# Section 4 Explanation of Terms

The Explanation of Terms section is designed to clarify the statistical content of this report and should not be construed as an interpretation of the Internal Revenue Code, related regulations, procedures, or policies.

The definitions and explanation in this section relate to column or row titles used in one or more tables in this report. They provide background or limitations to such titles, and are necessary to interpret the statistical tables to which they relate. For each of these titles, the line number of the tax form on which it is reported appears after the title. Definitions marked with the symbol ∆ have been revised for 2010 to reflect changes in the law.

## Additional Child Tax Credit

(line 65, Form 1040)

See “Child Tax Credit.”

## Additional Standard Deduction

(line 39a, and included in line 40, Form 1040)

See “Standard Deduction.”

## Additional Taxes

(line 44b, Form 1040)

Taxes calculated on Form 4972, *Tax on Lump-Sum Distributions* were reported here.

## Adjusted Gross Income Less Deficit

(line 37, Form 1040)

Income that had to be reported for the calculation of total income (line 22, Form 1040) and of adjusted gross income included the following:

- Compensation for services, including wages, salaries, fees, commissions, tips, taxable fringe benefits, and similar items;
- Taxable interest received;
- Ordinary dividends and capital gain distributions;
- Taxable refunds of state and local income taxes;
- Alimony and separate maintenance payments;
- Net income derived from a business, profession, or farm;
- Net gain from the sale of capital assets;

- Net gain from the sale of business property;
- Taxable amounts of annuities, pensions, and individual retirement arrangement (IRA) distributions;
- Rents and royalties;
- Distributive share of partnership or S corporation net income;
- Net income from an estate or trust;
- Unemployment compensation;
- Taxable amounts of social security and railroad retirement (Tier 1) payments;
- Taxable distributions from a Coverdell education savings account or qualified tuition program;
- Taxable distributions from a health savings account (HSA) or Archer MSA;
- Prizes, awards, and gambling winnings;
- Jury duty pay;
- Amounts received that were claimed as a deduction or credit in a prior year;
- Bartering income;
- Alaska permanent fund dividends; and
- Alternative trade adjustment assistance payments;
- Income from the rental of personal property engaged in for profit;
- Income from an activity not engaged in for profit;
- Loss on certain corrective distributions of excess deferrals;
- Dividends on insurance policies if they exceeded the total of all net premiums paid;
- Recapture of a charitable contribution deduction relating to the contribution of a fractional interest in tangible personal property or if the charitable organization disposes of the donated property within 3 years of the contribution;
- Cancelled debts;

Some reported income was fully or partially excluded from total income for 2010. The following is a list of such items:

- The cost basis of pension, annuity, or IRA payments or distributions;
- Tax-exempt interest;
- Limited exclusion of social security benefits and railroad retirement benefits (only required to be reported if there was also a taxable amount);
- Limited exclusion of qualified foreign earned income;
- Exclusion of part or all of the gain from sale of principal residence up to $250,000 ($500,000 on joint returns); and

From total income, the following statutory adjustments (lines 23 through 35, Form 1040) were subtracted to arrive at adjusted gross income (line 37, Form 1040):

- Educator expenses;
- Certain business expenses of reservists, performing artists, and fee-basis government officials;
- Health savings account deduction;
- Moving expenses;
- One-half of self-employment tax;
- Contributions to self-employed retirement plans (Keogh or simplified employee pension) and certain contributions to IRAs;
- Self-employed health insurance deduction;
- Forfeited interest and penalties incurred by persons who made premature withdrawals of funds from time savings accounts;
- Alimony payments;
- IRA deductions;
- Certain student loan interest;
- Tuition and fees deduction;
- Domestic production activities deduction;
- Archer MSA deduction;
- Amount of jury duty pay reported on line 21, Form 1040, that was repaid to employers;
- Deductible expenses related to income on line 21 from the rental of personal property engaged in for profit;
- Forestation or reforestation expenses;
- Foreign housing exclusion;
- Repayments of supplemental unemployment compensation;
- Attorney fees and court costs paid for actions involving certain unlawful discrimination claims but only to the extent of gross income from such actions; and
- Attorney fees and court costs paid in

connection with an award from the IRS for information provided that helped the IRS detect tax law violations but only to the amount the award includable in gross income;

A deficit occurred if the allowable exclusions and deductions exceeded gross income, (i.e., the amount on line 36 was greater than the amount on line 22).

## Adjusted Gross Income or Loss

See "Adjusted Gross Income Less Deficit."

## Adjustments

See "Statutory Adjustments."

## Adoption Credit ∆

(line 71b, Form 1040)

New for 2010, the adoption credit was refundable. This credit (reported on Form 8839) was available to taxpayers who paid qualified adoption expenses in 2009 for an adoption that was not final at the end of 2009, or for qualified expenses paid in 2010, for an adoption that was final in or before 2010. The credit could have been as much as $13,170 for each child. The credit began to phase out if a taxpayer had modified adjusted gross income in excess of $182,520 and completely phased out for modified adjusted gross income of $222,520 or more. For these statistics, the adoption credit was divided into three parts: the amount used to offset income tax before credits; the amount used to offset all other taxes; and the refundable portion.

## Advance Earned Income Credit Payments

(line 59a, Form 1040)

Taxpayers who believed they would be eligible for the earned income credit at the end of the year could have received part of the credit from their employers as an additional payment in their paychecks during the year. Those payments were then shown on the tax return where they either increased the balance due amount or reduced the amount of the overpayment.

## Alimony Paid

(line 31a, Form 1040)

Payments made as alimony or separate maintenance counted as a deduction (an adjustment to total income) for the person paying them.

## Alimony Received

(line 11, Form 1040)

Payments received as alimony or separate maintenance were income to the person receiving them.

## All Other Taxes

(lines 56, 57, 58, 59b, 59c, 60 Form 1040)

For the statistics in this report, this amount represents the sum of the self-employment tax; social security and Medicare taxes on tip income and wages; penalty tax on qualified retirement plans; household employment taxes; repayment of the first-time homebuyer credit; additional tax on health savings account distributions; additional tax on Archer MSA distributions; additional tax on Medicare Advantage MSA distributions; tax from the recapture of the investment credit, the low income housing credit, qualified plug-in electric vehicle credit, the Indian employment credit, the new markets credit, credit for employer provided child care facilities, alternative motor vehicle credit, the alternative fuel vehicle refueling credit and the qualified plug-in electric drive motor vehicle credit; recapture of federal mortgage subsidy; COBRA premium assistance; section 72 penalty taxes; other unspecified taxes which included uncollected FICA (or social security) tax on tips; excess golden parachute payments; excise tax on stock compensation from an expatriated corporation; an additional tax on income from a nonqualified deferred compensation plan; interest of the tax due from the sale of residential lots and timeshares; interest on the deferred tax on gain from certain installment sales; additional tax on recapture of a charitable deduction relating to a fractional interest in tangible personal property; look-back interest; repayment of ineligible advance payments of the health coverage tax credit; and the statistics included tax from recapture of education credits. This differs slightly from the "other taxes" portion of the Form 1040 itself, which included the taxes listed above plus the advance earned income credit payments, received. Another item that is not included in all other taxes but instead is included in "total income tax" is tax from Form 4970, *Tax on Accumulation Distribution of Trusts*. (See also "Taxable and Nontaxable Returns" and "Total Income Tax.")

## Alternative Fuel Vehicle Refueling Property Credit

(line 53c, Form 1040)

Taxpayers could have claimed this credit for any non-depreciable alternative fuel vehicle refueling property placed in service during the tax year. Qualified alternative fuel vehicle refueling property is any property used to store or dispense an alternative fuel at the point where the fuel is delivered into a fuel tank of a motor vehicle propelled by the fuel.

## Alternative Minimum Tax ∆

(line 45, Form 1040)

The Revenue Act of 1978 established the alternative minimum tax to ensure that a minimum amount of income tax was paid by taxpayers who might otherwise be able to legally reduce, or totally eliminate, their tax burdens. The alternative minimum tax (AMT) was levied on income including benefits received in the form of deductions and exclusions, which reduced an individual's regular effective tax rate. These benefits, known as "alternative minimum tax preferences and adjustments," resulted from the treatment that the tax law gave to particular income and expense items. Alternative minimum taxable income (line 28, Form 6251) was defined as taxable income for ordinary income tax purposes adjusted for net operating losses from other tax years plus the amount of adjustments and preferences.

Alternative minimum taxable income (AMTI) was then reduced by an exemption amount determined by filing status and AMTI. If the return was filed jointly by a married couple or a surviving spouse, the maximum amount of the exemption was $72,450. The maximum amount for a single or head of household taxpayer was $47,450, and for a married couple filing separately, $36,225. The AMT exclusion was phased out if AMTI exceeded certain levels. For single taxpayers, the phase-out began at $112,500 and ended at $302,300. For joint returns the range was $150,000 to $439,800, and for married couples filing separately, the range was $75,000 to $219,900.

If there was an amount remaining after subtracting the exemption, the first $175,000 (the first $87,500 if married filing separately) was taxed at a 26 percent rate; any excess was taxed at a 28 percent rate, except that capital gains were taxed at the same rates under the AMT as under the regular income tax. This amount was then reduced by the recalculated alternative minimum tax foreign tax credit, and regular income tax before credits (line 44, Form 1040 minus the regular foreign tax credit, line 47, Form 1040) to arrive at the alternative minimum tax.

Personal credits (such as the child tax credit, child care credit, etc.) could be taken against the AMT.

## Alternative Motor Vehicle Credit

(included in line 53c, Form 1040)

Taxpayers could have used Form 8910 to claim a credit for an alternative motor vehicle they put into service during the tax year. An alternative motor vehicle is a new vehicle that qualifies as one of the following five types of vehicles:

- Advanced lean burn technology vehicle,
- Qualified hybrid vehicle,
- Qualified alternative fuel vehicle,
- Qualified fuel cell vehicle, and
- Qualified plug-in electric drive motor vehicle.

## American Opportunity Credit

(line 66, Form 1040)

For these statistics, the American opportunity credit was divided into three parts: the amount used to offset income tax before credits; the amount used to offset all other taxes; and the refundable portion. (See also "Education Credits.")

## Archer Medical Savings Account (MSA) Deduction

(included in line 36, Form 1040)

Certain taxpayers who were covered only by a high-deductible health plan were able to participate in the Archer medical savings account program. The taxpayer was allowed to take a deduction of up to $1,950 ($4,537.50 for a family) a year for contributions to a medical savings account. The Archer medical savings accounts were used to pay for medical expenses not reimbursable by medical insurance. Form 8853, Archer MSA's and Long-Term Care Insurance Contracts, was used for the medical savings accounts.

## Basic Standard Deduction

(included in line 40, Form 1040)

See "Standard Deduction."

## Business or Profession Net Income or Loss

(line 12, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of a nonfarm business, including self-employed members of a profession.

If two or more sole proprietorships were operated by the same taxpayer, the single amount of net income or loss included in the adjusted gross income represented the combined net income and loss from all sole proprietorships. The proprietor was required to exclude investment income from business profits and include it, instead, with the various types of investment income for which separate provisions were made on the individual income tax return.

Total expenses (line 28, Schedule C) were deducted from gross income (line 7, Schedule C) to arrive at a tentative profit or loss. Expenses for business use of the taxpayer's home (line 30, Schedule C) were then deducted to arrive at net income or loss. Compensation of the proprietor was included in computing net income, and was not allowed as a business deduction. The deduction of net operating losses from previous years was not considered a business expense, but was offset against "Other Income" (line 21, Form 1040).

Information on sole proprietorships, business receipts, and expenditures can be found in the Summer 2012 issue of the *Statistics of Income Bulletin*.

## Business or Profession Net Income Less Loss

See "Business or Profession Net Income or Loss."

## Cancellation of Debt

(included in line 21, Form 1040)

Taxpayers had to report any nonbusiness debt that was cancelled or forgiven as income on Form 1040, line 21. Taxpayers also had to include any forgiven interest on the forgiven debt if the interest would not have been deductible. If the interest would have been deductible, taxpayers did not have to include it as income. Also, a taxpayer did not have to report forgiven debt as income if the forgiven amount was intended as a gift.

## Capital Assets

See "Sales of Capital Assets, Net Gain or Loss."

## Capital Construction Fund Reduction

(included in line 43, Form 1040)

The Capital Construction Fund (CCF) is a special investment program administered by the National Marine Fisheries Service and the Internal Revenue Service. This program allows fishermen to defer paying income tax on certain income they invest in a CCF account and later use to acquire, build, or rebuild fishing vessels. This amount is subtracted from tax table income to calculate taxable income.

