26 CFR 601.602: Tax forms and instructions.
(Also Part I, §§ 1, 32, 59, 63, 68, 132, 135, 151, 170, 512, 513, 877, 4001, 4003, 6012, 6013, 6033, 6039F, 7430; 1.1–1, 1.32–2, 1.63–1, 1.151–4, 1.170–1, 1.6012–1, 1.6013–1)

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SECTION 1. PURPOSE

This revenue procedure sets forth inflation adjusted items for 1997.

SECTION 2. CHANGES MADE FROM PRECEDING YEAR

.01 Amounts used to determine eligibility for the elective method under § 1(g)(7) to report the ''kiddie tax'' on the parent's tax return, and to make computations under this method, are adjusted for inflation for tax years beginning in 1997. See section 3.02 of this revenue procedure.

.02 The amount of investment income that causes an individual to be denied the earned income tax credit under § 32(i) is adjusted for inflation for tax years beginning in 1997. See section 3.03(2) of this revenue procedure.

.03 A limited exemption from the alternative minimum tax under § 59(j) for a child subject to the ''kiddie tax'' is adjusted for inflation for tax years beginning in 1997. See section 3.04 of this revenue procedure.

.04 The maximum amount of annual dues that can be paid to certain agricultural or horticultural organizations under § 512(d)(1) without any portion being treated as unrelated trade or business income by reason of any benefits or privileges available to members is adjusted for inflation for tax years beginning in 1997. See section 3.10 of this revenue procedure.

.05 The amounts used under § 877 to determine whether a principal purpose of expatriation is to avoid tax are adjusted for inflation for calendar year 1997. See section 3.12 of this revenue procedure.

.06 The amount of gifts in a taxable year from foreign person(s), which triggers a reporting requirement for a United States person under § 6039F, is adjusted for inflation for tax years beginning in 1997. See section 3.15 of this revenue procedure.

.07 The hourly limit on attorney fees that may be awarded under § 7430, in a judgment or settlement of an administrative or judicial proceeding concerning the determination, collection, or refund of tax, interest, or penalty under the Code, is adjusted for inflation for tax years beginning in 1997. See section 3.16 of this revenue procedure.

SECTION 3. 1997 ADJUSTED ITEMS

.01 *Tax Rate Tables.* The following adjusted tax rate tables are prescribed in lieu of the tables in subsections (a), (b), (c), (d), and (e) of § 1 of the Code with respect to tax years beginning in 1997.

TABLE 1—Section 1(a).—MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

If Taxable Income Is:	The Tax Is:
Not Over $41,200	15% of the taxable income
Over $41,200 but not over $99,600	$6,180 plus 28% of the excess over $41,200
Over $99,600 but not over $151,750	$22,532 plus 31% of the excess over $99,600
Over $151,750 but not over $271,050	$38,698.50 plus 36% of the excess over $151,750
Over $271,050	$81,646.50 plus 39.6% of the excess over $271,050

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

If Taxable Income Is:	The Tax Is:
Not Over $33,050	15% of the taxable income
Over $33,050 but not over $85,350	$4,957.50 plus 28% of the excess over $33,050
Over $85,350 but not over $138,200	$19,601.50 plus 31% of the excess over $85,350
Over $138,200 but not over $271,050	$35,985 plus 36% of the excess over $138,200
Over $271,050	$83,811 plus 39.6% of the excess over $271,050

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

If Taxable Income Is:	The Tax Is:
Not Over $24,650	15% of the taxable income
Over $24,650 but not over $59,750	$3,697.50 plus 28% of the excess over $24,650

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

If Taxable Income Is:	The Tax Is:
Over $59,750 but not over $124,650	$13,525.50 plus 31% of the excess over $59,750
Over $124,650 but not over $271,050	$33,644.50 plus 36% of the excess over $124,650
Over $271,050	$86,348.50 plus 39.6% of the excess over $271,050

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

If Taxable Income Is:	The Tax Is:
Not Over $20,600	15% of the taxable income
Over $20,600 but not over $49,800	$3,090 plus 28% of the excess over $20,600
Over $49,800 but not over $75,875	$11,266 plus 31% of the excess over $49,800
Over $75,875 but not over $135,525	$19,349.25 plus 36% of the excess over $75,875
Over $135,525	$40,823.25 plus 39.6% of the excess over $135,525

