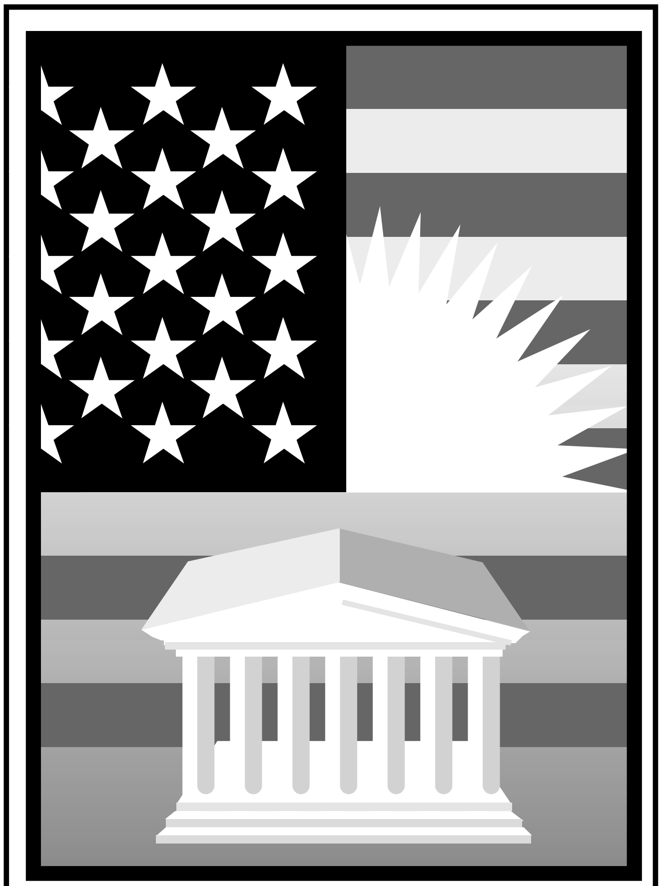
Department of the Treasury
Internal Revenue Service

Publication 553
(Rev. January 2000)
Cat. No. 15101G

Highlights of 1999 Tax Changes

CAUTION The discussion on page 5 under *Revocation of Exemption From Social Security Coverage* instructs members of the clergy to file Form 2031 to revoke their exemption. Form 2031 will not be available from the IRS until April 1, 2000.



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Contents

Chapter

Introduction

This publication highlights tax law changes that take effect in 1999 and 2000. Each chapter is divided into separate sections for each year.

Many of the provisions of the Ticket to Work and Work Incentives Improvement Act of 1999 and other tax law changes are discussed in this publication. They include the following items.

- Change in the definition of an eligible foster child for purposes of the earned income credit.
- Deducting stop-smoking programs as medical expenses.
- Extension of the credit for first-time homebuyers in the District of Columbia.
- Extension of certain general business credits.
- Extension of the tax-free status of up to $5,250 of employer-provided educational assistance.
- Increase in the health insurance deduction for the self-employed.
- Postponement of tax deadlines because of Y2K failures.
- Repeal of the installment method for most accrual method taxpayers.

See the later discussion of each topic for more information.

Adjusting your withholding or estimated tax payments for 2000. If your tax for 2000 will be more or less than your 1999 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,** *Employee's Withholding Allowance Certificate*	**919,** *How Do I Adjust My Tax Withholding?*
Estimated tax payments	**1040-ES,** *Estimated Tax for Individuals*	**505,** *Tax Withholding and Estimated Tax*

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.

1.

Tax Changes for Individuals

1999 Changes

Standard Deduction Amount Increased

The standard deduction for most taxpayers who do not itemize deductions on Schedule A of Form 1040 is higher for 1999 than it was for 1998. 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 *1999 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 $2,700 in 1998 to $2,750 in 1999.

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 this phaseout begins depends on your filing status. For 1999, the phaseout begins at $94,975 for married persons filing separately, $126,600 for unmarried individuals, $158,300 for heads of household, and $189,950 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.

Limit on Itemized Deductions Increased

You lose all or part of the benefit of your itemized deductions if your adjusted gross income is above a certain amount. In 1999 this amount is increased to $126,600 for all filing statuses except married filing separately ($63,300 for that filing status). See Publication 501 for more information.

Reporting Capital Gain Distributions

For 1999, if your only capital gains are capital gain distributions from mutual funds, you may not need to file Schedule D. Instead, the gains can generally be reported directly on Form 1040, line 13. Use the *Capital Gain Tax Worksheet* in the Form 1040 instructions to figure the tax. This simpler method of reporting capital gains is discussed in chapter 4 of Publication 550, *Investment Income and Expenses.*

Child Tax Credit Increased

The maximum child tax credit for each qualifying child has increased from $400 to $500. For more information on the child tax credit, see the instructions for Form 1040 or Form 1040A.