## Capital Gain Distributions Reported on Form 1040

(included in line 13, Form 1040)

Taxpayers who had capital gains strictly from capital gain distributions could enter the amount directly on line 13, Form 1040.

## Capital Gain Distributions Reported on Schedule D

(line 13, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Capital Gains and Losses

See "Sales of Capital Assets, Net Gain or Loss."

## Casualty or Theft Loss Deduction, Nonbusiness ∆

(line 20, Schedule A)

Nonbusiness casualty and theft losses were deductible, as an itemized deduction, from adjusted gross income to the extent that the nonreimbursable net loss for each such casualty or theft exceeded $100, and the combined amount for all net losses during the year exceeded 10 percent of adjusted gross income. (See also "Total Itemized Deductions.")

## Casualty or Theft Loss of Income-Producing Property

(included in line 28, Schedule A)

See "Miscellaneous Itemized Deductions."

## Certain business expenses of reservists, performing artists, and fee-basis government officials

(line 24, Form 1040)

Qualified business expenses were deductible for reservists, performing artists, and fee-basis state or local government officials, whether or not the taxpayer itemized their deductions.

## Child Care Credit

(line 48, Form 1040)

This credit could be claimed by taxpayers who, while employed or looking for work, incurred expenses for the care of dependent children under age 13, or disabled dependents of any age. Qualified expenses included those for services performed within the home by non-dependent baby-sitters, maids, or cooks. Expenditures paid for the care of children under the age of 13 or any other qualified individuals for out-of-home, non-institutional care qualified for the child care credit. If the taxpayer omitted or used an invalid Social Security number or employer identification number (EIN) for the child care provider, the IRS used mathematical error procedures to change the child care credit.

The maximum amount of care-related expenses on which the credit could be based with one qualifying child or dependent, was the smaller of earned income or $3,000; with more than one dependent the credit was based on the smaller of earned income or $6,000. For returns of married couples filing jointly, earned income refers to the earnings of the spouse with the lesser earned income. Exceptions were allowed if the spouse was disabled or a full-time student.

The credit was equal to 35 percent of eligible expenses for taxpayers with adjusted gross income of $15,000 or less. The credit was reduced by one percentage point for each $2,000 or fraction thereof of adjusted gross income in excess of $15,000 up to $43,000. The credit remained at 20 percent of expenses for individuals with adjusted gross income over $43,000.

The amount of the credit which could be claimed was limited to income tax before credits, and any excess was not refundable.

## Child Tax Credit

(line 51, Form 1040)

A credit was allowed for each qualifying child under 19 (or under 24 and a student). To be a qualifying child, the person had to be a son, daughter, stepchild, adopted child, qualifying foster child, bother, sister, stepbrother, stepsister, or a descendant of any of them (for example, grandchild, nephew, niece), for whom the taxpayer claims a dependent exemption. The taxpayer could claim up to $1,000 for each child meeting the AGI phase out guidelines. The credit was phased out by $50 for each $1,000, or fraction thereof, that AGI exceeded: $110,000 for taxpayers filing jointly; $55,000 for married filing separately; and $75,000 for single filers, head of households, or widow(ers).

An additional child tax credit could have been refundable. The taxpayer had to meet the general requirements and some additional requirements. The additional child tax credit was not included in credits but instead as a payment (line 65, Form 1040). The credit limit based on earned income was 15 percent of the taxpayer's earned income that exceeded $3,000. Members of the US Armed Forces, who served in a combat zone, had their nontaxable combat pay count as earned income in figuring this credit. For the statistics, this amount was broken down into the additional child tax credit to offset other taxes and the refundable amount.

## Contributions Deduction

(lines 16-19, Schedule A)

Taxpayers could deduct contributions to certain organizations that were religious, charitable, educational, scientific, or literary in purpose. Contributions could be in cash, property, or out-of-pocket expenses that a taxpayer paid in doing volunteer work for a qualified organization. Contributions were allowed as an itemized deduction on Schedule A. Cash contributions were generally limited to one-half of the taxpayer's AGI, while contributions of capital gain property were generally limited to 30 percent (20 percent in certain cases) of the taxpayer's AGI. Contributions which could not be deducted due to the AGI limitation could be carried over to future years (and brought over from previous years). For all charitable contributions of $250 or more, a written acknowledgment from the qualified recipient organization was required.

Taxpayers were able to make a tax free distribution from an Individual Retirement Account to certain charitable organizations if they were at least 70 ½ years old. However, the taxpayer could not take a charitable deduction on Schedule A for the same contribution.

## Credit for Federal Tax on Gasoline and Special Fuels

(line 70, Form 1040)

This refundable credit (claimed on Form 4136) was allowed for federal excise taxes paid on gasoline and special fuels, such as gasohol and diesel fuel, provided the fuel was used for certain purposes (such as farm or non-highway use in a trade or business), bought at a price that included the tax, and a refund of the tax was not requested or received. The credit could reduce unpaid total tax liability or could be refunded.

## Credit for the Elderly or Disabled

(line 53c, Form 1040)

A credit (claimed on Schedule R) for the elderly or permanently and totally disabled was available to taxpayers age 65 or older (within certain income limitations), and to those taxpayers under age 65 who had retired with a permanent and total disability and who had received taxable income from a public or private employer because of that disability. The income to which the credit could be applied was reduced by nontaxable amounts of social security and railroad retirement benefits, veterans' pensions, and any other pension, annuity, or disability benefits that were excluded from income under any other provisions of the law.

An individual was considered permanently and totally disabled when he or she could not engage in any substantial gainful activity because of a physical or mental condition which had lasted, or was expected to last, at least twelve months, or was determined to be terminal.

The maximum credit available ($1,125) was limited to total income tax with any excess not refundable, and was reduced if the taxpayer's income exceeded certain levels. Generally, if a taxpayer's income was high enough to require the reporting of social security benefits as taxable income, the taxpayer could not take the credit.

## Credit from Regulated Investment Companies

(line 71a, Form 1040)

Taxpayers were required to include in total income any amounts which were allocated to them as undistributed long-term capital gains of regulated investment companies. If investment companies paid tax on the capital gain, taxpayers were entitled to claim a refundable credit (claimed on Form 2439) for their proportionate share of the tax paid.

## Credit to 2011 Estimated Tax

(line 75, Form 1040)

This amount was the part of the overpayment of 2010 tax which taxpayers specifically requested to be credited to their estimated tax for 2011. (See also "Overpayment" and "Estimated Tax Payments.")

## Deduction of Self-Employment Tax Δ

(line 27, From 1040)

If a taxpayer had income from self-employment and owed self-employment tax, one-half of that tax was deductible for income tax purposes. The amount was subtracted as an adjustment to total income in the calculation of AGI. For 2010, a taxpayer could have reduced their net self employment income on Schedule SE by the amount of self-employed health insurance deduction entered on line 29 of Form 1040, which, in turn would reduce the size of this adjustment to income. (See also "Self-Employment Tax.")

## Dividends

(lines 9a and 9b, Form 1040)

Ordinary dividend income consisted of distributions of money, stock, or other property received by taxpayers from domestic and foreign corporations, either directly or passed through estates, trusts, partnerships, or regulated investment companies. Ordinary dividends also included distributions from money market mutual funds.

Ordinary dividends did not include nontaxable distributions of stock or stock rights, returns of capital, capital gains, or liquidation distributions. Taxpayers were also instructed to exclude amounts paid on deposits or withdrawable accounts in banks, mutual savings banks, cooperative banks, savings and loan associations, and credit unions, which were treated as interest income.

Qualified dividends are the ordinary dividends received in tax years beginning after 2002 that met certain conditions. These included: the dividend must have been paid by a U.S. corporation or a "qualified" foreign corporation; the stock ownership must have met certain holding period requirements; the dividends were not from certain institutions, such as mutual savings banks, cooperative banks, credit unions, tax-exempt organizations, or farmer cooperatives; and the dividends were not for any share of stock which was part of an employee stock ownership plan (ESOP). The maximum tax rate for qualified dividends was 15 percent. Starting in 2008, the 5 percent tax rate for qualified dividends (generally taxpayers whose other income was taxed at the 10 percent or 15 percent rate) was reduced to zero.

## Domestic Production Activities Deduction Δ

(line 35, Form 1040)

A taxpayer could have deducted up to 9 percent of qualified production activities with some limitations. Activities included construction performed in the United States; engineering or architectural services performed in the United States; and any lease, rental license, sale, or exchange. Other deductible items included tangible personal property, qualified films and electricity, natural gas, or potable water that the taxpayer produced in the United States. However, if the business activity was oil-related, this deduction was limited to 6 percent (as were all activities for 2009).

## Earned Income Credit Δ
(line 64a, Form 1040)

The earned income credit (EIC) for 2010 was a maximum of $457 for taxpayers with no qualifying children, $3,050 for one qualifying child, $5,036 for two qualifying children, and $5,666 for taxpayers with three or more qualifying children. To be eligible for the credit with children, the taxpayers, other than married taxpayers filing jointly, must have had a qualifying child living with them for more than half the year and have had earned income and adjusted gross income each less than $35,535 ($40,363 if two qualifying children and $43,352 if three or more qualifying children). For married filing jointly, earned income and adjusted gross income had to be less than $40,545 for one child, $45,373 for two children and $48,362 for three children or more. To be eligible for the credit without children, the taxpayer must have had earned income and adjusted gross income less than $13,460 ($18,470 for married filing jointly) and the taxpayer (or their spouse) must have been at least 25 years of age and less than 65 years old. The credit was generally based on earned income, consisting of wages, salaries, and other employee compensation, plus net earnings from self-employment. A taxpayer, who was a member of the US Armed Forces and served in a combat zone, had certain pay excluded from their income. The taxpayer could have elected to include this pay in earned income when figuring the EIC. Taxpayers with investment income totaling more than $3,100 were not eligible to receive the EIC. Investment income included interest income (taxable and tax-exempt), dividend income, plus interest and dividend income from Form 8814, and capital gain net income. As in previous years, taxpayers could not take the credit if their filing status was married filing separately, or if they claimed the foreign-earned income exclusion.

For this report, the earned income credit is divided into three parts: the amount used to offset income tax before credits (limited to the amount needed to reduce income tax after credits to zero); the amount used to offset all other taxes (limited to the amount needed to reduce total tax liability to zero); and the refundable portion. (See also "Advance Earned Income Credit Payments.")

## Earned Income Credit, Refundable Portion

See "Earned Income Credit."

## Earned Income Credit Used to Offset Income Tax Before Credits

See "Earned Income Credit."

## Earned Income Credit Used to Offset Other Taxes

See "Earned Income Credit."

## Education Credits Δ
(line 49, 66 Form 1040)

There were two credits available, the Lifetime Learning credit and the American Opportunity credit. A taxpayer was only able to claim one of the credits per student. The Lifetime Learning credits were phased out for AGI between $50,000 and $60,000 ($100,000 and $120,000 for married filing jointly). The American Opportunity credit was phased out for AGI between $80,000 and $90,000 ($160,000 and $180,000 if married filing jointly). A taxpayer could not take any of the credits if they were claimed as a dependent on another return, married filing separately, or took a deduction for tuition and fees for the same student.

The Lifetime Learning credit could have been used for tuition and expenses for undergraduate, graduate, and professional degree courses. The credit could have been used for an unlimited amount of time, as long as the taxpayer or dependents were enrolled in post-secondary education. The Lifetime Learning credit was a maximum of 20 percent of the first $10,000 of eligible expenses, or $2,000 per return.

The American Opportunity credit could have been used for tuition and expenses for undergraduate or other recognized education credential. The credit could only have been used for the first 4 years of post-secondary education, as long as the taxpayer or dependents were enrolled at least half time. The maximum credit per student was $2,500 (100% of the first $2,000 and 25% of the next $2,000 of qualified education expenses). The credit was available for the first 4 years of postsecondary education and 40% of the credit (up to $1,000) was refundable. (See also "American Opportunity Credit.")

## Education IRA (Coverdell Education Savings Accounts)

Taxpayers could have made nondeductible contributions up to $2,000 annually to an educational IRA for a child under age 18. The earnings and withdrawals were tax-free to the extent that withdrawals did not exceed the beneficiary's qualified higher education expenses for the year. The educational IRA contribution was phased out for modified AGI between $95,000 and $110,000 (between $190,000 and $220,000 for taxpayers married filing jointly) (See also "Individual Retirement Arrangement Deductible Payments.")