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

If Taxable Income Is:	The Tax Is:
Not Over $1,650	15% of the taxable income
Over $1,650 but not over $3,900	$247.50 plus 28% of the excess over $1,650
Over $3,900 but not over $5,950	$877.50 plus 31% of the excess over $3,900
Over $5,950 but not over $8,100	$1,513 plus 36% of the excess over $5,950
Over $8,100	$2,287 plus 39.6% of the excess over $8,100

.02 *Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax").*

(1) *Reporting on Child's Return.*

(a) Section 1(g) provides that the tax on the net unearned income of a child under the age of 14 is computed at the marginal rate of the child's parent. Under § 1(g)(4)(A)(ii), net unearned income generally equals unearned income less the sum of (I) the amount in effect for the tax year under § 63(c)(5)(A), plus (II) the greater of the amount described in (I) or certain itemized deductions.

(b) The amount in effect for tax years beginning in 1997 under § 63(c)(5)(A) is $650. See section 3.05(2) below. Accordingly, for tax years beginning in 1997, net unearned income will generally equal unearned income less the greater of $1,300 or $650 plus certain itemized deductions.

(2) *Election to Report on Parent's Return.*

(a) Section 1(g)(7)(A) provides that if a child's gross income from interest and dividends is more than the amount described in § 1(g)(4)(A)(ii)(I) and less than ten times that amount, and certain other conditions are met, a parent may elect to include a child's gross income in the parent's gross income for the taxable year. Under § 1(g)(7)(B), the "kiddie tax" is determined by (I) including the portion of a child's gross income in the parent's gross income to the extent that the child's gross income exceeds twice the amount described in § 1(g)(4)(A)(ii)(I), and (II) adding to the tax on that income the lesser of 15 percent of either the amount described in § 1(g)(4)(A)(ii)(I) or the excess of the child's gross income over such amount.

(b) The amount in effect for tax years beginning in 1997 under § 1(g)(4)(A)(ii)(I), which is also the amount under § 63(c)(5)(A) (see section 3.02(1)(b) above), is $650. Accordingly, for tax years beginning in 1997, to qualify to make the parent's election, the child's gross income from interest and dividends must be more than $650 and less than $6,500 pursuant to § 1(g)(7)(A). Under § 1(g)(7)(B), the "kiddie tax" is imposed on the parent by (I) including a child's gross income in excess of $1,300 in the parent's gross income, and (II) adding to the tax on that income the lesser of either $97.50 (or $98 if the taxpayer elects to round on the return) or 15 percent of the excess of the child's gross income over $650.

.03 *Earned Income Tax Credit.*

(1) *Amount of credit; phaseout income levels.*

(a) Section 32(a)(1) provides an earned income tax credit amount for certain taxpayers with one child, two or more children, or no children. For tax years beginning in 1997, the "maximum amount of the credit" is calculated by multiplying the "earned income amount" by the "credit percentage" as follows:

Type of Taxpayer	Credit Percentage	Earned Income Amount	Maximum Amount of the Credit
1 child	34	$6,500	$2,210
2 or more children	40	$9,140	$3,656
No children	7.65	$4,340	$ 332

(b) Section 32(a)(2) provides for the phaseout of the earned income tax credit. The amount of the reduction in the maximum amount of the credit caused by the phaseout is calculated by multiplying the ''phaseout percentage'' by the amount by which the taxpayer's adjusted gross income (or, if greater, earned income) exceeds the ''threshold phaseout amount.'' For tax years beginning in 1997, the ''phaseout percentages,'' the ''threshold phaseout amounts,'' and the ''completed phaseout amounts'' are as follows:

Type of Taxpayer	Phaseout Percentage	Threshold Phaseout Amount	Completed Phaseout Amount
1 child	15.98	$11,930	$25,760
2 or more children	21.06	$11,930	$29,290
No children	7.65	$ 5,430	$ 9,770

(c) The Internal Revenue Service will prescribe tables showing the amount of the earned income tax credit for each type of taxpayer.