Earned Income Credit

The following items explain the 1999 changes to the earned income credit. For more information, see Publication 596, *Earned Income Credit.*

Earned income. The amount you can earn and still get the credit has increased for 1999. The amount you earn must be less than:

- $26,928 with one qualifying child,
- $30,580 with more than one qualifying child, or
- $10,200 without a qualifying child.

Investment income. The maximum amount of investment income you can have and still get the credit has increased for 1999. You can have investment income up to $2,350. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.

Employee Business Expenses

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 optional standard mileage rate. The standard mileage rate for the cost of operating your passenger car, including a van, pickup, or panel truck, in 1999 is 32½ cents a mile for all business miles driven before April 1. The rate is 31 cents a mile for business miles driven after March 31.

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 1999 cannot exceed $3,060. Your depreciation cannot exceed $5,000 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.*

Increases to section 179 deduction. The total cost of section 179 property you can elect to deduct is increased from $18,500 for 1998 to $19,000 for 1999. For tax years after 1999, this amount increases as shown below.

Tax Year	Maximum Deduction
2000	$20,000
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.*

Health Insurance Deduction for the Self-Employed

For 1999, this deduction increases to 60% of the amount you paid for medical insurance for yourself and your family. After 2001, the deduction will increase again. For more information, see chapter 10 in Publication 535, *Business Expenses.*

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1999. 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 1999 has increased to $72,600. All net earnings of at least $400 are subject to the Medicare part.

Stop-Smoking Programs

You can now include the amount you pay for a program to stop smoking as a medical expense on Schedule A (Form 1040). However, you cannot include any amount you pay for drugs designed to help stop smoking that do not require a prescription, such as nicotine gum or patches. If you paid for a stop-smoking program in 1996, 1997, or 1998, you can file an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return,* to include the amount you paid for the program.

Depreciating Property Used in a Rental Activity

Appliances, carpets, furniture, etc., used in a rental real estate activity are classified as 5-year property. Before 1999, however, IRS publications and Form 4562, *Depreciation and Amortization,* classified this property as 7-year property. If you previously claimed depreciation based on that classification, you can continue to do so for that property. Alternatively, you can choose to change your depreciation to base it on the property's classification as 5-year property. For information on how to make that change, see Publication 527, *Residential Rental Property*.

Limit on Personal Credits

Before 1998, your nonrefundable personal credits were limited to your regular tax reduced by your tentative minimum tax. For 1998, the requirement to reduce your regular tax by your tentative minimum tax when figuring this limit was waived.

For 1999, this requirement has been waived again. This means that you can claim your nonrefundable personal credits up to the full amount of your regular tax.

The following are the nonrefundable personal credits. They are nonrefundable because, if they are more than your tax, you cannot get a refund of the difference.

- Adoption credit.
- Child tax credit.
- 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.

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

Depreciation Recovery Period

For property placed in service after 1998, use the same recovery period you use to figure your depreciation for regular tax purposes to figure any AMT adjustment.

Gains from Certain Constructive Ownership Transactions

If you have a gain from a constructive ownership transaction entered into after July 11, 1999, involving a financial asset (discussed later) and the gain normally would be treated as a long-term capital gain, all or part of the gain may be treated instead as ordinary income. In addition, if any gain is treated as ordinary income, your tax is increased by an interest charge.

Constructive ownership transactions. The following are constructive ownership transactions.

1) A notional principal contract in which you have the right to receive substantially all of the investment yield on a financial asset and you are obligated to reimburse substantially all of any decline in value of the financial asset.

2) A forward or futures contract to acquire a financial asset.

3) The holding of a call option and writing of a put option on a financial asset at substantially the same strike price and maturity date.

This provision does not apply if all the positions are marked to market. Marked to market rules for section 1256 contracts are discussed in detail in chapter 4 of Publication 550, *Investment Income and Expenses.*

Financial asset. A financial asset, for this purpose, is any equity interest in a pass-through entity. Pass-through entities include partnerships, S corporations, trusts, regulated investment companies, and real estate investment trusts.

Amount of ordinary income. Long-term capital gain is treated as ordinary income to the extent it is more than the ***net underlying long-term capital gain.*** The net underlying long-term capital gain is the amount of net capital gain you would have realized if you acquired the asset for its fair market value on the date the constructive ownership transaction was opened, and sold the asset for its fair market value on the date the transaction was closed. If you do not establish the amount of net underlying long-term capital gain by clear and convincing evidence, it is treated as zero.

More information. For more information, see section 1260 of the Internal Revenue Code.

Installment Method of Accounting

The following 1999 tax changes affect taxpayers who use the installment method of accounting.

Accrual Method Taxpayers

If you normally report income using an accrual method of accounting, you cannot use the installment method of accounting to report gain on sales or other dispositions of property occurring after December 16, 1999. However, this rule does not apply to sales or other dispositions of the following property.

- Property used or produced in the trade or business of farming.
- Timeshares or residential lots if you elect to pay a special interest charge. (For more information, see section 453(l) of the Internal Revenue Code.)

Cash basis taxpayers can still use the installment method of accounting to report gain on the sale or other disposition of property.

Pledge Rule

If you pledge an installment obligation as security for a loan, you must treat the proceeds of the loan as payment on the installment obligation and recognize the gain. This is called the ***pledge rule.***

For sales or other dispositions occurring after December 16, 1999, if you have the ***right to transfer*** an installment obligation in payment of a loan, the loan is considered directly secured by the obligation and the pledge rule applies.

More information. For more information on installment sales, see Publication 537, *Installment Sales.*

Tax Payment by Credit Card

You can now pay the IRS by credit card (American Express® Card, MasterCard®, or Discover® Card) for the following.

- Tax owed on your 1999 tax return.
- Tax owed when you request an extension of time to file your 1999 tax return.
- Estimated tax payments for 2000.

You must make each payment separately. For example, do not include your estimated tax payment for 2000 with your payment of tax owed on your 1999 tax return.

For information on how to make these payments by credit card, see your tax form instructions.

Interest Netting

Effective for interest accruing on or after October 1, 1998, if you owe interest to the IRS on an underpayment for the same period of time that the IRS owes you interest on an overpayment, you are charged interest on the underpayment (up to the amount of the overpayment) at the rate of interest on the overpayment for the period of overlap. As a result, the net rate is zero for that period.

Interest accruing before October 1, 1998. The same rule applies for interest accruing before October 1, 1998, provided:

- The periods of limitation on both refunds of underpayment interest and payment of additional overpayment interest were open on July 22, 1998,
- You reasonably identify and show the periods during which equivalent amounts of your underpayment and overpayment overlap, and
- You request interest netting.

You had to request this interest netting no later than December 31, 1999, unless at least one of the applicable periods of limitation is still open after December 31, 1999.

Form 843. You can obtain the net rate of zero if you file a claim on Form 843, *Claim for Refund and Request for Abatement,* requesting application of the net rate of zero on or before the date on which the last applicable period of limitation closes.

To make the request by U.S. mail, send Form 843 to:

Internal Revenue Service
Net Rate Interest Netting Claim
P.O. Box 9987
Mail Stop 6800
Ogden, UT 84409

If you do not send it by U.S. mail, send it to:

Internal Revenue Service
Net Rate Interest Netting Claim
1160 West 1200 South
Mail Stop 6800
Ogden, UT 84201

Write “Request for Net Interest Rate of Zero Under Rev. Proc. 99–43” at the top of Form 843. For detailed instructions on how to fill out Form 843, see Revenue Procedure 99–43.

Alternative statement. If your return is under consideration by any function of the IRS, file a statement with that function instead of Form 843. For details on what the statement should contain, see Revenue Procedure 99–43 in Internal Revenue Bulletin No. 1999–47.

Interest accruing on or after January 1, 1999. For individuals, interest netting does not apply to periods beginning on or after January 1, 1999, because interest on underpayments and overpayments accrues at the same rate.

Interest Rate on Overpayments

Beginning January 1, 1999, the rate of interest payable by the IRS on overpayments increased from the federal short-term rate (AFR) plus 2% to the AFR plus 3%. This is the same rate that applies to underpayments.

Refund Offset Against Debt

If you are due a refund but have not paid certain amounts you owe, all or part of your refund may be used to pay all or part of the past-due amount. This includes past-due child and spousal support payments and federal debts.

Beginning with refunds payable after December 31, 1999, your refund may be used to pay a past-due legally enforceable state income tax debt. You will be notified if the refund you were expecting is offset against your debts. There are procedural safeguards to protect you from erroneous offsets. For more information, see Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund.*

Preparer Identification Number

Previously, a paid tax return preparer was required to disclose his or her social security number (SSN) on returns he or she prepared. Now, if you are a paid preparer and do not want to disclose your SSN on returns you prepare, you can use a preparer tax identification number (PTIN) instead. A PTIN cannot be used in place of the employer identification number of a tax preparation firm. Use ***Form W-7P,*** *Application for Preparer Tax Identification Number,* to apply for a PTIN. For more information on how to apply, see the instructions for Form W-7P.

2000 Changes

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.

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 optional standard mileage rate. For 2000, the optional 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.*

Revocation of Exemption From Social Security Coverage

If you are a minister, a member of a religious order not under a vow of poverty, or a Christian Science practitioner who previously elected exemption from social security coverage and self-employment tax, you now have a limited period of time to revoke that exemption. You can revoke the exemption during the 27½-month period from January 1, 2000, to April 15, 2002. This period is extended beyond April 15, 2002, if you get an extension to file your 2001 return. The revocation will be effective for either 2000 or 2001 and all later years. You will be covered under the social security system and your earnings will be subject to self-employment tax during those years. Once you revoke the exemption, you can ***never again*** elect exemption from social security coverage.