## Educator Expenses

(line 23, Form 1040)

If a taxpayer was an eligible educator in kindergarten through grade 12 in 2010, a deduction of $250 ($500 for two educators filing jointly) qualified expenses may have been taken. This deduction could have been taken even if the taxpayer did not itemize deductions. Taxpayers may have been able to deduct expenses more than the $250 limit on Schedule A, line 21.

## Employee Business Expense

See "Unreimbursed Employee Business Expenses."

## Estate or Trust Net Income or Loss

(line 37, Schedule E, Part III)

This was the beneficiary's share of fiduciary income (with the exception of the items described below, which were reported separately) from any estate or trust. Income from estates or trusts included amounts required to be distributed, amounts credited to beneficiaries' accounts from current-year fiduciary income (whether or not actually distributed), and any other amounts which were properly paid, credited, or required to be distributed for that year.

Taxpayers excluded their share of dividends and gains or losses from sales of capital assets or other property, from estate or trust income. Such income (which made up the largest portion of income from estates or trusts) was included on the tax return on the separate lines provided for these income types and was not separately identified for the statistics. A loss from an estate or trust was allocated to the beneficiary only upon settlement or termination of an estate or trust and was limited by the "passive loss" rules.

The columns labeled "net income" and "net loss" represent the sum of all income and losses reported from all estates or trusts, i.e., the net amount computed on a return-by-return basis.

## Estate and Trust Net Income Less Loss

See "Estate or Trust Net Income or Loss."

## Estimated Tax Payments

(line 62, Form 1040)

This figure represents the total of the tax payments made for 2010 using Form 1040-ES, and any overpayment from the taxpayer's 2009 return that was applied to the 2010 estimated tax. Generally, individuals were required to make estimated tax payments if they expected to owe, after subtracting withholding and credits, at least $1,000 in tax for 2010, and they expected withholding and credits to be less than the smaller of: (a) 90 percent of the tax shown on Form 1040 for 2010, or (b) 100 percent of the tax shown on Form 1040 for 2009 (110 percent of the tax shown on Form 1040 for 2009 for taxpayers with adjusted gross income greater than $150,000 ($75,000 for married filing separately)).

## Excess Social Security Taxes Withheld

(line 69, Form 1040)

If a taxpayer earned more than $106,800 in total wages from two or more employers in 2010, too much social security (FICA) or Railroad

Retirement Tax Act (RRTA) tax may have been withheld from his or her wages. (There was no wage base limitation for Medicare tax; therefore, all covered wages were subject to Medicare tax.) Filers claimed credit for such overpayment on their income tax returns. The excess social security, or RRTA, taxes withheld could be taken as a credit toward payment of the taxpayer's income tax, or refunded. In the case of a joint return, the credit was computed separately for each taxpayer.

## Exemptions Δ

(lines 6, 42, Form 1040)

In the computation of taxable income, a $3,650 deduction was allowed for each exemption claimed. In general, an exemption was allowed for each taxpayer and dependent shown on a return. If an individual who could be claimed as a dependent by another taxpayer also filed his or her own return, that individual could not claim his or her own exemption or any exemptions for dependents.

With few exceptions, an individual had to meet several requirements to qualify as a dependent for 2010:

1) The individual was related to the taxpayer (such as a son, daughter, or parent);

2) The individual was under age 19 or a full-time student under age 24 or any age and was permanently and totally disabled;

3) The individual did not provide half of his or her support for 2010;

4) The individual lived with the taxpayer for more than half of 2010;

5) The individual met certain citizenship requirements;

6) The individual did not file a joint return with his or her spouse;

These statistics classify the exemptions as children at home, children away from home, parents, and other.

For 2010, high-income taxpayers no longer lost part of their deduction for personal exemptions as part of a phaseout, regardless of the amount of their AGI. For 2008 and 2009, certain high-income taxpayers could lose no more than 1/3 of the dollar amount of each exemption, meaning that the amount of each exemption could not be reduced to less than $2,433.

## Farm Net Income or Loss

(line 18, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of farms. When there were two or more farms operated by the same taxpayer, the single amount of profit or loss included in the adjusted gross income represented the combined profit and loss from all farming activities. Farm business total expenses (line 35, Schedule F) were deducted from farm gross income (line 11, Schedule F) to arrive at farm net profit or loss.

Gains from certain sales of livestock and crops that qualified for capital gains treatment were excluded from farm net profit or loss and were included in capital gains. Farm rental income was included in total rent net income or loss. (See also "Farm Rental Net Income or Loss.")

## Farm Rental Net Income or Loss

(line 40, Schedule E)

Taxpayers were required to report farm rental income and expenses separately from other farm profit or loss if they: a) received income that was based on crops or livestock produced by the tenant, and b) did not manage or operate the farm to any great extent. This income and expenses were reported on Form 4835 with net income less loss then reported on Schedule E. (See also "Total Rent and Royalty Income or Loss.")

## Farm Rental Net Income Less Loss

See "Farm Rental Net Income or Loss."

## Filing Status

See "Marital Filing Status."

## First-Time Homebuyer Credit Δ

(line 67, Form 1040)

For Tax Year 2010, a taxpayer may have claimed this credit (up to $8,000, or $4,000 if married filing separately) if they actually bought a home before October 1, 2010 (if the taxpayer entered a written binding contract before May 1, 2010), and did not own a main home during the prior 3 years. Certain members of the Armed Forces and certain other taxpayers had additional time to buy a home and take the credit. Taxpayers were only allowed to claim this credit in Tax Year 2010 if their modified AGI was below $145,000 ($245,000 if married filing jointly). Taxpayers may have claimed this credit (up to $6,500, or $3,250 if married filing separately) if they were considered a long-time resident of the same home. Taxpayers were considered a long-time resident of the same home if they previously owned and used the same main home for any 5-consecutive-year period during the 8-year period ending on the date of the purchase of the new home. For homes purchased in 2009 or 2010, taxpayers had to repay the credit only if the home ceased to be their main home within a 36-month period beginning on the purchase date. For these statistics, the first-time homebuyer credit was divided into three parts: the amount used to offset income tax before credits; the amount used to offset all other taxes; and the refundable portion.

## First-time Homebuyer Credit Repayment

(line 59c, Form 1040)

If a taxpayer claimed the first-time homebuyer credit for a home bought in 2008, they generally must begin repaying it on their 2010 return. In addition, taxpayers generally must repay any credit claimed for 2008 or 2009 if the taxpayers sold their home in 2010 or the home stopped being the main home in 2010.

## Foreign-Earned Income Exclusion ∆

(included in line 21, Form 1040)

Qualified taxpayers could exclude from total income a certain amount of their foreign-earned income and employer-provided foreign housing expenses if their home, for tax purposes, was in a foreign country. Taxpayers had to refigure their tax using the foreign-earned income worksheet. The refigured tax was based on nonexcluded income using the tax tables that would have applied had they not claimed the exclusion.

Qualifying individuals were limited to the lesser of a $91,500 exclusion or their total foreign-earned income. Also, they could elect to exclude a portion of employer-provided foreign housing expenses. If the taxpayer elected to take both the foreign-earned income and foreign housing exclusions, the total amount of both exclusions was limited to the taxpayer's total foreign earned income. The foreign-earned income exclusion was entered as a negative amount on this line by the taxpayer but edited into a separate field during service center processing. The employer-provided foreign housing exclusion was left as part of other income. (See also "Other Income.")

## Foreign Housing Deduction ∆

(included in line 36, Form 1040)

Qualified taxpayers who had foreign housing expenses that were not provided by their employer were eligible to deduct these expenses from total income. This deduction was generally limited to $27,450. This deduction together with the foreign-earned income exclusion was limited to the total amount of foreign-earned income for 2010.

## Foreign Tax Credit

(line 47, Form 1040)

Individuals who paid income or excess profit taxes to a foreign country or U.S. possession could claim either this credit against Federal income tax liability, or take an itemized deduction for the amount of the foreign tax payment. Depending on the taxpayer's income and taxes, the foreign tax credit could be less than the amount of foreign tax paid. Qualifying foreign taxes paid in excess of the allowable amount for Tax Year 2010 could be carried back 1 year and then forward 10 years.

## Forms 1040, 1040A, and 1040EZ

The individual income tax system utilizes three major forms to collect income and tax information: the 1040, 1040A, and 1040EZ. A variation of the basic forms is an electronically filed form. Returns of all types were included in the population of returns subjected to sampling, and were classified by the guidelines for filing a standard form (i.e., Forms 1040, 1040A and 1040EZ), discussed below. For example, if a return was filed electronically that could have been a Form 1040EZ had it been filed on paper, it would have been considered a Form 1040EZ in the statistics. However, a paper return that could have been filed on a simpler form is classified by the form on which it was actually filed.

The forms represented different levels of complexity in regard to the information reported. The Form 1040EZ for instance, could only be used if taxable income was less than $100,000, non-wage income came from only a limited number of sources, and the taxpayer did not itemize deductions, have any dependents to claim, and had no adjustments to income. The Form 1040A could only be used if taxable income was less than $100,000, non-wage income came from only a limited number of sources, and the taxpayer did not itemize deductions. The Form 1040 had to be used if taxable income was greater than $100,000. In addition, the taxpayer had to file Form 1040 if he or she itemized deductions or had income (or losses) from a source not provided for on Form 1040A or 1040EZ, used certain tax provisions, or had certain tax credits not on Form 1040A or 1040EZ. (These forms can be found in Section 5, 2010 Forms.)

## Gambling Earnings

(included in line 21, Form 1040)

Gambling earnings include proceeds from lotteries, raffles, etc, and are included in line 21, Form 1040. These gambling earnings were edited into a separate field during service center processing. Gambling losses were not allowed to offset winnings on line 21. Instead, gambling losses were an itemized deduction reported on Schedule A. (See also “Gambling Loss Deduction” and “Other Income.”)

## Gambling Loss Deduction

(included in line 28, Schedule A)

Gambling losses (to the extent of gambling winnings) were fully deductible for taxpayers who itemize deductions. (See also “Gambling Earnings”, “Total Itemized Deductions”, and “Miscellaneous Itemized Deductions.”)

## General Business Credit Δ

(line 53a, Form 1040)

The general business credit consisted of the:

- investment credit,
- the research credit,
- the low-income housing credit,
- the disabled access credit,
- the renewable electricity production credit,
- the Indian employment credit,
- the orphan drug credit,
- the new markets credit,
- small employer pension plan startup credit
- employer-provided child care facilities and services credit
- biodiesel fuels credit,
- low sulfur diesel fuel production credit,
- distilled spirits credit,
- nonconventional source fuel credit,
- energy efficient home credit,
- energy efficient appliance credit,
- alternative motor vehicle credit,
- alternative fuel vehicle refueling property credit,
- credits for affected Midwestern disaster area employers,
- mine rescue team training credit,
- agricultural chemicals security credit,
- credit for employer differential wage payments,
- carbon dioxide sequestration credit,
- qualified plug-in electric drive motor vehicle credit,
- qualified plug-in electric vehicle credit,
- the new hire retention credit, and
- the credit from electing large partnerships,

Taxpayers claiming more than one of the credits were required to summarize them on Form 3800, *General Business Credit*. The general business credit was limited to 100 percent of the first $25,000 ($12,500 for a married couple filing separately) of tax liability and 25 percent of the excess over $25,000. If the current year general business credit exceeded the tax liability limitation, the excess amount could be carried back to the preceding tax year, then forward 20 years.

Starting in 2008, part II of the general business credit was expanded to accommodate all of the general business credits that are allowed against alternative minimum tax. These credits consisted of the:

- investment credit,
- the work opportunity credit,
- the alcohol and cellulosic biofuel fuels credit,
- the low-income housing investment credit,
- the renewable electricity, refined coal, and Indian coal production credit,
- the credit for employer social security and Medicare taxes paid on certain employee tips,
- the qualified railroad track maintenance credit, and
- the credit for small employer health insurance premiums

New for 2010, the Small Business Jobs Act of 2010 allows general business credits of eligible small businesses to offset both regular tax and alternative minimum tax (AMT) for tax years beginning in 2010. Such eligible small business credits determined in the first tax year in 2010 are carried back five years. For purposes of the statistics in this publication an eligible small business is a sole proprietorship where the average gross receipts (reduced by returns and allowances) of the small business could not exceed $50 million for the 3-tax-year period preceding tax year of the credits.

## General Sales Tax Deduction

See “Sales Tax Deduction.”

