

Sponsored by Taxsoftware.com <http://www.taxsoftware.com>



IRS Tax Tips for 2005

Help is on the way! IRS Helplines are up and running.

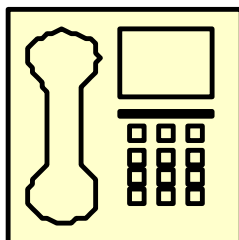
Get the facts on capital gains—and losses.

Junior's investments paid off!! Now pay up.

And more inside...

Individual Highlights

Capital Gains	2
Children's Investments	2
IRA Distributions	3



Free Tax Assistance



IRS Offers Toll-Free Help

Free tax help direct from the IRS is just a phone call—or mouse click—away. Various services are available, either online or through IRS toll-free phone numbers. You can:

- **Ask questions about your tax return.** You can call the IRS Tax Help Line at 1-800-829-1040 to get answers to federal tax questions.
- **Order forms and publications.** Call 1-800-TAX-FORM (1-800-829-3676). Copies of forms, publications, and other helpful information are also available around-the-clock at the IRS Web site at www.irs.gov.
- **Check the status of your refund.** Call the Refund Hotline at 1-

800-829-1954. You will need to know your filing status and the exact whole-dollar amount of your expected refund.

TeleTax, the automated refund line, at 1-800-829-4477, is available around the clock. Automated refund information is generally available four to five weeks after you have filed your tax return. You can also check the status of your refund at irs.gov by clicking on Where's My Refund? This service is available 24/7.

- **Get recorded tax information:** TeleTax, 1-800-829-4477, has recorded messages covering more than 100 tax topics. Topics include items

such as Who Must File?, Highlights of Tax Changes, Education Credits, Individual Retirement Accounts, Earned Income Tax Credit, What to Do if You Can't Pay Your Tax, and more.

- **Use TTY/TDD equipment for hearing-impaired individuals at 1-800-829-4059.**

All IRS help lines are available from 7:00 a.m. to 10:00 p.m. (local time) on weekdays. Alaska and Hawaii will follow Pacific Time.

IRS services offered by phone are also available 24 / 7 online at irs.gov.



“The price of greatness is responsibility”.

*British Politician
(1874-1965)*

Capital Gains And Losses

Almost everything you own and use for personal purposes, pleasure, or investment is a capital asset. When you sell a capital asset, the difference between the amount you sell it for and your basis, which is usually what you paid for it, is a capital gain or a capital loss.

While you must report all capital gains, you may deduct only capital losses on investment property, not personal property.

Here are a few tax facts about capital gains and losses:

- Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040.
- Capital gains and losses are classified as long-term—held for more than one year—or short-term—held for one year or less.
- Net capital gain is the amount by which your net long-term capital gain is more than your net short-term capital loss.
- Tax rates that apply to net capital gains are generally lower than tax rates for other income. For 2005, the maximum capital gains rates

are 5%, 15%, 25%, or 28%.

- If your capital losses exceed your capital gains, the excess is subtracted from other income on your tax return, up to an annual limit of \$3,000 (\$1,500 if you are married filing separately).

See IRS Publication 17, Your Federal Income Tax, and Publication 550, Investment Income and Expenses, at irs.gov or 1-800-TAX-FORM (1-800-829-3676).

Taxing Junior's Income

Children's Investment Tax

Part or all of a child's investment income may be taxed at the parent's—usually higher—rate rather than the child's rate.

This special method of figuring the federal income tax only applies to children who are under the age of 14. For 2005, it applies if the child's total investment income for the year was more than \$1,600. Investment income includes interest, dividends,

capital gains, and other unearned income.

To figure the child's tax using this method, fill out Form 8615, Tax for Children Under Age 14 With Investment Income of More Than \$1,600, and attach it to the child's federal income tax return.

Alternatively, a parent can, in many cases, choose to report the child's investment income on the parent's own tax return. This option is available if the child's income consists entirely of interest and dividends (including capital gain distributions) and the

amount received is less than \$8,000. However, choosing this option may reduce certain credits or deductions that parents may claim.

These special tax rules do not apply to investment income received by children who are age 14 and over. In addition, wages and other earned income received by a child of any age are taxed at the child's normal rate.

