

December 15, 1998

**ADVANCE COPY OF INTERNAL REVENUE BULLETIN ITEM**

Attached is an advance copy of Rev. Proc. 98-61, setting forth the inflation-adjusted amounts for the tax rate tables, personal exemptions, standard deductions and various other items for 1999.

This Rev. Proc. will appear in Internal Revenue Bulletin 1998-52, dated December 28, 1998.

You may release this Rev. Proc. immediately.

Communications Division

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.602: Tax forms and instructions.

(Also Part I, §§ 1, 32, 59, 63, 68, 135, 151, 170, 213, 220, 512, 513, 685, 877, 2032A, 2503, 2523, 2631, 4001, 4003, 4261, 6033, 6039F, 6323, 6601, 7430, 7702B)

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#### **SECTION 5. DRAFTING INFORMATION**

##### **SECTION 1. PURPOSE**

This revenue procedure sets forth inflation adjusted items for 1999.

##### **SECTION 2. CHANGES MADE FROM PRECEDING YEAR**

.01 The amount used in determining the exemption under §§ 55 and 59(j), as amended by section 1201(b) of the Taxpayer Relief Act of 1997 (the "TRA of 1997"), Pub. L. No. 105-34, 111 Stat. 788 (1997), from the alternative minimum tax under § 55

for a child subject to the "kiddie tax" under § 1(g), is adjusted for inflation for tax years beginning in 1999 (section 3.04).

.02 The amounts used to determine whether a health plan is a "high deductible health plan" for purposes of determining whether an individual is eligible for a deduction for cash paid to a medical savings account under § 220, as enacted by section 301(a) of the Health Insurance Portability and Accountability Act of 1996, Pub. L. No. 104-191, 110 Stat. 1936 (1996), are adjusted for inflation for tax years beginning in 1999 (section 3.10).

.03 The maximum amount of contributions that may be made to a qualified funeral trust defined in § 685, as enacted by section 1309(a) of the TRA of 1997, is adjusted for inflation for calendar year 1999 (section 3.13).

.04 The maximum amount by which the estate tax valuation method under § 2032A, as amended by section 501(b) of the TRA of 1997, may decrease the value of certain farm and other qualified real property included in a decedent's gross estate, is adjusted for inflation for calendar year 1999 (section 3.15).

.05 The amount of gifts that may be made to a person in a calendar year without including the amount in taxable gifts under § 2503, as amended by section 501(c) of the TRA of 1997, is adjusted for inflation for calendar year 1999. Also, under § 2523(i)(2) by cross reference to § 2503, the amount of gifts that may be made to a

spouse who is not a citizen of the United States in a calendar year without including the amount in taxable gifts under § 2503 is adjusted for inflation for calendar year 1999 (section 3.16).

.06 The amount of the generation-skipping transfer tax exemption under § 2631, as amended by section 501(d) of the TRA of 1997, which was technically corrected by section 6007(a)(1) of the Internal Revenue Service Restructuring and Reform Act of 1998 (the "RRA of 1998"), Pub. L. No. 105-206, 112 Stat. 685 (1998), is adjusted for inflation for calendar year 1999 (section 3.17).

.07 The amount of the excise tax on passenger air transportation beginning or ending in the United States under § 4261, as amended by section 1031(c) of the TRA of 1997, is adjusted for inflation for calendar year 1999 (section 3.19).

.08 The maximum amount of a casual sale of personal property below which a federal tax lien will not be valid against a purchaser of the property under § 6323(b)(4), and the maximum amount of a contract for the repair or improvement of certain residential property at or below which a federal tax lien will not be valid against a mechanic's lienor under § 6323(b)(7), each as amended by section 3435(a) of the RRA of 1998, are adjusted for inflation for calendar year 1999 (section 3.22).

.09 For purposes of calculating interest charged under § 6601(j), as amended by section 501(e) of the TRA of 1997, the dollar amount used to determine the "2 percent

portion” of the estate tax payable in installments under § 6166 is adjusted for inflation for calendar year 1999 (section 3.23).

.10 The amount of the limit on the hourly rate at which attorney fees may be awarded under § 7430 in a judgment or settlement of an administrative or judicial proceeding concerning the determination, collection, or refund of tax, interest, or penalty under the Code was increased to \$125, as adjusted for inflation, effective for costs incurred after January 18, 1999, by section 3101(a)(1) of the RRA of 1998 (section 3.24).