You must file ***Form 2031*** to revoke the exemption. However, this form will not be available until April 1, 2000.

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.*

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.

Social Security and Medicare Taxes

For 2000, 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 2000 wages subject to the tax has increased to $76,200. For Medicare tax, all covered 2000 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.*

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 certain workers who are under certain federal regulations.) The percentage is 60% for 2000 and 2001, and it gradually increases to 80% by 2008.

Business meal expenses are covered in chapter 1 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses.*

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 about these benefits, see Publication 970, *Tax Benefits for Higher Education*.

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.

The personal credits that can offset those taxes, but cannot be refunded if they are more than those taxes, are the following.

- Adoption credit.
- Child tax credit.
- 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.

Estimated Tax Safe Harbor for Higher Income Individuals

For estimated tax installment payments for tax years beginning in 2000, the estimated tax safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If your 1999 adjusted gross income was more than $150,000 ($75,000 if you are married filing a separate return for 2000), you will have to pay the smaller of 90% of your expected tax for 2000 or ***108.6%*** of the tax shown on your 1999 return to avoid an estimated tax penalty (provided your 1999 return covered all 12 months).

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

Reduced Failure-To-Pay Penalty

If you do not pay your tax when it is due, you may be subject to a failure-to-pay penalty of .5% (.005) of your unpaid taxes for each month the tax is not paid. If you file your return on time, this penalty will be reduced to .25% (.0025) for any month beginning after 1999 in which you have an installment agreement in effect with the IRS.

Postponement of Deadlines Based on Y2K Failures

If you are affected by a Y2K failure, you can get an extension of up to 90 days to take certain tax-related actions. A ***Y2K failure*** is any computer-related problem resulting from the date change to the year 2000.

CAUTION *To get the extension, you will have to show that you took the necessary steps to prepare for the Y2K date change, but were unable to meet a deadline due to Y2K problems beyond your control.*

Actions extended. The actions to which the extension applies include the following.

- Filing any income, estate, or gift tax return (including employment and withholding tax returns).
- Paying any income, estate, or gift tax (including employment and withholding taxes).
- Filing a petition with the Tax Court.
- Allowing a credit or refund of any tax by the IRS.
- Filing a claim for credit or refund of any tax.
- Bringing suit for any claim for credit or refund.

- Assessment of any tax by the IRS.
- Giving or making any notice or demand by the IRS for the payment of any tax or for any liability for any tax.
- Collection by the IRS of any tax due.
- Bringing suit by the United States for any tax due.

Steps to take. If you encounter Y2K problems that impact on any of the actions stated previously, take the following steps.

- Notify the IRS as soon as possible after discovery of the problem by calling **1–800–829–1040.**
- Take prompt action to fix the Y2K problem.
- Consider alternate ways to comply with the tax law.

For more detailed information on how to handle Y2K related tax problems, see IRS News Release IR–99–104. You can find this news release on the IRS website, **www.irs.gov,** under *IRS Newstand.*

2001 Change

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, 2002. For more information about this credit, see Publication 530, *Tax Information for First-Time Homeowners.*

2. Tax Changes for Businesses

1999 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 optional standard mileage rate. The standard mileage rate for the cost of operating your passenger car, including a van, pickup, or panel truck, in 1999 is 32½ cents a mile for all business miles driven before April 1. The rate is 31 cents a mile for business miles driven after March 31.

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

Production Flexibility Contract Payments

Under the cash method of accounting, you include all items of income you actually or constructively received during the year in gross income for that year. You constructively receive income when it is credited to your account or made available to you. You do not need to have physical possession of it. However, if you are a farmer receiving production flexibility payments under the Federal Agriculture Improvement and Reform Act of 1996, you are not considered to constructively receive a payment merely because you have the option to receive it in the year before it is required to be paid. You disregard that option in determining when to include the payment in your income. This rule applies to any farm production flexibility payment made under the 1996 Act as in effect on December 17, 1999.

Business Use of Your Home

New rules make it easier to claim a deduction for the business use of your home. Under the new rules, you may qualify to claim the deduction, even if you never qualified before.

Beginning in 1999, it is easier for your home office to qualify as your principal place of business. Your home office will qualify as your principal place of business for deducting expenses for its use if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

For more information on the definition of principal place of business and the other tests you must meet to qualify to deduct expenses for the business use of your home, see Publication 587, *Business Use of Your Home (Including Use by Day-Care Providers).*

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 1999 cannot exceed $3,060. Your depreciation cannot exceed $5,000 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.*

Increases to section 179 deduction. The total cost of section 179 property that you can elect to deduct is increased from $18,500 for 1998 to $19,000 for 1999. For tax years after 1999, this amount increases as shown below.