(2) *Excessive investment income.*

(a) Under § 32(i), the earned income tax credit is denied if the aggregate amount of certain investment income for the taxable year exceeds $2,200 (the ''disqualified income limitation'').

(b) For tax years beginning in 1997, the ''disqualified income limitation'' is $2,250.

.04 *Alternative Minimum Tax Exemption for "Kiddie Tax" Reported on Parent's Return.*

(1) Section 59(j) provides that for a child to whom § 1(g) applies, the exemption amount for purposes of the alternative minimum tax under § 55 shall not exceed the sum of (A) such child's earned income for the taxable year, plus (B) twice the amount in effect for the taxable year under § 63(c)(5)(A) (or, if greater, the child's share of the unused parental minimum tax exemption).

(2) The amount in effect for tax years beginning in 1997 under § 63(c)(5)(A) is $650. See section 3.05(2) below. Accordingly, for tax years beginning in 1997, twice the amount in effect for the taxable year under § 63(c)(5)(A) is $1,300.

.05 *Standard Deduction.*

(1) The following adjusted standard deduction amounts are prescribed in lieu of the amounts set forth in § 63(c)(2) with respect to tax years beginning in 1997.

Filing Status	Standard Deduction
MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES (§ 1(a))	$6,900
HEADS OF HOUSEHOLDS (§ 1(b))	$6,050
UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS) (§ 1(c))	$4,150
MARRIED INDIVIDUALS FILING SEPARATE RETURNS (§ 1(d))	$3,450

(2) Under § 63(c)(5)(A) for tax years beginning in 1997, the standard deduction for an individual who may be claimed as a dependent by another taxpayer for a tax year beginning in the calendar year in which the individual's tax year begins, cannot exceed the greater of (A) $650 or (B) the amount of the individual's earned income.

(3) Under § 63(f) for tax years beginning in 1997, the additional standard deduction amounts for the aged and for the blind are $800 for each. These amounts are each increased to $1,000 if the individual is also unmarried and not a surviving spouse.

.06 *Overall Limitation on Itemized Deductions.*

(1) Section 68 provides that the amount of itemized deductions otherwise allowable for the tax year shall be reduced by the lesser of (1) 3 percent of the excess of adjusted gross income over the ''applicable amount,'' or (2) 80 percent of the amount of certain itemized deductions otherwise allowable for the tax year.

(2) The ''applicable amount'' for tax years beginning in 1997 is $121,200 ($60,600 in the case of a separate return filed by a married individual within the meaning of § 7703).

.07 *Qualified Transportation Fringe.*

(1) Section 132(f) provides an exclusion from gross income for certain employer-provided transportation referred to as a ''qualified transportation fringe.'' A ''qualified transportation fringe'' means any of the following: transportation in a commuter highway vehicle between the employee's residence and place of employment, any transit pass, and qualified parking. Section 132(f)(2)(A) limits the exclusion for the aggregate of the transportation in a commuter highway vehicle and the transit pass to $60 per month (the ''$60 vehicle/transit'' limitation). Section 132(f)(2)(B) limits the exclusion for qualified parking to $155 per month (the ''$155 parking'' limitation).

(2) For tax years beginning in 1997, the ''$60 vehicle/transit'' limitation is $65 and the ''$155 parking'' limitation is $170.

.08 *Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses.*

(1) Section 135 provides an exclusion of income from the redemption of United States savings bonds for taxpayers who pay qualified higher education expenses. Section 135(b)(2) provides for the phaseout of the exclusion. The amount of the reduction in the exclusion caused by the phaseout is calculated by multiplying the amount otherwise excludable by a fraction. The numerator of the fraction is the excess of the taxpayer's modified adjusted gross income

over the threshold amount ($60,000 for joint returns or $40,000 for others) and the denominator is $30,000 for joint returns or $15,000 for others.

