

deduct, as an adjustment to income, up to 100% of the amount paid for medical and qualified long-term care insurance on behalf of yourself, your spouse, and dependents.

The insurance plan must be established under your trade or business, and you cannot take this deduction to the extent that the amount of the deduction is more than your earned income from that trade or business.

You may not take this deduction for any month in which you were eligible to participate in any subsidized health plan maintained by your employer or your spouse's employer. This rule is applied separately to plans that provide long-term care insurance and plans that do not provide long-term care insurance.

If you qualify to take the deduction, use the *Self-Employed Health Insurance Deduction Worksheet* in the Form 1040 instructions to figure the amount you can deduct. But, if any of the following applies, do not use the worksheet.

- You had more than one source of income subject to self-employment tax.
- You file Form 2555, *Foreign Earned Income*, or Form 2555-EZ, *Foreign Earned Income Exclusion*.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

If you cannot use the worksheet in the Form 1040 instructions, use the worksheet in Publication 535, *Business Expenses*, to figure your deduction.

**Note.** If advance payments of the health coverage tax credit were made on your behalf to your insurance company, do not include any advance payments made for you when figuring the amount you may deduct for insurance premiums. Also, if you are claiming the health coverage tax credit, subtract the amount shown on line 4 of Form 8885 (reduced by any advance payments shown on line 6 of that form) from the total insurance premiums you paid.

**Where to report.** You take this deduction on Form 1040, line 29. If you itemize your deductions and do not claim 100% of your self-employed health insurance on line 29, include any remaining premiums with all other medical care expenses on Schedule A (Form 1040), subject to the 7.5% limit.

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## Health Coverage Tax Credit

There is a health coverage tax credit available to certain individuals who receive a pension benefit from the Pension Benefit Guaranty Corporation (PBGC) or are eligible to receive certain Trade Adjustment Assistance (TAA) or who are eligible for the Alternate Trade Adjustment Assistance (ATAA) program. You qualify for this credit if you:

- 1) Are an **eligible individual**,
- 2) Pay for **qualified health insurance** covering an **eligible coverage month** for yourself or for yourself and **qualifying family members**,
- 3) Do not have **other specified coverage**, and

- 4) Are not in prison.

You qualify for this credit on a month-by-month basis. If you qualify, you can claim a credit equal to 65% of the premiums you pay for qualified health insurance.

You can either take this credit on your tax return or have it paid on your behalf in advance to your insurance company. Your payments and any payments paid on your behalf in advance are treated as having been made on the first day of the month for which they are made. If the credit is paid on your behalf in advance, that amount will reduce the amount of the credit you can claim on your tax return. If you received National Emergency Grant (NEG) payments during 2003 for qualified health insurance, that amount will also reduce the amount of the credit you can claim.

## Eligible Individual

You are an eligible individual for any month during which one of the following is true.

- 1) You receive a TAA for individuals under the Trade Act of 1974 for at least one day in the month.
- 2) You would receive a TAA but do not because you have not yet exhausted your unemployment benefits, and are covered under a TAA certification.
- 3) You are a worker receiving a supplemental wage allowance under section 246 of the Trade Act of 1974 for such month.
- 4) You are at least 55 years old as of the first day of the month and are receiving pension benefits from the PBGC.

Once you qualify under (1) or (2) above, you remain eligible for the first month that you otherwise cease to be eligible.

**Example.** You receive a TAA for individuals during May, but do not receive another for the rest of the year. You are eligible for the health coverage tax credit for both May and June.

You are not an eligible individual if an exemption can be claimed for you on another person's tax return.

**ATAA workers.** Beginning in August, 2003, if you are eligible for the Alternative Trade Adjustment Assistance (ATAA) program, you are eligible for this credit for a period not to exceed two years if you:

- 1) Are covered by a qualifying certification,
- 2) Are reemployed not more than 26 weeks after the date of separation from the adversely-affected employment,
- 3) Are at least 50 years of age,
- 4) Do not earn more than \$50,000 a year in wages from reemployment,
- 5) Are employed on a full-time basis, and
- 6) Do not return to the employment from which you were separated.

## Qualifying Family Member

You can include the premiums you pay for qualified health insurance for qualifying family members in figuring your credit. Qualifying family members are:

- Your spouse, and
- Your dependents for whom you can claim an exemption on your tax return. (For children whose parents are divorced, see **Children of divorced parents**, later.)

However, if any otherwise qualifying family member has **other specified coverage** (defined later), then that person is not a qualifying family member. Also, your spouse is not your qualifying family member if:

- You are married on the last day of your tax year,
- Your spouse is also an eligible individual, and
- You file separate returns.

