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Highlights of 2000 Tax Changes



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Introduction

This publication highlights tax law changes that take effect in 2000 and 2001. The chapters are divided into separate sections for each year.

During 2000, many changes to the tax law were considered by Congress. Several of our publications and instructions to tax forms contained **Cautions** about possible changes in the law. The changes to the law that Congress made are explained in this publication.

The changes discussed in this publication resulted from the Community Renewal Tax Relief Act of 2000, the FSC Repeal and Extraterritorial Income Exclusion Act of 2000, the Installment Tax Correction Act of 2000, and other legislative and administrative decisions. These changes include the following items.

- New method for extensions of time to file.
- Electronic payment options.
- Paid preparer authorization to handle certain tax return processing issues.
- Reduction of capital gains tax rate.
- Extension of the first-time homebuyer credit in the District of Columbia.
- Allowance of cash method of accounting for qualifying taxpayers.
- Allowance of the installment method of accounting for qualifying accrual method taxpayers.
- Repeal of the foreign sales corporation rules and new rules for excluding qualifying foreign trade income.

See the later discussion of each topic for more information.

Adjusting your withholding or estimated tax payments for 2001. If your tax for 2001 will be more or less than your 2000 tax, you may need to adjust your withholding or estimated tax payments accordingly. If your tax is decreasing, you can get the benefit of lower taxes

throughout the year. If you will owe more tax, you can avoid a penalty when you file your tax return.

See the following table for forms and publications that will help you adjust your withholding or estimated tax payments. See chapter 8 for information on ordering forms and publications.

To adjust your....	Get Form...	And Publication...
Withholding	W-4 , <i>Employee's Withholding Allowance Certificate</i>	919 , <i>How Do I Adjust My Tax Withholding?</i>
Estimated tax payments	1040-ES , <i>Estimated Tax for Individuals</i>	505 , <i>Tax Withholding and Estimated Tax</i>

Note. Form 1040-ES, *Estimated Tax for Individuals*, for 2001 contained a **Caution** about the possibility that legislation enacted after December 8, 2000, could affect the computation of your 2001 estimated tax. For more information about this legislation and other changes that may impact your estimated tax, see *2001 Changes* in chapter 1.

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

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

You can e-mail us while visiting our web site at www.irs.gov/help/email2.html.

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1.

Tax Changes for Individuals

2000 Changes

Standard Deduction Amount Increased

The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is, in most cases, higher for 2000 than it was for 1999. The amount depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another taxpayer. The *2000 Standard Deduction Tables* are shown in Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

Exemption Amount Increased

The amount you can deduct for each exemption has increased from \$2,750 in 1999 to \$2,800 in 2000.

You lose all or part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2000, the phaseout begins at \$96,700 for married persons filing separately, \$128,950 for single individuals, \$161,150 for heads of household, and \$193,400 for married persons filing jointly. If your adjusted gross income is above this amount, use the *Deduction for Exemptions Worksheet* in the Form 1040 instructions to figure the amount you can deduct for exemptions.

Allowance of Tax Benefits for Kidnapped Children

Effective for tax years ending after December 21, 2000, a child who has been kidnapped may still qualify you for certain tax benefits. Both of the following statements must be true.

- The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of the family of you or the child.
- The child must have qualified as your dependent for the part of the tax year before the kidnapping.

If both statements are true, the child is treated as your dependent in determining whether you can claim the following tax benefits.

- The child's dependency exemption.
- The child tax credit.
- Head of household or qualifying widow(er) with dependent child filing status.

If the child lived with you for more than half the part of the year before the date of the kidnapping, the child is treated as living with you for more than half of the year. This means you can claim the earned income credit using that child if you meet all the other requirements.

This treatment applies for all tax years ending during the period that the child is kidnapped. However, it does not apply as of the first tax year beginning after the calendar year the child is determined to be dead (or, if earlier, the year the child would have reached age 18).

For more information about the dependency exemption and filing status rules, see Publication 501, *Exemptions, Standard Deduction, and Filing Information*. For more information on the child tax credit or the earned income credit, see the instructions for Form 1040 or Form 1040A.

Student Loan Interest Deduction Increased

If you pay interest on a student loan, you may be able to deduct part or all of the interest you paid. The maximum amount you can deduct for student loan interest increased to \$2,000 in 2000. The deduction was limited to \$1,500 in 1999. For more information on the student loan deduction, see Publication 970, *Tax Benefits for Higher Education*.

Limit on Itemized Deductions Increased

You lose all or part of your itemized deductions if your adjusted gross income is above a certain amount. In 2000, this amount is increased to \$128,950 (\$64,475 if married filing separately). For more information and a worksheet to figure the amount you can deduct, see the instructions for line 28 of Schedule A (Form 1040).

Medical Expense for Conferences

You can include in medical expenses amounts paid for admission and transportation to a medical conference if the medical conference concerns the chronic illness of you, your spouse, or your dependent. The costs of the medical conference must be primarily for and necessary to the medical care of you, your spouse, or your dependent. You must spend the majority of your time at the conference attending sessions on medical information.



The cost of meals and lodging while attending the conference are not deductible as medical expenses.

Employee Business Expenses

Standard mileage rate. If you use your car for business, you can figure your deduction for business use based on either your actual costs or the standard mileage rate. For 2000, the standard mileage rate for the cost of operating your car, including a van, pickup,

or panel truck, is increased to 32½ cents a mile for all business miles.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Depreciation limits on business cars. The total section 179 deduction and depreciation you can take on a car (that is not a clean-fuel car) you use in your business and first place in service in 2000 cannot exceed \$3,060. Your depreciation cannot exceed \$4,900 for the second year, \$2,950 for the third year, and \$1,775 for each later year.

For information on the increased limits for clean-fuel cars, see chapter 4 in Publication 946, *How To Depreciate Property*.

Increased section 179 deduction. The total cost of section 179 property that you can elect to deduct is increased from \$19,000 to \$20,000 for 2000. For tax years after 2000, this amount will increase as shown below.

<u>Tax Year</u>	<u>Maximum Deduction</u>
2001 and 2002	\$24,000
After 2002	25,000

For more information on the section 179 deduction, see chapter 2 in Publication 946, *How To Depreciate Property*.

