

14 Other 1040 Topics

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2025 Household Employment Tax (page 14-2)

Wage Threshold	Tax and Withholding
<p>Social Security and Medicare Tax (FICA). \$2,800 or more cash wages paid to any one household employee in 2025. Do not include wages paid to:</p> <ul style="list-style-type: none"> • Taxpayer's spouse. • Taxpayer's child under age 21. • Taxpayer's parent.* • Any employee who is under age 18 at any time in 2025, unless not a student and providing household services as his or her principal occupation. 	<ul style="list-style-type: none"> • If the \$2,800 threshold is met, FICA tax must be withheld on all the employee's cash wages, including the first \$2,800, and matched by the employer subject to current limits. See <i>Federal Insurance Contributions Act (FICA)</i>, page 23-4. • Employers must withhold FICA taxes from an employee's wages if they expect to pay the employee more than \$2,800 in 2025. • The combined employer and employee FICA tax rate for 2025 is 15.3%. • Employers may pay the employee share of FICA tax rather than withhold the tax. See <i>Forms W-2 and W-3</i>, page 14-2. • Employers are not required to withhold federal income tax but may do so if the employee submits Form W-4 and requests withholding.
<p>Federal unemployment tax (FUTA). \$1,000 or more total cash wages paid to all employees in any calendar quarter of 2024 or 2025. Do not include wages paid to:</p> <ul style="list-style-type: none"> • Taxpayer's spouse. • Taxpayer's child under age 21. • Taxpayer's parent. 	<ul style="list-style-type: none"> • If the \$1,000 threshold is met, then the first \$7,000 paid to each employee is subject to FUTA tax. (Do not include any FICA tax payments made by the employer as part of the \$7,000.) • The employer may also owe state unemployment tax. • The FUTA rate is 6.0%, but may be reduced to a net tax rate of 0.6% if required state employment taxes have been paid. • FUTA tax is paid by the employer.

* Wages paid to the taxpayer's parent for care of the taxpayer's child may need to be counted if taxpayer is divorced, widowed, or living with a spouse unable to care for the child.

■ New for 2025 ■

- **AMT exemption and phaseout amounts.** The AMT exemption amounts and phaseout ranges were adjusted for inflation. See *AMT Exemption—Individuals*, below, and *2025 AMT Exemption Phaseout Range*, below.
- **Health savings account (HSA) limits.** The HSA contribution limits were adjusted for inflation. See *Health Savings Account (HSA) Limits*, below.
- **Foreign earned income exclusion.** The foreign earned income exclusion was adjusted for inflation. See *Foreign Earned Income Exclusion Amounts*, below.

Common Elections

- Election to include nontaxable combat pay to compute the Earned Income Credit (EIC), page 14-7.
- Election for nonresident alien to be treated as resident alien, page 14-9.

AMT Exemption—Individuals (page 14-2)

Filing Status	2025	2024	2023
Single or HOH	\$88,100	\$85,700	\$81,300
MFJ or QSS	\$137,000	\$133,300	\$126,500
MFS	\$68,500	\$66,650	\$63,250

2025 AMT Exemption Phaseout Range* (page 14-2)

Single or HOH	\$626,350 to \$978,750
MFJ or QSS	\$1,252,700 to \$1,800,700
MFS	\$626,350 to \$900,350

* The AMT exemption amount is reduced by 25% of the amount by which the taxpayer's AMTI exceeds the beginning phaseout amount.

Health Savings Account (HSA) Limits (page 14-6)

Annual contribution is limited to:	2025	2024	2023
Self-only coverage, under age 55	\$4,300	\$4,150	\$3,850
Self-only coverage, age 55 or older	\$5,300	\$5,150	\$4,850
Family coverage, under age 55*	\$8,550	\$8,300	\$7,750
Family coverage, age 55 or older*	\$9,550	\$9,300	\$8,750
Minimum annual deductibles:			
Self-only coverage	\$1,650	\$1,600	\$1,500
Family coverage	\$3,300	\$3,200	\$3,000
Maximum annual deductible and out-of-pocket expense limits:			
Self-only coverage	\$8,300	\$8,050	\$7,500
Family coverage	\$16,600	\$16,100	\$15,000

* Assumes only one spouse has an HSA. For 2025, if both spouses have separate eligible HSAs, the combined family limit is \$8,550. However, each spouse age 55 or older may contribute an additional \$1,000. Thus, if both spouses are age 55 or older, the combined family limit is \$10,550.

Foreign Earned Income Exclusion Amounts (page 14-11)

Tax Year Begins In	2025	2024	2023
Maximum Exclusion	\$130,000	\$126,500	\$120,000

Community Property States (page 14-4)

- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

Household Employees

Cross References

- Schedule H (Form 1040), *Household Employment Taxes*
- IRS Pub. 15, (*Circular E*), *Employer's Tax Guide*
- IRS Pub. 926, *Household Employer's Tax Guide*

Related Topics

- Child and Dependent Care Expenses, page 11-4
- Payroll and Labor Laws, Tab 23

Schedule H, Household Employment Taxes

Taxpayers with household employees must file Schedule H (Form 1040) to report FICA tax, FUTA tax, and federal income tax withholding (if any). Schedule H (Form 1040) is filed with the taxpayer's Form 1040 and the household employment taxes flow to line 9, Schedule 2 (Form 1040), *Additional Taxes*.

Household employees. Workers hired to perform work in or around the taxpayer's home are household employees, including:

- Babysitters age 18 and over.
- Caretakers.
- Drivers.
- Health aides.
- Housecleaners.
- Housekeepers and nannies.
- Private nurses.
- Yard workers.

A worker hired through an agency is not an employee if the agency is responsible for who does the work and how it is done. If the worker usually provides his or her own work tools and offers services to the general public, he or she is an independent contractor and is not a household employee. See *Independent Contractor vs. Employee*, Tab 5.

Schedule H Filing Requirements

File Schedule H (Form 1040) if any of the following apply.

- The taxpayer paid a household employee cash wages of \$2,800 or more in 2025. Include only wages paid to employees who earned more than \$2,800.
- The taxpayer paid cash wages of \$1,000 or more in any calendar quarter of 2024 or 2025 to all household employees. If this test is met, the first \$7,000 paid to each employee in 2025 is subject to FUTA tax.
- The taxpayer withheld federal income tax.

Employers under these thresholds owe no employment tax. Employees pay income tax on wages under \$2,800 but are not required to pay Social Security or Medicare tax. Household employees whose wages are not reported on Form W-2 report wages on line 1b, Form 1040. If the employer withheld FICA tax, and the employee earned less than \$2,800, the employer reimburses the employee for tax withheld.

Exception for business employers. A taxpayer who has other (non-household) employees may choose to eliminate Schedule H (Form 1040) and instead report all employment taxes on Form 941, *Employer's QUARTERLY Federal Tax Return*, and Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. See *Payroll and Labor Laws*, Tab 23.

Forms W-2 and W-3. Form W-2 must be filed for each household employee who was paid Social Security and Medicare wages of \$2,800 or more, or wages of any amount if federal income tax was withheld.

- If the employer paid any portion of employee's FICA tax rather than withheld tax, add the amount to taxable wages in box 1, but not to Social Security and Medicare wages in boxes 3 and 5.
- Forms W-2 and W-3 issued by household employers are subject to standard filing deadlines.

Both paper and electronically filed 2025 Forms W-2 and W-3 must be filed with the SSA by February 2, 2026.

EIN. Taxpayers who are required to file Schedule H (Form 1040) with their 2025 individual tax returns must obtain an EIN by February 2, 2026. See *Employer Identification Number (EIN)*, page 5-1.

EIC notice. Employers who agree to withhold federal tax must notify their household employees about the Earned Income Credit (EIC) if the withholding tables show that no tax should be withheld. The EIC notice must accompany Form W-2. If no Form W-2 is required, the employee must receive the EIC notice by February 9, 2026. The notice requirement can be met by giving the household employee one of the following.

- The official IRS Form W-2 with the EIC notice printed on the back of copy B or a substitute Form W-2 with the same wording included.
- Notice 797, *Possible Federal Tax Refund Due to the Earned Income Credit (EIC)*, or a written statement containing the same wording. Notice 797 is available at www.irs.gov.

Alternative Minimum Tax

Cross References

- Form 6251, *Alternative Minimum Tax—Individuals*
- Form 8801, *Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts*
- IRC §55, *Alternative minimum tax imposed*
- IRC §56, *Adjustments in computing alternative minimum taxable income*
- IRC §57, *Items of tax preference*

Related Topics

- Depreciation Adjustments for Alternative Minimum Tax, page 9-15
- Alternative Minimum Tax—Estates and Trusts, page 21-20

2025 AMT Rate Schedule

AMT rates are applied to alternative minimum taxable income (AMTI), less the AMT exemption.

Married Filing Separately. If AMTI is:

\$ 0 to 119,550	× 26%	minus	\$ 0.00	= Tax
119,551 and over	× 28%	minus	2,391.00	= Tax

All Others. If AMTI is:

\$ 0 to 239,100	× 26%	minus	\$ 0.00	= Tax
239,101 and over	× 28%	minus	4,782.00	= Tax

2025 AMT Exemption—Individuals

Filing Status	2025
Single or HOH	\$88,100
MFJ or QSS	\$137,000
MFS	\$68,500

2025 AMT Exemption Phaseout Range*

Single or HOH	\$626,350 to \$978,750
MFJ or QSS	\$1,252,700 to \$1,800,700
MFS	\$626,350 to \$900,350

* The AMT exemption amount is reduced by 25% of the amount by which the taxpayer's AMTI exceeds the beginning phaseout amount.

