

# Instructions for Schedules to Form 1040

## Instructions for Schedule A, Itemized Deductions

Use Schedule A to figure your itemized deductions. Your Federal income tax will be less if you take the **larger** of your itemized deductions or your standard deduction.

If you itemize, you may deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You may also deduct certain casualty and theft losses.

**Caution:** Do not include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E, or F.

### Medical and Dental Expenses

You may deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 33.

**Pub. 502** discusses the types of expenses that may and may not be deducted. It also explains when you may deduct capital expenses and special care expenses for disabled persons.

**Caution:** If you received a distribution from your medical savings account in 1997, see Pub. 969 to figure your deduction.

#### Examples of Medical and Dental Payments You May Deduct

To the extent you were **not reimbursed**, you may deduct what you paid for:

- Prescription medicines or insulin.
- Medical doctors, osteopathic doctors, dentists, eye doctors, chiropractors, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists, and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Qualified long-term care services (see Pub. 502).
- The supplemental part of Medicare insurance (Medicare B).
- Medical treatment at a center for drug or alcohol addiction.
- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.
- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility

related to a hospital. **Do not** include more than \$50 a night for each eligible person.

• Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim **10 cents a mile**. Add parking and tolls to the amount you claim under either method.

**Note:** Certain medical expenses paid out of a deceased taxpayer's estate may be claimed on the deceased taxpayer's final return. See Pub. 502 for details.

#### Examples of Medical and Dental Payments You May Not Deduct

• The basic cost of Medicare insurance (Medicare A).

**TIP** If you were 65 or older but not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.

• Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.

• Life insurance or income protection policies.

• The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes.

• Nursing care for a healthy baby. But you may be able to take a credit. See the instructions for Form 1040, line 40.

• Illegal operations or drugs.

• Nonprescription medicines.

• Travel your doctor told you to take for rest or a change.

• Funeral, burial, or cremation costs.

### Line 1

#### Medical and Dental Expenses

Enter the total of your medical and dental expenses, after you reduce these expenses by any payments received from insurance or other sources. See **Reimbursements** on this page.



Include insurance premiums you paid for medical and dental care. Also, include eligible long-term care premiums as defined in Pub. 502. But if you claimed the self-employed health insurance deduction on Form 1040, line 27, reduce the premiums by the amount on line 27.

Include medical and dental bills you paid for:

- Yourself and your spouse.
- All dependents you claim on your return.

• Your child whom you do not claim as a dependent because of the rules explained in **Pub. 501** for children of divorced or separated parents.

• Any person you could have claimed as a dependent on your return if that person had not received \$2,650 or more of gross income or had not filed a joint return.

**Example.** You provided over half of your mother's support but may not claim her as a dependent because she received wages of \$2,650 in 1997. You may include on line 1 any medical and dental expenses you paid in 1997 for your mother.

**Reimbursements.** If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 ONLY the amount you paid. If you received a reimbursement in 1997 for medical or dental expenses you paid in 1997, reduce your 1997 expenses by this amount. If you received a reimbursement in 1997 for prior year medical or dental expenses, do not reduce your 1997 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include.

**Cafeteria Plans.** Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your W-2 form(s). Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your W-2 form(s).

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# Taxes You Paid

## Taxes You May Not Deduct

- Federal income and excise taxes.
- Social security, Medicare, Federal unemployment (FUTA), and railroad retirement (RTTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 27 on page A-5.
- Certain state and local taxes, including: general sales tax, tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

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## Line 5

### State and Local Income Taxes

Include on this line the state and local income taxes listed below:

- State and local income taxes withheld from your salary during 1997. Your W-2 form(s) will show these amounts. Forms W-2G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.
- State and local income taxes paid in 1997 for a prior year, such as taxes paid with your 1996 state or local income tax return. **Do not** include penalties or interest.
- State and local estimated tax payments made during 1997, including any part of a prior year refund that you chose to have credited to your 1997 state or local income taxes.

- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

**Do not** reduce your deduction by:

- Any state or local income tax refund or credit you expect to receive for 1997, or
- Any refund of, or credit for, prior year state and local income taxes you actually received in 1997. Instead, see the instructions for Form 1040, line 10.

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## Line 6

### Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. **Pub. 530** explains the deductions homeowners may take.

**Do not** include the following amounts on line 6.

- Itemized charges for services to specific property or persons (for example, a \$20 monthly charge per house for trash collection, a \$5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).

- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you may deduct only the amount the mortgage company actually paid to the taxing authority in 1997.

If you sold your home in 1997, any real estate tax charged to the buyer should be shown in box 5 of **Form 1099-S**. This amount is considered a refund of real estate taxes you received in 1997. See **Refunds and Rebates** next.