## Health Coverage Credit (formerly Health Insurance Credit) Δ

(line 71d, Form 1040)

A taxpayer who was an eligible trade adjustment assistance (TAA), alternate TAA, or Pension Benefit Guaranty Corporation pension recipient was able to take the credit. A taxpayer could not take the credit if they were covered under any employer-sponsored health plan. The credit was equal to 80 percent of the amount the taxpayer paid for qualified health insurance for 2010 minus any Archer medical savings account and health savings account (HSA) distributions used to pay the amount.

## Health Savings Account Deduction Δ

(line 25, Form 1040)

A taxpayer could have taken a deduction for contributions to a Health Savings Account. The deduction was limited to the annual deductible on the qualifying high deductible health plan, but not more than $3,050 ($6,150, if family coverage). These limits were $1000 higher if the taxpayer was age 55 or older ($2,000 higher if both spouses were 55 or older). A taxpayer could not contribute to an HSA starting the first month he or she was enrolled in Medicare. A taxpayer was able to exclude from income, a qualified funding distribution made from an IRA to an HSA. This was a one-time distribution that was made directly by the trustee of the taxpayer’s IRA to the HSA. In addition, an employer was able to make a rollover contribution to an employee’s HSA from a qualified health flexible spending arrangement or a qualified health reimbursable arrangement.

## Home Mortgage Interest Deduction

(lines 10+11, Schedule A)

The total home mortgage interest deduction consists of interest paid to financial institutions on Schedule A, line 10 and interest paid to individuals on Schedule A, line 11. (See also “Interest Paid Deduction.”)

## Household Employment Taxes ∆

(line 59b, Form 1040)

Taxpayers paying domestic employees more than $1,700 generally had to pay social security and Medicare taxes for these employees with their income tax return by filing Schedule H, *Household Employment Taxes*.

## Income Subject to Tax

See “Modified Taxable Income.”

## Income Tax After Credits ∆

(line 55 minus part or all of line 63, 64a, 66, 67, 71b, and 71c Form 1040)

To arrive at income tax after credits, taxpayers deducted total credits (line 54, Form 1040) from income tax before credits (line 46, Form 1040). For the statistics, tax was further reduced by the portion of the earned income credit, first-time homebuyer credit, refundable prior year minimum tax credit, the making work pay credit, American opportunity credit, and the adoption credit which did not result in a negative tax. The portion of the earned income credit, first-time homebuyer credit, refundable prior year minimum tax credit, the making work pay credit, American opportunity credit, and the adoption credit were included in the total credits as “earned income credit used to offset income tax before credits,” “first-time homebuyer credit used to offset income tax before credits,” “refundable prior year minimum tax credit used to offset income tax before credits,” “making work pay credit used to offset income tax before credits,” “American opportunity credit used to offset income tax before credits,” and “adoption credit used to offset income tax before credits.” Any tax remaining after subtraction of all credits and the credits mentioned above, was tabulated as “income tax after credits.”

## Income Tax Before Credits

(line 46, Form 1040)

This amount consisted of the tax liability on taxable income, computed by using the tax tables, tax rate schedules, Schedule D Tax worksheet, foreign-earned income worksheet, Schedule J (Income averaging for farmers and fishermen), or Form 8615, plus Form(s) 8814 (line 44a), any additional taxes from Form 4972 (line 44b), and the alternative minimum tax (line 45). (See also “Tax Generated.”)

## Income Tax Withheld

(line 61, Form 1040)

Income tax withheld included amounts deducted from salaries, wages, and tips, as reported on Form W-2; deducted from pensions, annuities, and certain gambling winnings as reported on Forms 1099-R and W-2G; and withheld from distributions of profit-sharing, retirement plans, and individual retirement accounts, as reported on Form 1099-R.

In some cases, a backup withholding rate of 31 percent was required for interest, dividend, and royalty payments which, generally, were not subject to withholding.

## Individual Retirement Arrangement (Deductible) Payments ∆

(line 32, Form 1040)

An individual retirement arrangement (IRA) is a savings program that generally allows a taxpayer to set aside money for retirement. In addition to the traditional IRA, there were two other plans for the taxpayer: the education IRA and the Roth IRA. Information on these two IRA’s can be found under their separate headings.

Taxpayers not covered by an employment retirement plan may have been able to deduct all contributions to a traditional IRA. For taxpayers covered by a retirement plan at work, the traditional IRA deduction phased out between $89,000 and $109,000 of modified AGI for married persons filing jointly and surviving spouses; between $56,000 and $66,000 for single filers, heads of households, or married filing separately taxpayers living apart; and between $0 and $10,000 for married filing separately taxpayers living together. If one spouse was an active participant in an employer plan but the other was not, the deduction for the IRA contribution of the spouse not covered by an employer plan phased out between modified AGI of $167,000 and $177,000. Deductible contributions could be subtracted from the employee's total income in arriving at adjusted gross income.

Contributions to an IRA (whether or not they were deductible) were limited to the lesser of: (a) the individual's taxable compensation for the year, or (b) $5,000 ($6,000 if age 50 or older). Married couples filing a joint return could contribute up to $5,000 ($6,000 if age 50 or older) to each spouse's IRA, even if one spouse had minimal or no compensation. Therefore, the total combined IRA contributions could be up to $10,000 ($12,000 if age 50 or older) for a year.

Unless they were disabled, taxpayers could not start withdrawing funds from the traditional account until they reached age 59-1/2. After age 70-1/2 taxpayers were required to begin withdrawals. Penalty taxes were assessed if the taxpayer failed to comply with these limitations. The additional tax on early withdrawals from a traditional IRA was eliminated if the distributions were used for qualified higher education expenses. This additional tax was also eliminated on distributions up to $10,000 from traditional or Roth IRA's if the distributions were used to buy, build, or rebuild a qualified first home. A taxpayer was able to exclude from income, a qualified funding distribution made from an IRA to an HSA. Payments to an IRA for a particular taxable year had to be made no later than the due date of the individual's return for that year. (See also "Roth IRA" and "Education IRA.")

## Individual Retirement Arrangement Taxable Distributions Δ

(line 15b, Form 1040)

Any money or property received from a taxpayer's IRA account was considered a distribution and, generally, had to be included in the taxpayer's total income in the year received. Exempted from this rule were tax-free roll-over distributions from one retirement account to another, distributions where the payout represented previously taxed non-deductible IRA contributions, distributions from a Roth IRA, distribution made to the taxpayers HSA account, and distributions from an IRA made directly by the trustee to a qualified charitable organization where the taxpayer was at least 70 ½ when the distribution was made. If a taxpayer converted from a traditional IRA to a Roth IRA, the taxpayer was required to include in gross income the amount that they would have reported in income if they had made a withdrawal from this IRA. The taxpayer did not include in gross income any part of the conversion that was a nondeductible contribution in a traditional IRA.

For 2010, the $100,000 modified AGI limit on rollovers and conversions from eligible retirement plans to Roth IRAs was eliminated. Also, married taxpayers filing separately were allowed to roll over or convert amounts to a Roth IRA. Half of the income realized from the rollover or conversion in 2010 could have been included in income in 2011 and the other half in 2012. The taxpayer could also have elected to have all of the income included in 2010.

## Interest Paid Deduction

(line 15, Schedule A, includes all lines 10-14)

The rules for deducting home mortgage interest for 2010 were: (1) if a taxpayer took out a mortgage before October 13, 1987, secured by the taxpayer's main or second home, all the interest was deductible, (2) if the taxpayer's mortgage was after October 13, 1987, and the funds were used to buy, build, or improve that home, all interest could be deducted if the total of all mortgages on the property was $1 million or less ($500,000 if married filing separately), and (3) taxpayers could deduct all of the interest on an additional $100,000 ($50,000 if married filing separately) of mortgages on their main or second home other than to buy, build, or improve that home.

Generally, investment interest (interest paid on money borrowed that is allocable to property held for investment) was fully deductible up to the amount of net investment income. Beginning in 1993, the net investment income that was to be compared to investment interest could not include any net capital gains that were taxed on the capital gain tax rates or qualified dividends. Interest relating to business, royalty, and rental income was deducted directly from these items and was not reflected in the interest paid statistics.

Taxpayers could deduct mortgage insurance premiums for mortgage insurance contracts issued after December 31, 2006. They also could include in interest deductible points, which were points not reported on Form 1098.

## Interest Received

See “Taxable Interest Received.”

## Interest, Tax-Exempt

See “Tax-Exempt Interest.”

## Investment Interest Expense Deduction

(line 14, Schedule A)

See “Interest Paid Deduction.” and “Total Itemized Deductions.”

## Itemized Deductions

See “Total Itemized Deductions” and specific itemized deductions.

## Itemized Deduction Limitation Δ

See “Total Itemized Deductions.”

## Limited Miscellaneous Deductions

(lines 21-27, Schedule A)

Certain taxpayer expenses could be deducted on Schedule A, but were limited to the amount that exceeded 2 percent of adjusted gross income. These included: unreimbursed employee business expenses (including qualifying educational expenses), tax preparation fees, expenses paid to produce or collect taxable income, and expenses paid to manage or protect property held for earning income (including safe deposit boxes).

## Long-Term Loss Carryover

(line 14, Schedule D)

Long-term capital losses from the prior year Schedule D that are carried over to the current year. (See “Sales of Capital Assets, Net Gain or Loss.”)

## Making Work Pay Credit

(lines 63, Form 1040)

Taxpayers were able to take a credit equal to 6.2% of their earned income up to $400 ($800 if married filing jointly) if they had earned income from work and were not a dependent on another tax return. A taxpayer could not take the credit if their modified AGI was greater than or equal to $95,000 ($190,000 if married filing jointly). The credit phased out between $75,000 and $95,000 ($150,000 and $190,000 if married filing jointly). The credit was reduced if the taxpayer received a $250 economic recovery payment in 2010. For these statistics, the making work pay credit was divided into three parts: the amount used to offset income tax before credits; the amount used to offset all other taxes; and the refundable portion.

## Marginal Tax Rates

Marginal tax rate as cited in this publication is the highest statutory rate on taxable income. It includes ordinary tax rates and capital gains tax rates. This concept does not include the effects of AMT or tax credits. Also, for some taxpayers, the statutory marginal tax rate may differ from the effective marginal tax rate. For example, in past years, extra income received by certain taxpayers resulted in the partial phase-out of their personal exemptions as well as some of their itemized deductions. Therefore, an extra $1 of income could have added more than $1 of taxable income. While this taxpayer could face a statutory marginal tax rate of 35 percent, the effective marginal rate faced by the taxpayer would be somewhat higher. (See also “Tax Generated.”)

## Marital Filing Status

(lines 1-5, Form 1040)

The five marital filing status classifications were:

(1) returns of single persons (not heads of household or surviving spouses);

(2) joint returns of married persons;
(3) separate returns of married persons;
(4) returns of heads of household; and
(5) returns of surviving spouses.

Marital filing status was usually determined as of the last day of the tax year. The exception was that if one's spouse died during the tax year, the survivor was considered married for the entire year. If a taxpayer was divorced during the tax year and did not remarry, the taxpayer was considered to be unmarried for the entire year. Surviving spouse status could only be used by those taxpayers whose spouse died in 2008 or 2009, and had a qualifying dependent.

## Medical and Dental Expenses Deduction

(lines 1-4, Schedule A)

Qualified medical expenses included nonreimbursed payments made for the diagnosis, treatment, or prevention of disease or for medical or dental insurance. However, taxpayers who took the self-employed health insurance adjustment had to reduce their total premium deduction by the amount of the adjustment (see "Self-Employed Health Insurance"). In general, medical and dental expenses could be claimed as an itemized deduction to the extent that they exceeded 7.5 percent of adjusted gross income. Amounts paid for medicine and drugs were deductible only if they were not available except by prescription or were for insulin. Taxpayers could deduct costs for transportation to obtain medical care and also a maximum of $50 per day for certain lodging expenses incurred while traveling to obtain medical care. (See also "Total Itemized Deductions.")

## Medical and Dental Expenses Limitation

(line 3, Schedule A)

See "Medical and Dental Expenses Deduction" and "Total Itemized Deductions."

## Medical Savings Account Deduction

See "Archer Medical Savings Account Deduction."

## Minimum Tax Credit

(line 53b, Form 1040)

A minimum tax credit could be taken for 2010 by certain taxpayers who paid alternative minimum tax for 2009 or prior years. If all of the minimum tax credit (claimed on Form 8801) could not be used for 2010, the excess could be carried forward to later years. A refundable credit was available to a taxpayer with credit carryforward from 2007 or earlier. (see also "refundable prior-year minimum tax credit.")