The AMT exemption amounts, exemption phaseout amounts, and tax rates are indexed annually for inflation.

Form 6251, Alternative Minimum Tax—Individuals

The alternative minimum tax (AMT) is a parallel tax system with its own definitions of income and expenses, rules for accounting and timing, and exemptions and tax rates. AMT limits the tax benefit of certain types of income and deductions otherwise available to some taxpayers under regular tax rules.

Individuals compute AMT on Form 6251, *Alternative Minimum Tax—Individuals*. AMT tax rates are 26% and 28%. If the AMT computation results in a higher tax than the regular income tax, the difference is an additional tax on Form 1040. See *2025 AMT Rate Schedule*, page 14-2.

AMT triggers. Common situations that may trigger AMT, include:

- High gross income relative to taxable income.
- Exercise of incentive stock options.
- Long-term capital gains.
- Tax-exempt interest from private activity bonds.

Author's Comment: Although long-term capital gains are taxed at the usual capital gain tax rates for AMT purposes, they are included in income for purposes of determining the AMT exemption. Large capital gains may result in reduction or loss of the AMT exemption due to phaseout rules. If the taxpayer's regular tax bracket is less than the AMT rate, the taxpayer could then have an AMT liability despite the preferential tax treatment given to long-term capital gains. See *Components of Alternative Minimum Taxable Income (AMTI)*, below, *2025 AMT Exemption—Individuals*, page 14-2, and *2025 AMT Rate Schedule*, page 14-2.

Alternative minimum taxable income (AMTI). The starting point for computing AMTI is taxable income, or if taxable income is zero, adjusted gross income reduced by standard or itemized deductions and qualified business income deduction, which is then increased or decreased by adjustments and preferences. Adjustments and preferences are either exclusion items or deferral items, depending on their effect on AMT.

Components of Alternative Minimum Taxable Income (AMTI)

<i>Adjustments</i>	AMT adjustments are modifications made to regular taxable income and deductions using AMT rules.
<i>Preferences</i>	Tax preferences are items of income or deduction that receive preferential treatment under regular tax. Examples include tax-free treatment of interest from private activity bonds and the depletion deduction.
<i>Exclusion Items</i>	Exclusion items are deductions that are not allowed for AMT, such as the standard deduction. Any AMT liability resulting from these disallowed deductions is a permanent difference in tax and cannot be recovered through credits.
<i>Deferral Items</i>	Deferral items, such as basis adjustments, create differences in timing of income or deductions. An AMT credit may be allowed in subsequent years for AMT liability that resulted from deferral items. See <i>Credits and AMT</i> , next column.
<i>Basis Adjustments</i>	Separate AMT basis computations must be kept if deferral items generate AMT liability. For example, depreciation adjustments or exercise of incentive stock options (ISOs) might result in AMT liability. See <i>Incentive Stock Options—AMT Adjustments</i> , next column.
<i>AMT Exemptions</i>	An AMT exemption based on filing status applies. See <i>2025 AMT Exemption—Individuals</i> , page 14-2.

Planning Tip: A taxpayer who owes AMT may be able to lower total tax (regular tax plus AMT) by claiming itemized deductions even if total itemized deductions are less than the standard deduction. This is because the standard deduction is not allowed for AMT.

Incentive Stock Options—AMT Adjustments

The bargain element resulting from exercise of incentive stock options (ISO) is equal to the fair market value (FMV) of the stock minus the exercise price and is a deferral item. See *Statutory Stock Options*, Tab 6.

ISO AMT Adjustments

<i>Event</i>	<i>Regular Tax Treatment</i>	<i>AMT Adjustment</i>
Exercise of ISO	No tax due on exercise of ISO.	<ul style="list-style-type: none"> • Positive AMT adjustment on line 2i, Form 6251, equal to bargain element.* • Increase AMT basis of stock by amount of adjustment.
Sale of stock	Tax treatment depends on whether required holding period is met.	<ul style="list-style-type: none"> • Negative AMT adjustment on line 2k, Form 6251, equal to bargain element.* • Adjustment is result of previous increase in AMT basis.

* No adjustment is made if exercise and sale occur in the same tax year.

Potential tax credit. If the AMT adjustment due to exercise of an ISO results in an AMT liability, an AMT credit may be available in subsequent tax years. See *Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts*, page 14-4.

AMT and Children

A child may be subject to AMT if he or she has certain items given preferential tax treatment, passive activity losses, or certain distributions from estates and trusts. A child's AMT exemption is the same as any other taxpayer.

Partners and S Corporation Shareholders

Partners and S corporation shareholders must separately consider any share of items that enter into the computation of alternative minimum tax. The information about AMT preferences and adjustments should be provided to the partner or the S corporation shareholder on Schedule K-1. Alternative minimum tax items flowing through to an individual are then transferred to the individual's Form 6251 for computing his or her AMT.

Credits and AMT

Nonrefundable personal and general business credits are allowed to offset AMT. The total general business credit for the year cannot exceed the taxpayer's net income tax minus the greater of:

- The taxpayer's tentative minimum tax, or
- 25% of the taxpayer's net regular tax liability that is more than \$25,000 (\$12,500 for MFS).

See *Business Credits*, Tab 31.

Foreign tax credit and AMT. The AMT treatment of the foreign tax credit depends on whether Form 1116, *Foreign Tax Credit*, is being filed. See *Foreign Tax Credit*, page 11-10.

AMT Foreign Tax Credit

<i>Taxpayer elects not to file Form 1116</i>	<ul style="list-style-type: none"> • Report foreign tax credit on line 1, Schedule 3 (Form 1040). • Credit is limited to amount of regular tax. • Unused foreign tax credit may not be carried over.
<i>Taxpayer files Form 1116</i>	<ul style="list-style-type: none"> • Recalculate foreign tax credit using AMT rules. • AMT foreign tax credit is used to offset AMT in Part II, Form 6251. • Unused AMT foreign tax credit may be carried back one year and carried forward 10 years. [IRC §904(c)]

Credit for Prior Year AMT

There are two types of adjustments and preferences that result in AMT.

- 1) Deferral items, such as AMT basis adjustments, do not cause a permanent difference in taxable income over time.
- 2) Exclusion items, such as the standard deduction, are not allowed for AMT and therefore cause a permanent difference in taxable income.

See *Components of Alternative Minimum Taxable Income (AMTI)* chart, page 14-3.

The potential exists for income from deferral items to be taxed twice, first under AMT, and again in a later year under regular tax. A credit against regular tax for prior year AMT is available to address this issue.

Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts. Form 8801 is filed in years after an AMT liability has occurred due to deferral items.

- The prior year's AMT is recalculated based on deferral items only.
- The recalculated amount is used to offset current regular tax.
- If AMT applies in the carryforward year, no credit is allowed.
- Any unused credit may be carried forward indefinitely.

Author's Comment: File Form 8801 for each year after an AMT liability resulting from deferral items, even if the credit is not usable. The carryforward items will vary year-to-year depending on the taxpayer's income and any other AMT items that apply in subsequent years. Even if the taxpayer is subject to AMT for subsequent years and the credit cannot be used, filing Form 8801 keeps the credit available until a year when the taxpayer can benefit from it.

Community Property

Cross References

- Form 8958, *Allocation of Tax Amounts Between Certain Individuals in Community Property States*
- IRS Pub. 555, *Community Property*
- IRS Pub. 971, *Innocent Spouse Relief*
- IRC §66, *Treatment of community income*

Related Topics

- Married Filing Separately (MFS), Tab 3
- Relief from Joint and Several Liability on Joint Returns, page 15-12

Community Property States

- | | | | | |
|--------------|-------------|--------------|--------------|-------------|
| • Arizona | • Idaho | • Nevada | • Texas | • Wisconsin |
| • California | • Louisiana | • New Mexico | • Washington | |

Note: This section does not address the federal tax treatment of income or property subject to the community property election under Alaska, Tennessee, and South Dakota state laws.

Community Property

Community property rules apply to married taxpayers domiciled in one of the community property states. Married couples in other states may also have community property if:

- They own real property in a community property state, or
- They own other property acquired while they were domiciled in a community property state. A move out of state does not change the character of existing community property.

Married taxpayers. For federal tax purposes, two individuals are married if the marriage is recognized by the state, possession, or territory of the United States (or foreign jurisdiction) in which the marriage is entered, regardless of legal residence. Individuals in

a registered domestic partnership, civil union, or other similar relationship that is not a legal marriage are not considered married for federal tax purposes.

Domicile. Generally, the law of the state where the taxpayer is domiciled governs whether he or she has community property and community income or separate property and separate income.

A taxpayer can have only one domicile even if he or she has more than one home. A domicile is the taxpayer's permanent legal home intended to be used for an indefinite period, and to which, when absent, he or she intends to return.

General Rules—Property and Income: Community or Separate

Community property is property:

- That a taxpayer, spouse, or both acquire during marriage while residing in a community property state, including the part of property bought with community property funds if part was bought with community property funds and part with separate funds.
- That a taxpayer and spouse agreed to convert from separate to community property.
- That cannot be identified as separate property.

