

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.602: Tax forms and instructions.

(Also Part I, §§ 1, 23, 24, 25A, 32, 42, 59, 63, 68, 132, 135, 137, 146, 151, 170, 213, 220, 221, 512, 513, 685, 877, 2032A, 2503, 2523, 2631, 4261, 6033, 6039F, 6323, 6334, 6601, 7430, 7702B)

REV. PROC. 2002-70

Table of Contents

SECTION 1. PURPOSE

SECTION 2. CHANGES

SECTION 3. 2003 ADJUSTED ITEMS

	<u>Code Section</u>
.01 Tax Rate Tables	1(a)-(e)
.02 Unearned Income of Minor Children Taxed as if Parent's Income ("Kiddie Tax")	1(g)
.03 Adoption Credit	23
.04 Child Tax Credit	24
.05 Hope and Lifetime Learning Credits	25A
.06 Earned Income Credit	32
.07 Low-Income Housing Credit	42(h)
.08 Alternative Minimum Tax Exemption for a Child Subject to the	59(j)

“Kiddie Tax”

.09 Standard Deduction	63
.10 Overall Limitation on Itemized Deductions	68
.11 Qualified Transportation Fringe	132(f)
.12 Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses	135
.13 Adoption Assistance Programs	137
.14 Private Activity Bonds Volume Cap	146(d)
.15 Personal Exemption	151
.16 Eligible Long-Term Care Premiums	213(d)(10)
.17 Medical Savings Accounts	220
.18 Interest on Education Loans	221
.19 Treatment of Dues Paid to Agricultural or Horticultural Organizations	512(d)
.20 Insubstantial Benefit Limitations for Contributions Associated with Charitable Fund-Raising Campaigns	513(h)
.21 Funeral Trusts	685
.22 Expatriation to Avoid Tax	877
.23 Valuation of Qualified Real Property in Decedent's Gross Estate	2032A
.24 Annual Exclusion for Gifts	2503 & 2523
.25 Generation-Skipping Transfer Tax Exemption	2631
.26 Passenger Air Transportation Excise Tax	4261
.27 Reporting Exception for Certain Exempt Organizations	6033(e)(3)

with Nondeductible Lobbying Expenditures

.28 Notice of Large Gifts Received from Foreign Persons	6039F
.29 Persons Against Which a Federal Tax Lien Is Not Valid	6323
.30 Property Exempt from Levy	6334
.31 Interest on a Certain Portion of the Estate Tax Payable in Installments	6601(j)
.32 Attorney Fee Awards	7430
.33 Periodic Payments Received under Qualified Long-Term Care Insurance Contracts or under Certain Life Insurance Contracts	7702B(d)

SECTION 4. EFFECTIVE DATE

SECTION 5. DRAFTING INFORMATION

SECTION 1. PURPOSE

This revenue procedure sets forth inflation adjusted items for 2003.

SECTION 2. CHANGES

.01 The amount in § 23(a)(3) used to determine the maximum credit allowed in the case of an adoption of a child with special needs, the amount in § 23(b)(1) used to determine the amount of qualified adoption expenses which may be taken into account in determining the maximum credit allowed for other adoptions, and the income phase-out amounts in § 23(b)(2)(A), are adjusted for inflation. (Section 3.03).

.02 The amounts in § 42(h)(3)(C)(ii) used to calculate the State housing credit ceiling for the low-income housing credit are adjusted for inflation. (Section 3.07).

.03 The amount in § 137(a)(2) used to determine the maximum amount that an employer can exclude from an employee's gross income in connection with the employee's adoption of a child with special needs, the amount in § 137(b)(1) used to determine the maximum amount that can be excluded from an employee's gross income for amounts paid or expenses incurred by the employer for qualified adoption expenses furnished pursuant to an adoption assistance program in connection with other adoptions, and the income phase-out amounts in § 137(b)(2)(A), are adjusted for inflation. (Section 3.13).

.04 The amounts in § 146(d)(1) used to calculate the State ceiling for the volume cap for private activity bonds are adjusted for inflation. (Section 3.14).

.05 The amounts in § 221(b)(2)(B) used to determine the availability of a deduction for interest paid on qualified education loans are adjusted for inflation. (Section 3.18).

.06 The tax on domestic segments of taxable air transportation in § 4261(b) is adjusted for inflation. (Section 3.26).

.07 The excise tax on luxury automobiles imposed by §§ 4001 and 4003 terminates effective December 31, 2002, in accordance with § 4001(g) and is no longer included in this revenue procedure.

