the IRS website 24 hours a day, 7 days a week, at www.irs.gov.
- **Phone.** Call 1-800-TAX-FORM (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.
- **Locations in your community.** During the tax-filing season, many libraries and post offices offer free tax forms to taxpayers. Some libraries also have copies of commonly requested publications. Braille materials may also be available. Many large grocery stores, copy centers, and office supply stores have forms you can photocopy or print from a CD.

Where Do I File?

After you complete your return, you must send it to the IRS. You can mail it or you may be able to file it electronically. See [Why Should I Use IRS e-file?](#), earlier.

Mailing your paper return. Mail your paper return to the address shown in your instructions.

What Happens After I File?

After you send your return to the IRS, you may have some questions. This section discusses concerns you may have about recordkeeping, your refund, and what to do if you move.

What Records Should I Keep?

This part discusses why you should keep records, what kinds of records you should keep, and how long you should keep them.

You must keep records so that you can prepare a complete and accurate income tax return. The law does not require any special form of records. However, you should keep all receipts, canceled checks or other proof of payment, and any other records to support any deductions or credits you claim.

TAXPLANNER

See the detailed listing of tax records to keep at the end of the [EY Individual Tax Organizer](#) in the front of this book.

If you file a claim for refund, you must be able to prove by your records that you have overpaid your tax.

This part does not discuss the records you should keep when operating a business. For information on business records, see Publication 583, *Starting a Business and Keeping Records*.

Why Keep Records?

Good records help you:

- **Identify sources of income.** Your records can identify the sources of your income to help you separate business from nonbusiness income and taxable from nontaxable income.
- **Keep track of expenses.** You can use your records to identify expenses for which you can claim a deduction. This helps you determine if you can itemize deductions on your tax return.
- **Keep track of the basis of property.** You need to keep records that show the basis of your property. This includes the original cost or other basis of the property and any improvements you made.
- **Prepare tax returns.** You need records to prepare your tax return.
- **Support items reported on tax returns.** The IRS may question an item on your return. Your records will help you explain any item and arrive at the correct tax. If you cannot produce the correct documents, you may have to pay additional tax and be subject to penalties.

Kinds of Records to Keep

The IRS does not require you to keep your records in a particular way. Keep them in a manner that allows you and the IRS to determine your correct tax.

You can use your checkbook to keep a record of your income and expenses. You also need to keep documents, such as receipts and sales slips, that can help prove a deduction.

In this section you will find guidance about basic records that everyone should keep. The section also provides guidance about specific records you should keep for certain items.

Electronic records. All requirements that apply to hard copy books and records also apply to electronic storage systems that maintain tax books and records. When you replace hard copy books and records, you must maintain the electronic storage systems for as long as they are material to the administration of tax law.

For details on electronic storage system requirements, see Revenue Procedure 97-22, which is on page 9 of Internal Revenue Bulletin 1997-13 at www.irs.gov/pub/irs-irbs/irb97-13.pdf.

Copies of tax returns. You should keep copies of your tax returns as part of your tax records. They can help you prepare future tax returns, and you will need them if you file an amended return or are audited. Copies of your returns and other records can be helpful to your survivor or the executor or administrator of your estate.

If necessary, you can request a copy of a return and all attachments (including Form W-2) from the IRS by using Form 4506, Request for Copy of Tax Return. There is a charge for a copy of a return. For information on the cost and where to file, see the Instructions for Form 4506.

If you just need information from your return, you can order a transcript in one of the following ways.

- Visit IRS.gov and click on [Get Transcript of Your Tax Records](#).
- Call 1-800-908-9946.
- Use Form 4506-T, Request for Transcript of Tax Return, or Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript.

There is no fee for a transcript. For more information, see Form 4506-T.

TAXORGANIZER

Disaster Preparedness. In addition to the IRS rules for documentation and records, taxpayers should take into consideration disaster preparedness to help prevent their loss. The IRS encourages taxpayers to back-up their records electronically and store them separately from the originals. It is also important to document your valuables to support any insurance or casualty loss claims. Taking photographs of your home and valuables is also an easy, yet effective, aid to help prove the value of items, should you ever have to. Affected taxpayers that need assistance with handling disaster-related issues can call 1-866-562-5227 to speak with an IRS specialist.

Basic Records

Basic records are documents that everybody should keep. These are the records that prove your income and expenses. If you own a home or investments, your basic records should contain documents related to those items.