Separate property is:

- Property that a taxpayer or spouse owned separately before marriage.
- Money earned while domiciled in a noncommunity property state.
- Property a taxpayer or spouse was gifted or inherited separately during the marriage.
- Property bought with separate funds, or exchanged for separate property, during the marriage.
- Property that a taxpayer and spouse agreed to convert from community to separate property in an agreement valid under state law.
- The part of property bought with separate funds, if part bought with community funds and part bought with separate funds.

Community income is income from:

- Community property.
- Salaries, wages, or pay for services of a taxpayer, spouse, or both during marriage while domiciled in a community property state.
- Real estate that is treated as community property under the laws of the state where the property is located.

Separate income is income from:

- Separate property which belongs to the spouse who owns the property. However, in Idaho, Louisiana, Texas, and Wisconsin, income from most separate property is community income.

Filing Separately

Each spouse reports half of all community income and all of his or her separate income. General rules are summarized below.

Earned income. Taxpayers domiciled in community property states report earnings as follows.

- Wages and net profits from a sole proprietorship are community income and must be evenly split.
- Partnership income or loss is community income or loss unless the partnership is merely a passive investment.
- Federal income tax withholding is reported in the same manner as wages. If each spouse reports half the community wages, each claims half the tax withheld on those wages.
- Self-employment tax is imposed on the spouse carrying on the trade or business.

Divorcing spouses. Income earned after separation, but before a divorce is final, is community income in some states and separate income in others. Check state law.

Personal expenses. Expenses paid out of separate funds are deductible by the spouse who pays them. Expenses paid from community funds are divided equally.

IRAs. Distributions are taxable to the spouse whose name is on the account. The deduction for IRA contributions for each spouse is computed separately without regard to community property laws.

Community property laws disregarded. Community property laws are disregarded under the following circumstances.

- **Spouses living apart for the entire year.** If married at any time during the calendar year, special rules apply for reporting certain community income. See IRS Pub. 555, *Community Property*.
- **Spousal agreement.** Some states allow spouses to change the status of property or income by agreement. Check state law.
- **Community income treated as separate income.** A spouse who treats an item of income as his or her separate income and does not notify the other spouse of its nature and amount by the return due date (including extensions) is responsible for reporting all income on the item.
- **Innocent spouse relief.** For relief from liability arising from community property law, see *Innocent Spouse*, page 15-12.
- **Nonresident alien spouse.** If the taxpayer is a U.S. citizen or resident alien and does not choose to treat their nonresident alien spouse as a U.S. resident for tax purposes, treat the community income the same as spouses who lived apart all year.

Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property States. Attach Form 8958 to each separate return showing the allocation of income, deductions, and federal income tax withheld between spouses filing separately or registered domestic partners with community property rights.

Community Property—Registered Domestic Partners

Registered domestic partners (RDPs) domiciled in California, Nevada, and Washington generally must follow state community property rules.

Federal filing status. RDPs and couples involved in civil unions are not married for federal tax purposes. They must use the Single filing status or, if they qualify, may use the Head of Household filing status. See *Filing Status*, Tab 3.

Clergy and Religious Workers

Cross References

- Schedule SE (Form 1040), *Self-Employment Tax*
- IRS Pub. 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*
- IRC §107, *Rental value of parsonages*
- IRC §265, *Expenses and interest relating to tax-exempt income*
- IRC §1402(e), *Ministers, members of religious orders, and Christian Science practitioners*

Related Topics

- Self-Employment (SE) Tax, page 5-2
- Business Deductions, Tab 8
- Earned Income Credit, page 11-8

Ministers

Ministers are individuals duly ordained, commissioned, or licensed by a church. “Church” is used generically and does not refer to any particular religion. Most ministers who receive compensation are treated as dual-status taxpayers—employees for income tax purposes but not for Social Security and Medicare taxes. Many ministers also receive a parsonage (housing) allowance. See *Parsonage (Housing) Allowance*, page 14-6.

Ministerial income. Total ministerial income includes church wages, gross self-employment income from ministerial services, and tax-exempt allowances.

Employee income and expenses. The minister receives Form W-2 from the church employer.

- The minister’s income is reported as wages in box 1, Form W-2.
- Social Security and Medicare taxes are not withheld, and Form W-2 shows no amounts in boxes 3–6. The wages will be included in the minister’s self-employment (SE) tax computation. See *Minister’s SE tax*, below.
- Ministers are not subject to federal income tax withholding on income from ministerial services. A minister and employer may agree to voluntary withholding to cover income and SE tax. All withheld tax is reported as federal income tax withheld in box 2, Form W-2. A minister may need to make estimated tax payments to avoid underpayment penalties.
- Parsonage (housing) allowances are reported in box 14, Form W-2. See *Parsonage (Housing) Allowance*, page 14-6.
- Unreimbursed employee business expenses are not deductible as an itemized deduction for income tax purposes. However, allowable expenses may be subtracted from self-employment (SE) earnings when computing SE tax. See *Minister’s SE tax*, below.

Self-employment income and expenses. Amounts received by a minister for performing marriages, baptisms, funerals, and other personal services are self-employment income, even if no Form 1099-NEC, *Nonemployee Compensation*, is received by the minister.

- Report self-employment income on Schedule C (Form 1040), *Profit or Loss From Business*.
- Self-employment expenses are deductible on Schedule C (Form 1040), prorated to the extent the minister has tax-exempt income from a parsonage (housing) allowance.

Expense reduction due to tax-exempt income. A minister who receives tax-exempt income (such as a parsonage allowance) as part of compensation must reduce deductions for Schedule C (Form 1040) self-employment expenses as follows.

$$\frac{\text{Tax-exempt income}}{\text{Total ministerial income}} = \text{Reduction percentage}$$

Minister’s SE tax. A minister reports the following income subject to SE tax on Schedule SE (Form 1040).

- Church wages from box 1, Form W-2, less associated employee expenses in full.
- Gross Schedule C (Form 1040) income from ministerial services, less associated self-employment expenses in full.
- Entire amount of parsonage allowance, including utilities, whether received in the form of allowances or provided in-kind to the minister. If housing and utilities are provided, include the fair rental value of the home and cost of utilities.

Do not include any of the following.

- Expense reduction due to tax-exempt income.
- Housing and housing allowance, including utilities, provided to retired ministers.

Earned Income Credit (EIC). For purposes of the EIC, a minister’s earned income includes:

- Net earnings from self-employment from line 3, Schedule SE (Form 1040), including parsonage allowance, *minus*
- The portion of SE tax deducted on line 15, Schedule 1 (Form 1040), *plus*
- Non-ministerial wages.

Example: Earl is the pastor of a small independent church. He received the following income in 2025.

- Church salary of \$21,000 and housing at a fair rental value of \$8,000. No FICA tax was withheld. Earl had employee expenses of \$1,600.
- Fees of \$3,000 for weddings and funerals. Earl had \$800 in associated ministerial expenses.

continued on next page

Earl's total ministerial income for 2025 is \$32,000 (\$21,000 church salary plus \$8,000 parsonage allowance plus \$3,000 self-employment income). His ministerial expenses must be reduced by 25% on Schedule C (\$8,000 tax-exempt income divided by \$32,000 ministerial income). Income and expenses are reported on his 2025 tax return as follows.

Income and Expenses	Totals	Form 1040, line 1a	Schedule C	Schedule SE
Church salary.....	\$21,000	\$21,000		\$21,000
Parsonage allowance.....	8,000			8,000
SE income.....	3,000		\$3,000	3,000
Total ministerial income.....	32,000	21,000	3,000	32,000
Unreimbursed employee expenses ..	(1,600)	-		(1,600)
SE expenses.....	(800)		(600)	(800)
Total ministerial expenses.....	(2,400)	-	(600)	(2,400)
Totals.....	\$29,600	\$21,000	\$2,400	\$29,600

Earl's net income from self-employment is \$29,600 and his self-employment tax is \$4,182 (\$29,600 × .9235 × .153).

Earl's earned income for EIC is \$27,509 [\$29,600 – \$2,091 (deduction for one-half SE tax)].

Religious worker's (church employee's) SE tax. Religious workers (church employees) are generally subject to Social Security and Medicare taxes under FICA.

Exemption from SE tax. Certain members of the clergy and members of recognized religious sects may request exemption from SE tax. For more information, see IRS Pub. 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Parsonage (Housing) Allowance

A church or congregation may provide for a minister's residence in the form of a parsonage or a housing allowance. The value of a parsonage (plus utilities, if paid by the church) and housing allowance are subject to SE tax but may generally be excluded from income tax. See *Minister's SE tax*, page 14-5.

Parsonage provided to a minister. The value of the home, including utilities, is excluded from taxable income. The exclusion cannot be more than reasonable pay for the minister's services.

SE tax. The fair rental value of the home, including the cost of utilities, is included in gross income when calculating SE tax.

Housing allowance paid to a minister. A minister can exclude from taxable income the smallest of:

- 1) The amount officially designated by the employer as housing allowance. Amounts must be designated as housing allowance before payment is made.
- 2) The amount actually used to provide a home. Include amounts paid in the tax year for rent, mortgage payments (principal, interest, insurance, and property tax), furnishings, appliances, repairs, utilities, and down payments. Do not include food, entertainment, household employees, or home equity loan payments for items unrelated to the home.
- 3) The fair rental value of the home, including furnishings, utilities, garage, and parking spaces.
- 4) The minister's reasonable pay.

Did You Know? Mortgage interest and property tax payments used in the calculation of the housing allowance paid to a minister can also be deducted on Schedule A (Form 1040), *Itemized Deductions*.