### **SECTION 3. 1999 ADJUSTED ITEMS**

.01 Tax Rate Tables. For tax years beginning in 1999, the tax rate tables under § 1 are as follows:

TABLE 1 - Section 1(a). -- MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

If Taxable Income Is:	The Tax Is:
Not Over \$43,050	15% of the taxable income
Over \$43,050 but not over \$104,050	\$6,457.50 plus 28% of the excess over \$43,050
Over \$104,050 but not over \$158,550	\$23,537.50 plus 31% of the excess over \$104,050
Over \$158,550 but not over \$283,150	\$40,432.50 plus 36% of the excess over \$158,550
Over \$283,150	\$85,288.50 plus 39.6% of the excess over \$283,150

TABLE 2 - Section 1(b). -- HEADS OF HOUSEHOLDS

If Taxable Income Is:	The Tax Is:
Not Over \$34,550	15% of the taxable income
Over \$34,550 but not over \$89,150	\$5,182.50 plus 28% of the excess over \$34,550
Over \$89,150	\$20,470.50 plus 31% of

but not over \$144,400	the excess over \$89,150
Over \$144,400 but not over \$283,150	\$37,598 plus 36% of the excess over \$144,400
Over \$283,150	\$87,548 plus 39.6% of the excess over \$283,150

TABLE 3 - Section 1(c). -- UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS)

If Taxable Income Is:	The Tax Is:
Not Over \$25,750	15% of the taxable income
Over \$25,750 but not over \$62,450	\$3,862.50 plus 28% of the excess over \$25,750
Over \$62,450 but not over \$130,250	\$14,138.50 plus 31% of the excess over \$62,450
Over \$130,250 but not over \$283,150	\$35,156.50 plus 36% of the excess over \$130,250
Over \$283,150	\$90,200.50 plus 39.6% of the excess over \$283,150

TABLE 4 - Section 1(d). -- MARRIED INDIVIDUALS FILING SEPARATE RETURNS

If Taxable Income Is:	The Tax Is:
Not Over \$21,525	15% of the taxable income
Over \$21,525 but not over \$52,025	\$3,228.75 plus 28% of the excess over \$21,525
Over \$52,025 but not over \$79,275	\$11,768.75 plus 31% of the excess over \$52,025
Over \$79,275 but not over \$141,575	\$20,216.25 plus 36% of the excess over \$79,275
Over \$141,575	\$42,644.25 plus 39.6% of the excess over \$141,575

TABLE 5 - Section 1(e). -- ESTATES AND TRUSTS

If Taxable Income Is:	The Tax Is:
Not Over \$1,750	15% of the taxable income
Over \$1,750 but not over \$4,050	\$262.50 plus 28% of the excess over \$1,750
Over \$4,050	\$906.50 plus 31% of

but not over \$6,200	the excess over \$4,050
Over \$6,200 but not over \$8,450	\$1,573 plus 36% of the excess over \$6,200
Over \$8,450	\$2,383 plus 39.6% of the excess over \$8,450

.02 Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax"). For tax years beginning in 1999, the amount in § 1(g)(4)(A)(ii)(I), which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is \$700. (This amount is the same as the \$700 standard deduction amount provided in section 3.05(2) of this revenue procedure.) In the alternative, the same \$700 amount is used for purposes of § 1(g)(7) (that is, determining whether a parent may elect to include a child's gross income in the parent's gross income and for calculating the "kiddie tax").

.03 Earned Income Credit.

(1) In general. For tax years beginning in 1999, the following amounts are used to determine the earned income credit under § 32(b). The "earned income amount" is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. The "threshold phaseout amount" is the amount of modified adjusted gross income (or, if greater, earned income) above which the

maximum amount of the credit begins to phase out. The "completed phaseout amount" is the amount of modified adjusted gross income (or if greater, earned income) at or above which no credit is allowed.

<u>Number of Children</u>	<u>Maximum Amount of the Credit</u>	<u>Earned Income Amount</u>	<u>Threshold Phaseout Amount</u>	<u>Completed Phaseout Amount</u>
1	\$2,312	\$6,800	\$12,460	\$26,928
2 or more	\$3,816	\$9,540	\$12,460	\$30,580
None	\$ 347	\$4,530	\$ 5,670	\$10,200

The Internal Revenue Service, in the instructions for the Form 1040 series, provides tables showing the amount of the earned income credit for each type of taxpayer.

(2) Excessive investment income. For tax years beginning in 1999, the earned income credit is denied under § 32(i) if the aggregate amount of certain investment income exceeds \$2,350.