SECTION 3. 2003 ADJUSTED ITEMS

.01 Tax Rate Tables. For taxable years beginning in 2003, the tax rate tables under § 1 are as follows:

TABLE 1 - Section 1(a).-- MARRIED INDIVIDUALS FILING JOINT RETURNS AND

SURVIVING SPOUSES

<u>If Taxable Income Is:</u>	<u>The Tax Is:</u>
Not Over \$12,000	10% of the taxable income
Over \$12,000 but not over \$47,450	\$1,200 plus 15% of excess over \$12,000
Over \$47,450 but not over \$114,650	\$6,517.50 plus 27% of excess over \$47,450
Over \$114,650 but not over \$174,700	\$24,661.50 plus 30% of excess over \$114,650
Over \$174,700 but not over \$311,950	\$42,676.50 plus 35% of excess over \$174,700
Over \$311,950	\$90,714 plus 38.6% of excess over \$311,950

TABLE 2 - Section 1(b). -- HEADS OF HOUSEHOLDS

<u>If Taxable Income Is:</u>	<u>The Tax Is:</u>
Not Over \$10,000	10% of the taxable income
Over \$10,000 but not over \$38,050	\$1,000 plus 15% of excess over \$10,000
Over \$38,050 but not over \$98,250	\$5,207.50 plus 27% of the excess over \$38,050
Over \$98,250 but not over \$159,100	\$21,461.50 plus 30% of the excess over \$98,250
Over \$159,100 but not over \$311,950	\$39,716.50 plus 35% of the excess over \$159,100
Over \$311,950	\$93,214 plus 38.6% of the excess over \$311,950

TABLE 3 - Section 1(c). -- UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).

<u>If Taxable Income Is:</u>	<u>The Tax Is:</u>
Not over \$6,000	10% of the taxable income
Over \$6,000 but not over \$28,400	\$600 plus 15% of the excess over \$6,000
Over \$28,400 but not over \$68,800	\$3,960 plus 27% of the excess over \$28,400
Over \$68,800 but not over \$143,500	\$14,868 plus 30% of the excess over \$68,800
Over \$143,500 but not over \$311,950	\$37,278 plus 35% of the excess over \$143,500
Over \$311,950	\$96,235.50 plus 38.6% of the excess over \$311,950

TABLE 4 - Section 1(d). -- MARRIED INDIVIDUALS FILING SEPARATE RETURNS

<u>If Taxable Income Is:</u>	<u>The Tax Is:</u>
Not Over \$6,000	10% of the taxable income
Over \$6,000 but not over \$23,725	\$600 plus 15% of the excess over \$6,000
Over \$23,725 but not over \$57,325	\$3,258.75 plus 27% of the excess over \$23,725
Over \$57,325 but not over \$87,350	\$12,330.75 plus 30% of the excess over \$57,325
Over \$87,350 but not over \$155,975	\$21,338.25 plus 35% of the excess over \$87,350
Over \$155,975	\$45,357 plus 38.6% of

the excess over \$155,975

TABLE 5 - Section 1(e). -- ESTATES AND TRUSTS

<u>If Taxable Income Is:</u>	<u>The Tax Is:</u>
Not Over \$1,900	15% of the taxable income
Over \$1,900 but not over \$4,500	\$285 plus 27% of the excess over \$1,900
Over \$4,500 but not over \$6,850	\$987 plus 30% of the excess over \$4,500
Over \$6,850 but not over \$9,350	\$1,692 plus 35% of the excess over \$6,850
Over \$9,350	\$2,567 plus 38.6% of the excess over \$9,350

.02 Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax"). For taxable years beginning in 2003, the amount in § 1(g)(4)(A)(ii)(I), which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is \$750. (This amount is the same as the \$750 standard deduction amount provided in section 3.09(2) of this revenue procedure.) The same \$750 amount is used for purposes of § 1(g)(7) (that is, in determining whether a parent may elect to include a child's gross income in the parent's gross income and for calculating the "kiddie tax"). For example, one of the requirements for the parental election is that a child's gross income is more than the amount referenced in § 1(g)(4)(A)(ii)(I) but less than 10 times such amount; thus, a child's gross income for 2003 must be more than \$750 but less than \$7,500 to satisfy that requirement.

.03 Adoption Credit. For taxable years beginning in 2003, under § 23(a)(3) the maximum credit allowed in the case of an adoption of a child with special needs is \$10,160. For taxable years beginning in 2003, under § 23(b)(1) the maximum credit allowed with regard to other adoptions is the amount of qualified adoption expenses up to \$10,160. The available adoption credit begins to phase out under § 23(b)(2)(A) for taxpayers with modified adjusted gross income in excess of \$152,390 and is completely phased out for taxpayers with modified adjusted gross income of \$192,390.