(2) For tax years beginning in 1997, the amounts of modified adjusted gross income above which the phaseout of the exclusion begins (''threshold phaseout amounts''), and the amounts at which the benefit is completely phased out (''completed phaseout amounts''), are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount*
Code § 1(a)	$76,250	$106,250
Others	$50,850	$ 65,850

.09 *Personal Exemption.*

(1) Section 151(b) generally allows a taxpayer an exemption for himself or herself. Section 151(c) generally allows a taxpayer additional exemptions for dependents as defined in § 152. The personal exemption for tax years beginning in 1997 is $2,650.

(2) Section 151(d)(3) provides for the phaseout of the tax benefit of the personal exemptions allowed by § 151. The reduction in the amount of personal exemptions caused by the phaseout is calculated by reducing the total amount of the personal exemptions by 2 percent for each $2,500 increment (or portion thereof) of adjusted gross income in excess of a threshold phaseout amount. For tax years beginning in 1997, the ''threshold phaseout amounts'' and the ''completed phaseout amounts'' are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount After*
Code § 1(a)	$181,800	$304,300
Code § 1(b)	$151,500	$274,000
Code § 1(c)	$121,200	$243,700
Code § 1(d)	$ 90,900	$152,150

.10 *Treatment of Dues Paid to Agricultural or Horticultural Organizations.*

(1) Section 512(d)(1) provides that no portion of annual dues required by an agricultural or horticultural organization described in § 501(c)(5) is treated as derived from an unrelated trade or business by reason of any benefits or privileges to which members are entitled if the amount of required annual dues from each member does not exceed $100 (the ''$100 amount'').

(2) For tax years beginning in 1997, the ''$100 amount'' is $106.

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

(1) Section 513(h)(1)(A) provides that, in the case of certain exempt organizations, the term ''unrelated business income'' does not include activities relating to the distribution of ''low cost articles'' (as defined in § 513(h)(2)) if the distribution of such articles is incidental to the solicitation of charitable contributions.

(2) Section 3 of Rev. Proc. 90–12, 1990–1 C.B. 471, as amplified by Rev. Proc. 92–49, 1992–1 C.B. 987, and as modified by Rev. Proc. 92–102, 1992–2 C.B. 579, provides guidelines for determining the deductible amount of contributions under § 170 when contributors receive something in return for their contributions. The guidelines provide that insubstantial benefits received by a contributor (in the context of a charitable fund-raising campaign) are disregarded, which makes the contribution fully deductible under § 170. The guidelines further provide the following three alternative limitations on what are insubstantial benefits:

(a) The fair market value of all the benefits received is not more than 2-percent of the contribution, or $50 (the ''$50 benefit'' limitation), whichever is less;

(b) The contribution is $25 (the ''$25 payment'' limitation) or more, and the only benefits received by the donor in return during the calendar year have a cost, in the aggregate, of not more than a ''low cost article'' under § 513(h)(2); or

(c) In connection with a request for a charitable contribution, the charity mails or otherwise distributes free, unordered items to patrons, and the cost of such items (in the aggregate) distributed to any single patron in a calendar year is not more than a ''low cost article'' under § 513(h)(2).

(3) For tax years beginning in 1997, the ''$50 benefit'' limitation is $69, the ''$25 payment'' limitation is $34.50, and the ''low cost article'' limitation is $6.90.

.12 *Expatriation to Avoid Tax.*

(1) Under § 877(a)(1), an individual who loses United States citizenship may be subject to taxation under § 877(b) if a principal purpose of such loss is the avoidance of tax. Under § 877(a)(2), an individual is treated as having the avoidance of tax as a principal purpose of such loss if (A) the average annual net income tax (as defined in § 38(c)(1)) of such individual for a period of 5 taxable years ending before the date of the loss of United States citizenship is greater than $100,000 (the ''$100,000 amount'') or (B) the net worth of the individual as of such date is $500,000 or more (the ''$500,000 amount'').

(2) For calendar year 1997, the ''$100,000 amount'' is $106,000 and the ''$500,000 amount'' is $528,000.

.13 *Luxury Automobile Excise Tax.*

(1) Section 4001(a) imposes an excise tax on the first retail sale of any passenger vehicle to the extent the price exceeds $30,000 (the ''$30,000 amount''). Section 4003(a) imposes an excise tax on the installation of parts or accessories on a passenger vehicle within six months of the date after the vehicle was first placed in service, to the extent the price of all parts and accessories, including installation, and the price of the vehicle exceed the ''$30,000 amount.''