Employers typically report housing allowances in box 14, Form W-2. Housing allowances are not included in taxable wages in box 1. If the amount the minister can exclude from income is less than the housing allowance, include the excess allowance as income on line 1h, Form 1040.

SE tax. The entire housing allowance, including any allowance for utilities, is included in gross income when calculating SE tax.

Retired ministers. Retired ministers can exclude from taxable income:

- The value of housing and utilities provided to them, or
- The part of a pension officially designated as housing allowance. The amount excluded is limited to actual expenses or fair rental value of the home. See (2) and (3), previous column.

SE tax. Housing provided to retired ministers and housing allowances paid to retired ministers are not subject to SE tax.

Surviving spouses. A minister's surviving spouse cannot exclude a parsonage allowance from income unless it is received for ministerial services he or she performs or performed.

Court Case: The 11th Circuit Court determined that Congress intended for the parsonage allowance exclusion to apply to only one home. The parsonage allowance was excludable only to the extent used for the taxpayer's main home and not the second home. (*Philip A. Driscoll and Lynn B. Driscoll*, 11th Cir., February 8, 2012)

Health Savings Account (HSA)

Cross References

- Form 8889, *Health Savings Accounts (HSAs)*
- IRS Pub. 969, *Health Savings Accounts and Other Tax-Favored Health Plans*

Related Topics

- Health Savings Accounts (HSAs) (IRC §223), page 22-6
- Employee Health Benefits, Tab 30

Health Savings Account

A health savings account (HSA) is a tax-exempt or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses incurred by an individual, his or her spouse, and qualified dependents.

Qualifying for an HSA. To be eligible, a participant:

- Must be covered under a high deductible health plan (HDHP).
- Cannot have any other health coverage. **Exception:** Coverage for specific things such as disability, dental care, vision care, and long-term care can be purchased in addition to the HDHP without disqualifying the HSA.
- Cannot be enrolled in Medicare.
- Cannot be eligible to be claimed as a dependent.

Contributions. Contributions for a tax year must be made by the return due date (no extensions). Employer contributions, including employee elective deferrals, are excluded from taxable income and are reported in box 12 (Code W), Form W-2, *Wage and Tax Statement*. Contributions, other than through an employer, can be deducted. See *Health Savings Account (HSA) Limits*, page 14-1.

Distributions. HSA distributions are reported on Form 1099-SA, *Distributions From an HSA, Archer MSA, or Medicare Advantage MSA*. Distributions used to pay or reimburse qualified medical expenses are tax free. Distributions received for other reasons are included in income and generally subject to an additional 20% penalty. See *Qualified medical expenses*, page 30-11.

Form 8889, Health Savings Accounts (HSAs). Taxpayers with any HSA contribution or distribution during the year must file Form 8889.

U.S. Armed Forces

Cross References

- IRS Pub. 3, *Armed Forces' Tax Guide*
- IRC §112, *Certain combat zone compensation of members of the Armed Forces*
- IRC §692, *Income taxes of members of Armed Forces, astronauts, and victims of certain terrorist attacks on death*

Related Topics

- Moving expenses, Tab 3
- Business Deductions, Tab 8
- Earned Income Credit, page 11-8

U.S. Armed Forces

For federal tax purposes, the U.S. Armed Forces includes commissioned officers, warrant officers, and enlisted personnel in regular and reserve units under the control of the Secretaries of Defense, Army, Navy, and Air Force. It also includes the Coast Guard and Space Force. The Public Health Service and the National Oceanic and Atmospheric Administration can also receive many of the same tax benefits. The U.S. Armed Forces does not include the U.S. Merchant Marine or the American Red Cross.

Combat Zones

A combat zone is any area designated by Presidential Executive Order in which the U.S. Armed Forces are engaging, or have engaged, in combat. As of the date of printing, there are three designated combat zones—the Afghanistan, Kosovo, and Arabian Peninsula areas (including the airspace above each area).

Combat zone benefits have also been designated for the Sinai Peninsula of Egypt (beginning June 10, 2015) and the former Yugoslavia area (November 21, 1995 to November 1, 2007).

Service in a combat zone. If any part of a month qualifies as service in a combat zone, the entire month qualifies.

Note: Taxpayers qualifying for combat zone provisions may notify the IRS directly via a special email address: combatzone@irs.gov.

Combat Zone Tax Provisions

Exclusion of Combat Pay From Gross Income (See <i>Combat Zone Income Exclusions</i> , next column)	<ul style="list-style-type: none"> • A corrected W-2 must be obtained if box 1 does not properly exclude combat pay from wages. Combat pay should be reported in box 12 with code Q. • Enlisted servicemembers, warrant officers, and commissioned warrant officers can exclude all military pay received while serving in a combat zone. • The combat zone exclusion for commissioned officers is limited to the highest enlisted pay rate (defined as basic pay for Master Chief Petty Officer of the Navy or Coast Guard, Chief Master Sergeant of the Air Force or Space Force, Sergeant Major of the Army or Marine Corps, and Senior Enlisted Advisor of the JCS), plus any imminent danger/hostile fire pay received.* The highest enlisted pay rate per month is: 2025: \$10,758.00 2024: \$10,294.80 2023: \$9,786.00 * Hostile fire pay/imminent danger pay is \$225 per month (\$7.50 per day if less than a full month).
FICA Taxes	Combat pay is not excluded for Social Security and Medicare (FICA) taxes.
IRAs	Excluded combat pay may be included in compensation for purposes of calculating IRA limits. See <i>Compensation for IRA Contribution Purposes</i> , page 13-7.
EIC Election	Servicemembers may elect to include nontaxable combat pay in order to maximize the Earned Income Credit (EIC). See <i>Combat pay election</i> , page 11-10.

continued in next column

Combat Zone Tax Provisions continued

Extensions	Taxpayers serving in a combat zone qualify for extensions of time to file returns or claims for refund, pay taxes, or any other action with the IRS. See <i>Extensions and Deferrals</i> , page 14-8.
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Combat Zone Tax Provisions—Deceased Taxpayers

Forgiveness of Decedent's Federal Tax Liability	Applies only to taxpayers who are members of the U.S. Armed Forces at death, ¹ and who die: <ul style="list-style-type: none"> • While in active service in a combat zone, • As a result of wounds, disease, or injury incurred while in active service in a combat zone, • Outside a combat zone while serving in direct support of combat zone operations and the service qualified the servicemember to receive imminent danger/hostile fire pay, or • As a result of wounds or injury incurred in a terrorist or military action.²
Years for Which Tax Liability is Forgiven	A qualifying decedent's federal tax liability is forgiven: <ul style="list-style-type: none"> • For the tax year death occurred, • For any prior tax year ending on or after the first day of active service in a combat zone, and • For any prior year taxes unpaid at the time of death or paid after the date of death.
Tax Liability Forgiveness on Joint Returns	<ul style="list-style-type: none"> • Only the decedent's portion of the tax on joint returns may be forgiven. The decedent's liability on a joint return is determined by calculating tax for each spouse using Married Filing Separately rules, then prorating the joint liability in the same proportions. • If decedent's legal residence was in a community property state and separate returns were filed using community property rules, taxes on military pay are refundable for both spouses for all applicable years.
Beneficiaries and Decedent's Estate	<ul style="list-style-type: none"> • In the year of the death, the beneficiaries and estate of the deceased servicemember do not pay tax on any amount that would have been included in income, had the person not died in a combat zone. • Any death gratuity paid to a survivor of a servicemember of the Armed Forces is nontaxable.

¹ The date of death for a person missing in action or a prisoner of war is the date his or her name was removed from missing status for military pay purposes, even if the death actually occurred earlier.

² Slightly different rules apply in this case. See *Terrorist or Military Action Related Forgiveness* in IRS Pub. 3, *Armed Forces' Tax Guide*.

Combat Zone Income Exclusions

Income Type	Requirements for Excludable Combat Pay
Wages (limits apply)	<ul style="list-style-type: none"> • Earned in any month for active duty service in a combat zone, including imminent danger/hostile fire pay, or • Earned for duties performed in a combat zone in nonappropriated fund activities such as clubs, messes, post and station theaters.
Reenlistment bonuses	Bonus for a voluntary extension or reenlistment that occurs during a month served in a combat zone.
Accrued leave pay	Leave determined by the Department of Defense to have been earned in any month served in a combat zone.
Awards	Received for suggestions, inventions, or scientific achievements submitted during any month served in a combat zone.
Student loan repayments	Loan repayments earned for an entire year of military service, with annual amounts prorated for months of service in a combat zone.
State payments	Bonus payments made by states to a servicemember of the Armed Forces or to a dependent, if paid only because of combat zone service.

Extensions and Deferrals

Deadlines for filing tax returns and claims for refunds, paying taxes, and taking any other actions with the IRS are automatically extended for:

- Servicemembers performing qualified service in or out of a combat zone, including time spent in a missing status.
- Servicemembers deployed on a contingency operation, outside the United States and away from the permanent duty station.
- Support personnel serving in a combat zone or contingency operation in support of the Armed Forces, including the Red Cross, accredited correspondents, and civilians acting under Armed Forces direction.

Length of Automatic Extension of IRS Deadlines

180 days after the later of:	<i>plus</i>	The number of days the individual had left to take action with the IRS when he or she began qualifying service. ²
<ul style="list-style-type: none"> • The last day of qualifying service¹ or • The last day of continuous qualified hospitalization.² 		

¹ **Qualifying service.** For purposes of deadline extensions, qualifying service includes service in a combat zone, support service outside a combat zone, or service in a contingency operation.