.04 Alternative Minimum Tax Exemption for a Child Subject to the "Kiddie Tax." For tax years beginning in 1999, in the case of a child to whom the § 1(g) "kiddie tax" applies, the exemption amount under § 55 and § 59(j) for purposes of the alternative minimum tax under § 55 may not exceed the sum of (A) such child's earned income for the taxable year, plus (B) \$5,100.

.05 Standard Deduction.

(1) In general. For tax years beginning in 1999, the standard deduction amounts under § 63(c)(2) are as follows:

<u>Filing Status</u>	<u>Standard Deduction</u>
MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES (§ 1(a))	\$7,200
HEADS OF HOUSEHOLDS (§ 1(b))	\$6,350
UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS) (§ 1(c))	\$4,300
MARRIED INDIVIDUALS FILING SEPARATE RETURNS (§ 1(d))	\$3,600

(2) Dependent. For tax years beginning in 1999, the standard deduction amount under § 63(c)(5) for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of \$700, or the sum of \$250 and the individual's earned income.

(3) Aged and blind. For tax years beginning in 1999, the additional standard deduction amounts under § 63(f) for the aged and for the blind are \$850 for each. These amounts are increased to \$1,050 if the individual is also unmarried and not a surviving spouse.

.06 Overall Limitation on Itemized Deductions. For tax years beginning in 1999, the "applicable amount" of adjusted gross income under § 68(b), above which the

amount of otherwise allowable itemized deductions is reduced under § 68, is \$126,600 (or \$63,300 for a separate return filed by a married individual).

.07 Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses. For tax years beginning in 1999, the exclusion under § 135, regarding income from United States savings bonds for taxpayers who pay qualified higher education expenses, begins to phase out for modified adjusted gross income above \$79,650 for joint returns and \$53,100 for other returns. This exclusion completely phases out for modified adjusted gross income of \$109,650 or more for joint returns and \$68,100 or more for other returns.

.08 Personal Exemption.

(1) Exemption amount. For tax years beginning in 1999, the personal exemption amount under § 151(d) is \$2,750.

(2) Phaseout. For tax years beginning in 1999, the personal exemption amount begins to phase out at, and is completely phased out after, the following adjusted gross income amounts:

<u>Filing Status</u>	<u>Threshold Phaseout Amount</u>	<u>Completed Phaseout Amount After</u>
Code § 1(a)	\$189,950	\$312,450
Code § 1(b)	\$158,300	\$280,800
Code § 1(c)	\$126,600	\$249,100
Code § 1(d)	\$ 94,975	\$156,225

.09 Eligible Long-Term Care Premiums. For tax years beginning in 1999, the limitations under § 213(d), regarding eligible long-term care premiums includible in the term "medical care," are as follows:

Attained age before the close of the taxable year:

40 or less.....	\$ 210
More than 40 but not more than 50.....	\$ 400
More than 50 but not more than 60.....	\$ 800
More than 60 but not more than 70.....	\$2,120
More than 70.....	\$2,660

.10 Medical Savings Accounts.

(1) Self-only coverage. For tax years beginning in 1999, the term "high deductible health plan" as defined in § 220(c)(2)(A) means, in the case of self-only coverage, a health plan which has an annual deductible that is not less than \$1,550 and not more than \$2,300, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$3,050.

(2) Family coverage. For tax years beginning in 1999, the term "high deductible health plan" means, in the case of family coverage, a health plan which has an annual deductible that is not less than \$3,050 and not more than \$4,600, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$5,600.

.11 Treatment of Dues Paid to Agricultural or Horticultural Organizations. For tax years beginning in 1999, the limitation under § 512(d)(1), regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization, is \$110.

.12 Insubstantial Benefit Limitations for Contributions Associated with Charitable Fund-Raising Campaigns.

(1) Low cost article. For tax years beginning in 1999, the unrelated business income of certain exempt organizations under § 513(h)(2) does not include a "low cost article" of \$7.20 or less.

(2) Other insubstantial benefits. For tax years beginning in 1999, the \$5, \$25, and \$50 guidelines in section 3 of Rev. Proc. 90-12, 1990-1 C.B. 471 (as amplified and modified), for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution under § 170, are \$7.20, \$36, and \$72, respectively.

.13 Funeral Trusts. For a contract entered into during calendar year 1999 for a "qualified funeral trust," as defined in § 685, the trust may not accept aggregate contributions by or for the benefit of an individual in excess of \$7,100.