Income. Your basic records prove the amounts you report as income on your tax return. Your income may include wages, dividends, interest, and partnership or S corporation distributions. Your records also can prove that certain amounts are not taxable, such as tax-exempt interest.

Note. If you receive a Form W-2, keep Copy C until you begin receiving social security benefits. This will help protect your benefits in case there is a question about your work record or earnings in a particular year.

Expenses. Your basic records prove the expenses for which you claim a deduction (or credit) on your tax return. Your deductions may include alimony, charitable contributions, mortgage interest, and real estate taxes. You also may have child care expenses for which you can claim a credit.

Home. Your basic records should enable you to determine the basis or adjusted basis of your home. You need this information to determine if you have a gain or loss when you sell your home or to figure depreciation if you use part of your home for business purposes or for rent. Your records should show the purchase price, settlement or closing costs, and the cost of any improvements. They also may show any casualty losses deducted and insurance reimbursements for casualty losses. Your records also should include a copy of Form 2119, Sale of Your Home, if you sold your previous home before May 7, 1997, and postponed tax on the gain from that sale.

For detailed information on basis, including which settlement or closing costs are included in the basis of your home, see [chapter 13](#).

When you sell your home, your records should show the sales price and any selling expenses, such as commissions. For information on selling your home, see [chapter 15](#).

Investments. Your basic records should enable you to determine your basis in an investment and whether you have a gain or loss when you sell it. Investments include stocks, bonds, and mutual funds. Your records should show the purchase price, sales price, and commissions. They may also show any reinvested dividends, stock splits and dividends, load charges, and original issue discount (OID).

For information on stocks, bonds, and mutual funds, see [chapters 8, 13, 14, and 16](#).

Proof of Payment

One of your basic records is proof of payment. You should keep these records to support certain amounts shown on your tax return. Proof of payment alone is not proof that the item claimed on your return is allowable. You also should keep other documents that will help prove that the item is allowable.

Generally, you prove payment with a cash receipt, financial account statement, credit card statement, canceled check, or substitute check. If you make payments in cash, you should get a dated and signed receipt showing the amount and the reason for the payment.

If you make payments using your bank account, you may be able to prove payment with an account statement.

Account statements. You may be able to prove payment with a legible financial account statement prepared by your bank or other financial institution.

Pay statements. You may have deductible expenses withheld from your paycheck, such as union dues or medical insurance premiums. You should keep your year-end or final pay statements as proof of payment of these expenses.

TAXORGANIZER

In addition to keeping a record of your tax payment, it is advisable to maintain proof that you timely filed your return. If you paper filed your return, retain proof of mailing such as a certified mail receipt. If you electronically filed your return, keep the IRS acknowledgement of when your return was received (note this date may be different than the date the IRS accepts your return).

How Long to Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. [Table 1-7](#) contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period beginning after the return was filed. Returns filed before the due date are treated as being filed on the due date.

Table 1-7. **Period of Limitations**

IF you...	THEN the period is...
1 File a return and (2), (3), and (4) do not apply to you	3 years
2 Do not report income that you should and it is more than 25% of the gross income shown on your return	6 years
3 File a fraudulent return	No limit
4 Do not file a return	No limit
5 File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid.
6 File a claim for a loss from worthless securities or bad debt deduction	7 years

Property. Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up. You must keep the records on the old property, as well as the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

TAXORGANIZER

It would be wise to keep your income tax returns permanently. You should keep documents showing your basis in a piece of property for as long as you own that piece of property. If you sell a piece of property, you should keep your records showing your basis in the old property for at least 6 years after the sale. And, if you still receive canceled checks from your bank, we recommend that you keep them for 6 years.

If you do not keep the requisite records, it may be impossible for you to prove that you incurred deductible expenses or to establish your basis for gain or loss. Without such proof the IRS can deny you a deduction.

If you acquire property from an estate or by gift, it is advisable to secure a copy of the valuation of the estate or of the gift tax return so that you can determine the donor's basis in the property that you have been given. When acquiring property from an estate, the basis in the property is generally the fair market value at the date of the decedent's death if the decedent passed away before January 1, 2010, or after December 31, 2010. If the decedent passed away in 2010, your basis in the inherited property will generally be the lesser of the fair market value of the property on the decedent's date of death or the decedent's adjusted basis in the property.