² **Qualified hospitalization.** Hospitalization outside the United States or up to five years in the United States is qualified if it is due to an injury received while serving in a combat zone or a contingency operation.

Example: Calculating length of special extension. Sgt. McGee was deployed to a combat zone on December 1, 2023, and remained there through March 31, 2025. Special extension deadlines are calculated below.

Tax year:	2023	2024	2025
Usual due date.....	4/15/24.....	4/15/25.....	4/15/26
Usual time period for taking action.....	1/1–4/15/24.....	1/1–4/15/25.....	1/1–4/15/26
+180 days.....	286.....	285.....	285
Extended deadline.....	1/11/2025.....	1/10/2025.....	1/10/2025*

* The special extension does not apply for the 2025 return because it ends before the usual due date.

Deferring payment of taxes. Income tax that becomes due before or during military service may be deferred without interest if:

- The taxpayer is performing military service, and
- The taxpayer properly notifies the IRS that his or her ability to pay income tax has been materially affected by military service, and
- The taxes are paid in full within 180 days after termination or release from military service. This exception does not apply to the taxpayer's share of Social Security and Medicare taxes.

Note: Taxes payable under an installment agreement may be deferred by making a written request for deferment to the IRS office where the taxpayer has the agreement.

Principal Residence Purchase or Sale

In general, a gain of up to \$250,000 (\$500,000 if married filing a joint return) is excludable from income if a taxpayer owned and used a home as a principal residence for at least two out of the last five years ending on the date of sale. A member of the Armed Forces can choose to have this 5-year test period suspended during any period he or she serves on qualified official extended duty. The election is made by filing the tax return for the year of the sale and excluding the gain. See *Official duty election*, Tab 6.

Moving expenses. The moving expense deduction and exclusion from income provision are allowed only to members of the Armed Forces on active duty who move because of a permanent change of station. See *Moving expenses*, Tab 3.

Military Reservists

Members of reserve components are individuals who serve in the Army, Navy, Marine Corps, Air Force, or Coast Guard Reserve, the Army or Air National Guard, or the Ready Reserve Corps of the Public Health Service.

Reservists' Income or Expenses	Tax Treatment
Differential wage payments. Differential pay is wages paid by a civilian employer to an employee serving on active duty for more than 30 days, representing all or part of wages that would have been received in the civilian job during the same time period. (Rev. Rul. 2009-11)	<ul style="list-style-type: none"> • Taxable income, reported in box 1, Form W-2. • Exempt from FICA and FUTA taxes. • Cannot be designated as combat pay.
Military uniforms. Reservists' uniform expenses that exceed any uniform allowance received are not deductible.	<ul style="list-style-type: none"> • Not deductible.
Reservists' travel. Transportation, lodging, and other expenses for drills or annual active duty for training may be deductible to the extent the expenses exceed travel and housing allowances. See <i>Travel and Lodging</i> , page 8-10, and <i>Business Autos</i> , page 10-2.	<ul style="list-style-type: none"> • Expenses for travel more than 100 miles away from home may be deducted as an adjustment to income on line 12, Schedule 1 (Form 1040). • Attach Form 2106, <i>Employee Business Expenses</i>.
Exception to 10% penalty. Qualified reservists making early withdrawals from retirement plans may be exempt from the 10% penalty. See <i>Qualified Reservist Distributions</i> , page 13-24.	<ul style="list-style-type: none"> • Effective if called to active duty after September 11, 2001. • Report on Form 5329, exception 11.

Resident vs. Nonresident Aliens

Cross References

- Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*
- IRS Pub. 519, *U.S. Tax Guide for Aliens*

Related Topics

- Individual Taxpayer Identification Number (ITIN), Tab 3

Taxation of Aliens

For tax purposes, an alien is an individual who is not a U.S. citizen. Aliens are classified as nonresident aliens and resident aliens. Resident aliens are generally taxed on their worldwide income, the same as U.S. citizens. Nonresident aliens are taxed only on their income from sources within the United States and on certain income connected with the conduct of a trade or business within the United States. See *Form 1040 or 1040-NR chart*, page 14-10.

Resident Aliens

A non-U.S. citizen is a resident alien of the United States for tax purposes if he or she meets either the green card test or substantial presence test. See *Taxation of Worldwide Income*, page 14-10.

Even if the taxpayer does not meet either of these two tests, he or she may be able to choose to be treated as a U.S. resident for part of the year. See *Nonresident Aliens*, page 14-9.

Closer connection to a foreign country. A resident alien who meets the substantial presence test can be treated as a nonresident alien if he or she:

- Is present in the United States for less than 183 days during the year,
- Maintains a tax home in a foreign country during the year, and
- Has a closer connection during the year to one foreign country in which he or she has a tax home than the United States (unless he or she has a closer connection to two foreign countries).

Nonresident Aliens

Even if a non-U.S. citizen does not meet the green card or substantial presence test, he or she may choose to be taxed as a resident alien. See *Resident aliens*, page 14-10.

Electing resident alien status. If the taxpayer makes the first-year election, they may be taxed as a resident alien for part of the calendar year. See *First year choice*, below. Alternatively, if the nonresident alien is married to a U.S. citizen or resident alien, they may make an election to treat the nonresident alien as a resident alien for the entire calendar year and all subsequent years until terminated. See *Nonresident Spouse*, below.

Effect of Tax Treaties

If an alien is a dual-resident taxpayer, he or she can still claim the benefits under an income tax treaty. A dual-resident taxpayer is one who is a resident of both the United States and another country under each country's tax laws. The income tax treaty between the two countries must contain a provision that provides for resolution of conflicting claims of residence. If a taxpayer is treated as resident of a foreign country under a tax treaty, he or she is treated as a nonresident alien for computing U.S. income tax.

Dual-Status Aliens

A taxpayer can be both a nonresident alien and a resident alien during the same tax year. This usually occurs in the year that the taxpayer arrives in or departs from the United States.

First year of residency. If a taxpayer is a U.S. resident for the calendar year, but was not a U.S. resident at any time during the preceding calendar year, he or she is a U.S. resident only for the part of the calendar year that begins on the residency starting date. The taxpayer is a nonresident alien for the part of the year before that date.

Rules for Residency Starting Date

Test	Resident in Preceding Year	Beginning Date for Residency
Substantial presence	No	Generally, the first day in the calendar year present in the United States.
Green card, but not substantial presence	No	The first day in the calendar year present in the United States as a lawful permanent resident.
Either	Yes	At the beginning of the calendar year.

First year choice. If a taxpayer does not meet either the green card or substantial presence test for 2024 or 2025 and did not choose to be treated as a resident for part of 2024, but he or she meets the substantial presence test for 2026, the taxpayer may choose to be treated as a U.S. resident for part of 2025.

Last year of residency. If a taxpayer was a U.S. resident in 2025 but is not a U.S. resident during any part of 2026, the taxpayer ceases to be a U.S. resident on his or her termination date. The residency termination date is December 31, 2025, unless the taxpayer qualifies for an earlier date.

Nonresident Spouse

If, at the end of the tax year, a taxpayer is married and is a U.S. citizen or resident alien while his or her spouse is a nonresident alien, the taxpayer can choose to treat his or her nonresident spouse as a U.S. resident.

If this choice is made, the taxpayer and spouse are treated for income tax purposes as residents for the entire tax year. Neither the taxpayer or spouse can claim under any tax treaty not to be a U.S. resident and both are taxed on worldwide income. A joint return must be filed in the year the choice is made, but spouses can choose to file either jointly or separately in later years.

Students, Teachers, and Trainees

A nonresident alien student, teacher, or trainee who is temporarily present in the United States on an "F", "J", "M", or "Q" visa is considered engaged in a trade or business in the United States. Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, must be filed only if he or she has income subject to tax, such as wages, tips, scholarship and fellowship grants, dividends, etc.

Source of Income

A nonresident alien usually is subject to U.S. income tax only on U.S. source income. The general rules for determining U.S. source income that apply to most nonresident aliens are shown in the following chart.

Source Rules for Income of Nonresident Aliens

Items of Income	Factor Determining Source
Salaries, wages, or other compensation	Where services are performed
Business income: <ul style="list-style-type: none"> • Personal service • Sale of purchased inventory • Sale of produced inventory 	<ul style="list-style-type: none"> • Where services are performed • Where sold • Where produced
Interest	Residence of payer
Dividends	Whether a U.S. or foreign corporation
Rents	Location of property
Royalties: <ul style="list-style-type: none"> • Natural resources • Patents, copyrights, etc. 	<ul style="list-style-type: none"> • Location of property • Where property is used
Sale of real property	Location of property
Sale of personal property	Seller's tax home
Pension distributions attributable to contributions	Where services were performed that earned the pension

Nonresident Alien Taxation

A nonresident alien's income that is subject to U.S. income tax must generally be divided into two categories.

- Income that is effectively connected with a trade or business in the United States.
- U.S.-source income that is fixed, determinable, annual, or periodical (FDAP).

Effectively connected income, after allowable deductions, is taxed at graduated rates. These are the same rates that apply to U.S. citizens and residents. Effectively connected income is reported on page 1 of Form 1040-NR.

FDAP income is taxed at a flat 30% (or lower treaty rate, if qualified) and no deductions are allowed against such income. FDAP income should be reported on Schedule NEC (Form 1040-NR), *Tax on Income Not Effectively Connected With a U.S. Trade or Business*. The following are some examples of FDAP income (not all inclusive).