(2) For calendar year 1997, the ''$30,000 amount'' is $36,000.

.14 *Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures.*

(1) Section 6033(e)(1)(A) provides that certain exempt organizations that pay or incur nondeductible lobbying expenditures must include the total of those expenditures on their annual returns and must notify their members with a reasonable estimate of the portion of dues allocated to those expenditures. Section 6033(e)(3) provides that § 6033(e)(1)(A) shall not apply to an organization that establishes to the satisfaction of the Secretary that substantially all of its dues are nondeductible without regard to the lobbying expenditure restrictions. Section 4.02 of Rev. Proc. 95–35, 1995–2 C.B. 391, provides that § 501(c)(4) social welfare organizations and § 501(c)(5) agricultural and horticultural organizations are treated as satisfying § 6033(e)(3) if either (1) more than 90 percent of all annual dues are received from persons, families, or entities who each pay $50 or less (the ''$50 exception'' amount), or (2) more than 90 percent of all annual dues are received from certain exempt entities.

(2) For tax years beginning in 1997, the ''$50 exception'' amount is $53.

.15 *Notice of Large Gifts Received from Foreign Persons.*

(1) Section 6039F requires that a United States person report information on gifts from foreign persons if the

aggregate of such gifts from all such persons exceeds $10,000 (the ''$10,000 amount'') in a taxable year.

(2) For tax years beginning in 1997, the ''$10,000 amount'' is $10,276.

.16 *Attorney Fee Awards.*

(1) Under § 7430, attorney fees may be awarded in a judgment or settlement of an administrative or judicial proceeding concerning the determination, collection, or refund of tax, interest, or penalty under the Code. The attorney fees are subject to an hourly limit of $110 (the ''$110 amount'') pursuant to § 7430(c)(1).

(2) For calendar year 1997, the ''$110 amount'' is $110.

SECTION 4. COMPUTATION OF INFLATION ADJUSTMENTS

.01 *Tax Rate Tables.*

(1) Section 1(f)(1) provides that not later than December 15 of each calendar year, the Secretary shall prescribe inflation-adjusted tax rate tables that apply in lieu of the tax rate tables in § 1 with respect to tax years beginning in the succeeding calendar year.

(2) Under § 1(f)(3), the inflation adjustment for a calendar year is the percentage (if any) by which the Consumer Price Index (CPI) for the preceding calendar year exceeds the CPI for the calendar year 1992. However, § 1(f)(7)(B) provides that in prescribing the inflation adjustments for the 36 percent and 39.6 percent tax rate brackets, the preceding calendar year's CPI is compared with the CPI for the calendar year 1993. For purposes of computing the inflation adjustment, § 1(f)(4) defines the CPI as the average of the 12 monthly CPIs for the 12-month period ending on August 31 of such calendar year. Under § 1(f)(5), the CPI is that for all-urban consumers published by the Department of Labor.

(3) Section 1(f)(2)(A) provides that the inflation adjustment is reflected in the tax rate tables by increasing the minimum and maximum dollar amounts for each rate bracket. Under § 1(f)(6), an adjusted bracket amount is ''rounded down'' to the nearest multiple of $50 ($25 in the case of married individuals filing separately).

.02 *Kiddie Tax.*

(1) *Reporting on Child's Return.* Section 1(g)(4) uses the limitation on the standard deduction for certain dependents under § 63(c)(5)(A) in computing the ''kiddie tax.'' That limitation is adjusted for inflation under § 63(c)(4). The inflation adjustment computation under § 63(c)(4) is described below in section 4.05.

(2) *Election To Report on Parent's Return.* Section 1(g)(7) uses an amount described in § 1(g)(4) in computing the ''kiddie tax.'' Section 1(g)(4) uses the limitation on the standard deduction for certain dependents under § 63(c)(5)(A), and is adjusted, as described above in section 4.02(1).

.03 *Earned Income Tax Credit.*

(1) *Amount of credit; phaseout income levels.*

(a) Section 32(j) provides that the ''earned income amounts'' and ''phaseout amounts,'' which limit the earned income tax credit, are adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1995. Under § 32(j)(2)(A), the adjusted amount is rounded to the nearest multiple of $10.

(b) Under § 32(b)(2), the base amounts of the ''earned income amounts'' and ''phaseout amounts'' are $6,330 and $11,610 for a taxpayer with one child, $8,890 and $11,610 for a taxpayer with two or more children, and $4,220 and $5,280 for a taxpayer with no children.

(2) *Excessive Investment Income.*

(a) Section 32(j) provides that the ''disqualified income limitation'' is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1995. Under § 32(j)(2)(B), the ''disqualified income limitation'' is ''rounded down'' to the next lowest multiple of $50.

(b) Under § 32(i), the base amount of the ''disqualified income limitation'' is $2,200.

.04 *Alternative Minimum Tax Exemption for ''Kiddie Tax'' Reported on Parent's Return.* Section 59(j) uses the limitation on the standard deduction for certain dependents under § 63(c)(5)(A) in computing the alternative minimum tax on income subject to the ''kiddie tax.'' The limitation on the standard deduction is adjusted for inflation under § 63(c)(4). The inflation adjustment computation under § 63(c)(4) is described below in section 4.05.

.05 *Standard Deduction.*

(1) Under § 63(c)(4), the standard deduction amounts (including the limitation for certain dependents and the additional standard deduction amounts for the aged and for the blind) are adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1987. Under § 1(f)(6), an adjusted amount is ''rounded down'' to the nearest multiple of $50 ($25 in the case of the basic standard deduction for married individuals filing separately).

(2) Under § 63(c)(2), the base amounts of the basic standard deduction are $5,000 for married individuals filing joint returns and surviving spouses; $4,400 for heads of households; $3,000 for unmarried individuals (other than surviving spouses and heads of households); and $2,500 for married individuals filing separate returns. Under § 63(c)(5)(A), the base amount of the limited standard deduction for an individual who may be claimed as a dependent by another taxpayer is $500. Under § 63(f), the base amounts of the additional standard deduction for the aged and for the blind are $600 for each, except that these amounts are increased to $750 if the individual is unmarried and not a surviving spouse.

.06 *Overall Limitation on Itemized Deductions.*

(1) Section 68(b)(2) provides that the ''applicable amount'' for the overall limitation on itemized deductions is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1990. Under § 1(f)(6), the adjusted ''applicable amount'' is ''rounded down'' to the nearest multiple of $50 ($25 in the case of married individuals filing separately).

(2) Under § 68(b)(1), the base amount of the ''applicable amount'' is $100,000 ($50,000 in the case of a separate return by a married individual within the meaning of § 7703).

.07 *Qualified Transportation Fringe.* Section 132(f)(6) provides that the limitation on the amount of the exclusion from gross income for a qualified transportation fringe is adjusted for inflation under the method described in § 1(f)(3). See section 4.01 above. Under § 132(f)(6)(B), an increased amount that is not a multiple of $5 is ''rounded down'' to the next lowest multiple of $5.

.08 *Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses.* Section 135(b)(2)(B) provides that the dollar amount at which the phaseout of the exclusion (of income from the redemption of United States savings bonds for taxpayers who pay qualified higher education expenses) begins is adjusted for inflation under the method described in § 1(f)(3). The preceding calendar year's CPI is compared with the CPI for the calendar year 1989. The adjusted dollar amount is rounded to the nearest multiple of $50 (if the adjusted figure is a multiple of $25, it is increased to the next highest multiple of $50) under § 135(b)(2)(C).

.09 *Personal Exemption.*

(1) Exemption amount.

(a) Section 151(d)(4)(A) provides that the personal exemption amount is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1988. The adjusted exemption is ''rounded down'' to the nearest multiple of $50 under § 1(f)(6).

(b) Under § 151(d)(1), the base amount of the personal exemption is $2,000.

(2) *Phaseout amounts.*

(a) Section 151(d)(4)(B) provides that the ''threshold amounts'' at which the phaseout of the tax benefit of the personal exemptions begins are adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1990. Under § 1(f)(6), an adjusted ''threshold amount'' is ''rounded down'' to the nearest multiple of $50 ($25 in the case of married individuals filing separately).