Meal expenses when subject to “hours of service” limits. Generally, you can deduct only 50% of your business-related meal expenses while traveling away from your tax home for business purposes. You can deduct a higher percentage if the meals take place during or incident to any period subject to the Department of Transportation’s “hours of service” limits. (These limits apply to workers who are under certain federal regulations.) The percentage is 60% for 2000 and 2001, and it gradually increases to 80% by 2008.

Business meals expenses are covered in chapter 1 of Publication 463.

Employer-Provided Educational Assistance

The tax-free status of up to \$5,250 of employer-provided educational assistance benefits each year was scheduled to end for courses beginning after May 31, 2000. It has been extended to include undergraduate-level courses beginning before January 1, 2002. For more information, see Publication 970, *Tax Benefits for Higher Education*.

Reporting Capital Gain Distributions on Form 1040A

For 2000, you may be able to report your capital gain distributions from mutual funds on Form 1040A, instead of on Form 1040. A worksheet in the Form 1040A instructions is used to figure the tax. For details, see chapter 4 of Publication 550, *Investment Income and Expenses*.

Like-Kind Exchanges Using Qualified Exchange Accommodation Arrangements (QEAs)

The like-kind exchange rules generally do not apply to an exchange in which you acquire replacement property (new property) **before** you transfer relinquished property (property you give up). However, if you use a qualified exchange accommodation arrangement (QEAA), the exchange may qualify as a like-kind exchange. For more information, see chapter 1 in Publication 544, *Sales and Other Dispositions of Assets*.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 2001. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

Earnings limit. The maximum amount subject to the social security part for tax years beginning in 2000 has increased to \$76,200. All net earnings of at least \$400 are subject to the Medicare part.

Revocation of exemption from self-employment tax.

If you are a minister, a member of a religious order not under a vow of poverty, or a Christian Science practitioner, and are exempt from self-employment tax because you have an approved Form 4361, *Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners*, you now have until April 15, 2002, to revoke that exemption. This deadline is extended beyond April 15, 2002, if you get an extension to file your 2001 return.

To revoke the exemption, you must file **Form 2031, Revocation of Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners**.

For more information on social security for members of the clergy, see Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Earned Income Credit

The following paragraphs explain the changes to the earned income credit for 2000. For more information, see Publication 596, *Earned Income Credit*.

Amount of earned income. The amount you can earn and still get the credit has increased for 2000. The amount you earn must be less than:

- \$27,413 with one qualifying child,
- \$31,152 with more than one qualifying child, or
- \$10,380 without a qualifying child.

Amount of investment income. The maximum amount of investment income you can have and still get the credit has increased for 2000. You can have investment income up to \$2,400. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.

New definition of eligible foster child. For tax years after 1999, a child is your eligible foster child for the **earned income credit** if all the following apply.

- 1) The child is your brother, sister, stepbrother, or stepsister (or a descendant of your brother, sister, stepbrother, or stepsister) or has been placed with you by an authorized placement agency.
- 2) You cared for that child as you would your own child.
- 3) The child lived with you for the whole year, except for temporary absences.

Previously the child only had to meet (2) and (3) above to be an eligible foster child.

Limit on Personal Credits

For 2000 and 2001, your nonrefundable personal credits for the year can offset both your regular tax (after reduction by the foreign tax credit) and your alternative minimum tax for that year. Previously, those credits could offset only your regular tax, not your alternative minimum tax.

The following are the nonrefundable personal credits. They are called nonrefundable because if they are more than your regular tax and alternative minimum tax you cannot get a refund of the difference.

- Adoption credit.
- Child tax credit. (See form instructions for an exception.)
- Credit for child and dependent care expenses.
- Credit for the elderly or the disabled.
- Education credits (Hope and lifetime learning credits).
- Mortgage interest credit.
- District of Columbia first-time homebuyer credit.

For more information about these credits, see the instructions for Form 1040.

Tax From Recapture of Education Credits

You may owe this tax if you claimed an education credit (the Hope credit or the lifetime learning credit) on your 1999 tax return and, in 2000, you, your spouse if filing jointly, or your dependent received either a refund of qualified tuition and related expenses or tax-free educational assistance. For more information, see *Recapture of credit*, in Publication 970, *Tax Benefits for Higher Education*.

Paid Preparer Authorization

Beginning with your return for 2000, you can check a box and authorize the IRS to discuss your tax return with the paid preparer who signed it. If you check the "Yes" box in the signature area of your return, the IRS can call your paid preparer to answer any questions that may arise during the processing of your return. Also, you are authorizing your paid preparer to perform certain actions. See your income tax package for details.

Electronic Payment Options

If you owe the IRS, you may now be able to make your payment electronically by authorizing a direct debit to your checking or savings account or by using your credit card.

Direct debit. You can file and pay in a single step by authorizing a direct debit (automatic withdrawal) payment from your checking or savings account. This option is available through tax software packages, tax professionals, and TeleFile. You should check with your financial institution to be sure an automatic withdrawal is allowed and to get the correct routing and account numbers.

Credit card. You can also file and pay in a single step by authorizing a credit card payment. This option is available through some tax software packages and tax professionals. If you just want to make a payment without filing at the same time, you can authorize a payment by contacting one of the following authorized service providers.

- Official Payments Corporation can be reached by phone at **1-800-2PAY-TAX (1-800-272-9829)** (Customer Service at 1-877-754-4413) or on the Internet at **www.officialpayments.com**
- PhoneCharge, Inc. can be reached by phone at **1-888-ALLTAXX (1-888-255-8299)** (Customer Service at 1-877-851-9964) or on the Internet at **www.About1888ALLTAXX.com**

Each provider will charge a convenience fee based on the amount you are paying. You can find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's web site.

New Method for Extensions of Time To File

Previously, to get an automatic 4-month extension to file your return, you would do one of the following.

- File a paper Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.
- Pay part or all of your estimate of tax due electronically by using a credit card. (If you used this option, you did not have to file Form 4868.)

Now, you can also get an automatic extension of time to file by filing Form 4868 electronically by phone or over the Internet. If you file Form 4868 electronically, you can make a tax payment by authorizing a direct debit (automatic withdrawal) from your checking or savings account. For more information, see the Form 4868 instructions.