**Children of divorced parents.** If a child is in the custody of one or both of the child's parents for more than one-half of the year, the child is generally considered the dependent of the parent having custody for the greater part of the year (the custodial parent) if the parents either:

- Are divorced or **legally separated** under a decree of divorce or separate maintenance,
- Are separated under a written separation agreement, or
- Lived apart at all times during the last 6 months of the year.

For purposes of the health coverage tax credit, a child in this situation is treated as the dependent of the custodial parent even if:

- 1) The custodial parent cannot claim an exemption for the dependent child because that parent released any claim to the exemption for the year, or
- 2) There is a pre-1985 decree or agreement that entitles the noncustodial parent to the exemption.

**Legally separated.** You are not considered married if you are legally separated from your spouse under a decree of divorce or separate maintenance. You can claim the credit on a separate return.

**Married and living apart.** You are not considered married and can claim the credit if all of the following apply.

- You file a separate return.
- Your home is the home of a **qualifying person** (defined later) for more than half the year.
- You pay more than half the cost of keeping up your home for the year.
- Your spouse does not live in your home for the last 6 months of the year.

**Qualifying person.** A qualifying person is any of the following individuals.

- Your dependent under age 13 for whom you can claim an exemption.
- Your spouse or dependent who is physically or mentally not able to care for himself or herself.

## Qualified Health Insurance

The following health insurance qualifies for the credit.

- COBRA continuation coverage. (This is coverage that employers with 20 or more employees must offer to employees or former employees and their beneficiaries who have lost coverage because of certain events.)
- Coverage under a group health plan that is available through the employment of your spouse. (But see *Other Specified Coverage*, later.)
- Coverage under an individual health insurance policy if you were covered during the entire 30-day period that ends on the date you separated from the employment which qualified you for the allowance or benefit as an **eligible individual** (defined earlier). For this purpose, coverage under an individual health insurance policy includes medical insurance offered to individuals and their families, but does not include coverage under a federal, state, or other group health insurance policy.

**State-qualified health insurance.** The following health insurance qualifies for the credit to the extent the sponsoring state elects to have it apply.

- State-based continuation coverage provided by the state under a state law that requires such coverage.
- Coverage offered through a qualified state high-risk pool.
- Coverage under a health insurance program offered to state employees or a similar state-based health insurance program.
- Coverage through an arrangement entered into by the state and a group health plan, an issuer of health insurance coverage, an administrator, or an employer.
- Coverage offered through a state arrangement with a private sector health care coverage purchasing pool.
- Coverage under a state-operated health plan that does not receive any federal financial participation.

To find out which plans are qualified for your state, you can:

- Visit the website, **www.irs.gov**, type "hctc" in the *IRS keyword* box, click on "go," and then under *Resources*, click on *A list of Qualified Health Plans* organized by state, or
- You can call **1-866-628-4282** (tollfree) (or TDD/TTY 1-866-626-4282) between 7:00 a.m. and 7:00 p.m. central time, Monday through Friday.

## Nonqualified Health Insurance

The following health insurance does **not** qualify for the credit.

- 1) Medicare supplemental (Medigap) insurance, Tri-care supplemental insurance, or similar supplemental insurance to an employer-sponsored group health plan.
- 2) Any insurance if substantially all of the coverage is:
  - a) Coverage for on-site medical clinics,
  - b) Hospital indemnity or other fixed indemnity insurance,
  - c) Accident or disability income insurance (or a combination of the two),
  - d) Liability insurance,
  - e) A supplement to liability insurance,
  - f) Workers' compensation or similar insurance,
  - g) Automobile medical payment insurance,
  - h) Credit-only insurance,
  - i) Limited scope dental or vision benefits,
  - j) Benefits for long-term care, nursing home care, home health care, community-based care (or any combination), or
  - k) Coverage only for a specified disease or illness.
- 3) Coverage under a flexible spending or similar arrangement.

**Insurance that covers other individuals.** If you have qualified health insurance that covers anyone besides yourself and your **qualifying family member(s)**, (defined earlier), you may not be able to take into account all of your payments. You cannot treat an amount as paid for insurance for yourself and qualifying family members unless all of the following requirements are met.

- The charge for insurance for yourself and qualifying family members is either separately stated in the contract or furnished to you by the insurance company in a separate statement.
- The amount you paid for insurance for yourself and qualifying family members is not more than the charge that is stated in the contract or furnished by the insurance company.
- The amount stated in the contract or furnished by the insurance company is not unreasonably large in relation to the total charges under the contract.