- Compensation for personal services (such as commissions).
- Interest and dividends.
- Pensions and annuities.
- Social Security benefits.
- Certain alimony received.
- Real property income.
- Scholarships and fellowship grants.
- Royalties.

Deductions. A nonresident alien can claim certain itemized deductions (e.g., certain charitable contributions and casualty and theft losses). Generally, a nonresident alien cannot claim the standard deduction.

Departing Alien

Before leaving the United States, all aliens (with certain exceptions) must obtain a certificate of compliance. This document is

known as a sailing permit or departure permit and must be secured from the IRS before leaving the United States. The sailing or departure permit will be received after filing Form 1040-C, *U.S. Departing Alien Income Tax Return*, or Form 2063, *U.S. Departing Alien Income Tax Statement*. Even if the alien has left the United States and filed Form 1040-C on departure, he or she must still file an annual U.S. income tax return, if otherwise required.

Tax Identification Number

Aliens who are not eligible to obtain a Social Security Number must obtain an individual taxpayer identification number (ITIN). See *Individual Taxpayer Identification Number (ITIN)*, page 3-8.

Foreign Income

Cross References

- Form 2350, *Application for Extension of Time to File U.S. Income Tax Return*
- Form 2555, *Foreign Earned Income*
- Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*
- IRS Pub. 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*
- IRS Pub. 516, *U.S. Government Civilian Employees Stationed Abroad*
- IRS Pub. 901, *U.S. Tax Treaties*

Related Topics

- Foreign Tax Credit, page 11-10

Taxation of Worldwide Income

The following general rules apply to U.S. citizens and resident aliens.

- Worldwide income from all sources is subject to federal income tax, regardless of where the taxpayer is living.
- The same filing requirements apply whether the taxpayer is in the United States or abroad.

Resident aliens. A resident alien is an individual who is not a citizen of the United States and who meets either the green card test or the substantial presence test for the calendar year.

- **Green card test.** A taxpayer is a U.S. resident if he or she was a lawful permanent resident of the United States at any time during the calendar year.
- **Substantial presence test.** A taxpayer is considered to be substantially present in the U.S. if he or she was physically present in the U.S. for at least:
 - 31 days during 2025, and
 - 183 days during the 3-year period of 2025, 2024, and 2023 as calculated using the chart below.

(a) Year	(b) Days of physical presence	(c) Multiplier	(d) Testing days [multiply (b) times (c)]
2025		1.000	
2024		.333	
2023		.167	
Total testing days [add column (d)].....			

Form 1040 or Form 1040-NR

Form 1040, U.S. Individual Income Tax Return	<ul style="list-style-type: none"> • U.S. citizens and resident aliens who meet usual filing requirements. • A nonresident alien who: <ul style="list-style-type: none"> – Elects to be taxed as a resident alien, and – Is married to a U.S. citizen or resident alien at the end of the tax year.
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Form 1040 or Form 1040-NR continued

Form 1040-NR, U.S. Nonresident Alien Income Tax Return

- All nonresident aliens engaged in a trade or business in the U.S.
- File even if no gross income was earned in the U.S. or if U.S. income was exempt from U.S. tax under a tax treaty or any IRC section.

Foreign Earned Income

Earned income that meets the following two requirements is foreign earned income.

- Income is earned while the taxpayer's tax home is in a foreign country, and
- Either the bona fide residence test or physical presence test is met.

See *Bona Fide Residence Test*, below, and *Physical Presence Test*, below.

Note: Foreign earned income includes foreign housing allowances or reimbursements and the fair market value of employer-provided foreign housing.

Tax home. A tax home is the general area of the taxpayer's main place of business, employment, or post of duty, regardless of where his or her family home is maintained. A taxpayer is not considered to have a tax home in a foreign country for any period in which his or her abode is in the U.S., unless serving in support of the U.S. Armed Forces in a combat zone. See *Service in combat zone*, page 14-7.

U.S. government employees. Amounts paid to employees by the U.S. government or any of its agencies are not foreign earned income for purposes of the exclusions or deduction. However, amounts paid to independent contractors may qualify.

Bona Fide Residence Test

U.S. citizens and resident aliens who are citizens or nationals of a country with which the United States has a tax treaty may use the bona fide residence test.

- The taxpayer must be a bona fide resident of a foreign country or countries. The IRS decides if the taxpayer qualifies as a bona fide resident largely based on information provided on Form 2555, *Foreign Earned Income*.
- The period of residency in the foreign country or countries must be an uninterrupted period that includes an entire tax year (January 1 through December 31 for calendar year taxpayers). Temporary trips to the United States or elsewhere do not necessarily interrupt the qualifying tax year.

Exception: The length of residency may be less for adverse circumstances. See *Waiver of Time Requirements*, page 14-11.

Example: Andrea arrived for work in Sweden on February 2, 2023, and immediately established a residence there. She visited her parents in the U.S. from December 23, 2024 through January 2, 2025, after which she returned to her job and residence in Sweden. Her job ended on June 30, 2025, and she returned to the U.S. the next day. Andrea was a resident of Sweden for the entire 2024 calendar year. If, based on Andrea's Form 2555, the IRS agrees that Andrea qualifies as a bona fide resident of Sweden, then she satisfies the bona fide residence test from February 2, 2023 through June 30, 2025.

Author's Comment: Determination of bona fide residence is based on facts and circumstances, taking into account factors such as the taxpayer's intent and nature, and length of time abroad. The physical presence test is generally easier to satisfy.

Physical Presence Test

Any U.S. citizen or resident alien may use the physical presence test.

The taxpayer must be physically present in a foreign country or countries for at least 330 full (24-hour) days during a period of 12 consecutive months. The 12-month period can start on any day of the month and end with the same calendar day a year later. The 330 days need not be consecutive. Days abroad for any reason may be counted, including time spent on vacation.

Example: Kim accepted a job to teach English in Latvia. She arrived in Riga on June 15, 2024, and immediately established a residence there. She took a vacation to Germany during December 2024 and returned to the U.S. on June 15, 2025. If, for any reason, Kim was in the U.S. or over international waters for more than 35 days between June 15, 2024 and June 15, 2025, she will not meet the physical presence test.

Author's Comment: An advantage of the physical presence test is that overlapping 12-month periods can be used in order to satisfy the test for longer periods. For example, a taxpayer worked in New Zealand for a 20-month period from January 1, 2024 through August 1, 2025, except that she spent 28 days in February 2024 and 28 days in February 2025 in the U.S. The taxpayer is present in New Zealand for at least 330 full days during each of the following two 12-month periods: January 1, 2024 through December 31, 2024, and September 1, 2024 through August 31, 2025. By overlapping the 12-month periods in this way, the physical presence test is met for the entire 20-month period. In general, careful selection of 12-month periods can maximize the time during which the physical presence test is met.

Waiver of Time Requirements

Both the bona fide residence test and the physical presence test contain minimum time requirements. The minimum time requirements can be waived, however, if the taxpayer must leave a foreign country because of war, civil unrest, or similar adverse conditions in that country. The taxpayer must show that he or she could have reasonably expected to meet the minimum time requirements if not for the adverse conditions. Early in 2026, the IRS will publish in the Internal Revenue Bulletin a list of the only countries that qualify for the waiver for 2025 and the effective dates.

Foreign Earned Income Exclusion and Housing Exclusion and Deduction

The following exclusions and deductions may be available to qualifying U.S. citizens and resident aliens in 2025.

- Exclusion from gross income up to \$130,000 of foreign earned income for each taxpayer.
- Exclusion from gross income of a limited amount of employer-paid foreign housing expense that was reported as foreign earned income.
- Deduction, taken as an adjustment to gross income, of a limited amount of employee-paid foreign housing expense or foreign housing expense paid by a self-employed taxpayer.

The exclusions and deduction are calculated on Form 2555, *Foreign Earned Income*.

Foreign Earned Income Exclusion Amounts

Tax Year Begins in	Maximum Foreign Earned Income Exclusion	Tax Year Begins in	Maximum Foreign Earned Income Exclusion
2025	\$130,000	2022	\$112,000
2024	\$126,500	2021	\$108,700
2023	\$120,000	2020	\$107,600

Did You Know? The exclusion of foreign earned income is for purposes of income tax. Self-employed taxpayers who qualify to exclude foreign earned income are still subject to self-employment tax on net earnings from self-employment income. The U.S. has entered into social security totalization agreements with many foreign countries to eliminate double taxation of wage and self-employment income. See *Self-Employment Tax*, Tab 5.

Qualifying for the exclusions and the deduction. The taxpayer must satisfy all three of the following requirements in order to qualify for the foreign earned income exclusion, foreign housing exclusion, or foreign housing deduction.

- The tax home must be in a foreign country,
- The taxpayer must have foreign earned income, and
- The taxpayer meets either the bona fide residence test or the physical presence test. See *Bona Fide Residence Test*, page 14-10, and *Physical Presence Test*, page 14-10.

Service in combat zone. Citizens or residents of the U.S. serving in a combat zone qualify as having a tax home in a foreign country, even if the taxpayer has an abode in the U.S. See *U.S. Armed Forces*, page 14-7.

Foreign Earned Income Exclusions/Deduction

U.S. Citizenship Status	Test to Be Met
U.S. citizen.	Either bona fide residence test or physical presence test.
Resident alien, citizen or national of tax treaty country.*	Either bona fide residence test or physical presence test.
Resident alien, no tax treaty.*	Physical presence test only.