Tax Year	Maximum Deduction
2000	$20,000
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.*

Election under GDS to use 150% DB Rate. For 3-, 5-, 7-, and 10-year class property you placed in service before 1999 and chose to depreciate using the 150% declining balance (DB) rate, you had to use an ADS (Alternative Depreciation System) recovery period. If you place similar property in service after 1998 and choose to depreciate it using the 150% DB rate, you can use the same (GDS–General Depreciation System) recovery period you would use if you chose the 200% DB rate.

For more information, see *Property Classes and Recovery Periods* in chapter 3 of Publication 946.

Marginal Production of Oil and Gas

The suspension of the taxable income limit on percentage depletion from the marginal production of oil and natural gas has been extended to tax years beginning after 1999 and before January 1, 2002. Previously, the suspension was for tax years beginning after 1997 and before January 1, 2000. For more information on marginal production, see section 613A(c)(6) of the Internal Revenue Code.

Health Insurance Deduction for the Self-Employed

For 1999, this deduction increases to 60% of the amount you paid for medical insurance for yourself and your family. After 2001, the deduction will increase again. For more information, see chapter 10 in Publication 535, *Business Expenses.*

Self-Employment Tax

The self-employment tax rate on net earnings remains the same for calendar year 1999. 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 1999 has increased to $72,600. All net earnings of at least $400 are subject to the Medicare part.

General Business Credit

The following items explain changes to several components of the general business credit. For more information about the general business credit, see chapter 4 in Publication 334, *Tax Guide for Small Business.*

Research credit. The research credit was scheduled to expire for expenses paid or incurred after June 30, 1999. It has been extended for 5 years to include expenses paid or incurred through June 30, 2004. It has also been expanded to cover expenses paid or incurred after June 30, 1999, for research conducted in Puerto Rico and U.S. possessions.

Work opportunity credit. The work opportunity credit was scheduled to expire for wages paid to qualified individuals who began work for you after June 30, 1999. It has been extended to include wages paid to qualified individuals who begin work for you before January 1, 2002.

Welfare-to-work credit. The welfare-to-work credit was scheduled to expire for wages paid to qualified individuals who began work for you after June 30, 1999. It has been extended to include wages paid to qualified individuals who begin work for you before January 1, 2002.

Depreciation Recovery Period for Alternative Minimum Tax (AMT)

For property placed in service after 1998, use the same recovery period you use to figure your depreciation for regular tax purposes to figure any AMT adjustment.

Gains from Certain Constructive Ownership Transactions

If you have a gain from a constructive ownership transaction entered into after July 11, 1999, involving a financial asset (discussed later) and the gain normally would be treated as a long-term capital gain, all or part of the gain may be treated instead as ordinary income. In addition, if any gain is treated as ordinary income, your tax is increased by an interest charge.

Constructive ownership transactions. The following are constructive ownership transactions.

1) A notional principal contract in which you have the right to receive substantially all of the investment yield on a financial asset and you are obligated to reimburse substantially all of any decline in value of the financial asset.

2) A forward or futures contract to acquire a financial asset.

3) The holding of a call option and writing of a put option on a financial asset at substantially the same strike price and maturity date.

This provision does not apply if all the positions are marked to market. Marked to market rules for section 1256 contracts are discussed in detail in chapter 4 of Publication 550, *Investment Income and Expenses.*

Financial asset. A financial asset, for this purpose, is any equity interest in a pass-through entity. Pass-through entities include partnerships, S corporations, trusts, regulated investment companies, and real estate investment trusts.

Amount of ordinary income. Long-term capital gain is treated as ordinary income to the extent it is more than the ***net underlying long-term capital gain.*** The net underlying long-term capital gain is the amount of net capital gain you would have realized if you acquired the asset for its fair market value on the date the constructive ownership transaction was opened, and sold the asset for its fair market value on the date the transaction was closed. If you do not establish the amount of net underlying long-term capital gain by clear and convincing evidence, it is treated as zero.

More information. For more information, see section 1260 of the Internal Revenue Code.

Additions to Definition of Noncapital Assets

The definition of noncapital assets (assets that generally produce ordinary, rather than capital, gain or loss when sold) has been expanded to include the following categories of assets.

1) Certain commodities derivative financial instruments held, acquired, or entered into by commodities derivatives dealers (as defined later) after December 16, 1999.

2) Hedging transactions (as defined later) entered into after December 16, 1999. This applies only to a transaction clearly identified as a hedging transaction before the close of the day on which it was acquired, originated, or entered into.

3) Supplies of a type you regularly use or consume in the ordinary course of your trade or business, that you held or acquired after December 16, 1999.

Commodities derivative financial instruments. A commodities derivative financial instrument is a commodities contract or other financial instrument, with respect to commodities, for which the value or settlement price is calculated or determined by reference to a specified index (as defined in section 1221(b) of the Internal Revenue Code).

Commodities derivative dealer. A commodities derivative dealer is a person who regularly offers to enter into, assume, offset, assign, or terminate positions in commodities derivative financial instruments with customers in the ordinary course of a trade or business.

Hedging transactions. A hedging transaction is any transaction you enter into in the normal course of your trade or business primarily to manage one of the following.

1) Risk of price changes or currency fluctuations involving ordinary property held or to be held by you.

2) Risk of interest rate or price changes, or currency fluctuations, involving borrowed funds or ordinary obligations incurred or to be incurred by you.

More information. For details and exceptions, see section 1221 of the Internal Revenue Code.

Installment Method of Accounting

The following 1999 tax changes affect taxpayers who use the installment method of accounting.

Accrual Method Taxpayers

If you normally report income using an accrual method of accounting, you cannot use the installment method of accounting to report gain on sales or other dispositions of property occurring after December 16, 1999. However, this rule does not apply to sales or other dispositions of the following property.

- Property used or produced in the trade or business of farming.
- Timeshares or residential lots if you elect to pay a special interest charge. (For more information, see section 453(l) of the Internal Revenue Code.)

Cash basis taxpayers can still use the installment method of accounting to report gain on the sale or other disposition of property.

Pledge Rule

If you pledge an installment obligation as security for a loan, you must treat the proceeds of the loan as payment on the installment obligation and recognize the gain. This is called the ***pledge rule.***

For sales or other dispositions occurring after December 16, 1999, if you have the ***right to transfer*** an installment obligation in payment of a loan, the loan is considered directly secured by the obligation and the pledge rule applies.

More information. For more information on installment sales, see Publication 537, *Installment Sales.*

Electronic Deposits of Taxes

The threshold that determines whether you must deposit federal taxes electronically has been increased from $50,000 to $200,000. You must use the Electronic Federal Tax Payment System (EFTPS) to make electronic deposits of all tax deposit liabilities that occur after 1999 if you deposited more than $200,000 in federal deposit taxes in 1998. If you do not meet the $200,000 threshold, electronic deposits are voluntary, even if you were required to deposit electronically in the past.

In addition, the waiver of the penalty for failure to deposit taxes electronically has been extended for most taxpayers to deposit obligations incurred before January 1, 2000. This waiver was scheduled to expire on July 1, 1999. However, the waiver expired as scheduled on June 30, 1999, for taxpayers who deposited more than $200,000 in taxes in 1998.

For more information about depositing taxes electronically, see Publication 15, *Circular E, Employer's Tax Guide,* and Publication 966, *The Easiest Way to Pay Your Federal Taxes.*

Electronic Filing Delayed for Certain Partnerships

Partnerships with more than 100 partners are not required to file partnership returns electronically for tax years ending before December 31, 2000. However, calendar year domestic partnerships filing Form 1065 that have the capability to file their 1999 partnership tax returns electronically are encouraged to do so beginning on March 15, 2000.

Preparer Identification Number

Previously, a paid tax return preparer was required to disclose his or her social security number (SSN) on returns he or she prepared. Now, if you are a paid preparer and do not want to disclose your SSN on returns you prepare, you can use a preparer tax identification number (PTIN) instead. A PTIN cannot be used in place of the employer identification number of a tax preparation firm. Use ***Form W-7P,*** *Application for Preparer Tax Identification Number,* to apply for a PTIN. For more information on how to apply, see the instructions for Form W-7P.

OID List Now Available From IRS Website

The original issue discount (OID) list that appears at the end of Publication 1212, *List of Original Issue Discount Instruments,* is no longer available on the Martinsburg electronic bulletin board. You can now download it with the rest of Publication 1212 from the IRS 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 “SGML Text.”

For information on OID and the list of OID instruments, see Publication 1212.

2000 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 optional standard mileage rate. For 2000, the optional 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.*

Meals While Subject to “Hours of Service” Limits

Beginning in 2000, you can deduct 60% of the reimbursed 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 for 1999 was 55%, and it gradually increases to 80% by 2008. For more information, see chapter 16 in Publication 535, *Business Expenses.*

Educational Assistance Programs

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 expenses paid for courses beginning before January 1, 2002. For more information about this exclusion, see chapter 5 in Publication 535, *Business Expenses.*

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.

Social Security and Medicare Taxes

For 2000, 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 2000 wages subject to the tax has increased to $76,200. For Medicare tax, all covered 2000 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 $1,100 social security and Medicare wage threshold for household employees has been increased to $1,200 for 2000. This means that if you pay a household employee cash wages of less than $1,200 in 2000, you do not have to report and pay social security and Medicare taxes on that employee's 2000 wages. For more information on household employment taxes, see Publication 926, *Household Employer's Tax Guide.*

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.*

Postponement of Deadlines Based on Y2K Failures

If you are affected by a Y2K failure, you can get an extension of up to 90 days to take certain tax-related actions. A ***Y2K failure*** is any computer-related problem resulting from the date change to the year 2000.

CAUTION *To get the extension, you will have to show that you took the necessary steps to prepare for the Y2K date change, but were unable to meet a deadline due to Y2K problems beyond your control.*

Actions extended. The actions to which the extension applies include the following.

- Filing any income, estate, or gift tax return (including employment and withholding tax returns).
- Paying any income, estate, or gift tax (including employment and withholding taxes).
- Filing a petition with the Tax Court.
- Allowing a credit or refund of any tax by the IRS.
- Filing a claim for credit or refund of any tax.
- Bringing suit for any claim for credit or refund.
- Assessment of any tax by the IRS.
- Giving or making any notice or demand by the IRS for the payment of any tax or for any liability for any tax.
- Collection by the IRS of any tax due.
- Bringing suit by the United States for any tax due.

Steps to take. If you encounter Y2K problems that impact on any of the actions stated previously, take the following steps.

- Notify the IRS as soon as possible after discovery of the problem by calling **1–800–829–1040.**
- Take prompt action to fix the Y2K problem.
- Consider alternate ways to comply with the tax law.

For more detailed information on how to handle Y2K related tax problems, see IRS News Release IR–99–104. You can find this news release on the IRS website, **www.irs.gov,** under *IRS Newstand.*

2001 Change

Environmental Cleanup Cost Deduction

The deduction for qualified environmental cleanup costs was scheduled to expire for costs paid or incurred after December 31, 2000. It has been extended to include costs you pay or incur before January 1, 2002. For more information about this deduction, see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities.*

3. IRAs and Other Retirement Plans

1999 Changes

Distributions Due to an IRS Levy

The 10% additional tax on early withdrawals from IRAs or qualified employer plans will not apply to distributions that result from an IRS levy against the IRA or plan. For more information on the additional tax on early withdrawals, see Publication 590, *Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs),* or Publication 575, *Pension and Annuity Income.*

Hardship Distributions

Hardship distributions from 401(k) plans and 403(b) plans made after 1998 are not eligible rollover distributions. They cannot be rolled over into a traditional IRA. For more information on traditional IRAs, see Publication 590.

Discrimination Safe Harbor

Beginning in 1999, a 401(k) plan does not have to pass the special nondiscrimination tests that apply to elective deferrals and matching contributions if its participants receive a certain level of matching or nonelective contributions. For more information, see Notice 98–52 in Cumulative Bulletin 1998–2.

2000 Changes

Reconversions

For 1998 and 1999, you could convert an amount from a traditional IRA to a Roth IRA, transfer that amount back to a traditional IRA in a recharacterization, and then reconvert that amount from the traditional IRA to a Roth IRA.

After 1999, you cannot convert and reconvert an amount during the same taxable year, or if later, during the 30-day period following a recharacterization. If you reconvert during this period, it will be a failed conversion. For more information on failed conversions, see Publication 590.

Lump-Sum Distributions

For tax years beginning after 1999, the 5-year tax option for figuring the tax on a lump-sum distribution from a qualified retirement plan is repealed. However, plan participants can continue to choose the 10-year tax option or capital gain treatment for a lump-sum distribution that qualifies for the special treatment. For more information about lump-sum distributions, see *Taxation of Nonperiodic Payments* in Publication 575.

4. Excise Taxes

1999 Change

Vaccines

For sales or deliveries after December 17, 1999, any conjugate vaccine against streptococcus pneumoniae is subject to the tax on vaccines. For more information, see Publication 510, *Excise Taxes for 2000.*

2000 Changes

Air Transportation Taxes

For transportation beginning in 2000, the tax on transportation of persons by air is increased to $2.50 for each domestic segment. The percentage tax remains at 7.5%.

For 2000, the tax on the use of international air travel facilities will be $12.40 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 $6.20. See Publication 510 for information on air transportation taxes.

Luxury Tax

For 2000, the luxury tax on a passenger vehicle is reduced to 5% of the amount of the sales price that exceeds the base amount. The base amount for 2000 is $38,000. See Publication 510, *Excise Taxes for 2000,* for information on the luxury tax.

5. Exempt Organizations

1999 Change

Disclosure Rules

New disclosure rules for tax-exempt organizations went into effect in 1999. A tax-exempt organization, other than a private foundation, must make copies of its exemption application and information returns for the previous three years available for public inspection.

Under the new rules, it must also provide copies to individuals who request them, unless it makes the documents widely available. An organization can make its documents widely available by posting them on a readily accessible World Wide Web site.

Private foundations continue to be subject to the disclosure requirements in effect prior to the Tax and Trade Relief Extension Act of 1998 until new regulations are issued.

For more information, see Publication 557, *Tax-Exempt Status for Your Organization.*

6. Foreign Issues

1999 Change

Foreign Earned Income Exclusion

For 1999, the maximum foreign earned income exclusion increased from $72,000 to $74,000.

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

2000 Changes

Foreign Earned Income Exclusion

For 2000, the maximum foreign earned income exclusion will increase from $74,000 to $76,000.

Foreign Tax Credit Limit

When figuring the limit on your foreign tax credit for 2000 and 2001, your U.S. income tax is not reduced by any nonrefundable personal credits.

For more information on the foreign tax credit, see Publication 514, *Foreign Tax Credit for Individuals.*

Tax Withholding

The effective date of the new regulations relating to withholding of income tax on certain U.S. source income paid to foreign persons has been postponed until January 1, 2001. However, new withholding certificates (Forms W-8BEN, W-8ECI, W-8EXP, and W-8IMY) may be used in place of Forms W-8, 1001, 1078, 4224, and 8709, and certain formerly required statements. The old forms and statements will not be valid after December 31, 2000. Withholding agents must transform their business practices and information systems to comply with the new regulations.

For more information, see Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations,* the new forms, and their instructions.

7. Taxpayer Rights

1999 Changes

Award of Administrative Costs

The rules were expanded for awarding reasonable administrative costs and certain fees incurred after January 18, 1999.

Qualified offer rule. You can receive reasonable costs and fees as a prevailing party in a civil action or proceeding when all the following occur.

1) You make a qualified offer to the IRS to settle the case.
2) The IRS rejects the offer.
3) The tax liability (not including interest) later determined by the Court is not more than the amount of the qualified offer.

Note. The Court can consider the IRS not to be the prevailing party in a civil action or proceeding based on the fact that the IRS has lost in other courts of appeal on substantially similar issues.

Qualified offer. This is a written offer made by you during the qualified offer period. It must specify both of the following.

- The amount of your liability (not including interest).
- That it is a qualified offer when made.

It must also remain open until the earliest of the following dates.

- The date the offer is rejected.
- The date the trial begins.
- 90 days from the date of the offer.

Qualified offer period. This is the period beginning with the date that the 30-day letter is mailed by the IRS to you and ending on the date that is 30 days before the date the case is first set for trial.

Time for awarding costs. Administrative costs can be awarded for costs incurred after the earliest of the following dates.

- The date of the notice of deficiency.
- The date the first letter of proposed deficiency is sent that allows you an opportunity to request administrative review in the Appeals Office of IRS.
- The date you receive the Appeals Office of IRS decision.

Attorney fees. The basic rate of an award for attorney fees has increased from $110 to $125 ($140 for 2000) per hour and it can be higher in certain circumstances. Those circumstances now include the difficulty level of the issues in the case and the availability of tax expertise locally. The basic rate is subject to adjustment each year.

TIP *Attorney fees now include the fees you paid for the services of anyone who is authorized to practice before the Tax Court or before the IRS. In addition, attorney fees can be awarded in civil actions taken for unauthorized inspection or disclosure of your tax return or return information.*

Fees can be awarded in excess of the actual amount charged if all the following apply.

- The fees are charged at less than the $125 ($140 for 2000) basic rate.
- You are represented for no fee, or for a nominal fee, as a pro bono service.
- The award is paid to your representative or to the representative's employer.

Notice of IRS Contact of Third Parties

The IRS must notify you ***before*** they can contact third parties when examining or collecting your tax liability. Third parties may include your neighbors, banks, employees, or employers. The IRS must periodically, and upon your request, provide you with notice of specific contacts. This is effective for contacts made after January 18, 1999.

CAUTION *This provision does not apply in the following circumstances.*

1) *When there is a pending criminal investigation.*
2) *When providing notice would jeopardize collection of any tax liability.*
3) *Where providing notice may result in reprisal against any person.*
4) *When you authorized the contact.*

Last Date for Filing Tax Court Petition

Beginning in 1999, each notice that the IRS mails to you must specify the last date on which you can timely file a petition with the Tax Court. This date is the 90th day (150th day if the address is outside of the United States) after the date that the notice of deficiency is mailed by the IRS.

For more information, see *Tax Court* under *Appeal Rights* in Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund.*

Explanation of Claim for Refund Disallowance

Beginning January 19, 1999, the IRS must explain to you the specific reasons why your claim for refund is disallowed or partially disallowed. This puts into law an existing practice of the IRS.

Claims for refund can be disallowed based on a preliminary review or an examination by a revenue agent. This means you must receive one of the following.

1) A form explaining that the claim is disallowed for one of the following reasons.
   a) It was filed late.
   b) It was based solely on the unconstitutionality of the revenue acts.
   c) It was waived as part of a settlement.
   d) It covered a tax year or issues that were part of a closing agreement or an offer in compromise.
   e) It was related to a return closed by a final court order.
2) A revenue agent's report explaining the reasons that the claim is disallowed.

8. How To Get More Information

You can 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.

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

Help With Unresolved Tax Problems

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's toll-free number: **1–877–777–4778.**
- Call the IRS toll-free number: **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.*

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