## Eligible Coverage Month

Eligibility for the credit is determined on a monthly basis. An eligible coverage month is any month in which, as of the first day of the month, you:

- 1) Are an **eligible individual** (defined earlier),

- 2) Are covered by **qualified health insurance** (defined earlier) that you pay for,
- 3) Do not have **other specified coverage** (defined later), and
- 4) Are not imprisoned under federal, state, or local authority.

If you file a joint return, only one spouse has to satisfy the requirements.

## Other Specified Coverage

Even if you are otherwise eligible, you are not eligible for the credit for a month if, as of the first day of the month, you have other specified coverage. Other specified coverage is coverage under the following.

- 1) Any insurance which constitutes medical care (unless substantially all of that insurance is for benefits listed earlier under (1) or (2) under *Nonqualified Health Insurance*) if at least 50% of the cost of the coverage is paid by an employer (or former employer) of you or your spouse.
- 2) Any of the following government health programs:
  - a) Medicare Part A or Part B,
  - b) Medicaid, or the State Children's Health Insurance Program (SCHIP),
  - c) The Federal Employees Health Benefit Plan (FEHBP), or
  - d) Tricare, the medical and dental care program for members and certain former members of the uniformed services and their dependents.



*Two important points here are that you are not entitled to the credit for a month, if on the first day of that month, you are either:*

- 1) Covered by Medicare, or
- 2) Covered by a group health plan available through your or your spouse's employer and the employer contributes 50% or more of the premium.

## How To Report

To claim the credit, complete **Form 8885, Health Coverage Tax Credit**, and attach it to your Form 1040 or Form 1040NR. Report the credit on Form 1040, line 67, or Form 1040NR, line 62, and check box c. You cannot claim the credit on Form 1040A or Form 1040EZ.

You must attach invoices and proof of payment for any amounts you include on line 2 of Form 8885 for which you did not receive an advance payment. If you file your return electronically, attach the invoices and proof of payment to your Form 8453. Proof of payment may include a pay stub if insurance is through a spouse's employment, a bank check, or bank statement for premiums that are automatically deducted from your account.

If you claim this credit, you cannot take the same expenses that you use to figure your health coverage tax credit into account in determining your:

- Medical and dental expenses on Schedule A (Form 1040),
- Self-employed health insurance deduction, or
- Archer Medical Savings Account (MSA) distributions.

## Refundable and Advanceable

You can claim this credit and receive a refund even if you do not owe any taxes or earn any income.

You can get your credit in advance by calling the HCTC customer contact center at **1-866-628-4282** (tollfree) (or TDD/TTY 1-866-626-4282) between 7:00 a.m. and 7:00 p.m. central time, Monday through Friday, to register. The Treasury Department will pay your insurer 65% of your health insurance premiums as you pay the remaining 35%. The amount of the credit you can claim on your tax return will be reduced by the amount of the credit you receive in advance.

## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.
- Visit the web site at **www.irs.gov/advocate**.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

**Free tax services.** To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Internet.** You can access the IRS web site 24 hours a day, 7 days a week at **www.irs.gov** to:

- **E-file.** Access commercial tax preparation and e-file services available for free to eligible taxpayers.
- Check the amount of advance child tax credit payments you received in 2003.
- Check the status of your 2003 refund. Click on "Where's My Refund" and then on "Go Get My Refund Status." Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products on-line.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Figure your withholding allowances using our Form W-4 calculator.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.
- Get information on starting and operating a small business.

You can also reach us using File Transfer Protocol at **ftp.irs.gov**.



**Fax.** You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from your fax machine. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call **703-487-4608**.

Long-distance charges may apply.



**Phone.** Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call **1-800-829-3676** to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- **Asking tax questions.** Call the IRS with your tax questions at **1-800-829-1040**.
- **Solving problems.** You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can ex-



plain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to [www.irs.gov](http://www.irs.gov) or look in the phone book under "United States Government, Internal Revenue Service."

- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax or account questions or to order forms and publications.
- **TeleTax topics.** Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.
- **Refund information.** If you would like to check the status of your 2003 refund, call **1-800-829-4477** for automated refund information and follow the recorded instructions or call **1-800-829-1954**. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



**Walk-in.** Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to [www.irs.gov](http://www.irs.gov) or

look in the phone book under "United States Government, Internal Revenue Service."



**Mail.** You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:**  
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- **Eastern part of U.S. and foreign addresses:**  
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Richmond, VA 23261-5074



**CD-ROM for tax products.** You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) on the Internet at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$22 (no handling fee) or call **1-877-233-6767** toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is available in early January and the final release is available in late February.



**CD-ROM for small businesses.** IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling **1-800-829-3676** or by visiting the web site at [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz).