Denial of the EIC as a result of the deficiency procedures. For purposes of this section, denial of the EIC as a result of the deficiency procedures occurs when a tax on account of the EIC is assessed as a deficiency (other than as a mathematical or clerical error under section 6213(b)(1)).

Demonstration of eligibility. In the case of a taxpayer to whom paragraph (a) of this section applies, and except as otherwise provided by the Commissioner in the instructions for Form 8862, “Information To Claim Earned Income Credit After Disallowance,” no claim for the EIC filed subsequent to the denial is allowed unless the taxpayer properly completes Form 8862, demonstrating eligibility for the EIC, and otherwise is eligible for the EIC. If any item of information on Form 8862 is incorrect or inconsistent with any item on the return, the taxpayer will not be relieved of the requirement that the taxpayer attach Form 8862 to the correct tax return and will, therefore, not be treated as meeting the taxpayer’s obligation under paragraph (a) of this section.

Failure to demonstrate eligibility. If a taxpayer to whom paragraph (a) of this section applies fails to satisfy the requirements of paragraph (c) of this section with respect to a particular taxable year, the IRS can deny the EIC as a mathematical or clerical error under section 6213(g)(2)(K).

Special rule where one spouse denied EIC. The eligibility requirements set forth in this section apply to taxpayers filing a joint return where one spouse was denied the EIC for a taxable year prior to marriage and has not established eligibility as either an unmarried or married taxpayer for a subsequent taxable year.

Effective date. This section applies to returns claiming the EIC for taxable years beginning after December 31, 1997, where the EIC was denied for a taxable year beginning after December 31, 1996.

Partially tax-exempt interest received by individuals.

The credit against tax under section 35 shall be allowed only to individuals and if the requirements of both paragraphs (1) and (2) of section 35(a) are met. Where the alternative tax on capital gains is imposed under section 1201(b), the taxable income for such taxable year is the taxable income as defined in section 63, which includes 50 percent of the excess of net long-term capital gain over net short-term capital loss.

The application of section 35 may be illustrated by the following example:

Example. In his taxable year, 1955, A received $4,500 of partially tax-exempt interest. A’s taxable income is $4,000 upon which the tax prior to any credits against tax is $840. His foreign tax credit under section 33 is $610, and his dividends received credit under section 34 is $120. A’s credit under section 35 for partially tax-exempt interest is $110, determined as follows:

Section 35(a) Partially tax-exempt interest .................................. $4,500

**$1.35–1** Partially tax-exempt interest received by individuals.

**§ 1.34–1** Special rule for owners of certain business entities.

Amounts payable under sections 6420, 6421, and 6427 to a business entity that is treated as separate from its owner under §1.1361–4(a)(6) (relating to certain qualified subchapter S subsidiaries) or §301.7701–2(c)(2)(v) of this chapter (relating to certain wholly-owned entities) are, for purposes of section 34, treated as payable to the owner of that entity.

**§ 1.35–1** Partially tax-exempt interest received by individuals.

(a) The credit against tax under section 35 shall be allowed only to individuals and if the requirements of both paragraphs (1) and (2) of section 35(a) are met. Where the alternative tax on capital gains is imposed under section 1201(b), the taxable income for such taxable year is the taxable income as defined in section 63, which includes 50 percent of the excess of net long-term capital gain over net short-term capital loss.

(b) For the treatment of partially tax-exempt interest in the case of amounts not allocable to any beneficiary of an estate or trust, see section 642(a)(1), and for treatment of amounts allocable to a beneficiary, see sections 652 and 662. For treatment of partially tax-exempt interest received by a partnership, see section 702(a)(7). For treatment of such interest received by a common trust fund, see section 584(c)(2).

(c) The application of section 35 may be illustrated by the following example:

Example. In his taxable year, 1955, A received $4,500 of partially tax-exempt interest. A’s taxable income is $4,000 upon which the tax prior to any credits against tax is $840. His foreign tax credit under section 33 is $610, and his dividends received credit under section 34 is $120. A’s credit under section 35 for partially tax-exempt interest is $110, determined as follows:

Partial tax-exempt interest .................................. $4,500

VerDate Nov<24>2008 08:35 May 12, 2009 Jkt 217084 PO 00000 Frm 00121 Fmt 8010 Sfmt 8010 Y:\SGML\217084.XXX 217084
### § 1.35–2 Credit computed under section 35(a); 3 percent of $4,500

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax imposed by chapter 1</td>
<td>$840</td>
</tr>
<tr>
<td>Credit allowed under section 33</td>
<td>$610</td>
</tr>
<tr>
<td>Credit allowed under section 34</td>
<td>$120</td>
</tr>
<tr>
<td><strong>Limitation on credit under section 35(b)(1)</strong></td>
<td><strong>$730</strong></td>
</tr>
</tbody>
</table>

Since of the three figures ($135, $110, and $120), the lesser is $110. A’s credit under section 35 is limited to $110.

### § 1.35–2 Taxpayers not entitled to credit.

For taxable years beginning after December 31, 1957, no credit shall be allowed under section 35 to a nonresident alien individual with respect to whom a tax is imposed for such taxable year under section 871(a).

### § 1.37–1 General rules for the credit for the elderly.

(a) In general. In the case of an individual, section 37 provides a credit against the tax imposed by chapter 1 of the Internal Revenue Code of 1954. This section and §§1.37–2 and 1.37–3 provide guidance in the computation of the credit for the elderly provided under section 37 for taxable years beginning after 1975. For rules relating to the computation of the retirement income credit provided under section 37 for taxable years beginning before 1976, see 26 CFR 1.37–1 through 1.37–5 (Rev. as of April 1, 1980). Note that section 483 of the Tax Reduction and Simplification Act of 1977 provides that a taxpayer may elect to compute the credit under section 37 for the taxpayer’s first taxable year beginning before 1976, see 26 CFR 1.37–1 through 1.37–5 (Rev. as of April 1, 1980). Note that section 483 of the Tax Reduction and Simplification Act of 1977 provides that a taxpayer may elect to compute the credit under section 37 for the taxpayer’s first taxable year beginning before 1976.

(b) Limitation on the amount of the credit. The credit allowed by section 37 for a taxable year shall not exceed the tax imposed by chapter 1 of the Code for the taxable year (reduced, in the case of a taxable year beginning before 1979, by the general tax credit allowed by section 42).

(c) Married couples must file joint returns. If the taxpayer is married at the close of the taxable year, the credit provided by section 37 shall be allowed only if the taxpayer and the taxpayer’s spouse file a joint return for the taxable year. The preceding sentence shall not apply in the case of a husband and wife who are not members of the same household at any time during the taxable year. For the determination of marital status, see §§143 and 1.143–1.

(d) Nonresident aliens ineligible. No credit is allowed under section 37 to any individual for any taxable year during which that individual is at any time a nonresident alien unless the individual is treated, by reason of an election under section 6013 (g) or (h), as a resident of the United States for that taxable year.


### § 1.37–2 Credit for individuals age 65 or over.

(a) In general. This section illustrates the computation of the credit for the elderly in the case of an individual who has attained the age of 65 before the close of the taxable year. This section shall not apply to an individual for any taxable year for which the individual makes the election described in section 37(e)(2) and paragraph (b) of § 1.37–3.

(b) Computation of credit. The credit for the elderly for an individual to whom this section applies equals 15 percent of the individual’s “section 37 amount” for the taxable year. An individual’s “section 37 amount” for a taxable year is the initial amount determined under section 37(b)(2), reduced as provided in section 37(b)(3) and (c)(1).

(c) Examples. The computation of the credit for the elderly for individuals to whom this section applies may be illustrated by the following examples:

Example 1. A, a single individual who is 67 years old, has adjusted gross income of $8,000 for the calendar year 1977. A also receives social security payments of $1,450 during 1977. A does not itemize deductions. A’s credit for the elderly is $120, computed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial amount under section 37(b)(2)</td>
<td>$2,500</td>
</tr>
<tr>
<td>Reductions required by section 37(b)(3) and (c)(1):</td>
<td></td>
</tr>
<tr>
<td>Social security payments</td>
<td>$1,450</td>
</tr>
<tr>
<td>One-half the excess of adjusted gross income over $7,500</td>
<td>$750</td>
</tr>
<tr>
<td><strong>Section 37 amount</strong></td>
<td><strong>$800</strong></td>
</tr>
<tr>
<td>15 perc. of $800</td>
<td><strong>$120</strong></td>
</tr>
</tbody>
</table>