1040PC Format No Longer Accepted

The 1040PC format was a computer-generated paper tax return. The IRS will no longer accept tax returns in the 1040PC format. The IRS encourages all former 1040PC filers to use IRS *e-file*.

2001 Changes

Standard Mileage Rate

If you use your car in your business, you can figure your deduction for business use based on either your actual costs or the standard mileage rate. For 2001, the standard mileage rate for the cost of operating your car, including a van, pickup, or panel truck, is increased to 34½ cents a mile for all business miles.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Medical Savings Accounts Pilot Program Extended and Renamed

A Medical Savings Account (MSA) is a tax-exempt trust or custodial account with a financial institution (like a bank or an insurance company) in which you can save money for future medical expenses. To qualify for an MSA, you must be an employee of a small employer or self-employed. You must also have a high deductible health plan and have no other health insurance coverage except permitted coverage. The pilot project for MSAs was scheduled to end December 31, 2000, but has been extended until December 31, 2002. MSAs have also been renamed Archer MSAs. You can find more information about MSAs in Publication 969, *Medical Savings Accounts (MSAs)*.

Student Loan Interest Deduction Increased

If you pay interest on a student loan, you may be able to deduct part or all of the interest you paid. The maximum amount you can deduct for student loan interest will increase to \$2,500 in 2001. The deduction was limited to \$2,000 in 2000. For more information on the student loan deduction, see Publication 970, *Tax Benefits for Higher Education*.

Lower Capital Gain Tax Rates

After 2000, there will be changes in the capital gain tax rates. The changed rates apply to gain that is "qualified 5-year gain." Qualified 5-year gain is long-term capital gain from the sale of property that you held for more than 5 years and that would otherwise be subject to the 10% or 20% capital gain rate.

2001. Beginning in 2001, the 10% capital gain rate will be lowered to 8% for qualified 5-year gain.

2006. Beginning in 2006, the 20% capital gain rate will be lowered to 18% for qualified 5-year gain from property with a holding period that begins after 2000.

Election to recognize gain on assets held on January 1, 2001. Taxpayers (other than corporations) can elect to treat certain assets held on January 1, 2001, as sold and then reacquired on the same date but they must pay tax for 2001 on any resulting gain. The purpose of the election is to make any future gain

on the asset eligible for the 18% rate by giving the asset a new holding period.

You can make this election for either of the following types of assets:

- **Readily tradable stock that is a capital asset** that you held on January 1, 2001, and did not sell before January 2, 2001. If you make the election, you treat this stock as sold on January 2, 2001, at its closing market price on that date. You then treat it as re-acquired on that date for the same amount.
- **Any other capital asset or property used in a trade or business** that you held on January 1, 2001. If you make the election, you treat this type of asset as sold on January 1, 2001, for its fair market value on that date. You then treat it as re-acquired on that date for the same amount.

Any gain on a deemed sale resulting from this election must be recognized. However, any loss is not allowed.

For the election to apply, you cannot dispose of the asset (in a transaction in which gain or loss is recognized in whole or in part) within the 1-year period beginning on the date the asset would have been treated as sold under the election.

How to make the election. Report the deemed sale on your tax return for the tax year that includes the date of the deemed sale. If you are a calendar year taxpayer, this is your 2001 tax return. Attach a statement to the return stating that you are making an election under section 311 of the Taxpayer Relief Act of 1997 and specifying the assets for which you are making the election. Once made, the election is irrevocable.

Securities Futures Contracts

Beginning in December 2001 or later, a new product called a securities futures contract will be available on certain U.S. exchanges. A securities futures contract is a contract of sale for future delivery of a single security or of a narrow-based security index.

Gain or loss from the contract generally will be treated in a manner similar to gain or loss from transactions in the underlying security. This means gain or loss from the sale or exchange of the contract will generally have the same character as gain or loss from transactions in the property to which the contract relates. Any capital gain or loss on a sale or exchange of the contract will be considered short-term, regardless of how long you hold the contract. These contracts are not section 1256 contracts (unless they are dealer securities futures contracts).

More detailed information will be in the edition of Publication 550, *Investment Income and Expenses*, that is for use in preparing 2001 returns. It will be available early in 2002.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 2001. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 2001 has increased to

\$80,400. All net earnings of at least \$400 are subject to the Medicare part.

Social Security and Medicare Taxes

For 2001, the employer and employee will continue to pay:

- 1) 6.2% each for social security tax (old-age, survivors, and disability insurance), and
- 2) 1.45% each for Medicare tax (hospital insurance).

Wage limits. For social security tax, the maximum amount of 2001 wages subject to the tax has increased to \$80,400. For Medicare tax, all covered 2001 wages are subject to the tax. There is no wage base limit. For information about these taxes, see Publication 15, *Circular E, Employer's Tax Guide*.

Household employees. The \$1,200 social security and Medicare wage threshold for household employees has been increased to \$1,300 for 2001. This means that if you pay a household employee cash wages of less than \$1,300 in 2001, you do not have to report and pay social security and Medicare taxes on that employee's 2001 wages. For more information on household employment taxes, see Publication 926, *Household Employer's Tax Guide*.

First-Time Homebuyer Credit for District of Columbia

The credit for first-time homebuyers in the District of Columbia has been extended to include property purchased before January 1, 2004. For more information about this credit, see Publication 530, *Tax Information for First-Time Homeowners*.

Estimated Tax

Safe harbor for higher income taxpayers. For estimated tax installment payments for tax years beginning in 2001, the estimated tax safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If your 2000 adjusted gross income is more than \$150,000 (\$75,000 if married filing a separate return), you will have to pay the smaller of 90% of your expected tax for 2001 or **110%** of the tax shown on your 2000 return to avoid an estimated tax penalty.

For more information on estimated tax, see Publication 505, *Tax Withholding and Estimated Tax*.