Special rules allow for basis to be stepped up to specified limits on certain property inherited from a decedent who died during 2010. When receiving property as a gift, the taxpayer must know the donor's adjusted basis as well as the fair market value at the time of the gift in order to properly determine the basis used in calculating the gain or loss upon disposition. For more information, see [chapter 45, Estate and gift tax planning](#).

Knowing the donor's basis, you can easily determine your gain or loss when you sell the property. See [chapter 13, Basis of property](#), for more details on determining gains and losses from the sale of property.

Example

Your parents buy a house for you as a wedding present. You sell the house 10 years later. The only record of the initial transaction is in the county real estate records. You believe there were other costs associated with the purchase but you cannot find any records of them. If you claim the additional unsupported costs and the IRS examines your return for the year of the sale, it's likely that those costs will not be allowed. If you claim the additional costs and do not disclose on your return the lack of records to substantiate them, you could be subject to a penalty.

Refund Information

You can go online to check the status of your 2016 refund 24 hours after the IRS receives your e-filed return, or 4 weeks after you mail a paper return. If you filed Form 8379 with your return, allow 14 weeks (11 weeks if you filed electronically) before checking your refund status. Be sure to have a copy of your 2016 tax return handy because you will need to know the filing status, the first SSN shown on the return, and the exact whole-dollar amount of the refund. To check on your refund, do one of the following.

- Go to [IRS.gov/refunds](https://www.irs.gov/refunds).
- Download the free IRS2Go app to your smart phone and use it to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Interest on Refunds

If you are due a refund, you may get interest on it. The interest rates are adjusted quarterly.

If the refund is made within 45 days after the due date of your return, no interest will be paid. If you file your return after the due date (including extensions), no interest will be paid if the refund is made within 45 days after the date you filed. If the refund is not made within this 45-day period, interest will be paid from the due date of the return or from the date you filed whichever is later.

Accepting a refund check does not change your right to claim an additional refund and interest. File your claim within the period of time that applies. See *Amended Returns and Claims for Refund*, later. If you do not accept a refund check, no more interest will be paid on the overpayment included in the check.

Interest on erroneous refund. All or part of any interest you were charged on an erroneous refund generally will be forgiven. Any interest charged for the period before demand for repayment was made will be forgiven unless:

1. You, or a person related to you, caused the erroneous refund in any way, or
2. The refund is more than \$50,000.

For example, if you claimed a refund of \$100 on your return, but the IRS made an error and sent you \$1,000, you would not be charged interest for the time you held the \$900 difference. You must, however, repay the \$900 when the IRS asks.

Change of Address

If you have moved, file your return using your new address.

If you move after you filed your return, you should give the IRS clear and concise notification of your change of address. The notification may be written, electronic, or oral. Send written notification to the Internal Revenue Service Center serving your old address. You can use Form 8822, Change of Address. If you are expecting a refund, also notify the post office serving your old address. This will help in forwarding your check to your new address (unless you chose direct deposit of your refund). For more information, see Revenue Procedure 2010-16, 2010-19 I.R.B. 664, available at www.irs.gov/irb/2010-19_IRB/ar07.html.

Be sure to include your SSN (and the name and SSN of your spouse, if you filed a joint return) in any correspondence with the IRS.

What If I Made a Mistake?

Errors may delay your refund or result in notices being sent to you. If you discover an error, you can file an amended return or claim for refund.

Amended Returns and Claims for Refund

You should correct your return if, after you have filed it, you find that:

1. You did not report some income,
2. You claimed deductions or credits you should not have claimed,
3. You did not claim deductions or credits you could have claimed, or
4. You should have claimed a different filing status. (Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return. However, an executor may be able to make this change for a deceased spouse.)

If you need a copy of your return, see *Copies of tax returns* under *Kinds of Records to Keep*, earlier in this chapter.

Form 1040X. Use Form 1040X, Amended U.S. Individual Income Tax Return, to correct a return you have already filed. An amended tax return cannot be filed electronically.

Completing Form 1040X. On Form 1040X, enter your income, deductions, and credits as you originally reported them on your return, the changes you are making, and the corrected amounts.

Then figure the tax on the corrected amount of taxable income and the amount you owe or your refund.

If you owe tax, pay the full amount with Form 1040X. The tax owed will not be subtracted from any amount you had credited to your estimated tax.

If you cannot pay the full amount due with your return, you can ask to make monthly installment payments. See *Installment Agreement*, earlier.

