

**Rule 2.**  
Married Person's Filing Status

**Rule 2 Your Filing Status Cannot Be "Married Filing Separately"**

If you are married, you usually must file a joint return to claim the EIC. Your filing status cannot be "Married filing separately."

**Spouse did not live with you.** If you are married and your spouse did not live in your home at any time during the last 6 months of the year, you may be able to file as head of household, instead of married filing separately. In that case, you may be able to claim the EIC. For detailed information about filing as head of household, see Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

**Rule 3.**  
Nonresident Alien

**Rule 3 You Must Be a U.S. Citizen or Resident Alien All Year**

You cannot claim the earned income credit if you are a nonresident alien for any part of the year, unless:

- 1) You are married to a U.S. citizen or a resident alien, **and**
- 2) You choose to be treated as a resident for all of 2000 by filing a joint return. If you need more information on making this choice, get Publication 519, *U.S. Tax Guide for Aliens*.

**Note.** If you make the choice in (2) above, you and your spouse are taxed on your worldwide income. You cannot claim any tax treaty benefits as a resident of a foreign country during a tax year in which the choice is in effect.

**Rule 4.**  
Foreign Earned Income

**Rule 4 You Cannot File Form 2555 or Form 2555-EZ**

You cannot claim the earned income credit if you file Form 2555, *Foreign Earned Income*, or Form 2555-EZ, *Foreign Earned Income Exclusion*. You file these forms to exclude income earned in foreign countries from your gross income, or to deduct or exclude a foreign housing amount. U.S. possessions are not foreign countries. See Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, for more detailed information.

**Rule 5.**  
Investment Income

**Rule 5 Your Investment Income Must Be \$2,400 or Less**

You cannot claim the earned income credit unless your investment income is \$2,400 or less. If your investment income is more than \$2,400, you cannot claim the credit.

**Form 1040EZ.** If you file Form 1040EZ, your investment income is the total of the amounts on line 2 and any tax-exempt interest you wrote in the space to the right of the words "Form 1040EZ" on line 2 of that form.

**Form 1040A.** If you file Form 1040A, your investment income is the total of the amounts on lines 8a (taxable interest), 8b (tax-exempt interest), 9 (ordinary dividends), and 10 (capital gain distributions) of that form.

**Form 1040.** If you file Form 1040, use *Worksheet 1*, below, to figure your investment income.



## Worksheet 1: Investment Income If You Are Filing Form 1040



### Interest and Dividends

- |   |          |
|---|----------|
| 1. Enter any amount from Form 1040, line 8a.  | 1. _____ |
| 2. Enter any amount from Form 1040, line 8b, plus any amount on Form 8814, line 1b.   | 2. _____ |
| 3. Enter any amount from Form 1040, line 9.   | 3. _____ |
| 4. Enter the amount from Form 1040, line 21, that is from Form 8814 if you are filing that form to report your child's interest and dividend income on your return. (See instructions below for line 4 if your child received an Alaska Permanent Fund dividend.) | 4. _____ |

### Capital Gain Net Income

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|---|----------|
| 5. Enter the amount from Form 1040, line 13. If the amount on that line is a loss, enter zero.  | 5. _____ |
| 6. Enter any gain from Form 4797, <i>Sales of Business Property</i> , line 7, column (g). If the amount on that line is a loss, enter zero. (But, if you completed lines 8 and 9 of Form 4797, enter the amount from line 9, column (g) instead.) | 6. _____ |
| 7. Subtract line 6 of this worksheet from line 5 of this worksheet. (If the result is less than zero, enter zero.)  | 7. _____ |

### Royalties and Rental Income from Personal Property

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|---|-----------|
| 8. Enter any royalty income from Schedule E, line 4, plus any income from the rental of personal property shown on Form 1040, line 21.                            | 8. _____  |
| 9. Enter any expenses from Schedule E, line 21, related to royalty income, plus any expenses from the rental of personal property deducted on Form 1040, line 32. | 9. _____  |
| 10. Subtract the amount on line 9 of this worksheet from the amount on line 8. (If the result is less than zero, enter zero.)                                     | 10. _____ |

### Passive Activities

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|---|-----------|
| 11. Enter the total of any net income from passive activities (included on Schedule E, lines 26, 28a (col. (h)), 33a (col. (d)), and 39). (See instructions below for lines 11 and 12.) | 11. _____ |
| 12. Enter the total of any losses from passive activities (included on Schedule E, lines 26, 28b (col. (g)), 33b (col. (c)), and 39). (See instructions below for lines 11 and 12.)     | 12. _____ |
| 13. Combine the amounts on lines 11 and 12 of this worksheet. (If the result is less than zero, enter zero.)  | 13. _____ |
| 14. Add the amounts on lines 1, 2, 3, 4, 7, 10, and 13. Enter the total. <b>This is your Investment Income.</b>   | 14. _____ |

**Instructions for line 4.** To figure the amount to enter on line 4, start with the amount on line 6 of Form 8814. Multiply that amount by a percentage that is equal to any Alaska Permanent Fund dividends divided by the total amount of interest and dividend income on line 4 of Form 8814. Subtract the result from the amount on line 6 of Form 8814.

**Example.** Your 10-year old child has interest and dividend income of \$4,000, including \$500 in Alaska Permanent Fund dividends. You choose to report this on your return. You enter \$4,000 on line 4 of Form 8814 and \$2,600 on line 6 of Form 8814 and line 21 of Form 1040. You figure the amount to enter on line 4 of this worksheet as follows:  

$$\$2,600 - (\$2,600 \times (\$500 \div \$4,000)) = \$2,275$$

**Instructions for lines 11 and 12.** In figuring the amount to enter on lines 11 and 12, do not take into account any royalty income (or loss) included on line 26 of Schedule E or any amount included in your taxable earned income. To find out if the income on line 26 or line 39 of Schedule E is from a passive activity, see the Schedule E instructions. If any of the rental real estate income (or loss) included on Schedule E, line 26, is not from a passive activity, print "NPA" and the amount of that income (or loss) on the dotted line next to line 26.