Tax rate schedule changed. When Form 1040-ES, *Estimated Tax for Individuals*, Publication 505, *Tax Withholding and Estimated Tax*, and Publication 919, *How Do I Adjust My Tax Withholding?* were prepared for print, Congress was considering legislation that could have affected the computation of your estimated tax for 2001. The legislation was enacted in late December and it did affect the tax rate schedules. However, the results differ only slightly from the published amounts. If you use the tax rate schedules previously published, you may overpay your estimated tax by no more than \$2 for any installment. The revised tax rate schedules follow.

2001 Tax Rate Schedules

Caution: Do not use these Tax Rate Schedules to figure your 2000 taxes. Use only to figure your 2001 estimated taxes.

Single—Schedule X

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$27,050	.....15%	\$0
27,050	65,550	\$4,057.50 + 28%	27,050
65,550	136,750	14,837.50 + 31%	65,550
136,750	297,350	36,909.50 + 36%	136,750
297,350	.....	94,725.50 + 39.6%	297,350

Head of household—Schedule Z

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$36,250	.....15%	\$0
36,250	93,650	\$5,437.50 + 28%	36,250
93,650	151,650	21,509.50 + 31%	93,650
151,650	297,350	39,489.50 + 36%	151,650
297,350	.....	91,941.50 + 39.6%	297,350

Married filing jointly or Qualifying widow(er)—Schedule Y-1

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$45,200	.....15%	\$0
45,200	109,250	\$6,780.00 + 28%	45,200
109,250	166,500	24,714.00 + 31%	109,250
166,500	297,350	42,461.50 + 36%	166,500
297,350	.....	89,567.50 + 39.6%	297,350

Married filing separately—Schedule Y-2

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$22,600	.....15%	\$0
22,600	54,625	\$3,390.00 + 28%	22,600
54,625	83,250	12,357.00 + 31%	54,625
83,250	148,675	21,230.75 + 36%	83,250
148,675	.....	44,783.75 + 39.6%	148,675

2.

Tax Changes for Businesses

2000 Changes

Cash Method of Accounting Allowed for Qualifying Taxpayers

An accounting method is a set of rules for determining how and when to report income and expenses. The most commonly used methods are the cash method and an accrual method. Generally, if you produce, purchase, or sell merchandise in your business, you must keep an inventory and use the accrual method for purchases and sales of merchandise.

For tax years ending on or after December 17, 1999, the IRS has simplified the bookkeeping requirements for qualifying taxpayers. If you are a qualifying taxpayer, you can now choose, even if you produce, purchase, or sell merchandise in your business, to:

- Use the cash method of accounting, and
- Not keep an inventory.

Qualifying taxpayers. You are a qualifying taxpayer only if you meet the gross receipts test for each tax year ending after December 16, 1998. To qualify, your average gross receipts for the 3-tax-year period ending with each test year must be \$1 million or less. For ex-

ample, you must test 1998 and 1999 to see if you qualify to use the cash method and not keep an inventory for 2000. You qualify if your average gross receipts for 1996, 1997, and 1998 are \$1 million or less (1998 test) and your average gross receipts for 1997, 1998, and 1999 are \$1 million or less (1999 test). A tax shelter cannot be a qualifying taxpayer.

If you did not own your business for all of the 3-tax-year period, include the period of any predecessor. If your business has not been in existence for 3 tax years, base your average on the period it has existed.

Not keeping an inventory. If you choose to not keep an inventory, you will deduct the cost of the items you would otherwise include in inventory in the year you sell the item, or the year you pay for them, whichever is later. You deduct the cost of merchandise purchased for resale that you sold during the year. If you are a producer, you may use any reasonable method to estimate the raw material in your work in process and finished goods on hand at the end of the year to determine the raw material used to produce finished goods that were sold during the year.

Changing methods. If you qualify and want to change to the cash method, you must file Form 3115, *Application for Change in Accounting Method*. You must follow the provisions in Revenue Procedure 99-49 in Cumulative Bulletin 1999-2 for an automatic change in accounting method. Those provisions also apply if you no longer want to keep inventories. You may file one Form 3115 for both changes.

More information. For more information, see Revenue Procedure 2001-10 in Internal Revenue Bulletin 2001-2. For more information on accounting methods, see Publication 538, *Accounting Periods and Methods*.

Installment Method of Accounting Allowed for Qualifying Accrual Method Taxpayers

Before December 17, 1999, qualifying accrual method taxpayers could report sales or other dispositions of property on the installment method. For sales of certain property occurring after December 16, 1999, accrual method taxpayers were prohibited from using the installment method.

This prohibition has been repealed, retroactive to December 17, 1999. Qualifying accrual method taxpayers can use the installment method to report sales and other dispositions of property as if the prohibition had never been enacted.

Standard Mileage Rate

If you use your car for business, you can figure your deduction for business use based on either your actual costs or the standard mileage rate. For 2000, the standard mileage rate for the cost of operating your car, including a van, pickup, or panel truck, is increased to 32½ cents a mile for all business miles.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Meal Reimbursements for Employees Subject to “Hours of Service” Limits

For 2000 and 2001, you can deduct 60% of the reimbursements for meals your employees consume while away from their tax home on business during, or incident to, any period subject to the Department of Transportation’s “hours of service” limits. The percentage gradually increases to 80% by 2008. For more information, see chapter 13 in Publication 535, *Business Expenses*.

Corporate Contributions of Computer Technology and Equipment

A corporation (other than an S corporation) may take an increased deduction for donations of qualified contributions of computer technology or equipment to an eligible donee. The following changes apply to contributions made after 2000.

- Public libraries are added to the definition of an eligible donee.
- Qualified contributions may now be made up to 3 years (instead of 2 years) after the date the corporation acquired or substantially completed the construction of the donated property.
- A new rule applies to donations of computers reacquired by a manufacturer. See section 170(e)(6)(D) of the Internal Revenue Code.
- The provision for such contributions of computer technology and equipment is extended to tax years beginning before 2004.

Depreciation and Section 179 Deduction

Depreciation limits on business cars. The total section 179 deduction and depreciation you can take on a car (that is not a clean-fuel car) you use in your business and first place in service in 2000 cannot exceed \$3,060. Your depreciation cannot exceed \$4,900 for the second year, \$2,950 for the third year, and \$1,775 for each later year.

For information on the increased limits for clean-fuel cars, see chapter 4 in Publication 946, *How To Depreciate Property*.

Increased section 179 deduction. The total cost of section 179 property that you can elect to deduct is increased from \$19,000 to \$20,000 for 2000. For tax years after 2000, this amount will increase as shown below.

<u>Tax Year</u>	<u>Maximum Deduction</u>
2001 and 2002	\$24,000
After 2002	25,000

For more information on the section 179 deduction, see chapter 2 in Publication 946, *How To Depreciate Property*.

Like-Kind Exchanges Using Qualified Exchange Accommodation Arrangements (QEAs)

The like-kind exchange rules generally do not apply to an exchange in which you acquire replacement property (new property) **before** you transfer relinquished property (property you give up). However, if you use a qualified exchange accommodation arrangement (QEAA), the exchange may qualify as a like-kind exchange. For more information, see chapter 1 in Publication 544, *Sales and Other Dispositions of Assets*.

Basis of Stock Affected By Assumption of Liabilities

If your exchange of property (or property and money) for stock is not taxable, the basis of the stock you receive is generally the adjusted basis of the property (plus the amount of money, if any) you transferred. Increase this amount by the amount of any gain you recognized on the exchange. Decrease this amount by any cash you received, the fair market value of other property you received, and any loss recognized on the exchange. Also decrease this amount by the amount of any liability the corporation assumed from you, unless payment of the liability gives rise to a deduction when paid. Further decreases may be required for the assumption of liabilities after October 18, 1999, if the basis of the stock would otherwise be higher than its fair market value on the date of the exchange and the corporation assuming the liability did not acquire in the exchange either substantially all of the assets or the trade or business with which the liability is associated.

The basis of any other property you receive in addition to the stock is its fair market value on the date of the exchange.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 2000. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 2000 has increased to \$76,200. All net earnings of at least \$400 are subject to the Medicare part.

Farm Income Averaging

You may be able to use a negative taxable income amount for a base year when figuring your tax on Schedule J (Form 1040), *Farm Income Averaging*. For details, see the *2000 instructions for Schedule J*. For general information about farm income averaging, see *Farm Income Averaging* in chapter 4 of Publication 225, *Farmer's Tax Guide*.

Electronic Filing for Certain Partnerships

Partnerships with more than 100 partners are required to file partnership returns electronically for tax years ending on or after December 31, 2000. If your partnership return is not filed electronically, you may be subject to penalties for failure to file. However, you may be able to obtain a waiver due to hardship. See section 301.6011-3(b) of the regulations and Announcement 2000-101 in Internal Revenue Bulletin 2000-52.

Reporting Canceled Debt

Beginning January 1, 2000, an organization that lends money as a significant part of its trade or business must now report any canceled debt to the IRS. For example, this applies to finance companies and credit card companies (whether or not affiliated with financial institutions). For more information on reporting cancellation of debt, see the *2000 Instructions for Forms 1099-A and 1099-C*.

New Form 8869 To Elect Qualified Subchapter S Subsidiary Treatment

Parent S corporations can use the new Form 8869, *Qualified Subchapter S Subsidiary Election*, to elect to treat one or more of their eligible subsidiaries as a qualified subchapter S subsidiary (QSub). The election results in a deemed liquidation of the subsidiary into the parent company. Following the deemed liquidation, the QSub is not treated as a separate corporation. All of the subsidiary's assets, liabilities, and items of income, deduction, and credit are treated as those of the parent. For more information, see the instructions for Form 8869.

OID List Now Available From IRS Website

The original issue discount (OID) list that appears at the end of Publication 1212 is no longer available on the electronic bulletin board. You can now download it with the rest of Publication 1212 from our website at

www.irs.gov. Go to the Forms and Publications page and select *Forms and Publications by Date* or *Forms and Publications by Number*. Then select Publication 1212 from the list. Also, be sure to select file format, "SGML."

For information on original issue discount and the list of original issue discount instruments, see Publication 1212, *List of Original Issue Discount Instruments*.

Employment Tax Exclusion for Educational Assistance Program Benefits

The exclusion from wages for benefits you provide to an employee under an educational assistance program was scheduled to expire for expenses paid for courses beginning after May 31, 2000. It has been extended to include benefits for expenses paid for courses beginning before January 1, 2002. For more information about this exclusion, see chapter 2 in Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

2001 Changes

Standard Mileage Rate

If you use your car in your business, you can figure your deduction for business use based on either your actual costs or the standard mileage rate. For 2001, the standard mileage rate for the cost of operating your car, including a van, pickup, or panel truck, is increased to 34½ cents a mile for all business miles.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Lower Capital Gain Tax Rates

After 2000, there will be changes in the capital gain tax rates. The changed rates apply to gain that is "qualified 5-year gain." Qualified 5-year gain is long-term capital gain from the sale of property that you held for more than 5 years and that would otherwise be subject to the 10% or 20% capital gain rate.

2001. Beginning in 2001, the 10% capital gain rate will be lowered to 8% for qualified 5-year gain.

2006. Beginning in 2006, the 20% capital gain rate will be lowered to 18% for qualified 5-year gain from property with a holding period that begins after 2000.

Election to recognize gain on assets held on January 1, 2001. Taxpayers (other than corporations) can elect to treat certain assets held on January 1, 2001, as sold and then reacquired on the same date but they must pay tax for 2001 on any resulting gain. The purpose of the election is to make any future gain on the asset eligible for the 18% rate by giving the asset a new holding period.

You can make this election for either of the following types of assets:

- **Readily tradable stock that is a capital asset** that you held on January 1, 2001, and did not sell before January 2, 2001. If you make the election, you treat

this stock as sold on January 2, 2001, at its closing market price on that date. You then treat it as re-acquired on that date for the same amount.

- **Any other capital asset or property used in a trade or business** that you held on January 1, 2001. If you make the election, you treat this type of asset as sold on January 1, 2001, for its fair market value on that date. You then treat it as re-acquired on that date for the same amount.

Any gain on a deemed sale resulting from this election must be recognized. However, any loss is not allowed.

For the election to apply, you cannot dispose of the asset (in a transaction in which gain or loss is recognized in whole or in part) within the 1-year period beginning on the date the asset would have been treated as sold under the election.

How to make the election. Report the deemed sale on your tax return for the tax year that includes the date of the deemed sale. If you are a calendar year taxpayer, this is your 2001 tax return. Attach a statement to the return stating that you are making an election under section 311 of the Taxpayer Relief Act of 1997 and specifying the assets for which you are making the election. Once made, the election is irrevocable.

Environmental Cleanup Cost Deduction

The deduction for qualified environmental cleanup costs was scheduled to expire for costs paid or incurred after December 31, 2001. It has been extended to include costs you pay or incur before January 1, 2004. For more information about this deduction, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities*.

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 2001. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

The maximum amount subject to the social security part for tax years beginning in 2001 has increased to \$80,400. All net earnings of at least \$400 are subject to the Medicare part.

Employment Taxes

Social security and Medicare taxes. For 2001, the employer and employee will continue to pay:

- 1) 6.2% each for social security tax (old-age, survivors, and disability insurance), and
- 2) 1.45% each for Medicare tax (hospital insurance).

Wage limit. For social security tax, the maximum amount of 2001 wages subject to the tax has increased to \$80,400. For Medicare tax, all covered 2001 wages are subject to the tax. There is no wage base limit. For information about these taxes, see Publication 15, *Circular E, Employer's Tax Guide*.

Household employees. The \$1,200 social security and Medicare wage threshold for household employees has been increased to \$1,300 for 2001. This means that if you pay a household employee cash wages of less than \$1,300 in 2001, you do not have to report and pay social security and Medicare taxes on that employee's 2001 wages. For more information on household employment taxes, see Publication 926, *Household Employer's Tax Guide*.

Deposit rules. Beginning in 2001, the threshold for depositing employment taxes increases from \$1,000 to \$2,500. If your tax liability is less than \$2,500, you are not required to make deposits and you can pay the taxes with Form 941, *Employer's Quarterly Federal Tax Return*, or Form 943, *Employer's Annual Tax Return for Agricultural Employees*. For information on depositing employment taxes, see Publication 15, *Circular E, Employer's Tax Guide*, or Publication 51, *Circular A, Agricultural Employer's Tax Guide*.

New publication on fringe benefits. Publication 15-B, *Employer's Tax Guide to Fringe Benefits (For Benefits Provided in 2001)*, supplements Publication 15, *Circular E, Employer's Tax Guide*, and Publication 15-A, *Employer's Supplemental Tax Guide*. It contains specialized and detailed information on the employment tax treatment of fringe benefits that was previously covered in chapters 3, 4, and 5 of Publication 535, *Business Expenses*.

When Publication 15-B (November 2000) was prepared for print, Congress was considering legislation that could have affected the amounts of pay used in that publication to define highly compensated employees, key employees, control employees, and qualified employees for 2001. Legislation was enacted, but it did not require a change in those amounts for 2001. The amounts of pay shown in Publication 15-B are the correct amounts for 2001.

Fringe benefit parking exclusion. You can generally exclude a limited amount of the value of qualified parking you provide to an employee from the employee's wages subject to employment taxes. In 2000, you could exclude up to \$175 per month. For 2001, the maximum amount you can exclude is increased to \$180 per month. For more information on this exclusion, see *Transportation (Commuting) Benefits* in Publication 15-B, *Employer's Tax Guide to Fringe Benefits (For Benefits Provided in 2001)*.

Tax Incentives for Empowerment Zones and Renewal Communities

The Community Renewal Tax Relief Act of 2000 generally extends empowerment zone status for existing zones through 2009, provides new or enhanced tax benefits to businesses in empowerment zones, and authorizes up to nine new zones. The Act also authorizes up to 40 renewal communities in which businesses will be eligible for tax incentives such as a 15% credit on the first \$10,000 of the wages of certain employees, special cost recovery for commercial revitalization expenses, an increased section 179 deduction, and paying no tax on any capital gain from the sale of certain qualifying assets. In addition, the Act creates a New

Markets tax credit for equity investments in qualified community development entities. For more information, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities*. A new edition of Publication 954, reflecting the new law, will be available early in 2001.

3.

IRAs and Other Retirement Plans

2000 Changes

Individual Retirement Arrangements (IRAs)

Traditional IRA income limits increased. For 2000, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is between:

- \$52,000 and \$62,000 for a married couple filing a joint return or a qualifying widow(er),
- \$32,000 and \$42,000 for a single individual or head of household, or
- \$-0- and \$10,000 for a married individual filing a separate return.

For all filers other than married individuals filing separate returns, the upper and lower limits of the phaseout range increased by \$1,000. The range limits did not change for married individuals filing a separate return. See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information on IRA deductions.

Returned contributions and recharacterizations. Beginning in 2000, a new calculation method allows you to take into account loss on a returned or recharacterized IRA contribution when determining the amount of net income that also must be withdrawn or recharacterized. Under the new method, the net income may be a negative amount. Under the old method, net income could not be a negative amount.

For more information on returned contributions, see *Contributions Returned Before the Due Date* in chapter 1 of Publication 590, *Individual Retirement Arrangements (IRAs)*. For more information on recharacterizations, see *Recharacterizations* in chapter 2 of Publication 590.

5-Year Tax Option Repealed

The 5-year tax option for figuring the tax on lump-sum distributions from a qualified retirement plan has been repealed. However, a plan participant can continue to choose the 10-year tax option or capital gain treatment for a lump-sum distribution that qualifies for the special treatment. See the discussion on lump-sum distributions under *Taxation of Nonperiodic Payments* in Publication 575, *Pension and Annuity Income*.

2001 Changes

Traditional IRA Income Limits Increased

For 2001, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is between:

- \$53,000 and \$63,000 for a married couple filing a joint return or a qualifying widow(er),
- \$33,000 and \$43,000 for a single individual or head of household, or
- \$-0- and \$10,000 for a married individual filing a separate return.

For all filers other than married filing a separate return, the upper and lower limits of the phaseout range increased by \$1,000. The range limits did not change for married individuals filing a separate return. See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information on IRA deductions.

Annual Additions Limit for 403(b) Plan Increased

Effective January 1, 2001, the maximum amount of contributions allowed under the general rule for the limit on annual additions for 403(b) plan participants has increased from \$30,000 to \$35,000.

Publication 571 Revised

Publication 571, *Tax Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations*, is undergoing a **major revision** this year and will not be available until early March 2001.

In the past, Publication 571 provided information for both the plan participant and the plan administrator. It will now focus on helping the participant compute his or her contribution limits by assisting the participant in determining contribution limits for the current year and the previous year. Changes to Publication 571 include:

- Worksheets that have been revised to assist the participant in computing his or her contribution limits,
- Instruction to participants both on preventing excess contributions and determining if they contributed too much in the previous year, and
- More information for participants who contribute to both a 403(b) plan and 457 plan.

4.

Estate and Gift Taxes

2000 Changes

Unified Credit Increased

The applicable credit amount for the unified credit for gift and estate taxes increases to \$220,550 for gifts made in 2000 and for the estates of decedents dying in 2000. In 1999, the amount was \$211,300.

The following table lists the unified credit for years after 1999.

<u>Year</u>	<u>Unified Credit</u>
2000 and 2001	\$220,550
2002 and 2003	229,800
2004	287,300
2005	326,300
After 2005	345,800

Estate Tax Return Filing Requirement Increased

Generally, an estate tax return must be filed for the estate of a U.S. citizen or resident dying in 2000 if the gross estate is more than \$675,000. In 1999, the amount was \$650,000.

The following table lists the filing requirement for gross estates of decedents dying after 1999.

<u>Year of Death</u>	<u>Filing Requirement</u>
2000 and 2001	\$ 675,000
2002 and 2003	700,000
2004	850,000
2005	950,000
After 2005	1,000,000

For more information on estate and gift taxes, see Publication 950, *Introduction to Estate and Gift Taxes*, and the following forms and their instructions.

- Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*.
- Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*.
- Form 709-A, *United States Short Form Gift Tax Return*.

5.

Excise Taxes

2001 Changes

Air Transportation Taxes Increased

For transportation beginning in 2001, the tax on transportation of persons by air is increased to \$2.75 for each domestic segment. The percentage tax remains at 7.5%.

For 2001, the tax on the use of international air travel facilities will be \$12.80 for both arrivals and departures. For air transportation between the continental United States and Alaska or Hawaii, or between Alaska and Hawaii, the tax on departures will be \$6.40.

See Publication 510, *Excise Taxes for 2001*, for more information on air transportation taxes.

Luxury Tax Reduced

For 2001, the luxury tax on a passenger vehicle is reduced to 4% of the amount of the sales price that exceeds the base amount. The base amount for 2001 is \$38,000.

See Publication 510 for more information on the luxury tax.

6.

Exempt Organizations

2000 Changes

New Forms Required To Be Filed By Certain Political Organizations

Form 8871. New Form 8871, *Political Organization Notice of Section 527 Status*, is used by certain political organizations to notify the IRS that the organization is to be treated as a section 527 organization.

Every political organization that is to be treated as a political organization under the rules of section 527 must file Form 8871, **except**:

- An organization that reasonably expects its annual gross receipts to always be less than \$25,000,
- A political committee required to report under the Federal Election Campaign Act of 1971 (2 U.S.C. 431 et seq.), or

- A tax-exempt organization described in section 501(c) that is treated as having political organization taxable income under section 527(f)(1).

Form 8871 must be filed within 24 hours of the organization's formation. The form must be filed both electronically and in writing. The form is filed electronically at the IRS web site at www.irs.gov/bus_info/eo/pol-file.html. Before filing Form 8871, the political organization must have its own employer identification number (EIN), even if it does not have any employees. For more information about the filing requirements for political organizations, see Revenue Ruling 2000-49 in Internal Revenue Bulletin 2000-44.

Form 8872. New Form 8872, *Political Organization Report of Contributions and Expenditures*, is filed by every section 527 political organization that accepts a contribution or makes an expenditure for an exempt function after July 1, 2000, unless it meets one of the following exceptions to filing.

- An organization that reasonably expects its annual gross receipts to always be less than \$25,000.
- A political committee required to report under the Federal Election Campaign Act of 1971 (2 U.S.C. 431 et seq.).
- A tax-exempt organization described in section 501(c) that is treated as having political organization taxable income under section 527(f)(1).
- A state or local committee of a political party or political committee of a state or local candidate.

See the Form 8872 instructions for various due dates, reporting requirements, and the definition of an "election."

More information. For other tax law changes affecting political organizations, see the 2000 Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*.

New Schedule B (Form 990 or 990-EZ) to List Contributors

Organizations that file Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, may now be required to attach a completed Schedule B, *Schedule of Contributors*, to their returns. All organizations must file the new Schedule B if they receive contributions, gifts, grants, or any similar amounts of \$5,000 or more from any one contributor. Section 501(c)(7), 501(c)(8), or 501(c)(10) organizations must file the new Schedule B if they receive any contribution during the year for certain purposes (for example, charitable or religious) even if the total amount received is less than \$5,000.

A Schedule B (Form 990 or 990-EZ) filed for a section 527 political organization is open to public inspection. A Schedule B filed for other organizations is not open to public inspection.

For more information, see the instructions for Schedule B (Form 990 or 990-EZ).

Disclosure Rules for Private Foundations

New disclosure rules for private foundations went into effect in 2000. A private foundation filing an annual return due on or after March 13, 2000, must follow the same disclosure rules as other tax-exempt organizations such as:

- Making copies of its exemption application and its annual information returns available for public inspection without charge at its principal, regional, and district offices during regular business hours, and
- Providing copies to individuals who request them.

A private foundation can also make its documents widely available by posting them on the Internet. The foundation is no longer required to publish a notice in the newspaper stating its annual return is available for public inspection at its principal office. Unlike other tax-exempt organizations, a private foundation must disclose the names and addresses of its contributors.

New Form 8868 to Request Extension of Time to File

An exempt organization can use the new Form 8868, *Application for Extension of Time to File an Exempt Organization Return*, to request an automatic 3-month extension of time (6 months for Form 990-T corporations) to file its return. Organizations can also use Form 8868 to apply for an additional (not automatic) 3-month extension if the original 3-month extension was not enough time. For more information, see the instructions for Form 8868.

