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IRS

Department of the Treasury
Internal Revenue Service

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THE IRS WANTS YOU TO KNOW

Five ways to save on your '99 taxes

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1. *Cut your federal income tax by the full amount of the HOPE Credit or the Lifetime Learning Credit, for qualified costs of higher education.*

2. *Subtract the full amount of the Child Tax Credit right off your total tax bill, if you qualify.*

3. *Save for the future with a Roth IRA without paying tax on future gains or earnings, by following certain guidelines.*

4. *Minimize the taxes required on certain IRA withdrawals for qualified costs of higher education or a first home.*

5. *And don't forget the "same year" deductions that make traditional IRAs a popular choice.*

Take Credit For Higher Education

HOPE Credit for undergraduates. Up to $1,500 per student, per year.
HOPE Credit applies only for the first two years of post-secondary education—such as college or vocational school. It does not apply to graduate and professional-level programs.

You're allowed 100% of the first $1,000 of qualified tuition and related fees paid during the tax year, plus 50% of the next $1,000—for a maximum credit of $1,500 per eligible student, per year. The student must be enrolled at least half-time.

This applies to expenses paid after 12/31/97 for academic periods beginning after that date. See qualifications below.

If you qualify, subtract the full credit off your federal tax total:

The HOPE Credit—up to $1,500 per student, per year.

Or the Lifetime Learning Credit—up to $1,000 per year.

Lifetime Learning Credit for graduate or undergraduate study. Up to $1,000 per year.
The Lifetime Learning Credit applies to graduate level and professional degree courses as well as undergraduate courses, including instruction to acquire or improve job skills.

If you qualify, your credit equals 20% of the post-secondary tuition and fees you pay during the year—limited to a maximum credit in 1999 of $1,000 per year.
Note: In the year 2003, the maximum Lifetime Learning Credit will increase to $2,000 per year.

The Lifetime Learning Credit can be used for an unlimited number of years—starting with expenses paid after 6/30/98 for academic periods beginning after that date. See qualifications below.

You can't take both credits at once.
You cannot claim both the HOPE and Lifetime Learning Credits for the same student in the same year.

Qualifications for either credit:
You must pay post-secondary tuition and fees for yourself, your spouse, or your dependent. The credit may be claimed by the parent or the student, but not both. However, if the student is claimed as a dependent, the student may not claim the credit.

These credits are phased out for Modified Adjusted Gross Income (AGI) above $40,000 ($80,000 for married filing jointly) and eliminated completely for Modified AGI over $50,000 ($100,000 for married filing jointly). If the taxpayer is married, the credit may be claimed only on a joint return.

The HOPE Credit is not allowed for a student convicted of a felony drug offense.

IRA Options To Help You Save For Education

The Education IRA.
You can contribute <u>up to $500 a year, per child</u> until the child turns 18. This is a non-deductible contribution.

Your earnings will grow tax-deferred, just as they would from any other IRA. Later, withdrawals can be made tax-free, to the extent that they are not more than the child's qualified education expenses including tuition, books, room and board.

Special rules for traditional IRAs.
If you use the funds to pay qualified higher education expenses for yourself, your spouse, child or grandchild, you can make an early withdrawal from your IRA without paying the usual 10% additional tax on early withdrawals.

Interest deduction for student loans—up to $1,500.

Even if you don't itemize deductions—you may be able to deduct up to $1,500 interest on student loans from your 1999 total income. The maximum deduction will increase by $500 per year until it reaches $2,500.

This deduction phases out for taxpayers with a Modified Adjusted Gross Income of $40,000 to $55,000 if single, or $60,000 to $75,000 if married filing jointly. For example, a single taxpayer with AGI of $50,000 who paid $600 in qualified education interest during the year can deduct only $200 of such interest.

The Child Tax Credit— Up To $500 Per Child

This is a full, dollar-for-dollar credit that can cut your 1999 federal income tax by up to $500 per qualifying child.

One child can mean up to a $500 credit. Two children, up to $1,000. And so on.

Who qualifies for the $500 credit?
Your dependent child or descendant, stepchild or foster child for whom you can claim a dependency exemption. The child must be under 17 as of 12/31/99 and must be a U.S. citizen or resident.