* Search "Tax Treaties" on www.irs.gov to read tax treaties by country.

Exclusion for part of year. If the taxpayer qualifies for only part of the year, the maximum exclusion of \$130,000 (2025) is multiplied by the ratio of the qualifying days in the year to the number of days in the tax year.

Example: Phil meets the physical presence test by being present in a foreign country for 330 days during a period of 12 consecutive months that spans 2024 and 2025. If 180 of the 330 days are in 2025, Phil's maximum exclusion for 2025 is \$64,110 (\$130,000 × 180/365).

Foreign earned income exclusion. File Form 2555, *Foreign Earned Income*, to claim a foreign earned income exclusion. The initial choice to claim the exclusion must usually be made on a:

- Timely filed return, including extensions,
- Return amending a timely filed return, or
- Return filed within one year from the original due date, determined without regard to any extensions.

Once the choice to claim an exclusion is made, it remains in effect for that year and all future years unless revoked. See *Revoking the exclusion*, below.

Exceptions. The taxpayer can choose the exclusion on a return filed after the periods described above if no federal income tax is owed after taking into account the exclusion. If federal income tax is owed after taking into account the exclusion, the taxpayer can choose the exclusion if the return is filed before the IRS discovers he or she failed to claim the exclusion.

To claim the exclusion under one of these exceptions, type or legibly print at the top of the first page of Form 1040, "Filed pursuant to section 1.911-7(a)(2)(i)(D)."

Revoking the exclusion. The exclusion can be revoked by attaching a statement to the tax return for the first year the taxpayer does not wish to claim the exclusion. Once the exclusion is revoked, the taxpayer cannot claim the exclusion for the next five tax years without IRS approval.

Foreign housing exclusion. The foreign housing exclusion applies only to amounts considered paid for with employer-provided amounts. The housing exclusion can be chosen by completing Form 2555. The rules about choosing the foreign earned income exclusion also apply to the foreign housing exclusion. See *Foreign earned income exclusion*, above.

Foreign housing deduction. The foreign housing deduction applies only to amounts paid with self-employment earnings and is deducted on line 24j, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

Extensions for Taxpayers Abroad

Special rules apply when the taxpayer is out of the country on the due date of the return.

Author's Comment: It is a common misconception that any taxpayer who is outside the country on April 15 receives an automatic extension without filing any form or statement. The procedures explained below clarify how extensions are obtained.

Automatic 2-month extension. U.S. citizens and resident aliens qualify for an automatic 2-month extension of time to file and pay tax (June 15 for calendar year taxpayers) if one of two conditions is met.

- The taxpayer is living outside the United States and Puerto Rico, and the taxpayer's main place of work is outside the United States and Puerto Rico, or
- The taxpayer is in military service on duty outside the United States and Puerto Rico.

The automatic 2-month extension is obtained by attaching a statement to the tax return explaining which condition applies. Interest on unpaid tax is calculated as of the regular due date.

Automatic 6-month extension using Form 4868. Taxpayers who qualify for the automatic 2-month extension may get an additional four months (October 15 for calendar year taxpayers), for a total of six months from the regular due date of the return.

- File Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, by the last day of the 2-month automatic extension period.
- Check the box on line 8, indicating that the taxpayer qualified for the automatic 2-month extension.

Form 4868 is only an extension of time to file, not an extension of time to pay. Interest on unpaid tax is calculated as of the regular due date, and underpayment penalties are calculated as of the automatic 2-month extension date.

Additional extension of time for taxpayers out of the country. If the automatic 6-month extension is insufficient, taxpayers who are out of the country can request a discretionary additional two months to file (December 15 for calendar year taxpayers).

- By the 6-month extended due date (October 15 for calendar year taxpayers), send a letter to the IRS explaining why additional time is needed.
- Mail the letter to: Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301-0215.
- This extension is not available to taxpayers who have an approved extension on Form 2350, discussed below.

Extension of time to meet tests using Form 2350. Taxpayers who need more time to satisfy either the bona fide residence test or physical presence test should file Form 2350, *Application for Extension of Time to File U.S. Income Tax Return*, before the regular due date of the return. An extension may be granted if all of the following conditions are met.

- The taxpayer is a U.S. citizen or resident alien,
- The taxpayer expects to meet either the bona fide residence test or physical presence test after the regular due date of the return (see *Bona Fide Residence Test*, page 14-10, and *Physical Presence Test*, page 14-10), and
- The taxpayer's tax home is in a foreign country (or countries) during the entire period of bona fide residence or physical presence.

The extension, if granted, will generally be 30 days after the taxpayer expects to meet either the bona fide residence test or the

physical presence test. Additional time may be granted if moving expenses must be allocated. See Form 2350 for more information.

Military taxpayers. Additional extension provisions apply for U.S. Armed Forces. See *Extensions and Deferrals*, page 14-8.

Amended Returns

Cross References

- Form 1040-X, *Amended U.S. Individual Income Tax Return*
- Form 1045, *Application for Tentative Refund*
- IRS Pub. 556, *Examination of Returns, Appeal Rights, and Claims for Refund*

Related Topics

- Prior Years Tax Rate Schedules, page 2-13
- Net Operating Loss (NOL), page 8-20
- Change in Accounting Method, page 8-25

Filing Claim for Refund

A claim for refund must be filed within three years from the date the original return was filed or within two years from the date the tax was paid, whichever is later. Returns filed before the due date are considered filed on the due date. Extended returns filed before the extended due date are considered filed on the date received. A refund claim for a return filed late must be filed within three years from the date the return was due (including extensions).

Note: The time limit for filing a claim for refund can be suspended for certain people who are physically or mentally unable to manage their financial affairs. [IRC §6511(h)]

Bad debt or worthless security. The filing period is extended to seven years from the due date of filing the return for the tax year in which the debt or security became worthless.

Foreign tax credit or deduction. To claim or change a foreign tax credit or deduction for foreign taxes, the period is extended to 10 years from the due date of the return (without regard to any extension).

Loss or credit carryback. A claim of refund based on the carryback of a net operating loss (NOL), unused general business credit, or net section 1256 contracts loss must be filed within three years after the due date (including extensions) for the tax year of the NOL, capital loss, or unused credit. See *Net Operating Loss (NOL)*, page 8-20.

Form 1040-X, Amended U.S. Individual Income Tax Return

Once filed, Form 1040-X is the taxpayer's new tax return, changing the original return to include the new information.

Form 1040-X is used for:

- Correcting income, deductions, credits, or other items incorrectly reported on an original federal tax return.
- Changing the taxpayer's filing status. **Note:** A change from a joint return to a separate return after the due date is not allowed.
- Making certain elections after the prescribed deadline for filing. (Reg. §301.9100-1 through -3)
- Changing amounts previously adjusted by the IRS.
- Filing for a refund based on an NOL or unused credit. **Note:** Form 1045, *Application for Tentative Refund*, may be used if the claim is filed within one year after the year in which the loss or credit arose. See *Form 1045, Application for Tentative Refund*, page 14-13.

Electronic filing. Form 1040-X can be e-filed for the current and two prior tax periods. Direct deposit is available for e-filed returns only.

Paper filing. Form 1040-X must be paper filed if older than the current or prior two tax periods, or if the original return was paper filed during the current processing year. See *Where to file an amended return*, below.

Amended return status. A taxpayer can check the status of his or her amended return using the *Where's My Amended Return?* tool at www.irs.gov/filing/wheres-my-amended-return.

Accounting method change. Once an accounting method is chosen on an original return, the method cannot be changed by filing Form 1040-X, even if the tax year is not closed. For more information on change in accounting method, see *Change in Accounting Method*, page 8-25.

Filing an amended return after divorce. The IRS may accept a claim for refund filed by a divorced taxpayer on Form 1040-X with respect to a prior-year joint return if the amended return is signed by only one of the spouses. Such refund will be issued in the name of the taxpayer who filed Form 1040-X. However, the amount of the individual taxpayer's refund will be determined by recomputing the taxpayer's share of the joint liability and subtracting that amount from the taxpayer's contributions toward the joint liability using the IRS allocation method based on separate return liability amounts. (Rev. Rul. 80-8, amplified by Rev. Rul. 86-57)

Where to file an amended return. If a taxpayer is paper filing an amended return because of any of the situations listed below, use the corresponding address.

If the taxpayer is filing Form 1040-X:	Then mail Form 1040-X and attachments to:
In response to a notice the taxpayer received from the IRS	The address shown in the notice
With Form 1040-NR	Department of the Treasury, Internal Revenue Service, Austin, TX 73301-0215

If none of the above situations apply, to find the mailing address, go to: www.irs.gov/filing/where-to-file-addresses-for-taxpayers-and-tax-professionals-filing-form-1040x.

Form 1045, Application for Tentative Refund

Form 1045 may be used instead of Form 1040-X by an individual, an estate, or trust to apply for a refund that is attributable to:

- An NOL carryback in certain situations,
- Carryback of an unused general business credit,
- Carryback of a net section 1256 contracts loss, or
- Overpayment of tax due to a claim of right adjustment under IRC section 1341(b)(1). This occurs when an amount in excess of \$3,000 is subtracted from prior year taxable income under claim of right rules, and the decrease in tax exceeds the tax imposed for that year.

Multiple years. Form 1045 may be used to apply for a refund attributable to several years of adjustments. For example, if an unused general business credit is being carried back three years, computations for all three years may be reported on one Form 1045.