2001 Change

Publication 571 Revised

Publication 571, *Tax Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations*, is undergoing a **major revision** this year and will not be available until early March 2001.

In the past, Publication 571 provided information for both the plan participant and the plan administrator. It will now focus on helping the participant compute his or her contribution limits by assisting the participant in determining contribution limits for the current year and the previous year. Changes to Publication 571 include:

- Worksheets that have been revised to assist the participant in computing his or her contribution limits,
- Instruction to participants both on preventing excess contributions and determining if they contributed too much in the previous year, and
- More information for participants who contribute to both a 403(b) plan and 457 plan.

Foreign Issues

2000 Changes

Foreign Earned Income Exclusion Increased

For 2000, the maximum foreign earned income exclusion has increased from \$74,000 to \$76,000.

See Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, to see whether you meet the requirements to exclude your foreign earned income.

New Schedule N (Form 1120) for Foreign Operations

Corporations that file Form 1120, *U.S. Corporation Income Tax Return*, and certain other income tax returns may have to attach new Schedule N (Form 1120), *Foreign Operations of U.S. Corporations*, to their returns. The schedule must be attached if, at any time during the tax year, the corporation had assets in, or operated a business in, a foreign country or U.S. possession. For more information, see the instructions for Schedule N (Form 1120).

FSC Repeal and Extraterritorial Income Exclusion

The foreign sales corporation (FSC) rules have been repealed. However, certain FSCs with valid elections may continue to use the FSC rules until January 1, 2002.

Generally, for transactions after September 30, 2000, qualifying foreign trade income is excluded from taxable income. Individuals, corporations (including S corporations), partnerships, and other pass-through entities are entitled to the exclusion. The exclusion is figured on new Form 8873, *Extraterritorial Income Exclusion*.

For more information about the extraterritorial income exclusion, see the instructions for Form 8873.

2001 Changes

Foreign Earned Income Exclusion Increased

In 2001, the maximum foreign earned income exclusion increases from \$76,000 to \$78,000.

Tax Withholding

The Internal Revenue Service issued regulations relating to the withholding of tax on, and reporting of, certain U.S. source income paid to foreign persons. These regulations are generally effective for payments made on or after January 1, 2001. For more information, see

Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations*.

New documentation requirements. New forms replace the following forms and statement.

- Form W-8, *Certificate of Foreign Status*.
- Form 1001, *Ownership, Exemption, or Reduced Rate Certificate*.
- Form 1078, *Certificate of Alien Claiming Residence in the United States*.
- Form 4224, *Exemption From Withholding of Tax on Income Effectively Connected With the Conduct of a Trade or Business in the United States*.
- Form 8709, *Exemption From Withholding on Investment Income of Foreign Governments and International Organizations*.
- Statement under former regulation section 1.1441-5, relating to an individual's claim to be a U.S. citizen or resident, or a partnership's or corporation's claim that it is a domestic entity.

In addition, the **address rule** for dividends does not apply for any payments of dividends made after December 31, 2000. A reduced rate of withholding applies to dividends only if you have received valid documentation.

The following are the new forms that should be used under the new regulations.

- Form W-8BEN, *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding*.
- Form W-8ECI, *Certificate of Foreign Person's Claim for Exemption From Withholding on Income Effectively Connected With the Conduct of a Trade or Business in the United States*.
- Form W-8EXP, *Certificate of Foreign Government or Other Foreign Organization for United States Tax Withholding*.
- Form W-8IMY, *Certificate of Foreign Intermediary, Foreign Flow-Through Entity, or Certain U.S. Branches for United States Tax Withholding*.

Document transition rules. During calendar year 2001, you, a U.S. withholding agent, may rely on old Form W-8, Form 1001, Form 1078, Form 4224, and Form 8709 obtained under the regulations in effect prior to January 1, 2001, even if the validity period of those forms has expired, provided you can show that you have made good faith efforts to obtain Forms W-8BEN, W-8ECI, W-8EXP, W-8IMY, and W-9 from account holders required to provide those forms. However, you cannot use the address rule for dividends paid after 2000. You must have documentation. In addition, and until further notice, you can rely upon Forms W-8 that contain a P.O. box as a permanent residence address provided you do not know, or have reason to know, that

the person providing the form is a U.S. person and provided you do not know, or have reason to know, that a street address is available. Finally, you may rely on Forms W-8 for which there is a U.S. mailing address without applying the provisions of section 1.1441-7(b) of the new regulations regarding the presence of a U.S. mailing address on the Form W-8 or as part of your account information provided you received the form prior to December 31, 2001.

You may not rely on an old Form W-8 to treat a foreign financial institution as the beneficial owner of income if you know, or have reason to know, that the foreign financial institution is acting as an intermediary on behalf of others.

New reporting requirements. The new regulations make significant changes to the method for reporting payments to foreign persons, particularly with respect to payments made to foreign intermediaries, partnerships, and trusts. In addition, Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, has been significantly revised to reflect changes in the new regulations. Withholding agents that rely on automated systems to report income paid to foreign persons should ensure that they have made the necessary changes to their systems to comply with these new reporting requirements.

8.

How To Get Tax Help

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

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

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

To contact your Taxpayer Advocate:

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

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

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



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

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed*) to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs*) to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)*).
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business*) to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business*) to get information on starting and operating a small business.

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



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



Phone. Many services are available by phone.

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

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate,

courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

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



Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



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

- **Western part of U.S.:**
Western Area Distribution Center
Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**

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

- **Eastern part of U.S. and foreign addresses:**
Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



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

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

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

IRS Publication 3207, *The Small Business Resource Guide*, is an interactive CD-ROM that contains the following information for small businesses.

- Business tax forms, instructions, and publications.
- A discussion of a wide range of topics, from preparing a business plan and keeping records to obtaining financing and setting up a retirement plan.
- Tutorials, updates, and a multi-agency electronic newsletter.
- Internet links to various regulatory agencies.

The CD is available in mid-February. You can get one free copy by calling **1-800-829-3676** or visiting the IRS web site at **www.irs.gov/prod/bus_info/sm_bus/smbus-cd.html**.