.04 Child Tax Credit. For taxable years beginning in 2003, the value used in § 24(d)(1)(B)(i) in determining the amount of credit under § 24 that may be refundable is \$10,500.

.05 Hope and Lifetime Learning Credits.

(1) For taxable years beginning in 2003, 100 percent of qualified tuition and related expenses not in excess of \$1,000 and 50 percent of such expenses in excess of \$1,000 are taken into account in determining the amount of the Hope Scholarship Credit under § 25A(b)(1).

(2) For taxable years beginning in 2003, a taxpayer's modified adjusted gross income in excess of \$41,000 (\$83,000 in the case of a joint return) is taken into account in determining the reduction under § 25A(d)(2)(A)(ii) in the amount of the Hope Scholarship and Lifetime Learning Credits otherwise allowable under § 25A(a).

.06 Earned Income Credit.

(1) In general. For taxable years beginning in 2003, the following amounts are used

to determine the earned income credit under § 32(b). The "earned income amount" is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. The "threshold phaseout amount" is the amount of adjusted gross income (or, if greater, earned income) above which the maximum amount of the credit begins to phase out. The "completed phaseout amount" is the amount of adjusted gross income (or if greater, earned income) at or above which no credit is allowed.

<u>Item</u>	<u>Number of Qualifying Children</u>		
	<u>One</u>	<u>Two or More</u>	<u>None</u>
Earned Income Amount	\$ 7,490	\$10,510	\$ 4,990
Maximum Amount of Credit	\$ 2,547	\$ 4,204	\$ 382
Threshold Phaseout Amount	\$13,730	\$13,730	\$ 6,240
Completed Phaseout Amount	\$29,666	\$33,692	\$11,230
Threshold Phaseout Amount (Married Filing Jointly)	\$14,730	\$14,730	\$ 7,240
Completed Phaseout Amount (Married Filing Jointly)	\$30,666	\$34,692	\$12,230

The instructions for the Form 1040 series provide tables showing the amount of the earned income credit for each type of taxpayer.

(2) Excessive investment income. For taxable years beginning in 2003, the earned income tax credit is denied under § 32(i) if the aggregate amount of certain investment income exceeds \$2,600.

.07 Low-Income Housing Credit. For calendar years beginning in 2003, the amounts used under § 42(h)(3)(C)(ii) to calculate the State housing credit ceiling for the low-income housing credit is the greater of \$1.75 multiplied by the State population or \$2,030,000.

.08 Alternative Minimum Tax Exemption for a Child Subject to the "Kiddie Tax." For taxable years beginning in 2003, in the case of a child to whom the § 1(g) "kiddie tax" applies, the exemption amount under §§ 55 and 59(j) for purposes of the alternative minimum tax under § 55 may not exceed the sum of (A) such child's earned income for the taxable year, plus (B) \$5,600.

.09 Standard Deduction.

(1) In general. For taxable years beginning in 2003, the standard deduction amounts under § 63(c)(2) are as follows:

<u>Filing Status</u>	<u>Standard Deduction</u>
MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES (§ 1(a))	\$7,950
HEADS OF HOUSEHOLDS (§ 1(b))	\$7,000
UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS) (§ 1(c))	\$4,750
MARRIED INDIVIDUALS FILING SEPARATE RETURNS (§ 1(d))	\$3,975

(2) Dependent. For taxable years beginning in 2003, the standard deduction amount under § 63(c)(5) for an individual who may be claimed as a dependent by

another taxpayer may not exceed the greater of \$750 or the sum of \$250 and the individual's earned income.

(3) Aged and blind. For taxable years beginning in 2003, the additional standard deduction amounts under § 63(f) for the aged and for the blind are \$950 for each. These amounts are increased to \$1,150 if the individual is also unmarried and not a surviving spouse.

.10 Overall Limitation on Itemized Deductions. For taxable years beginning in 2003, the "applicable amount" of adjusted gross income under § 68(b), above which the amount of otherwise allowable itemized deductions is reduced under § 68, is \$139,500 (or \$69,750 for a separate return filed by a married individual).

.11 Qualified Transportation Fringe. For taxable years beginning in 2003, the monthly limitation under § 132(f)(2)(A), regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass, is \$100. The monthly limitation under § 132(f)(2)(B) regarding the fringe benefit exclusion amount for qualified parking is \$190.