(b) Under § 151(d)(3)(C), the base amounts of the ''threshold amounts'' are $150,000 for Code § 1(a) taxpayers; $125,000 for Code § 1(b) taxpayers; $100,000 for Code § 1(c) taxpayers; and $75,000 for Code § 1(d) taxpayers.

.10 *Treatment of Dues Paid to Agricultural or Horticultural Organizations.* Section 512(d)(2) provides that the ''$100 amount'' is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1994.

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

(1) *Section 513(h).*

(a) Section 513(h)(1)(C) provides that the maximum cost of a ''low cost article'' is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1987.

(b) Under § 513(h)(2)(A), the base amount of the ''low cost article'' is $5.

(2) *Rev. Proc. 90–12.* Rev. Proc. 90–12 provides for the adjustment of the ''low cost article'' and the ''$25 payment'' limitations in that revenue procedure as provided under § 513(h)(2)(C). The ''$50 benefit'' limitation in that revenue procedure is adjusted in the same manner.

.12 *Expatriation to Avoid Tax.* Section 877(a)(2) provides that the ''$100,000 amount'' and the ''$500,000 amount'' are adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1994. Under § 877(a)(2), the adjusted ''$100,000 amount'' and ''$500,000 amount'' are rounded to the nearest multiple of $1,000.

.13 *Luxury Automobile Excise Tax.* Section 4001(e)(1) provides that the ''$30,000 amount'' threshold for the excise tax on a luxury automobile in §§ 4001(a) and 4003(a) is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1990. Under § 4001(e)(2), the adjusted ''$30,000 amount'' is ''rounded down'' to the nearest multiple of $2,000.

.14 *Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures.* Section 5.05 of Rev. Proc. 95–35 provides that the ''$50 exception'' amount is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1994. The adjusted ''$50 exception'' amount is rounded up to the next highest dollar.

.15 *Notice of Large Gifts Received from Foreign Persons.* Section 6039F(d) provides that the ''$10,000 amount'' is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1995.

.16 *Attorney Fee Awards.* Section 7430(c)(1)(B) provides that the ''$110 amount'' is adjusted for inflation under the method described in § 1(f)(3), except that the preceding calendar year's CPI is compared with the CPI for the calendar year 1995. The adjusted ''$110 amount'' is rounded to the nearest multiple of $10 under § 7430(c)(1)(B).

SECTION 5. 1997 INFLATION ADJUSTMENT FACTORS

.01 *1995 Base Year Adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1995 is 151.0750000000. This results in an inflation adjustment factor of 1.0275801202. This factor applies to the earned income tax credit, the reporting of large gifts from foreign persons for tax years beginning in 1997, and the awarding of attorney fees for calendar year 1997.

.02 *1994 Base Year Adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1994 is 146.9000000000. This results in an inflation adjustment factor of 1.0567846608. This factor applies to the treatment of dues paid to agricultural or horticultural organizations, the amounts used to determine whether a principal purpose of expatriation is to avoid tax, and the reporting exception for certain exempt organizations with nondeductible lobbying expenditures for tax years beginning in 1997.

.03 1993 Base Year Adjustments. The CPI for 1996 is 155.2416666667 and the CPI for 1993 is 143.1750000000. This results in an inflation adjustment factor of 1.0842791456. This factor applies to the 36 percent and 39.6 percent brackets of the tax rate tables for tax years beginning in 1997.

.04 *1992 Base Year Adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1992 is 138.9250000000. This results in an inflation adjustment factor of 1.1174494631. This factor applies to the 15 percent, 28 percent, and 31 percent brackets of the tax rate tables, and to the qualified transportation fringe limitations for tax years beginning in 1997.

.05 *1990 base year adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1990 is 128.0583333333. This results in an inflation adjustment factor of 1.2122730526. This factor applies to the phaseout of personal exemptions, to the limitation on itemized deductions, and to the luxury automobile excise tax threshold for tax years beginning in 1997.

.06 *1989 base year adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1989 is 122.1500000000. This results in an inflation adjustment factor of 1.2709100832. This factor applies to the qualified higher education expense exclusion for tax years beginning in 1997.