**Refunds and Rebates.** If you received a refund or rebate in 1997 of real estate taxes you paid in 1997, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 1997 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. **Pub. 525** tells you how to figure the amount to include in income.

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## Line 7

### Personal Property Taxes

Enter personal property tax you paid, but only if it is based on value alone. For example, if part of the fee you paid for the registration of your car was based on the car's value and part was based on its weight, you may deduct only the part based on the car's value.

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## Line 8

### Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line income tax you paid to a foreign country or U.S. possession.



*You may want to take a credit for the foreign tax instead of a deduction. See **Form 1116** for details.*

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## Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and

when you used the loan proceeds. See **Pub. 535** for details.

In general, if you paid interest in 1997 that applies to any period after 1997, you may deduct only amounts that apply for 1997.

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## Lines 10 and 11

### Home Mortgage Interest

A **home mortgage** is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A **home** may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

**Limit on Home Mortgage Interest.** If you took out any mortgages after October 13, 1987, your deduction may be limited. Mortgages taken out after October 13, 1987, include any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mortgage taken out after October 13, 1987.

See **Pub. 936** to figure your deduction if **either 1 or 2** below applies. If you had more than one home at the same time, the dollar amounts in **1 and 2** apply to the total mortgages on both homes.

**1.** You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or improve your home, and all of these mortgages totaled over \$100,000 at any time during 1997. The limit is \$50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

**2.** You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over \$1 million at any time during 1997. The limit is \$500,000 if married filing separately.

**Note:** *If the total amount of all mortgages exceeds the fair market value of the home, additional limits apply. See **Pub. 936**.*

### Line 10

Enter on line 10 mortgage interest and points reported to you on **Form 1098**. If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21.

If you paid more interest to the recipient than is shown on Form 1098, see **Pub. 936** to find out if you can deduct the additional interest. If you can, attach a statement

explaining the difference and write "See attached" next to line 10.

**Note:** If you are claiming the **mortgage interest credit** (see the instructions for Form 1040, line 44), subtract the amount shown on line 3 of Form 8396 from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

## Line 11

If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient and let the recipient know your SSN, you may have to pay a \$50 penalty.

If you and at least one other person (other than your spouse if filing a joint return) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. Next to line 11, write "See attached."

## Line 12

### Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid **only** to borrow money are generally deductible over the life of the loan. For exceptions, see **Pub. 936**. Points paid for other purposes, such as for a lender's services, are not deductible.

### Refinancing

Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to **improve your main home**, you may be able to deduct the part of the points related to the improvement in the year paid. See **Pub. 936** for details.



*If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.*

## Line 13

### Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach **Form 4952** to figure your deduction.

**Exception.** You do not have to file Form 4952 if **all four** of the following apply.

1. Your only investment income was from interest or dividends.
2. You have no other deductible expenses connected with the production of the interest or dividends.
3. Your investment interest expense is not more than your investment income.
4. You have no disallowed investment interest expense from 1996.

**Note:** Alaska Permanent Fund dividends, including those reported on **Form 8814**, are not investment income.

For more details, see **Pub. 550**.

## Gifts to Charity

You may deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. Examples of these organizations are:

- Churches, temples, synagogues, mosques, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

- Fraternal orders, if the gifts will be used for the purposes listed above.

- Veterans' and certain cultural groups.

- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

- Federal, state, and local governments if the gifts are solely for public purposes.



*If you do not know whether you may deduct what you gave to an organization, check with that organization or with the IRS.*

### Contributions You May Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you may take **12 cents a mile** or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

**Gifts From Which You Benefit.** If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you may generally only deduct the amount that is more than the value of the benefit. For example, if you paid \$70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was \$40, you may deduct

only \$30. But this rule does not apply to certain membership benefits provided in return for an annual payment of \$75 or less. For details, see **Pub. 526**.

**Gifts of \$250 or More.** You may deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in **1** and **2** below.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See **Pub. 526** if you made a separate gift of \$250 or more through payroll deduction.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.



*You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.*

**Limit on the Amount You May Deduct.** See **Pub. 526** to figure the amount of your deduction if **any** of the following apply:

- Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 33.

- Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 33.

- You gave gifts of property that increased in value or gave gifts of the use of property.

### You May Not Deduct as Contributions

- Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation, or vacation in the travel.

- Political contributions.

- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

- Cost of raffle, bingo, or lottery tickets.

- Cost of tuition.

- Value of your time or services.

- Value of blood given to a blood bank.

- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

- Gifts to individuals and groups that are run for personal profit.

- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian and Mexican charities. See Pub. 526 for details.

- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See Internal Revenue Code section 170(f)(9).

- Gifts to groups whose purpose is to lobby for changes in the laws.

- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

- Value of benefits received in connection with a contribution to a charitable organization. See Pub. 526 for exceptions.

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## Line 15

### Gifts by Cash or Check

Enter the total contributions you made in cash or by check (including out-of-pocket expenses).

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## Line 16

### Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale.

If the amount of your deduction is more than \$500, you must complete and attach **Form 8283**. For this purpose, the "amount of your deduction" means your deduction **BEFORE** applying any income limits that could result in a carryover of contributions. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

**Recordkeeping.** If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property's value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.

- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

- Any conditions attached to the gift.

**Note:** *If your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, or you made a "qualified conservation contribution," your records should contain additional information. See Pub. 526 for details.*

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## Line 17

### Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

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## Casualty and Theft Losses

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### Line 19

Complete and attach **Form 4684** to figure the amount of your loss to enter on line 19.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

1. The amount of **each** separate casualty or theft loss is more than \$100, and

2. The total amount of **all** losses during the year is more than 10% of the amount on Form 1040, line 33.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 for details.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For information on Federal disaster area losses, see **Pub. 547**.

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## Job Expenses and Most Other Miscellaneous Deductions

**Pub. 529** discusses the types of expenses that may and may not be deducted.

Examples of expenses you may **not** deduct are:

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.

- Expenses of going to or from your regular workplace.

- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain Federal employees.

- Travel as a form of education.

- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.

- Club dues. See Pub. 529 for exceptions.

- Expenses of adopting a child. But, you may be able to take a credit. See the instructions for Form 1040, line 42.

- Fines and penalties.

- Expenses of producing tax-exempt income.

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## Line 20

### Unreimbursed Employee Expenses

Enter the total job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your W-2 form are not considered reimbursements.) But you **MUST** fill in and attach **Form 2106** if:

1. You claim any travel, transportation, meal, or entertainment expenses for your job, OR

2. Your employer paid you for any of your job expenses reportable on line 20.



*If you used your own vehicle and item 2 does not apply, you may be able to file **Form 2106-EZ** instead.*

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted lines next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

Examples of other expenses to include on line 20 are:

- Safety equipment, small tools, and supplies you needed for your job.

- Uniforms required by your employer, and which you may not usually wear away from work.

- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.

- Physical examinations your employer said you must have.

- Dues to professional organizations and chambers of commerce.

- Subscriptions to professional journals.

- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.

- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 34) or see **Pub. 587**.

- Certain educational expenses. For details, use TeleTax topic 513 (see page 34) or see **Pub. 508**.

## Line 21

### Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically.

## Line 22

### Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income. But **do not** include any personal expenses. List the type and amount of each expense on the dotted lines next to line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Examples of expenses to include on line 22 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see **Pub. 529**.
- Deduction for repayment of amounts under a claim of right if \$3,000 or less.

## Other Miscellaneous Deductions

### Line 27

Only the expenses listed below can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 27. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 27.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.

- Deduction for repayment of amounts under a claim of right if over \$3,000. See **Pub. 525** for details.

- Certain unrecovered investment in a pension. See **Pub. 529** for details.

- Impairment-related work expenses of a disabled person.

For more details on these expenses, see **Pub. 529**.

## Total Itemized Deductions

### Line 28

If the amount on Form 1040, line 33, is over \$121,200 (over \$60,600 if married filing separately), use the worksheet on this page to figure the amount to enter on line 28.

### Itemized Deductions Worksheet—Line 28 (keep for your records)



|  |           |
|--|-----------|
| 1. Add the amounts on Schedule A, lines 4, 9, 14, 18, 19, 26, and 27 . . . . .   | 1. _____  |
| 2. Add the amounts on Schedule A, lines 4, 13, and 19, plus any gambling losses included on line 27 . . . . .  | 2. _____  |
| <b>Caution:</b> Be sure your total gambling losses are clearly identified on the dotted line next to line 27.  |           |
| 3. Subtract line 2 from line 1. If the result is zero, <b>stop here</b> ; enter the amount from line 1 above on Schedule A, line 28, and see the <b>Note</b> below . . . . .         | 3. _____  |
| 4. Multiply line 3 above by 80% (.80) . . . . .  | 4. _____  |
| 5. Enter the amount from Form 1040, line 33 . . . . .  | 5. _____  |
| 6. Enter \$121,200 (\$60,600 if married filing separately) . . . . .   | 6. _____  |
| 7. Subtract line 6 from line 5. If the result is zero or less, <b>stop here</b> ; enter the amount from line 1 above on Schedule A, line 28, and see the <b>Note</b> below . . . . . | 7. _____  |
| 8. Multiply line 7 above by 3% (.03) . . . . .   | 8. _____  |
| 9. Enter the <b>smaller</b> of line 4 or line 8 . . . . .  | 9. _____  |
| 10. <b>Total itemized deductions.</b> Subtract line 9 from line 1. Enter the result here and on Schedule A, line 28, and see the <b>Note</b> below . . . . .                         | 10. _____ |
| <b>Note:</b> Also enter on Form 1040, line 35, the <b>larger</b> of the amount you enter on Schedule A, line 28, or your standard deduction.   |           |