Do you have three or more children?
For three or more qualifying children, special rules apply. If your Child Tax Credit was limited, you may be entitled to an additional Child Tax Credit. See Form 8812.

Are there income restrictions?
Your total Child Tax Credit is reduced by $50 for each $1,000 that your Modified Adjusted Gross Income exceeds $110,000 for joint filers; $75,000 if single, head of household, or qualifying widow(er); or $55,000 if married filing separately.

How do you claim this credit?
Figure your credit using the worksheet in Form 1040 or 1040A instructions. Then enter it on Line 43 of your Form 1040, or Line 28 on Form 1040A.

You Don’t Pay Tax On A Roth IRA

You don’t even pay tax on the gains, dividends or interest that build up in a Roth IRA.
The main feature of the Roth IRA is that you don’t pay income tax when you withdraw the money. But generally, you must be 59½, and the withdrawal of savings and gains must not be made until after the fifth year, beginning with the year of your first contribution.

Tax-free withdrawals are also allowed for first home purchase ($10,000 lifetime cap), or upon death or disability, after the 5-year requirement is met.

> ***A contribution to a Roth IRA is not deductible from income tax. But it is an excellent choice for building up funds for retirement, tax-free.***

You may be able to convert funds to a Roth IRA from a traditional IRA to save taxes on future interest.
The taxable amount withdrawn from your traditional IRA must be reported as taxable income for the year you convert it. However, you are exempted from paying the 10% additional tax on the early withdrawal. This conversion is not allowed if your Modified Adjusted Gross Income is over $100,000, or your filing status is married filing separately and you lived with your spouse at any time during the year.

> ***A Roth IRA—unlike a traditional IRA—has no rule requiring minimum distributions after the taxpayer reaches age 70½.***

Note:
- Total contributions to all traditional and Roth IRAs, other than employer contributions, cannot exceed $2,000 per taxpayer, per year.
- You can still roll over money from an employer’s qualified retirement plan to a traditional IRA, but you cannot roll it over to a Roth IRA.

Guidelines for your Roth IRA:
The maximum Roth IRA contribution of $2,000 per year is allowed for individuals of any age, with taxable compensation and Modified Adjusted Gross Income below $150,000 for married filing jointly; $95,000 for a single taxpayer, head of household, or married filing separately (if you did not live with your spouse at any time during the year); or $10,000 for married filing separately (who lived together during the year).

This maximum phases out for AGI between $150,000 to $160,000 for married filing jointly; or $95,000 to $110,000 for a single taxpayer, head of household, or married filing separately (if you did not live with your spouse at any time during the year). For married individuals filing separately, who lived together during the year, the phase-out is from $0 to $10,000.

Participation in an employer’s retirement plan does not affect your eligibility for a Roth IRA.

Traditional IRAs are still a good choice for immediate tax savings.
Remember, traditional IRAs allow you to deduct the contribution the year you contribute, if you qualify. Tax is deferred until withdrawal—usually after retirement. Then you generally are taxed on the total amount.

IRA Flexibility For 1999

You can withdraw up to $10,000 from a traditional or Roth IRA to buy a first home.
You won't be charged the 10% additional tax on early withdrawal if you use the money within 120 days to buy, build or rebuild a first home. To qualify, the purchase may be for you or your spouse, or either one's children, grandchildren, parents or grandparents.

You can also withdraw funds from a traditional or Roth IRA for certain educational expenses.
You won't be charged the 10% additional tax on early withdrawal, if the amount does not exceed the qualified higher education expenses for you or your spouse, or either one's children or grandchildren.

The taxable portion of either of these withdrawals must still be reported as income for the year.

Why Wait For April 15th?

Start enjoying Taxpayer Relief right away.
Do you expect a bigger tax refund as a result of the Child Tax Credit? One of the college credits? Or another tax break? If so, you can take home more money each payday—starting now—by asking your employer to lower the amount withheld from your pay. Use form W-4, available from your employer or the IRS.

However, to avoid a penalty for underpayment, your withholding and estimated tax payments for the l999 return must total either 100% of your '98 tax liability—or at least 90% of the '99 liability. *Note: If the amount you pay with your return is less than $1,000, there is no penalty.*

Questions?
For further details, consult your IRS tax instructions or your tax preparer.

Or check our Web site at
www.irs.gov