.12 Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses. For taxable years beginning in 2003, the exclusion under § 135, regarding income from United States savings bonds for taxpayers who pay qualified higher education expenses, begins to phase out for modified adjusted gross income above \$87,750 for joint returns and \$58,500 for other returns. This exclusion completely phases out for modified adjusted gross income of \$117,750 or more for joint

returns and \$73,500 or more for other returns.

.13 Adoption Assistance Programs. For taxable years beginning in 2003, under § 137(a)(2) the maximum amount that an employer can exclude from an employee's gross income in connection with the adoption by the employee of a child with special needs is \$10,160. For taxable years beginning in 2003, under § 137(b)(1) the maximum amount that can be excluded from an employee's gross income for the amounts paid or expenses incurred by the employer for qualified adoption expenses furnished pursuant to an adoption assistance program in connection with other adoptions by the employee is \$10,160. The amount excludable from an employee's gross income begins to phase out under § 137(b)(2)(A) for taxpayers with modified adjusted gross income in excess of \$152,390 and is completely phased out for taxpayers with modified adjusted gross income of \$192,390.

.14 Private Activity Bonds Volume Cap. For calendar years beginning in 2003, the amounts used under § 146(d)(1) to calculate the State ceiling for the volume cap for private activity bonds is the greater of \$75 multiplied by the State population or \$228,580,000.

.15 Personal Exemption.

(1) Exemption amount. For taxable years beginning in 2003, the personal exemption amount under § 151(d) is \$3,050.

(2) Phase out. For taxable years beginning in 2003, the personal exemption amount begins to phase out at, and is completely phased out after, the following adjusted gross

income amounts:

<u>Filing Status</u>	<u>AGI - Beginning of Phaseout</u>	<u>AGI Above Which Exemption Fully Phased Out</u>
Code § 1(a)	\$209,250	\$331,750
Code § 1(b)	\$174,400	\$296,900
Code § 1(c)	\$139,500	\$262,000
Code § 1(d)	\$104,625	\$165,875

.16 Eligible Long-Term Care Premiums. For taxable years beginning in 2003, the limitations under § 213(d)(10), regarding eligible long-term care premiums includible in the term "medical care," are as follows:

<u>Attained age before the close of the taxable year</u>	<u>Limitation on premiums</u>
40 or less	\$ 250
More than 40 but not more than 50	\$ 470
More than 50 but not more than 60	\$ 940
More than 60 but not more than 70	\$2,510
More than 70	\$3,130

.17 Medical Savings Accounts.

(1) Self-only coverage. For taxable years beginning in 2003, the term "high deductible health plan" as defined in § 220(c)(2)(A) means, in the case of self-only coverage, a health plan that has an annual deductible that is not less than \$1,700 and not more than \$2,500, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$3,350.

(2) Family coverage. For taxable years beginning in 2003, the term "high deductible health plan" means, in the case of family coverage, a health plan that has an annual deductible that is not less than \$3,350 and not more than \$5,050, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$6,150.

.18 Interest on Education Loans. For taxable years beginning in 2003, the \$2,500 maximum deduction for interest paid on qualified education loans under § 221 is reduced under § 221(b)(2)(B) when modified adjusted gross income exceeds \$50,000 (\$100,000 for joint returns), and is completely eliminated when modified adjusted gross income is \$65,000 (\$130,000 for joint returns).

.19 Treatment of Dues Paid to Agricultural or Horticultural Organizations. For taxable years beginning in 2003, the limitation under § 512(d)(1), regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization, is \$122.

.20 Insubstantial Benefit Limitations for Contributions Associated with Charitable Fund-Raising Campaigns.

(1) Low cost article. For taxable years beginning in 2003, the unrelated business income of certain exempt organizations under § 513(h)(2) does not include a "low cost article" of \$8 or less.

(2) Other insubstantial benefits. For taxable years beginning in 2003, the \$5, \$25, and \$50 guidelines in section 3 of Rev. Proc. 90-12, 1990-1 C.B. 471 (as amplified and

modified), for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution under § 170, are \$8, \$40, and \$80, respectively.

.21 Funeral Trusts. For a contract entered into during calendar year 2003 for a "qualified funeral trust," as defined in § 685, the trust may not accept aggregate contributions by or for the benefit of an individual in excess of \$7,800.

.22 Expatriation to Avoid Tax. For calendar year 2003, the amounts used under § 877(a)(2), regarding whether an individual's loss of United States citizenship had the avoidance of United States taxes as one of its principal purposes, are more than \$122,000 for "average annual net income tax" and \$608,000 or more for "net worth."

.23 Valuation of Qualified Real Property in Decedent's Gross Estate. For an estate of a decedent dying in calendar year 2003, if the executor elects to use the special use valuation method under § 2032A for qualified real property, the aggregate decrease in the value of qualified real property resulting from electing to use § 2032A that is taken into account for purposes of the estate tax may not exceed \$840,000.

.24 Annual Exclusion for Gifts.

(1) For calendar year 2003, the first \$11,000 of gifts to any person (other than gifts of future interests in property) are not included in the total amount of taxable gifts under § 2503 made during that year.

(2) For calendar year 2003, the first \$112,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not

included in the total amount of taxable gifts under §§ 2503 and 2523(i)(2) made during that year.

.25 Generation-Skipping Transfer Tax Exemption. For calendar year 2003, the generation-skipping transfer tax exemption under § 2631, which is allowed in determining the "inclusion ratio" defined in § 2642, is \$1,120,000.

.26 Passenger Air Transportation Excise Tax. For calendar year 2003, the tax under § 4261(b) on the amount paid for each domestic segment of taxable transportation by air is \$3. For calendar year 2003, the tax under § 4261(c) on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States, generally is \$13.40. However, in the case of a domestic segment beginning or ending in Alaska or Hawaii as described in § 4261(c)(3), the tax only applies to departures and is at the rate of \$6.70.

.27 Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures. For taxable years beginning in 2003, the annual per person, family, or entity dues limitation to qualify for the reporting exception under § 6033(e)(3) (and section 5.05 of Rev. Proc. 98-19, 1998-7 I.R.B. 30), regarding certain exempt organizations with nondeductible lobbying expenditures, is \$85 or less.

.28 Notice of Large Gifts Received from Foreign Persons. For taxable years beginning in 2003, recipients of gifts from certain foreign persons may be required to report these gifts under § 6039F if the aggregate value of gifts received in a taxable year exceeds \$11,827.

.29 Persons Against Which a Federal Tax Lien Is Not Valid. For calendar year 2003, a federal tax lien is not valid against (1) certain purchasers under § 6323(b)(4) that purchased personal property in a casual sale for less than \$1,150 or (2) a mechanic's lienor under § 6323(b)(7) that repaired or improved certain residential property if the contract price with the owner is not more than \$5,750.

.30 Property Exempt from Levy. For calendar year 2003, the value of property exempt from levy under § 6334(a)(2) (fuel, provisions, furniture, and other household personal effects, as well as arms for personal use, livestock, and poultry) may not exceed \$6,890. The value of property exempt from levy under § 6334(a)(3) (books and tools necessary for the trade, business, or profession of the taxpayer) may not exceed \$3,440.

.31 Interest on a Certain Portion of the Estate Tax Payable in Installments. For an estate of a decedent dying in calendar year 2003, the dollar amount used to determine the "2-percent portion" (for purposes of calculating interest under § 6601(j)) of the estate tax extended as provided in § 6166 is \$1,120,000.

.32 Attorney Fee Awards. For fees incurred in calendar year 2003, the attorney fee award limitation under § 7430(c)(1)(B)(iii) is \$150 per hour.

.33 Periodic Payments Received under Qualified Long-Term Care Insurance Contracts or under Certain Life Insurance Contracts. For calendar year 2003, the stated dollar amount of the per diem limitation under § 7702B(d)(4), regarding periodic payments received under a qualified long-term care insurance contract or periodic

payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual, is \$220.

SECTION 4. EFFECTIVE DATE

.01 General Rule. Except as provided in section 4.02, this revenue procedure applies to taxable years beginning in 2003.

.02 Calendar Year Rule. This revenue procedure applies to transactions or events occurring in calendar year 2003 for purposes of sections 3.07 (low-income housing credit), 3.14 (private activity bond volume cap), 3.21 (funeral trusts), 3.22 (expatriation to avoid tax), 3.23 (valuation of qualified real property in decedent's gross estate), 3.24 (annual exclusion for gifts), 3.25 (generation-skipping transfer tax exemption), 3.26 (passenger air transportation excise tax), 3.29 (persons against which a federal tax lien is not valid), 3.30 (property exempt from levy), 3.31 (interest on a certain portion of the estate tax payable in installments), 3.32 (attorney fee awards), and 3.33 (periodic payments received under qualified long-term care insurance contracts or under certain life insurance contracts).

SECTION 5. DRAFTING INFORMATION

The principal author of this revenue procedure is Marnette Myers of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Ms. Myers on (202) 622-4920 (not a toll-free call).