Quick refund. The IRS will process Form 1045 within 90 days from the later of (1) the date the completed Form 1045 was filed, or (2) the last day of the month that includes the due date (including extensions) for filing the income tax return [or, for a claim of right adjustment, the date of the overpayment under IRC section 1341(b)(1)]. See *Claim of right*, Tab 3.

When to file. Form 1045 must be filed within one year after the end of the year in which an NOL, unused credit, a net section 1256 contracts loss, or claim of right adjustment arose. If the deadline for filing Form 1045 has passed, Form 1040-X may be used.

Self-employment tax. Self-employment tax may not be adjusted based on any carryback reported on Form 1045.

Additional Medicare tax. Additional Medicare tax may not be adjusted based on any carryback reported on Form 1045.

Tax-Related Identity Theft

Cross References

- Form 14039, *Identity Theft Affidavit*
- IRS Pub. 4557, *Safeguarding Taxpayer Data*
- IRS Pub. 5027, *Identity Theft Information for Taxpayers*
- IRS Pub. 5199, *Tax Preparer Guide to Identity Theft*
- IRS Pub. 5708, *Creating a Written Information Security Plan for your Tax & Accounting Practice*

Related Topics

- Casualty and Theft Losses, Tab 4

Detecting and Reporting Identity Theft

Tax-related identity theft occurs when someone uses a stolen Social Security Number (SSN) or individual taxpayer identification number (ITIN) to file a tax return claiming a fraudulent refund. A taxpayer may be unaware that his or her identity has been stolen until one of the following occurs.

Rejected e-file. An electronically filed return is rejected because an SSN belonging to the taxpayer, spouse, or a dependent has already been used on a tax return for that year. This situation can occur because of a mistyped number or dispute about claiming a dependent. Such cases do not necessarily indicate identity theft.

A return that has been rejected because of a previously used SSN cannot be e-filed and must be submitted on paper. **Exception:** A current year return rejected because of a dependent's SSN can be e-filed if the primary taxpayer has a current calendar year IP PIN. See *Return e-filed with IP PIN*, Tab 3.

IRS notice. Indications of identity theft include receiving a tax transcript or employer identification number (EIN) the taxpayer did not request or receiving an IRS notice or letter stating:

- More than one return was filed for the year,
- The taxpayer has a balance due, refund offset, or initiation of collection action for a year when the taxpayer did not file a return,
- IRS records indicate that the taxpayer received wages from an employer for whom he or she has not worked, or
- An online account has been created in the taxpayer's name.

The taxpayer should respond immediately to the name and phone number printed on the IRS notice or letter. The taxpayer will be asked to complete Form 14039, *Identity Theft Affidavit*. See *Form 14039, Identity Theft Affidavit*, page 14-14.

Victim of identity theft outside the tax system. A taxpayer may be at increased risk for tax-related identity theft if:

- A wallet, purse, or documents that include sensitive identifying information is lost or stolen,
- The taxpayer has noted questionable credit card activity or credit report information, or
- The taxpayer has fallen victim to an identity theft scam.

Victim of tax-related identity theft. If the taxpayer's SSN is compromised and the taxpayer knows or suspects he or she is the victim of tax-related identity theft, the IRS recommends:

- Responding immediately to any IRS notice by calling the number provided.

continued on next page

- If the e-filed return rejects because of a duplicate filing under the taxpayer's SSN, file Form 14039, *Identity Theft Affidavit*, attached to a paper tax return.
- Continuing to pay taxes and file returns, even if they must be filed on paper.

Additional information for identity theft victims is available at www.identitytheft.gov.

Identity Theft Central. In an effort to combat identity theft, the IRS launched Identity Theft Central as a resource for individuals, tax professionals, and businesses. For more information, go to www.irs.gov/identity-theft-central.

Requesting a copy of fraudulent tax return. If a taxpayer believes that someone has filed a fraudulent return in his or her name, the taxpayer can get a copy of the return. The taxpayer completes Form 4506-F, *Identity Theft Victim's Request for Copy of Fraudulent Tax Return*, to request the tax return.

Form 14039, Identity Theft Affidavit. Form 14039 informs the IRS that a taxpayer is an actual or potential victim of tax-related identity theft that has affected or may affect the taxpayer's account and requests the IRS mark the taxpayer's account to identify any questionable activity.

The taxpayer must provide details of the actual or potential identity theft situation, tax years impacted (if known), address and other contact information.

Taxpayer Situation	Form 14039 Reporting Options
Taxpayer cannot e-file because primary or secondary SSN has already been used.*	<ul style="list-style-type: none"> • Submit Form 14039 with the paper tax return to the IRS address for the taxpayer's state. See <i>2025 Where to File Forms 1040, 4868, and 1040-ES</i>, page 16-1.
Taxpayer has received IRS notice.	<ul style="list-style-type: none"> • Mail Form 14039 and a copy of the notice to the address shown on the notice.
Taxpayer has received IRS notice, and a fax number is shown on the notice.	<ul style="list-style-type: none"> • Mail Form 14039 and a copy of the notice to the address shown on the notice, or • Fax Form 14039 and a copy of the notice to the fax number shown on the notice. Include a cover sheet marked "Confidential."
Taxpayer has not received an IRS notice, but is self-reporting risk for identity theft.	<ul style="list-style-type: none"> • File online at: www.irs.gov/dmaf/form/f14039, • Fax Form 14039 to 855-807-5720, or • Mail Form 14039 to Internal Revenue Service, Fresno, CA 93888-0025.

* This situation may not necessarily be an identity theft problem. See *Rejected e-file*, page 14-13.

Identity Protection PIN (IP PIN) Program

An IP PIN is a 6-digit number assigned each year to certain taxpayers that helps prevent others from fraudulently filing a federal income tax return with the taxpayer's SSN or ITIN and allows the IRS to verify a taxpayer's identity on electronic or paper tax returns.

The IP PIN must be used each year to confirm a taxpayer's (and spouse or dependent, if applicable) identity on any federal return filed in the current calendar year, including returns for prior years.

E-filed returns. The tax software program will indicate where to enter the IP PIN. Each taxpayer claimed on a tax return who receives an IP PIN must have it entered on an e-filed return.

Paper returns. Enter the IP PIN in the designated field in the signature section of Form 1040 to the right of the occupation line.

Joint returns. If only one spouse receives an IP PIN, the other spouse does not also need an IP PIN in order to file their joint return.

Filing with missing or incorrect IP PINs. The IRS will reject an e-filed return if an IP PIN is missing or entered incorrectly. The correct IP PIN needs to be entered before e-filing again.

Paper returns with missing or incorrect IP PINs will take longer to process while the IRS validates the information. See *Lost or misplaced IP PINs*, below.

IRS CP01A Notice. An IRS CP01A Notice containing an IP PIN will be mailed each January to taxpayers who are confirmed victims of identity theft and taxpayers who do not apply for the IP PIN online.

Getting an IP PIN. Any taxpayer (including spouses and dependents) may request an IP PIN by passing an identity verification process.

Applying online. Taxpayers can obtain an IP PIN immediately at www.irs.gov/IPPIN. Once in the program, a new IP PIN must be obtained each filing season using the online tool.

Mail or in-person. If the taxpayer has a valid SSN or ITIN, AGI of \$84,000 (\$168,000 MFJ) or less, and access to a telephone, he or she can file Form 15227, *Application for an Identity Protection Personal Identification Number*. Taxpayers that are ineligible for Form 15227 can schedule an appointment at a Taxpayer Assistance Center by calling 844-545-5640. Once in the program, these taxpayers will be mailed an IRS Notice CP01A annually containing their IP PIN.

Lost or misplaced IP PINs. A taxpayer will not be able to file electronically without his or her IP PIN. A taxpayer can retrieve his or her current IP PIN by accessing "Get an IP PIN" at www.irs.gov. Registration and identity verification is required. After the taxpayer's identity is verified, he or she will receive their current IP PIN. If a taxpayer is unable to retrieve his or her IP PIN online, call 800-908-4490 for specialized assistance. An assistor will verify the taxpayer's identity and mail the IP PIN to the taxpayer's address of record within 21 days.

Opt-out. A taxpayer that voluntarily joins the IP PIN program and has not been a victim of tax-related identity theft may opt-out of the IP PIN program using the online tool.

Data Theft Information for Tax Professionals

Protecting taxpayer data is required by law. Tax return preparers must create and enact security plans to protect client data.

Written information security plan (WISP). Failure to create a WISP may result in a Federal Trade Commission (FTC) investigation. Items to consider when putting together a plan:

- The plan must be appropriate to the company's size and complexity.
- One or more employees must be designated to coordinate the information security program.
- A preparer must identify and assess risks to client information.
- Regularly monitor and test the safeguards program.
- Select service providers that can maintain appropriate safeguards.

IRS Pub. 4557, Safeguarding Taxpayer Data. IRS Pub. 4557 provides basic security steps for protecting client data, and how to respond and recover from a data loss.

IRS Pub. 5708, Creating a Written Information Security Plan for your Tax & Accounting Practice. IRS Pub. 5708 includes a sample template for a WISP for smaller tax practices.

Reporting. Tax return preparers should report data losses or thefts immediately by contacting:

- The local IRS stakeholder liaison and law enforcement.
- The state Attorneys General for states where returns are filed.
- Security experts.
- The preparer's insurance company.
- The Federal Trade Commission and credit bureaus.
- Clients, but work with law enforcement on timing.