If you overpaid tax, you can have all or part of the overpayment refunded to you, or you can apply all or part of it to your estimated tax. If you choose to get a refund, it will be sent separately from any refund shown on your original return.

Filing Form 1040X. When completing Form 1040X, do not forget to show the year of your original return and explain all changes you made. Be sure to attach any forms or schedules needed to explain your changes. Mail your Form 1040X to the Internal Revenue Service Center serving the area where you now live (as shown in the instructions to the form). However, if you are filing Form 1040X in response to a notice you received from the IRS, mail it to the address shown on the notice.

File a separate form for each tax year involved.

Time for filing a claim for refund. Generally, you must file your claim for a credit or refund within 3 years after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date (even if the due date was a Saturday, Sunday, or legal holiday). These time periods are suspended while you are *financially disabled*, discussed later.

If the last day for claiming a credit or refund is a Saturday, Sunday, or legal holiday, you can file the claim on the next business day.

If you do not file a claim within this period, you may not be entitled to a credit or a refund.

Protective claim for refund. Generally, a protective claim is a formal claim or amended return for credit or refund normally based on current litigation or expected changes in tax law or other legislation. You file a protective claim when your right to a refund is contingent on future events and may not be determinable until after the statute of limitations expires. A valid protective claim does not have to list a particular dollar amount or demand an immediate refund. However, a valid protective claim must:

- Be in writing and signed,
- Include your name, address, SSN or ITIN, and other contact information,
- Identify and describe the contingencies affecting the claim,
- Clearly alert the IRS to the essential nature of the claim, and
- Identify the specific year(s) for which a refund is sought.

Mail your protective claim for refund to the address listed in the instructions for Form 1040X, under *Where To File*.

Generally, the IRS will delay action on the protective claim until the contingency is resolved.

Limit on amount of refund. If you file your claim within 3 years after the date you filed your return, the credit or refund cannot be more than the part of the tax paid within the 3-year period (plus any extension of time for filing your return) immediately before you filed the claim. This time period is suspended while you are *financially disabled*, discussed later.

Tax paid. Payments, including estimated tax payments, made before the due date (without regard to extensions) of the original return are considered paid on the due date. For example, income tax withheld during the year is considered paid on the due date of the return, April 15 for most taxpayers.

Example 1. You made estimated tax payments of \$500 and got an automatic extension of time to October 15, 2013, to file your 2012 income tax return. When you filed your return on that date, you paid an additional \$200 tax. On October 17, 2016, you filed an amended return and claimed a refund of \$700. Because you filed your claim within 3 years after you filed your original return, you can get a refund of up to \$700, the tax paid within the 3 years plus the 6-month extension period immediately before you filed the claim.

Example 2. The situation is the same as in *Example 1*, except you filed your return on October 30, 2013, 2 weeks after the extension period ended. You paid an additional \$200 on that date. On October 31, 2016, you filed an amended return and claimed a refund of \$700. Although you filed your claim within 3 years from the date you filed your original return, the refund was limited to \$200, the tax paid within the 3 years plus the 6-month extension period immediately before you filed the claim. The estimated tax of \$500 paid before that period cannot be refunded or credited.

If you file a claim more than 3 years after you file your return, the credit or refund cannot be more than the tax you paid within the 2 years immediately before you file the claim.

Example. You filed your 2012 tax return on April 15, 2013. You paid taxes of \$500. On November 5, 2014, after an examination of your 2012 return, you had to pay an additional tax of \$200. On May 12, 2016, you file a claim for a refund of \$300. However, because you filed your claim more than 3 years after you filed your return, your refund will be limited to the \$200 you paid during the 2 years immediately before you filed your claim.

Financially disabled. The time periods for claiming a refund are suspended for the period in which you are financially disabled. For a joint income tax return, only one spouse has to be financially disabled for the time period to be suspended. You are financially disabled if you are unable to manage your financial affairs because of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. However, you are not treated as financially disabled during any period your spouse or any other person is authorized to act on your behalf in financial matters.

To claim that you are financially disabled, you must send in the following written statements with your claim for refund.

1. A statement from your qualified physician that includes:
 - a. The name and a description of your physical or mental impairment,
 - b. The physician's medical opinion that the impairment prevented you from managing your financial affairs,
 - c. The physician's medical opinion that the impairment was or can be expected to result in death, or that its duration has lasted, or can be expected to last, at least 12 months,
 - d. The specific time period (to the best of the physician's knowledge), and
 - e. The following certification signed by the physician: "I hereby certify that, to the best of my knowledge and belief, the above representations are true, correct, and complete."
2. A statement made by the person signing the claim for credit or refund that no person, including your spouse, was authorized to act on your behalf in financial matters during the period of disability (or the exact dates that a person was authorized to act for you).

Exceptions for special types of refunds. If you file a claim for one of the items in the following list, the dates and limits discussed earlier may not apply. These items, and where to get more information, are as follows.

- Bad debt. (See *Nonbusiness Bad Debts* in chapter 14.)
- Worthless security. (See *Worthless securities* in chapter 14.)
- Foreign tax paid or accrued. (See Publication 514, *Foreign Tax Credit for Individuals*.)
- Net operating loss carryback. (See Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts*.)
- Carryback of certain business tax credits. (See Form 3800, *General Business Credit*.)
- Claim based on an agreement with the IRS extending the period for assessment of tax.

TAXPLANNER

Form 1045, Application for Tentative Refund, can be used to apply for a tentative refund, versus filing Form 1040-X, if the refund is related to a carryback of a net operating loss (NOL), carryback of an unused general business credit, carryback of Section 1256 contracts loss, or overpayment of tax due to a claim of right adjustment. Filing this form versus 1040-X is beneficial because generally the IRS will process the application and issue the refund within 90 days of filing. However, you must file Form 1045 within 1 year after the end of the year in which an NOL, unused credit, net section 1256 contracts loss or claim of right adjustment arose. See the instructions to Form 1045 for details.

Processing claims for refund. Claims are usually processed 8-12 weeks after they are filed. Your claim may be accepted as filed, disallowed, or subject to examination. If a claim is examined, the procedures are the same as in the examination of a tax return.

If your claim is disallowed, you will receive an explanation of why it was disallowed.

Taking your claim to court. You can sue for a refund in court, but you must first file a timely claim with the IRS. If the IRS disallows your claim or does not act on your claim within 6 months after you file it, you can then take your claim to court. For information on the burden of proof in a court proceeding, see Publication 556.

The IRS provides a direct method to move your claim to court if:

- You are filing a claim for a credit or refund based solely on contested income tax or on estate tax or gift tax issues considered in your previously examined returns, and
- You want to take your case to court instead of appealing it within the IRS.

When you file your claim with the IRS, you get the direct method by requesting in writing that your claim be immediately rejected. A notice of claim disallowance will be sent to you.

You have 2 years from the date of mailing of the notice of claim disallowance to file a refund suit in the United States District Court having jurisdiction or in the United States Court of Federal Claims.

Interest on refund. If you receive a refund because of your amended return, interest will be paid on it from the due date of your original return or the date you filed your original return, whichever is later, to the date you filed the amended return. However, if the refund is not made within 45 days after you file the amended return, interest will be paid up to the date the refund is paid.

Reduced refund. Your refund may be reduced by an additional tax liability that has been assessed against you.

Also, your refund may be reduced by amounts you owe for past-due federal tax, state income tax, state unemployment compensation debts, child support, spousal support, or certain other federal nontax debts, such as student loans. If your spouse owes these debts, see *Offset against debts*, under *Refunds*, earlier, for the correct refund procedures to follow.

Effect on state tax liability. If your return is changed for any reason, it may affect your state income tax liability. This includes changes made as a result of an examination of your return by the IRS. Contact your state tax agency for more information.

TAXPLANNER

The IRS routinely shares information with most states that have state income taxes. If you file an amended federal tax return showing a balance due, you may avoid interest on tax due to the state and any penalties by taking the initiative and filing amended state tax returns when that is appropriate. Some states require that an amended state return be filed within a certain period following the filing of the amended Federal return. Refer to the amended return filing instructions for the states where you filed for further details.

Penalties

The law provides penalties for failure to file returns or pay taxes as required.

Civil Penalties

If you do not file your return and pay your tax by the due date, you may have to pay a penalty. You may also have to pay a penalty if you substantially understate your tax, understate a reportable transaction, file an erroneous claim for refund or credit, file a frivolous tax submission, or fail to supply your SSN or individual taxpayer identification number. If you provide fraudulent information on your return, you may have to pay a civil fraud penalty.

Filing late. If you do not file your return by the due date (including extensions), you may have to pay a failure-to-file penalty. The penalty is usually 5% for each month or part of a month that a return is late, but not more than 25%. The penalty is based on the tax not paid by the due date (without regard to extensions).

Fraud. If your failure to file is due to fraud, the penalty is 15% for each month or part of a month that your return is late, up to a maximum of 75%.

Return over 60 days late. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$135 (adjusted for inflation) or 100% of the unpaid tax.

Exception. You will not have to pay the penalty if you show that you failed to file on time because of reasonable cause and not because of willful neglect.

Paying tax late. You will have to pay a failure-to-pay penalty of ½ of 1% (.50%) of your unpaid taxes for each month, or part of a month, after the due date that the tax is not paid. This penalty does not apply during the automatic 6-month extension of time to file period if you paid at least

90% of your actual tax liability on or before the due date of your return and pay the balance when you file the return.

The monthly rate of the failure-to-pay penalty is half the usual rate (.25% instead of .50%) if an installment agreement is in effect for that month. You must have filed your return by the due date (including extensions) to qualify for this reduced penalty.

If a notice of intent to levy is issued, the rate will increase to 1% at the start of the first month beginning at least 10 days after the day that the notice is issued. If a notice and demand for immediate payment is issued, the rate will increase to 1% at the start of the first month beginning after the day that the notice and demand is issued.

This penalty cannot be more than 25% of your unpaid tax. You will not have to pay the penalty if you can show that you had a good reason for not paying your tax on time.

Combined penalties. If both the failure-to-file penalty and the failure-to-pay penalty (discussed earlier) apply in any month, the 5% (or 15%) failure-to-file penalty is reduced by the failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$135 (adjusted for inflation) or 100% of the unpaid tax.

Accuracy-related penalty. You may have to pay an accuracy-related penalty if you underpay your tax because:

1. You show negligence or disregard of the rules or regulations,
2. You substantially understate your income tax,
3. You claim tax benefits for a transaction that lacks economic substance, or
4. You fail to disclose a foreign financial asset.

The penalty is equal to 20% of the underpayment. The penalty is 40% of any portion of the underpayment that is attributable to an undisclosed noneconomic substance transaction or an undisclosed foreign financial asset transaction. The penalty will not be figured on any part of an underpayment on which the fraud penalty (discussed later) is charged.

Negligence or disregard. The term “negligence” includes a failure to make a reasonable attempt to comply with the tax law or to exercise ordinary and reasonable care in preparing a return. Negligence also includes failure to keep adequate books and records. You will not have to pay a negligence penalty if you have a reasonable basis for a position you took.

The term “disregard” includes any careless, reckless, or intentional disregard.

TAXPLANNER

The IRS has a comprehensive program to compare the amounts of income reported as paid by payers on Form 1099 series information returns (as well as Schedule K-1's) with the amounts of income reported by the payees on their income tax returns. If this document-matching program discloses apparently underreported income, you will receive a notice of additional tax due that may include imposition of a 20% negligence penalty. If you receive an information return showing income paid to you that, through no fault of your own, you did not receive in 2016 or that for some reason is not taxable to you, you should nevertheless report as income on your return the entire amount shown by the information return and subtract from that the amount you believe to be erroneous. Following this procedure usually will avoid automatic generation of the IRS notice and the inconvenience and frustration of corresponding with the IRS to get the matter resolved.

TAXALERT

The penalty in the case of a gross valuation misstatement is 40% of the portion of the underpayment attributable to the misstatement. A gross valuation misstatement is a misstatement with respect to which either the value or adjusted basis claimed on the return for any property is -200% or more of the correct value or adjusted basis. You should keep the necessary documentation in order to avoid the valuation misstatement penalty.

Example

Ted and Joan contributed property to a charity and claimed a charitable contribution deduction of \$120,000 on their joint return. The property is actually worth only \$54,000. Since the value of the property claimed on the return is more than 200% of the correct value, they are subject to a penalty of 40% on the difference between the amount of tax they should have paid if they claimed only \$54,000 as a charitable contribution and the amount of tax they actually paid.

Adequate disclosure. You can avoid the penalty for disregard of rules or regulations if you adequately disclose on your return a position that has at least a reasonable basis. See *Disclosure statement*, later.

This exception will not apply to an item that is attributable to a tax shelter. In addition, it will not apply if you fail to keep adequate books and records, or substantiate items properly.

Substantial understatement of income tax. You understate your tax if the tax shown on your return is less than the correct tax. The understatement is substantial if it is more than the larger of 10% of the correct tax or \$5,000. However, the amount of the understatement may be reduced to the extent the understatement is due to:

1. Substantial authority, or
2. Adequate disclosure and a reasonable basis.

If an item on your return is attributable to a tax shelter, there is no reduction for an adequate disclosure. However, there is a reduction for a position with substantial authority, but only if you reasonably believed that your tax treatment was more likely than not the proper treatment.

Substantial authority. Whether there is or was substantial authority for the tax treatment of an item depends on the facts and circumstances. Some of the items that may be considered are court opinions, Treasury regulations, revenue rulings, revenue procedures, and notices and announcements issued by the IRS and published in the Internal Revenue Bulletin that involve the same or similar circumstances as yours.

Disclosure statement. To adequately disclose the relevant facts about your tax treatment of an item, use Form 8275, Disclosure Statement. You must also have a reasonable basis for treating the item the way you did.

In cases of substantial understatement only, items that meet the requirements of Revenue Procedure 2016-13 (or later update) are considered adequately disclosed on your return without filing Form 8275.

Use Form 8275-R, Regulation Disclosure Statement, to disclose items or positions contrary to regulations.

Transaction lacking economic substance. For more information on economic substance, see section 7701(o).

Foreign financial asset. For more information on undisclosed foreign financial assets, see section 6662(j).

Reasonable cause. You will not have to pay a penalty if you show a good reason (reasonable cause) for the way you treated an item. You must also show that you acted in good faith. This does not apply to a transaction that lacks economic substance.

EXPLANATION

The IRS's explanation of the penalty for substantial understatement and how to avoid it oversimplifies a very complex situation.

Under regulations issued by the IRS, the following items may generally be considered substantial authority:

- Internal Revenue Code and other statutory provisions
- Temporary and final IRS regulations
- Court cases
- Administrative pronouncements (including revenue rulings and revenue procedures)
- Tax treaties and regulations issued as a result of a treaty
- Congressional intent as reflected in committee reports, joint explanatory statements of managers included in conference committee reports, and statements made in Congress by one of a bill's managers prior to enactment of a bill
- General explanations of tax legislation prepared by the Joint Committee on Taxation (the Blue Book)
- Proposed IRS regulations
- Information or press releases, notices, announcements, and any other similar documents published by the IRS in the Internal Revenue Bulletin
- Private letter rulings, technical advice memoranda, actions on decisions, and general counsel memoranda after they have been released to the public, if they are dated after March 12, 1981

TAXALERT

There is a 20% penalty on refund claims filed after May 25, 2007, that are filed without a reasonable basis. Under previous law, penalties applied to understatements of income tax but not to claims for refund.

Filing erroneous claim for refund or credit. You may have to pay a penalty if you file an erroneous claim for refund or credit. The penalty is equal to 20% of the disallowed amount of the claim, unless you can show a reasonable basis for the way you treated an item. However, any disallowed amount due to a transaction that lacks economic substance will not be treated as having a reasonable basis. The penalty will not be figured on any part of the disallowed amount of the claim that relates to the earned income credit or on which the accuracy-related or fraud penalties are charged.

Frivolous tax submission. You may have to pay a penalty of \$5,000 if you file a frivolous tax return or other frivolous submissions. A frivolous tax return is one that does not include enough information to figure the correct tax or that contains information clearly showing that the tax you reported is substantially incorrect. For more information on frivolous returns, frivolous submissions, and a list of positions that are identified as frivolous, see Notice 2010-33, 2010-17 I.R.B. 609, available at www.irs.gov/irb/2010-17_IRB/ar13.html.

TAXALERT

You can also refer to the 2016 version of "The Truth about Frivolous Tax Arguments" (www.irs.gov/Tax-Professionals/The-Truth-About-Frivolous-Tax-Arguments-Introduction) for more information on frivolous tax arguments made by taxpayers.

You will have to pay the penalty if you filed this kind of return or submission based on a frivolous position or a desire to delay or interfere with the administration of federal tax laws. This includes altering or striking out the preprinted language above the space provided for your signature.

This penalty is added to any other penalty provided by law.

EXPLANATION

Congress enacted this penalty to attack a great variety of tax protest activities, including:

1. Irregular tax forms that cannot be processed
2. References to spurious constitutional arguments as a basis for not completing tax forms
3. Unallowable deductions claimed as a protest against military expenses
4. Deliberate use of incorrect Tax Tables
5. Presentation of clearly inconsistent information, such as a taxpayer who lists only two dependents while claiming 99 exemptions for withholding purposes

TAXALERT

Unlike most other penalties, the penalty for filing a frivolous return is not based on your tax liability. The penalty for filing a frivolous return will be assessed immediately and added to any other penalties.

Fraud. If there is any underpayment of tax on your return due to fraud, a penalty of 75% of the underpayment due to fraud will be added to your tax.

Joint return. The fraud penalty on a joint return does not apply to a spouse unless some part of the underpayment is due to the fraud of that spouse.

Failure to supply SSN. If you do not include your SSN or the SSN of another person where required on a return, statement, or other document, you will be subject to a penalty of \$50 for each failure. You will also be subject to a penalty of \$50 if you do not give your SSN to another person when it is required on a return, statement, or other document.

For example, if you have a bank account that earns interest, you must give your SSN to the bank. The number must be shown on the Form 1099-INT or other statement the bank sends you. If you do not give the bank your SSN, you will be subject to the \$50 penalty. (You also may be subject to “backup” withholding of income tax. See chapter 4.)

You will not have to pay the penalty if you are able to show that the failure was due to reasonable cause and not willful neglect.

Criminal Penalties

You may be subject to criminal prosecution (brought to trial) for actions such as:

1. Tax evasion,
2. Willful failure to file a return, supply information, or pay any tax due,
3. Fraud and false statements,
4. Preparing and filing a fraudulent return, or
5. Identity theft.

TAXALERT

In addition to any of the other penalties discussed in this section, you can be charged a penalty for paying your tax with a bad check. The penalty may not be imposed if you submit a bad check in good faith and with reasonable cause to believe that it will be paid. The penalty is 2% of the amount of the check or, if the check is less than \$1,250, the lesser of \$25 or the amount of the check.

Identity Theft

Identity theft occurs when someone uses your personal information such as your name, SSN, or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your SSN has been lost or stolen or you suspect you are a victim of tax-related identity theft visit www.irs.gov/identitytheft to learn what steps you should take.

For more information, see Publication 4535, *Identity Theft Prevention and Victim Assistance*.

Victims of identity theft who are experiencing economic harm or a systemic problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the National Taxpayer Advocate helpline at 1-877-777-4778 or TTY/TDD 1-800-829-4059. Deaf or hard-of-hearing individuals can also contact the IRS through relay services such as the Federal Relay Service available at www.gsa.gov/fedrelay.

TAXALERT

To keep up to date on the latest scams, go to www.irs.gov and enter “scam” in the search box. Additionally, the IRS releases its annual “Dirty Dozen” list of tax scams to help alert taxpayers about these schemes.

Listed below are five tactics used by scammers that the IRS will never do (per IRS News Release 2015-62).

The IRS will not:

- Call to demand immediate payment, nor will the agency call about taxes owed without first having mailed you a bill.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

Protect yourself from suspicious emails or phishing schemes. Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common form is the act of sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request detailed personal information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward the message to: phishing@irs.gov. You may also report misuse of the IRS name, logo, forms or other IRS property to the Treasury Inspector General for Tax Administration toll-free at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at: spam@uce.gov or contact them at www.ftc.gov/idtheft or 1-877-ID-THEFT (1-877-438-4338).

Visit IRS.gov and enter “identity theft” in the search box to learn more about identity theft and how to reduce your risk.

TAXALERT

When the IRS suspects that a tax return filed may be a case of identity theft, they will issue a letter 5071C requesting the taxpayer to access a website to verify whether or not they filed the return. If they did not file the return, the IRS will assist the taxpayer on how to proceed.

TAXALERT

There is a free IRS2Go phone app, which is available in both English and Spanish for Apple and Android devices. IRS2Go version 5.0 provides features to help taxpayers check on the status of their tax refunds, obtain tax records, find free tax preparation providers and stay connected with the IRS through social media channels such as YouTube and Twitter. You can follow the IRS Twitter feeds at @IRSnews and @IRSenEspanol. @IRStaxpros provides news and guidance for tax professionals. @RecruitmentIRS provides updates for job seekers, and the Taxpayer Advocate Service has information available @YourVoiceAtIRS.