.14 Expatriation to Avoid Tax. For calendar year 1999, the thresholds used under § 877(a)(2), regarding whether an individual's loss of United States citizenship had the avoidance of United States taxes as one of its principal purposes, are more than \$110,000 for "average annual net income tax" and \$552,000 or more for "net worth."

.15 Valuation of Qualified Real Property in Decedent's Gross Estate. For an estate of a decedent dying in calendar year 1999, if the executor elects to use the special use valuation method under § 2032A for qualified real property, the aggregate decrease in the value of qualified real property resulting from electing to use § 2032A that is taken into account for purposes of the estate tax may not exceed \$760,000.

.16 Annual Exclusion for Gifts.

(1) For calendar year 1999, the first \$10,000 of gifts to any person (other than gifts of future interests in property) are not included in the total amount of taxable gifts under § 2503 made during that year.

(2) For calendar year 1999, the first \$101,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not

included in the total amount of taxable gifts under §§ 2503 and 2523(i)(2) made during that year.

.17 Generation-Skipping Transfer Tax Exemption. For calendar year 1999, the generation-skipping transfer tax exemption under § 2631, which is allowed in determining the "inclusion ratio" defined in § 2642, is \$1,010,000.

.18 Luxury Automobile Excise Tax. For calendar year 1999, the excise tax under §§ 4001 and 4003 is imposed on the first retail sale of a passenger vehicle (including certain parts or accessories installed within six months of the date after the vehicle was first placed in service), to the extent the price exceeds \$36,000.

.19 Passenger Air Transportation Excise Tax. For calendar year 1999, the tax under § 4261(c) on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States, generally is \$12.20. However, in the case of a domestic segment beginning or ending in Alaska or Hawaii as described in § 4261(c)(3), the tax only applies to departures and is at the rate of \$6.10.

.20 Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures. For tax years beginning in 1999, the annual per person, family, or entity dues limitation to qualify for the reporting exception under § 6033(e)(3)

(and section 5.05 of Rev. Proc. 98-19, 1998-7 I.R.B. 30), regarding certain exempt organizations with nondeductible lobbying expenditures, is \$77 or less.

.21 Notice of Large Gifts Received from Foreign Persons. For tax years beginning in 1999, recipients of gifts from certain foreign persons may have to report these gifts under § 6039F if the aggregate value of gifts received in a taxable year exceeds \$10,735.

.22 Persons against Which a Federal Tax Lien is Not Valid. For calendar year 1999, a federal tax lien is not valid against (1) certain purchasers under § 6323(b)(4) that purchased personal property in a casual sale for less than \$1,040, or (2) a mechanic's lienor under § 6323(b)(7) that repaired or improved certain residential property if the contract price with the owner is not more than \$5,220.

.23 Interest on a Certain Portion of the Estate Tax Payable in Installments. For an estate of a decedent dying in calendar year 1999, the dollar amount used to determine the "2-percent portion" (for purposes of calculating interest under § 6601(j)) of the estate tax payable in installments under § 6166 is \$1,010,000.

.24 Attorney Fee Awards. For calendar year 1999, for costs incurred on or before January 18, 1999, the attorney fee award limitation under § 7430(c)(1)(B)(iii) is \$120 per hour. For costs incurred after January 18, 1999, the attorney fee award limitation under § 7430(c)(1)(B)(iii) is \$130 per hour.

.25 Periodic Payments Received under Qualified Long-Term Care Insurance Contracts or under Certain Life Insurance Contracts. For calendar year 1999, the stated dollar amount of the per diem limitation under § 7702B(d)(4), regarding periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual, is \$190.

#### **SECTION 4. EFFECTIVE DATE**

.01 General Rule. Except as provided in section 4.02, this revenue procedure applies to tax years beginning in 1999.

.02 Calendar Year Rule. This revenue procedure applies to transactions or events occurring in calendar year 1999 for purposes of section 3.13 (funeral trusts), section 3.14 (expatriation to avoid tax), section 3.15 (valuation of qualified real property in decedent's gross estate), section 3.16 (annual exclusion for gifts), section 3.17 (generation-skipping transfer tax exemption), section 3.18 (luxury automobile excise tax), section 3.19 (passenger air transportation excise tax), section 3.22 (persons against which a federal tax lien is not valid), section 3.23 (interest on a certain portion of the estate tax payable in installments), section 3.24 (attorney fee awards), and section 3.25 (periodic payments received under qualified long-term care insurance contracts or under certain life insurance contracts).

**SECTION 5. DRAFTING INFORMATION**

The principal author of this revenue procedure is John Moran of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Moran on (202) 622-4940 (not a toll-free call).