# Instructions for Schedule B, Interest and Dividend Income

Use Schedule B if:

- You had over \$400 in taxable interest, or
- Any of the **Special Rules** listed below applies to you, or
- You are claiming the exclusion of interest from series EE U.S. savings bonds issued after 1989, or
- You had over \$400 in dividends, or
- You received dividends as a nominee, or
- You (1) had a foreign account; or (2) received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

**TIP** You may list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate sheets that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the sheets and attach them at the end of your return.

## Part I. Interest Income

### Line 1

#### Interest Income

Report on line 1 **all** of your taxable interest income. List each payer's name and show the amount.

#### Special Rules

**Seller-Financed Mortgages.** If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer's name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer's name, address, and SSN, and let the buyer know your SSN, you may have to pay a \$50 penalty.

**Nominees.** If you received a **Form 1099-INT** that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "Nominee Distribution" and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.

**TIP** If you received interest as a nominee, you must give the actual owner a **Form 1099-INT** unless the owner is your

spouse. You must also file a **Form 1096** and a **Form 1099-INT** with the IRS. For more details, see the **Instructions for Forms 1099, 1098, 5498, and W-2G.**

**Accrued Interest.** When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a **Form 1099** for interest as a purchaser of a bond with accrued interest, follow the rules earlier under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

**Tax-Exempt Interest.** If you received a **Form 1099-INT** for tax-exempt interest, report it on line 1. But do not include it in the total on line 2. Instead, under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "Tax-Exempt Interest" and show the amount. Subtract this amount from the subtotal and enter the result on line 2.

**Original Issue Discount (OID).** If you are reporting OID in an amount less than the amount shown on **Form 1099-OID**, follow the rules earlier under **Nominees** to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

**Amortizable Bond Premium.** If you are reducing your interest income on a bond by the amount of amortizable bond premium, report the total interest on the bond on line 1. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "ABP Adjustment" and show the amount. Subtract this amount from the subtotal and enter the result on line 2.

### Line 3

#### Excludable Interest on Series EE U.S. Savings Bonds Issued After 1989

If you cashed series EE U.S. savings bonds in 1997 that were issued after 1989 and you paid qualified higher education expenses in 1997 for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See **Form 8815** for details.

## Part II. Dividend Income

**Note:** If, in 1997, you were an officer or director of a foreign corporation or you owned 5% or more in value of the outstanding stock of a foreign corporation, you may have to file **Form 5471**. For details, see **Form 5471** and its instructions.

### Line 5

#### Dividend Income

Report on line 5 **all** of your dividend income, including capital gain and nontaxable distributions. They will be deducted on lines 7 and 8. List each payer's name and show the amount.

**Nominees.** If you received a **Form 1099-DIV** that includes dividends you received as a nominee (that is, in your name, but the dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all dividends listed on line 5. Below this subtotal, write "Nominee Distribution" and show the total dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.

**TIP** If you received dividends as a nominee, you must give the actual owner a **Form 1099-DIV** unless the owner is your spouse. You must also file a **Form 1096** and a **Form 1099-DIV** with the IRS. For more details, see the **Instructions for Forms 1099, 1098, 5498, and W-2G.**

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## Part III. Foreign Accounts and Trusts

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### Lines 11a and 11b

#### Foreign Accounts

##### Line 11a

Check the **Yes** box on line 11a if **either 1 or 2** below applies to you.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

**Note:** *Item 2 does not apply to foreign securities held in a U.S. securities account.*

**Exceptions.** Check the **No** box if any of the following apply to you:

- The combined value of the accounts was \$10,000 or less during the whole year.

- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; **and** you did not have a personal financial interest in the account.

- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$1 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See **Form TD F 90-22.1** to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If you checked the **Yes** box on line 11a, file Form TD F 90-22.1 by June 30, 1998, with the **Department of the Treasury** at the address shown on that form. **Do not** attach it to Form 1040.

##### Line 11b

If you checked the **Yes** box on line 11a, enter the name of the foreign country or countries in the space provided on line 11b. Attach a separate sheet if you need more space.

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## Line 12

### Foreign Trusts

If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See **Form 3520** for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 1997, you may have to file Form 3520 or **Form 926**.

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