## Miscellaneous Deductions Other Than Gambling

(included in line 28, Schedule A)

Other fully deductible expenses included such items as impairment-related work expenses for disabled persons, and amortizable bonds. (See also "Miscellaneous Itemized Deductions" and "Total Itemized Deductions.")

## Miscellaneous Deductions Subject to 2% AGI Limitation

(lines 21-27, Schedule A)

See "Limited Miscellaneous Deductions" and "Miscellaneous Itemized Deductions."

## Miscellaneous Itemized Deductions

(lines 21-28, Schedule A)

Miscellaneous itemized deductions were divided into two types. The first, such as employee business expenses, included those items that were limited to the amount that exceeded 2 percent of adjusted gross income, while the expenses of the other types, such as gambling losses not in excess of gambling winnings, and casualty and theft losses of income producing property were fully deductible. (See also "Gambling Loss Deduction," "Limited Miscellaneous Deductions," and "Miscellaneous Deductions Other Than Gambling.")

## Modified Taxable Income

"Modified taxable income" is the term used to describe "income subject to tax," the actual base on which tax is computed for the statistics in Tables 3.4 , 3.5, and 3.6. For most taxpayers filing current year returns, modified taxable income is identical to "taxable income." For those returns with a Form 8814, *Parents' Election To Report Child's Interest and Dividends* attached, modified taxable income includes the sum of all children's interest and dividend income taxed at a 10 percent rate, as well as the parent's taxable income.

For prior year returns included in the 2010 statistics, a modified taxable income was calculated by using the tax rate schedule for 2010 to impute a hypothetical taxable income amount necessary to yield the given amount of tax reported.

In most cases, a person who has no tax will have no modified taxable income. Since the tax rate schedule is used to generate the modified taxable income, it is possible for a person to have up to four dollars of taxable income but have no modified taxable income because their tax reported would be zero. The exception is for certain taxpayers who only have income taxed at the long-term capital gains rates and that income is less than the cutoff for the beginning of the 25 percent tax bracket. In this case, that person would have no tax and would have modified taxable income that was taxed at 0 percent.

## Moving Expenses Adjustment

(line 26, Form 1040)

Taxpayers deducted current-year qualified moving expenses in the calculation of adjusted gross income as a statutory adjustment. In order to qualify for this deduction, the new work place had to be at least 50 miles farther from the former residence than the former work place. Deductible expenses included those incurred to move household and personal goods, and travel including lodging en route to the new residence. Expenses no longer deductible included: meals while moving from the old residence to the new residence; travel expenses for pre-move house hunting trips; expenses while occupying temporary quarters in the area of the new job; and qualified residence sale, purchase, and lease expenses.

## Net Long-Term Capital Gain or Loss

(line 15, Schedule D)

These include gains or losses from sales of capital assets, gains or losses from other forms, and gains or losses from partnership/s-corporation held more than one year, less long-term loss carryover. (See also "Sales of Capital Assets, Net Gain or Loss.")

## Net Long-Term Gain or Loss from Other Forms

(line 11, Schedule D)

The other forms include:

- Long-term gains from Forms 4797, 2439, and 6252;
- Long-term gain or loss from Forms 4684, 6781, and 8824

See "Sales of Capital Assets, Net Gain or Loss."

## Net Long-Term Gain or Loss from Partnership/S-Corporation

(line 12, Schedule D)

## Net Long-Term Gain or Loss from Sales of Capital Assets

(line 9, Schedule D)

These include gains or losses from sales of capital assets, such as stocks, bonds, mutual funds, etc., held more than one year. See "Sales of Capital Assets, Net Gain or Loss," also "Net Long-Term Capital Gain or Loss."

## Net Operating Loss

(included in line 21, Form 1040)

Net operating loss was the excess loss of a business when taxable income for a prior year was less than zero. The loss could be applied to the AGI for the current year and carried forward up to 20 years. (See also "Other Income.")

## Net Short-Term Capital Gain or Loss

(line 7, Schedule D)

These include gains or losses from sales of capital assets, gains or losses from other forms, and gains or losses from partnership/s-corporation held less than one year, less short-term loss carryover. (See also “Sales of Capital Assets, Net Gain or Loss.”)

### Net Short-Term Gain or Loss from Other Forms

(line 4, Schedule D)

The other forms include:

- Short-term gains from Form 6252
- Short-term gain or loss from Forms 4684, 6781, and 8824

See “Sales of Capital Assets, Net Gain or Loss.”

### Net Short-Term Gain or Loss from Partnership/S-Corporation

(line 5, Schedule D)

### Net Short-Term Gain or Loss from Sales of Capital Assets

(line 2, Schedule D)

These include gains or losses from sales of capital assets, such as stock, bonds, mutual funds, etc., held less than one year. See “Sales of Capital Assets, Net Gain or Loss,” also “Net Short-Term Capital Gain or Loss.”

### Net Taxable Capital Gain in AGI

(line 16, Schedule D, included in line 13, Form 1040)

See “Sales of Capital Assets, Net Gain or Loss.”

### Net Taxable Capital Loss in AGI

(line 21, Schedule D, included in line 13, Form 1040)

See “Sales of Capital Assets, Net Gain or Loss.”

### New Motor Vehicle Taxes Deduction Δ

(line 7, Schedule A)

Taxpayers could no longer deduct certain state and local sales and excise taxes paid for a 2010 purchase of a new motor vehicle. However, if a taxpayer paid these taxes in 2010 for a new motor vehicle purchased in 2009, they may still be able to deduct these amounts.

### Nondeductible Passive Losses

(calculated on Form 8582)

Nondeductible passive losses were calculated by subtracting deductible passive losses reported on Form 8582 (line 16) from total current year passive losses (lines 1b+2a+3b) and were limited to zero.

### Nontaxable Returns

See “Taxable and Nontaxable Returns.”

### Nontaxable Combat Pay Election

(line 64b, Form 1040, 4b Form 8812)

For Tax Year 2010, members of the U.S. Armed Forces who served in a combat zone could have excluded certain pay from their income. The qualified taxpayer’s entitlement to the pay must have been fully accrued in a month during which they served in a combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. However, this nontaxable pay was used to gain benefits for both the EIC and additional child tax credit purposes.

### One-Half of Self-Employment Tax

See “Deduction of Self-Employment Tax.”

### Ordinary Dividends

(line 9a, Form 1040)

See “Dividends.”

### Other Adjustments

(included in line 36, Form 1040)

See “Statutory Adjustments.”

### Other Net Income or Net Loss

(line 21, Form 1040)

Included in other income were items such as taxable distributions from a Coverdell education savings account, distributions from qualified tuition programs (though some may be excluded if not more than the taxpayer's qualified higher education expenses), taxable distributions from health savings accounts or Archer MSA's, prizes, awards, jury duty fees, Alaska permanent fund dividends, alternative trade adjustment assistance payments, reimbursements for medical expenses, real estate taxes, or home mortgage interest taken as a deduction in a previous year, children's interest and non-qualified dividends from Form 8814, and any other income subject to tax for which no specific line was provided on the return form. Any foreign-earned income exclusions or "net operating loss" in an earlier year (that was carried forward and deducted for 2010) were entered as a negative amount on this line by the taxpayer but edited into separate fields during service center processing. However, any employer-provided foreign housing exclusions were included in other income (as a negative amount). Gambling earnings and cancellation of debt, which were entered on this line by the taxpayer, were edited into a separate field during service center processing.

## Other Income Less Loss

See "Other Income."

## Other Payments ∆

(line 71, Form 1040)

See "Credit from Regulated Investment Companies," "Qualified adoption expenses credit," "Refundable Prior-Year Minimum Tax Credit," and "Health Coverage Credit" (formally known as Health Insurance Credit).

## Other Tax Credits

(included in lines 53c, 54, Form 1040)

"Other tax credits" is a residual category in the statistics. It includes other miscellaneous credits that did not belong in any other category and were used to offset income tax before credits.

## Other Taxes Deduction

(line 8, Schedule A)

Other taxes consisted of any deductible tax other than state and local income taxes, and real estate taxes. Examples of other taxes are personal property taxes, taxes paid to a foreign country or U.S. possession. (See also "Personal Property Tax" and "Taxes Paid Deduction.")

## Overpayment

(line 73, Form 1040)

An overpayment of tax occurred when "total tax payments" exceeded "total tax." Overpayments included the amount of any "refundable portion," of the refundable credits. An overpayment could be refunded or credited toward the estimated tax for the following year. (See also "Credit to 2011 Estimated Tax" and "Refund.")

## Overpayment Refunded

(line 74a, Form 1040)

See "Overpayment" and "Refund."

## Parents' Election to Report Child's Interest and Dividends

(calculated on Form 8814)

A parent could elect to report on his or her return income received by his or her child. If the election were made, the child was not required to file a return. A parent could make this election if the child:

- was under age 19 (or under 24 if full time student) on January 1, 2011;
- had income only from interest and dividends including Alaska permanent fund dividends, and capital gain distributions;
- had gross income for 2010 that was more than $950 but less than $9,500;
- did not file a joint return;
- had no estimated tax payments for 2010;
- did not have any overpayment of tax shown on his or her 2009 return applied to the 2010 return; and
- had no Federal income tax withheld from his or her income (backup withholding).

If the parents were not filing a joint return, special rules applied to determine which parent could make the election. (See also "Modified Taxable Income" and "other income.")

## Partnership and S Corporation Net Income or Loss

(line 32, Schedule E)

Partnerships and S Corporations (formerly Subchapter S Corporations) are not taxable entities; therefore, tax on their net profit or loss was levied, in general, directly on the members of the partnership or shareholders of the S Corporation. The profit or loss shown in the statistics was the taxpayer's share of the ordinary gain or loss of the enterprise, and certain payments made to the taxpayer for the use of capital or, for partnership, as salary. Net long-term capital gains received from partnerships and S Corporations were reported on Schedule D.

If a return showed net income from one partnership or S Corporation and a net loss from another, the two were added together, and the return was tabulated by the net amount of income or loss in the appropriate column. Beginning in 1987, net income and net loss were reported separately for passive and non-passive partnership and S Corporation activities. Passive losses were limited under new rules to the amount that could offset passive income.

## Partnership and S Corporation Net Income Less Loss

See "Partnership and S Corporation Net Income or Loss."

## Passive Activity Losses

Losses generated by any "flow-through" business activity (such as partnerships or S Corporations for which profits and certain other amounts were passed directly through to the owners), in which the taxpayer did not "materially participate" (i.e., was not involved regularly and substantially in the operations of the activity) qualified as passive activity losses. (See also "Nondeductible Passive Losses.")

## Payment with Request for Extension of Filing Time

(line 68, Form 1040)

This payment was made when the taxpayer filed Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. The extension granted the taxpayer an additional period of time to file a tax return, but did not extend the time for the payment of the expected tax. Full payment of any tax due had to be made with the application for extension.

## Payments to a Keogh Plan

(line 28, Form 1040)

Self-employed individuals were allowed to contribute to a Keogh retirement plan or a simplified employment pension plan for themselves and to deduct all or part of such contributions in computing adjusted gross income. The amount which could be deducted was based on net earnings from self- employment.

## Penalty on Early Withdrawal of Savings

(line 30, Form 1040)

Taxpayers who paid penalties for the premature withdrawal of funds from time savings accounts or deposits could deduct those penalties as an adjustment to total income.

## Penalty Tax on Qualified Retirement Plans

(line 58, Form 1040)

If taxpayers withdrew any funds from an Individual Retirement Arrangement or qualified retirement plan before they were either age 59-1/2 or disabled, they were subject to a penalty tax equal to 10 percent of the premature distribution. Any taxpayer who failed to withdraw the minimum required distribution after reaching age 70-1/2 had to pay a 50 percent excise tax on the excess accumulation. Contributions to the IRA in excess of the legal limitation for the year (the lesser of $5,000, $10,000 if married filing jointly, or the taxpayer's compensation for the year) were subject to an excise tax equal to 6 percent of the excess contribution.

## Pensions and Annuities

(lines 16a, 16b, Form 1040)

Generally, pensions are periodic income received after retirement for past services with an employer, while annuities are income payable at stated intervals after payment of a specific premium. A taxpayer could acquire a pension or annuity either by purchase from a commercial organization (usually life insurance, endowment, or annuity contracts) or under a plan or contract connected with the taxpayer's employment. Those pensions or annuities obtained in connection with employment could be purchased entirely by the taxpayer or could be financed in part (a contributory plan) or in whole (a non-contributory plan) by contributions of the employer.