.07 *1988 Base Year Adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1988 is 116.6166666667. This results in an inflation adjustment factor of 1.3312133772. This factor applies to the personal exemption for tax years beginning in 1997.

.08 *1987 Base Year Adjustments.* The CPI for 1996 is 155.2416666667 and the CPI for 1987 is 111.9833333333. This results in an inflation adjustment factor of 1.3862926031. This factor applies to the ''kiddie tax'' (including the election to report on the parent's return) and the limitation on the alternative minimum tax exemption for ''kiddie tax'' reported on a parent's return, the standard deduction amounts, and the insubstantial benefit limitations for charitable contributions for tax years beginning in 1997.

SECTION 6. EFFECT ON OTHER DOCUMENTS

.01 *Rev. Proc. 95–53.* Rev. Proc. 95–53, 1995–2 C.B. 445, is amplified and modified as follows:

(1) *Kiddie Tax.* For tax years beginning in 1996, the amount in effect under § 1(g)(4)(A)(ii)(I) for purposes of the election to report on a parent's return is the same as that provided in section 3.02(b) of this revenue procedure for tax years beginning in 1997.

(2) *Alternative Minimum Tax Exemption for "Kiddie Tax" Reported on Parent's Return.* For tax years beginning in 1996, the amount in effect under § 63(c)(5)(A) is the same as that provided in section 3.04 of this revenue procedure for tax years beginning in 1997.

(3) *Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses.* For tax years beginning in 1996, the amounts of modified adjusted gross income above which the § 135 exclusion begins to phase out and the amounts at which the phaseout is complete, are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount*
Code § 1(a)¬	$74,200¬	$104,200
Others¬	$49,450¬	$ 64,450

(4) *Treatment of Dues Paid to Agricultural or Horticultural Organizations.* For tax years beginning in 1996, no portion of annual dues required by an agricultural or horticultural organization described in § 501(c)(5) is treated as derived from an unrelated trade or business by reason of any benefits or privileges to which members are entitled if the amount of required annual dues from each member does not exceed $103.

.02 *Rev. Proc. 94–72.* Rev. Proc. 94–72, 1994–2 C.B. 811, is modified as follows: For tax years beginning in 1995, the amounts of modified adjusted gross income above which the § 135 exclusion begins to phase out and the amounts at which the phaseout is complete, are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount*
Code § 1(a)¬	$72,150¬	$102,150
Others¬	$48,100¬	$ 63,100

.03 *Rev. Proc. 93–49.* Rev. Proc. 93–49, 1993–2 C.B. 581, is modified as follows: For tax years beginning in 1994, the amounts of modified adjusted gross income above which the § 135 exclusion begins to phase out and the amounts at which the phaseout is complete, are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount*
Code § 1(a)¬	$70,350¬	$100,350
Others¬	$46,900¬	$ 61,900

.04 *Rev. Proc. 92–102.* Rev. Proc. 92–102, 1992–2 C.B. 579, is modified as follows: For tax years beginning in 1993, the amounts of modified adjusted gross income above which the § 135 exclusion begins to phase out and the amounts at which the phaseout is complete, are as follows:

Filing Status	*Threshold Phaseout Amount*	*Completed Phaseout Amount*
Code § 1(a)¬	$68,250¬	$98,250
Others¬	$45,500¬	$60,500

SECTION 7. EFFECTIVE DATE

.01 *General Rule.* Except as provided in sections 6 and 7.02, this revenue procedure applies to tax years beginning in 1997.

.02 *Calendar Year Rule.* This revenue procedure applies to transactions or events occurring in calendar year 1997 for purposes of section 3.12 (the expatriation tax), section 3.13 (the excise tax on luxury automobiles), and section 3.16 (the hourly limit on attorney fee awards).

SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is John Moran of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Moran on (202) 622–4940 (not a toll-free call).

The economist responsible for development of the factors set forth in this revenue procedure is David Ludlum of the Research Division of the Internal Revenue Service. For further information regarding these factors, contact Mr. Ludlum on (202) 874–0026 (not a toll-free call).