See IRS Publication 929, Tax Rules for Children and Dependents, at irs.gov or call 1-800-TAX-FORM (1-800-829-3676) for Form 8615.

Foreign Income Taxed

U.S. citizens are taxed on their worldwide income, regardless of where they reside. The foreign income rule also applies whether or not the person receives a Form W-2, Wage and Tax Statement, or a Form 1099 (information return).

Foreign source income includes earned and unearned income, such as:

- **Wages and tips**
- **Interest**
- **Dividends**
- **Capital Gains**
- **Pensions**
- **Rents**
- **Royalties**

Citizens living outside the U.S. may be able to exclude up to \$80,000 of their 2005

foreign source income. The exclusion does not apply to U.S. government pay to civilian or military employees living outside the U.S.

For more information, check out IRS Publication 54, Tax Guide for U.S. Citizens and Resident Aliens at irs.gov or call 1-800-TAX-FORM (1-800-829-3676).

Early Withdrawals From IRAs Earn Penalties

Payments received from an IRA or qualified retirement plan before age 59½ are normally called 'early' or 'premature' distributions. These funds are subject to an additional 10 percent tax and must be reported to the IRS.

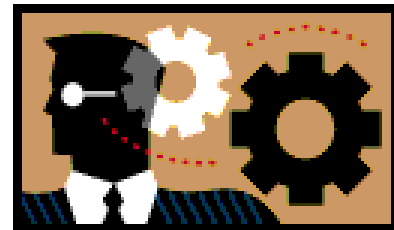
There are a number of exceptions to the age 59½ rule for early withdrawals. Some exceptions apply only to IRAs, some only to qualified retirement plans, and some to both.

In addition to the 10 percent tax on early distributions, the distribution generally must be included as income. If you received a distribution from an IRA, other than a Roth IRA, to which you made any nondeductible contributions, the portion of the distribution attributable to those contributions is not taxed. If you received a qualified distribution from a Roth IRA, none of the distribution is taxed. If you received a distribution from any other qualified retirement plan, the portion of the distribution attributable to your cost, not including pre-tax contributions, is not taxed.

A 'rollover' is a way to avoid paying tax on early distributions. Generally, a rollover is a tax-free transfer of cash or other assets from an IRA or qualified retirement plan to another eligible retirement plan. An eligible retirement plan

is a traditional IRA, a qualified retirement plan, or a qualified annuity plan. The rollover must be completed within 60 days of receipt of the distribution. The amount rolled over is generally taxed when the new plan pays benefits.

For more information, see IRS Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans); Publication 575, Pension and Annuity Income; or Publication 590, Individual Retirement Arrangements (IRAs), available at irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).



Tax Credit Claims

Taxpayers should always look to claim eligible credits. A tax credit is a dollar-for-dollar reduction of taxes owed. Some credits are refundable, and taxes could be reduced to the point that a taxpayer would receive a refund. Below are some of the credits taxpayers could be eligible to claim:

- The Earned Income Tax Credit is a refundable credit for low-income working individuals and families. Income and family size

determine the amount of the credit. See IRS Publication 596, Earned Income Credit.

- The Child and Dependent Care Credit is for expenses paid for the care of children under age 13, or for a disabled spouse or dependent, to enable the taxpayer to work or look for work. See IRS Publication 503, Child and Dependent Care Expenses.
- The Child Tax Credit is for people who have a qualifying child. The maximum amount of the credit is \$1,000 for each qualifying child—in addition to the credit for child and dependent care expenses. See IRS Publication 972, Child Tax Credit.
- Adoptive parents may qualify for an adoption tax credit of up to \$10,630 for qualifying expenses paid to adopt an eligible child. The

credit may be allowed for the adoption of a child with special needs even if you do not have any qualifying expenses. See the instructions for Form 8839, Qualified Adoption Expenses.

- A Credit for the Elderly or the Disabled is available to individuals who are either age 65 or older or are under age 65 and retired on permanent and total disability, and who are U.S. citizens or residents. There are income limitations. See IRS Publication 524, Credit for the Elderly and the Disabled.

There are other credits available, and since many qualifications and limitations apply to the various tax credits, taxpayers should carefully check the instructions for Form 1040. IRS publications are available at irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).