Since a non-contributory plan was paid for entirely by an employer, the amount received by the employee was fully taxable. This fully taxable pension was reported on lines 16a and 16b. For the taxpayer who participated in a contributory retirement plan while employed, the amount received was only partially taxable. In general, the amount excludable from gross income, the nontaxable portion, represented the taxpayer's contributions under the plan, while the taxable portion represented the employer's contribution and earnings on the entire investment. The nontaxable contribution had to be amortized over the expected lifetime of the taxpayer.

The entire amount of pensions and annuities received for the year was reported on line 16a of the Form 1040. The taxable portion was computed on a separate worksheet and entered on line 16b.

## Personal Property Taxes Deduction

(included on line 8, Schedule A)

Personal property tax could be included as a deduction if the tax was an annual tax based on value alone. (See also "Taxes Paid Deduction.")

## Predetermined Estimated Tax Penalty

(line 77, Form 1040)

If a return showed taxes of $1,000 or more owed on line 76 (tax due at time of filing) and this amount was more than 10 percent of the total tax, the taxpayer could owe a penalty, unless tax payments in the current year equaled or exceeded prior-year tax liability (provided prior-year liability was greater than zero). Also, taxpayers could owe a penalty if they underpaid their 2010 estimated tax liability for any payment period. Form 2210 was used to determine the amount of a penalty, if any.

For this report, the predetermined estimated tax penalty includes only the amount calculated by the taxpayer when the return was initially filed.

## Prior-Year Minimum Tax Credit

See "Minimum Tax Credit."

## Qualified Dividends

(line 9b, Form 1040)

See "Dividends."

## Qualified Electric Vehicle Credit

(line 53c, Form 1040)

Taxpayers could have claimed this credit if they had any qualified electric vehicle passive activity credits from prior years that are allowed for the current tax year.

## Qualified Mortgage Insurance Premiums Δ

(line 13, Schedule A)

Taxpayers may have been able to treat mortgage insurance premiums paid in connection with home acquisition debt as home mortgage interest. Taxpayers could deduct mortgage insurance premiums for mortgage insurance contracts issued after December 31, 2006. The deduction was phased out for taxpayers with AGI between $100,000 and $110,000 ($50,000 and $55,000 for married filing separately). This amount was reported on Schedule A, line 13.

## Qualified Plug-In Electric Vehicle Credit

(line 53c, Form 1040)

Taxpayers could have claimed this credit for any non depreciable qualified plug-in electric vehicle placed in service during the tax year. A qualified plug-in electric vehicle is generally any vehicle that is propelled to a significant extent by an electric motor that draws electricity from a battery that can be recharged from an external source.

## Real Estate Taxes

(line 6, Schedule A)

This amount included taxes paid on real estate that was owned and not used for business by the taxpayer. The real estate taxes could only be used as a deduction if the taxes were based on the assessed value of the property. Also, the assessment had to be made uniformly on property throughout the community, and the proceeds had to be used for general community or governmental purposes. (See also "Taxes Paid Deductions").

## Recapture Taxes

(included in line 60, Form 1040)

See "Tax from Recomputing Prior Year Investment Credit."

## Refund

(line 74a, Form 1040)

A refund of tax included all overpayment of income taxes not applied by the taxpayer as a credit to the next year's estimated tax. (See also "Overpayment.")

## Refundable Credits

Refundable credits were separated into three categories for their treatment on income tax for the statistics. The first category was the portion of the credit used to offset income tax before credits. If there was any unused amount of the credit after offsetting income tax, the next portion was used to offset all other taxes. Any remaining amount, after offsetting all other taxes, was then put into the last category called the refundable portion. A taxpayer claiming these credits could potentially have those credits broken down into one, two, or all three of these categories. For 2010, credits broken down this way included the EIC, first-time homebuyer credit, making work pay credit, American opportunity credit, adoption credit and the refundable prior-year minimum tax credit.

## Refund Credited to Next Year

(line 75, Form 1040)

See "Credit to 2011 Estimated Tax."

## Refundable prior-year minimum tax credit

(line 71c, Form 1040)

A refundable credit was available to a taxpayer who had any unused minimum tax credit carryforward from 2007 or earlier years. The taxpayer could have qualified for the refundable credit for part or the entire unused amount, even if the total amount of the 2010 credit exceeds the tax liability amount. For this statistics, the refundable prior-year minimum tax credit was divided into three parts: the amount used to offset income tax before credits; the amount used to offset all other taxes; and the refundable portion.

## Regular Tax Computation

Typically, the taxpayer, in determining the amount of "tax generated," first computed taxable income. Depending on marital status and size of taxable income, the taxpayer then used the tax table or applied the rates from one of four tax rate schedules to determine tax. Also, returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method. If a taxpayer filed a Form 8615 or had any long-term capital gains, or qualified dividends taxed at a rate less than the tax tables, or had foreign-earned income exclusion, then they were not considered as regular tax computations.

## Rent and Royalty Net Income

(lines 24, Schedule E)

If the combination of rent income and losses and royalty income and losses resulted in a positive amount it was considered rent and royalty net income. It is possible for a taxpayer to have both rent and royalty income and losses.

## Rent and Royalty Net Loss

(lines 25, Schedule E)

If the combination of rent income and losses and royalty income and losses resulted in a negative amount it was considered rent and royalty net loss. This amount did not include passive losses that were not deductible, but included carryovers of previous years' passive losses. It is possible for a taxpayer to have both rent and royalty income and losses. (See also "Passive Activity Losses.")

## Rent Net Income or Loss

(line 22, columns A,B,C, Schedule E)

Rent net income or loss was determined by deducting from gross rent, the amounts for depreciation, repairs, improvements, interest, taxes, commissions, advertising, utilities, insurance, janitorial services, and any other allowable expenses related to the rented property. In the statistics, total rental net loss includes passive losses that were not deductible in figuring AGI. (See also "Passive Activity Losses" and "Total Rent and Royalty Income or Loss in AGI.")

## Rent Net Income Less Loss

See "Rent Net Income or Loss."

## Residential Energy Credits

(line 52, Form 1040)

The residential energy credit consisted of the nonbusiness energy property credit and the residential energy efficient property credit. For the nonbusiness energy property credit, taxpayers were able to take a credit of 30% of the costs paid or incurred in 2010 for qualified energy efficient improvements and residential energy property. The credit was limited to a total of $1,500. For the residential energy efficient property credit, taxpayers could have taken a credit of 30% of their costs of qualified solar electric property, solar water heating property, small wind energy property, geothermal heat pump property, and fuel cell property.

## Retirement Savings Contribution Credit (Saver's Credit)

(line 50, Form 1040)

A taxpayer could take a credit of up to $1,000 ($2,000 if married filing jointly) for qualified retirement savings contributions, if their adjusted gross income was less than or equal to $27,750 ($41,625 if head of household, $55,500 if married filing jointly).

## Roth IRA Δ

(lines 16-25, Form 8606)

Similar to traditional IRAs, Roth IRAs were generally used for retirement. Unlike traditional IRAs, contributions to a Roth IRA were not deductible. However, qualified distributions from a Roth IRA were tax-exempt. The contribution limit for Roth IRAs was the lesser of $5,000 ($6,000 if age 50 or older), $10,000, ($10,000, or $12,000 depending on if none, one, or two of the taxpayers were age 50 or older and married filing jointly) or the individual's taxable compensation unless the taxpayer contributed to both Roth IRAs and traditional IRAs. In that case, the contribution limit for Roth IRAs was reduced by all contributions (other than employer contributions) to traditional IRAs for the taxable year. The eligibility for Roth IRAs was phased out for joint filers with modified AGI between $167,000 and $177,000, married taxpayers filing separately and living with their spouses with modified AGI between $0 and $10,000, and all other filers (single, head of household, and married filing separately and not living with their spouse at any time during the year) with modified AGI between $105,000 and $120,000. Contributions to Roth IRAs could be made after the taxpayer reached the age of 70½. Also, the minimum distribution rules did not apply to living taxpayers as they did for traditional IRAs.

New for 2010, all taxpayers (including married taxpayers filing separately) were eligible to make taxable rollovers of traditional IRAs to Roth IRAs without paying the 10 percent tax on early withdrawals. When a taxpayer converted an amount from the traditional IRA to a Roth IRA, they were required to include in gross income the amount that they would have reported in income if they had made a withdrawal from this IRA. The taxpayer did not include in gross income any part of the conversion that was a nondeductible contribution in a traditional IRA. Also starting in 2010, half of the income realized from the rollover or conversion could have been included in income in 2011 and the other half in 2012. The taxpayer could also have elected to have all of the income included in 2010. (See also "Individual Retirement Arrangement Taxable Distributions.")

## Royalty Net Income or Loss

(line 22, columns A, B, C, Schedule E)

Net royalties consisted of gross royalties less deductions for depletion, depreciation, office rent, legal fees, clerical help, interest, taxes, and similar items. Gross royalties included revenues from oil, gas, and other mineral rights; revenue from patents; and revenue from literary, musical, or artistic works. Certain royalties received under a lease agreement on timber, coal, and domestic iron ore were eligible for capital gains or ordinary loss treatment under Code section 1231. As a result of the separate computation, those royalties are reflected in the statistics for "sales of capital assets" and "sales of property other than capital assets." (See also "Total Rent and Royalty Income or Loss.")

## Royalty Net Income Less Loss

See "Royalty Net Income or Loss."

## S Corporations

See "Partnership and S Corporation Net Income or Loss."

## Salaries and Wages

(line 7, Form 1040)

Salaries and wages as reported on the tax return were amounts of compensation primarily for personal services. The following items are included:

- salaries;
- wages;
- commissions;
- bonuses;
- tips;
- fees;
- excess reimbursement of employee business expenses;
- moving expenses allowances;
- the difference between the fair market value of certain property and the discount price for which it was purchased by a taxpayer from his or her employer;
- severance pay;
- sick pay;
- the value of exercising a stock appreciation right;
- directors' fees;
- vacation allowances;
- most disability payments;
- strike and lockout benefits;
- the value of certain non-monetary payments for services (e.g., merchandise, accommodations, certain meals or lodging, certain stock purchase plans, or property);
- dependent care benefits;
- employer provided adoption benefits; and
- scholarship and fellowship grants.

Identifiable amounts for any of these categories, which may have been reported by taxpayers as "other income," are treated as salaries and wages for the statistics.

## Sales of Capital Assets, Net Gain or Loss

(line 13, Form 1040)

In general, capital assets for tax purposes included all property held for personal use or investment. Examples of such assets were homes, furniture, automobiles, and stocks and bonds. Most assets used for business activities were specifically excluded from treatment as capital assets. (See also “Sales of Property Other Than Capital Assets, Net Gain or Loss.”)

The following concepts are used in the computation of net capital gain or loss for this report:

*Long-term or short-term*: If the holding period was one year or less, the asset was considered short-term; otherwise, it was considered long-term. All capital gain distributions (distributions from mutual funds on the profit of sale of stock or bonds to the taxpayer) were considered long-term. Short-term capital gains were taxed at ordinary rates.

*Net capital gain*: If the combination of net short-term gain or loss and net long-term gain or loss resulted in a positive amount, the taxpayer had a net capital gain. The full amount of this gain, whether short-term or long-term was included in adjusted gross income.

*Net capital loss*: If the combination of net short-term gain or loss and net long-term gain or loss resulted in a negative amount, the taxpayer showed a net capital loss. The amount of net capital loss to be included in adjusted gross income was limited to the smaller of the actual net capital loss or $3,000 ($1,500 for married persons filing separately). Any excess capital losses over the $3,000 limit could be carried over to subsequent tax years (“long-term loss carryover” and “short-term loss carryover” in the statistics).

The maximum rate for most long-term net capital gains was 15 percent. For taxpayers in the 15 percent ordinary income bracket or lower, the capital gains rate was reduced to 0 percent. Collectible gains and up to 50 percent of eligible gains on qualified small business stock were taxed at the 28-percent rate. Gains from the sale of certain depreciable real property were taxed at a 25-percent rate. Therefore, the long-term capital gain tax rate could be 0-percent, 15-percent, 25-percent, or 28-percent. Taxpayers were generally able to exclude from income up to $250,000 ($500,000 for married couples filing a joint tax return) of the gain on the sale of their homes.

## Sales of Capital Assets Reported on Schedule D

See “Sales of Capital Assets, Net Gain or Loss.”

## Sales of Property Other Than Capital Assets, Net Gain Less Loss

(line 14, Form 1040)

Property other than capital assets generally included property of a business nature, in contrast to personal or investment property, which were capital assets. Some types of property specifically included in this group were:

(1) certain depreciable, depletable, and real business property;

(2) accounts and notes receivable in the ordinary course of business generated from the sale of goods and services ordinarily held for sale by the business or includable in the inventory of the business;

(3) certain copyrights, literary, musical, or artistic compositions, or similar properties; and

(4) amounts resulting from certain “involuntary conversions,” including net losses from casualty and theft.

Taxpayers reported all gains and losses not treated as capital gains on Form 4797, *Sales of Business Property*.

## Sales Tax Deduction

(line 5b, Schedule A)

Taxpayers could have elected to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A. The taxpayer could have used either actual expenses or the optional state sales tax tables. (See also “General Sales Tax Deduction.”)

## Saver’s Credit

See “Retirement Savings Contribution Credit.”

## Schedule D Capital Gain Distributions

(line 13, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Self-Employed Health Insurance Deduction Δ

(line 29, Form 1040)

Self-employed persons, or owners of more than 2 percent of outstanding stock of an S Corporation, if they were not eligible for health coverage under an employer-provided plan, were allowed to deduct, in the calculation of AGI, up to 100 percent of the amount paid for health insurance for themselves and their families.

For 2010, a taxpayer could have reduced their net self-employment income on Schedule SE by the amount of self-employed health insurance deduction entered on line 29 of Form 1040. Effective March 30, 2010, if a taxpayer was self-employed and paid for health insurance, they were able to include in their deduction on line 29 any premiums they paid to cover their child who was under age 27 at the end of 2010, even if the child was not their dependent. For 2010, a taxpayer could have reduced their net self employment income on Schedule SE by the amount of self-employed health insurance deduction entered on line 29 of Form 1040.

## Self-Employment Tax Δ

(line 56, Form 1040)

The ceiling for social security tax on taxable self-employment income for 2010 was $106,800. The limit did not apply for purposes of the Medicare tax. All net earnings greater than $400 ($108.28 for church employees) were also subject to the Medicare tax portion. For 2010, a taxpayer could have reduced their net self employment income on Schedule SE by the amount of the self-employed health insurance deduction entered on line 29 of Form 1040. (See also "Total Tax Liability.")

## Short-Term Loss Carryover

(line 6, Schedule D)

These are short-term capital losses from the prior year Schedule D that are carried over to the current year. (See "Sales of Capital Assets, Net Gain or Loss.")

## Size of Adjusted Gross Income

(line 37, Form 1040)

The amount of adjusted gross income reported by the taxpayer on the return was the basis for classifying data by size of adjusted gross income. Returns without positive adjusted gross income, such as deficit returns or returns on which income and loss were equal, were classified as having "no adjusted gross income" and appear as a separate class in most basic tables. The absence of a class labeled "no adjusted gross income" indicates that any deficit or break-even returns in a table were included in the lowest income size class. (See "Adjusted Gross Income Less Deficit.")

## Social Security Benefits

(lines 20a, 20b, Form 1040)

Social security benefits included any monthly benefit under title II of the Social Security Act or the part of a "tier 1 railroad retirement benefit" that was equivalent to a social security benefit. Social security benefits were not taxable unless the taxpayer's total income (including tax-exempt interest) plus one-half of total social security benefits exceeded certain levels. The maximum taxable amount was up to 85 percent of the net social security benefits received. Social security benefits received were reported on Form 1040, line 20a and the taxable portion was reported on line 20b. Taxpayers were required to report gross social security benefits on line 20a even if the taxpayer had no taxable social security benefits.

## Social Security and Medicare Taxes

For 2010, the maximum wages subject to social security tax (6.2%) increased to $106,800. All wages were subject to Medicare tax (1.45%).

### Social Security and Medicare Tax on Tip Income
(line 57a, Form 1040)

Cash tips amounting to $20 or more received by the taxpayer in a month while working for any one employer were subject to withholding of income tax, social security tax (or the equivalent railroad retirement tax), and Medicare tax. If the employer was unable to withhold the social security and Medicare tax, the amount of uncollected social security tax on tips was indicated on the employee's Form W-2, and the employee was required to report the uncollected tax and pay it with the Form 1040. If the employee did not report the tips to the employer, the employee was required to compute the social security and Medicare tax on unreported tips on Form 4137 and attach it to Form 1040.

### Standard Deduction Δ
(included in line 40, Form 1040)

For 2010, the basic standard deduction was increased. Taxpayers who were age 65 or over or blind could claim an additional standard deduction amount of $1,100 or $1,400 based on filing status. Both the basic and additional standard deductions were determined by marital filing status, as shown below.

*Single*
Basic deduction of $5,700;
Each taxpayer 65 or over or blind was allowed an additional $1,400 deduction each for age and blindness.
*Married filing jointly or surviving spouses*
Basic deduction of $11,400;
Each taxpayer 65 or over or blind was allowed an additional $1,100 deduction each for age and blindness.
*Married, filing separately*
Basic deduction of $5,700;
Each taxpayer 65 or over or blind was allowed an additional $1,100 deduction each for age and blindness.
*Head of Household*
Basic deduction of $8,400;
Each taxpayer 65 or over or blind was allowed an additional $1,400 deduction each for age and blindness.

The basic standard deduction claimed by filers who were dependents of other taxpayers was the greater of $950 or the dependent's earned income plus $300 (but not more than the regular standard deduction amount).

In the statistics, the basic standard deduction is tabulated for all taxpayers who claimed it, including those who were 65 or over and/or blind. The "additional standard deduction" total includes only the additional amount that was taken by those taxpayers who were 65 or over and/or blind.

### State Income Tax Refund
(line 10, Form 1040)

If a taxpayer received a refund, credit, or offset of state or local income taxes in 2009 that was paid or deducted before 2009, all or part of that amount had to be reported as income to the extent that an itemized deduction for state and local income taxes had previously resulted in a tax benefit.

### State and Local Income Taxes
(line 5a, Schedule A)

State and local income taxes paid could be used as an itemized deduction if a taxpayer had state and local income tax withheld from their salary during 2010; had paid state and local income taxes directly during 2010 for a prior year, or had made mandatory contributions to specific state disability funds. (See also "Taxes Paid Deduction.")

### State and Local Taxes
(line 5, Schedule A)

This is the total of State and Local Income Taxes or Sales Tax Deduction. The taxpayer could elect to use either, but not both.

### Statutory Adjustments
(lines 23-36, Form 1040)

Certain adjustments to total income were allowed as deductions in the calculation of adjusted gross income. For 2010, statutory adjustments included educator expenses, certain business expenses of reservists, performing artists, and fee-basis government officials, health savings account deduction, moving expenses, the deduction for one-half of self-employment tax, payments to a self-employed Keogh retirement plan or a simplified employee pension (SEP), the self-employed health insurance deduction, penalty on early withdrawal of savings, alimony paid, payments to an IRA, student loan interest deductions, tuition and fees deductions, deduction for certain domestic production activities, Archer MSA deductions, and the foreign housing deduction. Each of the above items is described separately in this section. In addition, statutory adjustments included: jury duty pay, deductible expenses related to income of personal property, the forestation/reforestation amortization deduction, the repayment of supplemental unemployment benefits under the Trade Act of 1974, attorney fees and court costs paid for actions involving certain unlawful discrimination claims, and attorney fees and court costs paid in connection with an award from the IRS for information provided that helped the IRS detect tax law violations. If not listed separately, these amounts are included in the "Other Adjustments" category in the statistics.

## Student Loan Interest Deduction

(line 33, Form 1040)

For 2010, eligible taxpayers were allowed to deduct up to $2,500 for interest paid on qualified higher educational loans. The deduction was phased out for taxpayers with modified AGI between $60,000 to $75,000 ($120,000 to $150,000 for taxpayers filing a joint return).

## Tax Credits

See "Total Tax Credits."

## Tax Due at Time of Filing

(line 76, Form 1040)

"Tax due" was reported on returns on which total tax liability exceeded total tax payments.

## Tax from Recomputing Prior-Year Investment Credit

(included in line 60, Form 1040)

The investment tax credit provisions of the law included a recapture rule which required taxpayers to pay back some or all of any investment credit previously taken on property disposed of before the end of the useful life claimed in computing the credit. The law specified that if property qualifying for the credit was disposed of before the end of its useful life, the tax for the year of disposal was increased by the difference between the credit originally claimed and the credit that would have been allowed based on the shorter actual life. Tax credits could not be applied against this additional tax. Also tax from recapture of an education credit was reported here.

## Tax Generated ∆

This amount was the tax computed on modified taxable income. The tax rates for 2010 were 10, 15, 25, 28, 33, and 35 percent. The 10-percent bracket applied to taxable income equal to or below $8,375 for single filers and married persons filing separately; $16,750 for joint filers or surviving spouses; and $11,950 for heads of household. The 15-percent bracket applied to taxable income in excess of the 10-percent bracket ceiling and equal to or below $34,000 for single filers and married persons filing separately; $68,000 for joint filers or surviving spouses; and $45,550 for heads of household. The 25-percent tax bracket applied to taxable income in excess of the 15-percent bracket ceiling and equal to or below $82,400 for single filers; $137,300 for joint filers or surviving spouses; $68,650 for married persons filing separately; and $117,650 for heads of household. The 28 percent tax rate applied to taxable income in excess of the 25 percent tax bracket ceiling and equal to or below $171,850 for single filers; $209,250 for joint filers or surviving spouses; $104,625 for married persons filing separately; and $190,550 for heads of households. The 33 percent tax rate applied to taxable income in excess of the 28 percent tax bracket ceiling and equal to or below $373,650 for single filers, joint filers, or surviving spouses and heads of households and $186,825 for married persons filing separately. The 35 percent tax rate applied to taxable income in excess of the upper boundary for the 33 percent tax bracket. The tax generated at each of these tax rates is shown in Tables 3.4, 3.5, and 3.6.

If children under age 19, or under 24 if they were a full-time student, had investment income that exceeded $1,900, there were two methods of reporting this income. If the child filed his or her own return, the investment income that exceeded $1,900 was taxed at the parents' rate on Form 8615 (the remaining investment income was taxed at the child's rate) and tabulated separately in Tables 3.4, 3.5, and 3.6. If the parents elected to report the child's investment income on their return, they attached a Form 8814. The investment income in excess of $1,900 was included on either Form 1040, line 21 or in the case of capital gains distributions on either Form 1040, line 13 or Schedule D, line 13, or qualified dividends on Form 1040, line 9b. The remaining investment income in excess of the $950 standard deduction was taxed at the child's rate, added to the parents' tax on Form 1040, line 44, and is also tabulated separately in Tables 3.4, 3.5, and 3.6.

On most returns, except those with additional taxes from special computations, "tax generated" equaled "income tax before credits." (See also "Modified Taxable Income")

## Tax Payments Δ

(lines 61, 62, 68, 69, 70, 71, and 72 Form 1040)

These payments were generally made before the return was filed and were applied against tax liability to determine any amount payable or refundable at the time of filing. They consisted of the following:

(1) income tax withheld, including backup withholding;
(2) estimated tax payments (including those from overpayment on 2009 return);
(3) payment with request for extension of filing time;
(4) excess social security, Medicare, or railroad retirement tax withheld;
(5) credit for tax on certain gasoline, fuel, and oil; and
(6) credit from regulated investment companies.

Each of the above is described under a separate heading in this section.

Although the making work pay credit, earned income credit, American opportunity credit, first-time homebuyer credit, adoption credit, and the refundable prior-year minimum tax credit were included with tax payments on the tax return itself (line 63, 64a, 66, 67, 71b, and 71c, Form 1040), for the statistics it is treated partly as a credit against income tax liability and partly as a refundable amount. (See also "Making Work Pay Credit," "Earned Income Credit," "Education Credits," "First-Time Homebuyer Credit," "Adoption Credit," and "Refundable Prior-Year Minimum Tax Credit.") Also, the additional child credit, was included on the tax return as a payment but not treated that way for the statistics.

## Tax Penalty

(line 77, Form 1040)

See "Predetermined Estimated Tax Penalty."

## Tax Preparation Fees

(line 22, Schedule A)

Tax preparation fees were included on Schedule A as a miscellaneous deduction, the total of which was subject to a 2 percent of AGI floor. The amounts reported in the statistics are prior to this floor. (See also "Limited Miscellaneous Deductions.")

## Tax Rates, Tax Rate Classes

See "Tax Generated."

## Tax Withheld

(line 61, Form 1040)

See "Income Tax Withheld."

## Tax-Exempt Interest

(line 8b, Form 1040)

Tax-exempt interest included interest on certain State and municipal bonds, as well as any tax-exempt interest dividends from a mutual fund or other regulated investment company. This was an information reporting requirement and did not convert tax-exempt interest into taxable interest. It is included as income for certain programs, for example for the earned income credit or taxability of social security benefits.

## Taxable and Nontaxable Returns

The taxable and nontaxable classification of a return for this report is determined by the presence of "total income tax". Some returns classified as "nontaxable" may have had a liability for other taxes, such as self-employment tax, uncollected employee social security and Medicare tax on tips, tax from recomputing prior-year investment credit, penalty taxes on individual retirement accounts, Section 72 penalty taxes, advance earned income credit payments, household employment taxes, or golden parachute payments. These taxes, however, were disregarded for the purposes of this classification since three of the above taxes were considered social security (rather than income) taxes, and the remaining ones, except for advance earned income payments, were either based on prior year's income or were penalty taxes.

For this report, the making work pay credit, the earned income credit, American opportunity credit, first-time homebuyer credit, adoption credit and refundable prior-year minimum tax credit are treated first as an amount used to offset income tax before credits. Since they were refundable, they were subtracted from income tax (for the statistics) after reduction by all other statutory credits. As a result, some returns became nontaxable strictly because of the refundable credits and the refundable credits equaled or exceeded income tax before credits reduced by any other credits.

It should be noted that classification as taxable or nontaxable was based on each return as it was filed and does not reflect any changes resulting from audit or other enforcement activities. (See also, "Total Income Tax.")

## Taxable Income

(line 43, Form 1040)

Taxable income was derived by subtracting from adjusted gross income any exemption amount and either total itemized deductions or the standard deduction. (See "Modified Taxable Income.")

## Taxable Interest (Received)

(line 8a, Form 1040)

This amount was the taxable portion of interest received from bonds, debentures, notes, mortgages, certain insurance policy proceeds, personal loans, bank deposits, savings deposits, tax refunds, and U.S. savings bonds. Also included as interest were "dividends" on deposits or withdrawable accounts in mutual savings banks, savings and loan associations, and credit unions. Interest on state or local government obligations remained tax-exempt, but the total tax-exempt interest had to be reported on line 8b of Form 1040. It was not included in the taxpayer's income for tax purposes. (See also "Tax-Exempt Interest.")

## Taxable IRA Distributions (in AGI)

(line 15b, Form 1040)

See "Individual Retirement Arrangement Taxable Distributions."

## Taxable Pensions and Annuities (in AGI)

(line 16b, Form 1040)

See "Pensions and Annuities."

## Taxable Social Security Benefits

(line 20b, Form 1040)

See "Social Security Benefits."

## Taxes Paid Deduction

(lines 5-9, Schedule A)

Taxes allowed as an itemized deduction from adjusted gross income, included personal property taxes, state and local income taxes or general sales taxes, taxes paid to foreign countries or U.S. possessions (unless a foreign tax credit was claimed), real estate taxes except those levied for improvements that tended to increase the value of the property, and new motor vehicle tax. Mandatory employee contributions to a state disability fund and employee contributions to a state unemployment fund were also included. Federal taxes were not deductible. Taxes paid on business property were deducted separately on the schedules for business, rent, royalty, and farm income and are excluded from the "taxes paid" statistics in this report.

## Total Income

(line 22, Form 1040)

Total income was the sum of the individual income items (lines 7 through 21) before adjustments.

## Total Income Tax Δ

(line 55 + any Form 4970 tax on line 60 - line 63 - line 64a - line 66 - line 67 - line 71b - line 71c, limited to zero, on Form 1040)

Total income tax was the sum of income tax after credits (including the subtraction of the making work pay credit, earned income credit, American opportunity credit, first-time homebuyer credit, adoption credit and the refundable prior-year minimum tax credit) plus the tax from Form 4970. It did not include any of the other taxes that made up total tax liability. Total income tax was the basis for classifying returns as taxable or nontaxable.

## Total Itemized Deductions Δ

(included in line 40, Form 1040)

Itemized deductions from adjusted gross income could be claimed for medical and dental expenses, certain taxes paid, interest paid, charitable contributions, casualty and theft losses, and miscellaneous deductions. Taxpayers could deduct mortgage insurance premiums for mortgage contracts issued after December 31, 2006. Itemized deductions were claimed only if they exceeded the total standard deduction, with three exceptions. First, if a taxpayer was married and filing separately, and his or her spouse itemized deductions, the spouse was required to itemize as well. Second, taxpayers in several states were required to itemize deductions on their Federal tax returns if they wished to itemize on their State returns. Third, if a taxpayer benefited for alternative minimum tax purposes, they might itemize even though the standard deduction was larger. The total amount of itemized deductions was tabulated only from returns showing positive adjusted gross income.

New for 2010, high-income taxpayers no longer lost part of their itemized deductions as part of a phaseout, regardless of their AGI. For tax year 2008 and 2009, the amount by which the deduction was reduced was only 1/3 of the original reduction amount. For tax years 2006 and 2007, the amount by which the deduction was reduced was only 2/3 of the original reduction amount that would have otherwise applied (for 2005 and previous years).

## Total Miscellaneous Deductions

See "Miscellaneous Itemized Deductions."

## Total Pensions and Annuities

(line 16a, Form 1040)

See "Pensions and Annuities."

## Total Rent and Royalty Net Income or Loss

(line 26 plus lines 39 and 40, Schedule E)

This income concept consisted of all rent and royalty income and loss that was used in computing adjusted gross income, including farm rental income and suspended rental loss carry-over from prior years. It excluded the portion of rental losses that was not deductible in computing adjusted gross income due to the passive loss rules. Income or loss from real estate mortgage investment conduits were also included in this concept.

## Total Social Security Benefits

(line 20a, Form 1040)

See "Social Security Benefits."

## Total Statutory Adjustments

(line 36, Form 1040)

Total statutory adjustments was the sum of the individual adjustments to income (lines 23-36) (Note: foreign housing, Archer MSA, and other adjustments were reported on line 36).

## Total Tax Credits Δ

(lines 54, 63, 64a, 66, 67, 71b and 71c Form 1040)

For this report, total tax credits consists of the following:

(1) foreign tax credit;
(2) child care credit;
(3) education credits;
(4) retirement savings contributions credit;
(5) child tax credit;
(6) mortgage interest credit;
(7) residential energy credits;
(8) general business credit;
(9) minimum tax credit;
(10) credit for the elderly and disabled;
(11) District of Columbia first time homebuyer credit;
(12) qualified plug-in electric drive motor vehicle credit;
(13) qualified plug-in electric vehicle credit;
(14) qualified electric vehicle credit;
(15) alternative motor vehicle credit;
(16) alternative fuel vehicle refueling property credit;
(17) alternative motor vehicle credit;
(18) other tax credits;
(19) making work pay credit used to offset income tax before credits;
(20) earned income credit (EIC) used to offset income tax before credits;
(21) American opportunity credit used to offset income tax before credits;
(22) first-time homebuyer (FTHC) credit used to offset income tax before credits;
(23) adoption credit used to offset income tax before credits;
(24) refundable prior year minimum tax credit used to offset income tax before credits

These amounts were deducted from income tax before credits to arrive at income tax after credits. For the statistics, the portion of the making work pay credit, EIC, American opportunity credit, FTHC, adoption credit and the refundable prior-year minimum tax credit that did not result in a negative amount is tabulated as "making work pay credit used to offset income tax before credits," "earned income credit used to offset income tax before credits," "American opportunity credit used to offset income tax before credits," "first-time homebuyer credit used to offset income tax before credits," "adoption credit used to offset income tax before credits," and "refundable prior-year minimum tax credit used to offset income tax before credits." Any remaining making work pay credit, EIC, American opportunity credit, FTHC, adoption credit, and refundable prior-year minimum tax credit amount could be refunded or applied to other taxes, and are classified separately as "making work pay credit refundable portion," "earned income credit refundable portion," "American opportunity credit refundable portion," "first-time homebuyer credit refundable portion," "adoption credit refundable portion," and "refundable prior-year minimum tax credit refundable portion," or "making work pay credit used to offset other taxes," "earned income credit used to offset other taxes," "American opportunity credit used to offset other taxes," "first-time homebuyer credit used to offset other taxes," "adoption credit used to offset other taxes," and "refundable prior-year minimum tax credit used to offset other taxes." All other credits were limited to the amount needed to offset income tax before credits and were not refundable (except the child tax credit, see "Child Tax Credit.") or used to offset any other taxes.

## Total Tax Liability Δ

(line 60 modified by the making work pay credit, earned income credit, additional child tax credit, American opportunity credit, first-time homebuyer credit, adoption credit, and the refundable prior-year minimum tax credit, Form 1040)

Total tax liability was the sum of income tax after credits, self-employment tax, social security and Medicare tax on tip income and wages, penalty tax on qualified retirement plans, household employment taxes, repayment of the first-time homebuyer credit, additional tax on HSA and MSA distributions, aditional tax on Medicare Advantage MSA distributions, tax from recapturing prior-year investment credits, low income housing credit, qualified plug-in electric vehicle credit, Indian employment credit, new markets credit, employer-provided child care facilities credit, alternative motor vehicle credit, alternative fuel vehicle refueling property credit, and the qualified plug-in electric drive motor vehicle credit, tax from recapture of federal mortgage subsidy COBRA premium assistance, Section 72 penalty taxes, other unspecified taxes which included uncollected FICA (or social security) tax on tips, tax on golden parachute payments, Form 4970 tax, excise tax on insider stock compensation from an expatriated corporation, additional tax on income from a nonqualified deferred compensation plan, interest on tax due on installment income from sale of residential lots and timeshares, interest on the deferred tax gain from certain installment sales, additional tax on recapture of a charitable deduction relating to a fractional interest in tangible personal property, look-back interest, repayment of ineligible advance payments of the health coverage tax credit, and the statistics included tax from recapture of education credits. These taxes were then reduced by the making work pay credit used to offset all other taxes, earned income credit used to offset all other taxes, additional child tax credit used to offset all other taxes, American opportunity credit used to offset all other taxes, first-time homebuyer credit used to offset all other taxes, adoption credit used to offset all other taxes, and the refundable prior year minimum tax credit used to offset all other taxes, limited to zero. For the statistics, unlike the Form 1040, total tax liability does not include any advance earned income credit payments.

## Total Tax Payments

See "Tax Payments."

## Total Taxable IRA Distributions

See "Individual Retirement Arrangement Taxable Distributions."

## Total Unlimited Miscellaneous Deductions

(line 28, Schedule A)

See "Miscellaneous Itemized Deductions."

## Tuition and Fees Deduction

(line 34, Form 1040)

A taxpayer was able to deduct up to $4,000 of the qualified tuition and fees paid for themselves, a spouse, or dependents if the taxpayer's modified AGI was under $65,000 ($130,000 if married filing jointly). A taxpayer was able to deduct up to $2,000 if their AGI was higher than the limit but not more than $80,000 ($160,000 if married filing jointly). This deduction (calculated on Form 8917) could not be taken if the person could be claimed as a dependent on another taxpayer's return or if they claimed the education credit for the same student.

## Type of Tax Computation

(line 44, Form 1040)

Tabulations in Table 3.1 include three methods of computing the tax on income subject to tax. These methods were:

(1) regular tax, as computed from the tax tables or tax rate schedules accompanying the Forms 1040, 1040A, or 1040EZ. Schedule J, *Income Averaging for Farmers and Fishermen*, returns are included with regular tax. (See also "Regular Tax Computation");

(2) Form 8615, used to compute the tax on investment income of children under 19 (See also table 3.1A); and

(3) Schedule D, Form 1040, used to compute the tax on long-term capital gains (in excess of short-term capital losses.) These include returns with capital gain distributions reported

on Form 1040 or qualified dividends, also. This tax could be at various rates, 0, 15, 25, or 28 percent.

## Unemployment Compensation
(line 19, Form 1040)

All unemployment compensation received was taxable. It did not include any supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund, which were included in salaries and wages.

## Unreimbursed Employee Business Expenses
(line 21, Schedule A)

This item, added together with most other miscellaneous itemized deductions, was subject to a floor of 2 percent of AGI. Unreimbursed employee business expenses included travel, transportation, meal, and entertainment costs incurred while based at or away from home in the performance of job duties. In most cases, fifty percent of meal and entertainment expenses were deductible, and were calculated on Form 2106, *Employee Business Expenses*. Many other expenses such as union dues, safety equipment, uniforms, protective clothing, and physical examinations were also deductible. Travel expenses away from home, which were paid or incurred, were not deductible if the period of temporary employment was more than one year. The amounts reported in the statistics were prior to the 2 percent floor. (See also "Limited Miscellaneous Itemized Deductions.")