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# 2000 IA 1040 INFORMATION

## **ENTER YOUR SOCIAL SECURITY NUMBER ON THE IA1040**

To protect your privacy, your Social Security Number is no longer shown on the preprinted label which contains your name and address. This means that you must now enter your Social Security Number in the space provided on page one of the IA1040. If you are married, also enter your spouse's number. Be sure to enter the numbers in the same order as the names are shown.

## **STANDARD DEDUCTION**

The standard deduction for 2000 has increased to \$1,470 for filing statuses 1, 3 and 4. For filing statuses 2, 5 and 6, it has increased to \$3,630.

## **EXTENSION REQUESTS**

Our agency does not have an extension form to obtain additional time to file. If at least 90% of your total tax liability is paid by April 30, you will automatically have until October 31, 2001, to file your return.

If this requirement is met, you will pay interest on any tax still due after April 30. However, you will not be charged penalty. If 90% is not paid, you will be charged a late filing penalty. If you need to make a tax payment to meet the 90% requirement, please use the IA1040V payment voucher form included in this booklet.

## **RECEIVE YOUR REFUND FASTER! FILE ELECTRONICALLY!**

File your Federal and State returns together electronically. Electronic tax filing provides for accurate returns and faster processing. You can also choose to have your refunds deposited directly into your bank account in as little as three weeks. Refunds from paper-filed returns may take 10 weeks. Contact your tax preparer for more information.

## **MARRIED TAXPAYERS**

Married taxpayers who both have income may owe less tax by using filing status 3 or 4. Using one of these filing status allows the income to be taxed at the individual rate instead of the combined rate.

## **NONRESIDENTS WITH GAMBLING WINNINGS**

Complete the IA 1040 showing income from all sources similar to your federal return. Show gambling winnings as Other Income on line 14. Take eligible gambling losses on Schedule A. Complete the return through line 51. Then use the IA 126 to determine your credit based upon the percentage of Iowa income to total income. This credit is taken on line 52. Attach a copy of your federal return.

## **NONRESIDENTS WITH MINIMUM TAX LIABILITY**

If you are subject to Iowa minimum tax, you are required to file and pay that tax even if your Iowa source income is less than \$1,000.

## **HOLOCAUST VICTIMS PAYMENTS**

If you received an income payment in 2000 because you were a victim of persecution in World War II or because you are an heir of a victim, you do not have to include that income on your Iowa return. Holocaust payments include payments for slave labor performed during, immediately before and immediately after World War II. Other payments are for assets stolen from, hidden from or otherwise lost during World War II.

## **IF YOU OWE IOWA INCOME TAX...**

Please use the IA 1040-V Payment Voucher whenever you send a tax payment. Two vouchers are enclosed in this booklet. Iowa does not have a payment plan option. File your return by April 30, 2001. Pay as much tax with the return as you can, and you will be billed for the balance due plus applicable interest and penalty.

## **SCHOOL DISTRICT AND EMERGENCY MEDICAL SERVICES SURTAX**

School district surtax rates and Emergency Medical Services (EMS) surtax rates are updated every year. Currently, Appanoose is the only county that has the EMS surtax.

## **INJURED SPOUSE**

"Injured spouse" is not recognized by the State of Iowa when completing a jointly-filed Iowa income tax return, filing status 2. If your spouse's refund will be used to pay a federal, state, county or city debt, you must use the IA 1040 Long Form, filing status 4, married filing separate returns. This will insure that your refund will not be applied to your spouse's debt. See IA 1040 instructions for more information.

## **YOU WILL RECEIVE A FULL REFUND IF...**

...You meet the qualifications for exemption from income tax listed in the instructions for line 26 of the IA 1040 on page 11. Exempt taxpayers do not have to file an Iowa income tax return except to request a refund. If you are exempt from tax and want to stop Iowa tax from being withheld, see your employer and complete a new IA W-4.

## **ROUNDING OFF TO WHOLE DOLLARS**

Use whole dollars to complete your return instead of dollars and cents. To round off, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$129.49 becomes \$129 and \$235.50 becomes \$236.

If you have to add two or more amounts to enter on a line, add them together first, then round off. For example, if you received two W-2 forms, one showing wages of \$5,000.55 and the other for \$18,500.73, add them for a total of \$23,501.28. The amount you enter on line 1 of the IA 1040 would be \$23,501.

# 2000 IA1040 LONG FORM GENERAL INSTRUCTIONS

Attach copies of all Federal forms and schedules that affect Iowa income.

**YOU MUST FILE AN IOWA RETURN IF you were a resident, part-year resident of Iowa in 2000 and meet any of the following requirements. Nonresidents, see items f. and g.**

NOTE: In meeting the filing requirements below, both incomes of husband and wife must be included, and any "pension/retirement income exclusion" (line 21 of the IA1040) must be added back.

- a. You had a net income (line 26 of the IA1040) of more than \$9,000 and your filing status is single.
- b. You had a net income (line 26 of the IA1040) of more than \$13,500 and your filing status is other than single.
- c. You were claimed as a dependent on another person's Iowa return and had a net income (line 26 of the IA1040) of \$4,000 or more.
- d. You were in the military service with Iowa shown as your legal residence even though stationed outside of Iowa.
- e. You were subject to either Iowa lump-sum tax or Iowa minimum tax.
- f. You were a nonresident or part-year resident and your net income from Iowa sources (line 26 of the IA126) was \$1,000 or more. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA126, page 19.
- g. You were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if Iowa source income is less than \$1,000).

If you owe no tax, you must still file a return to get a refund of tax that was withheld from your paycheck. You may also be eligible for a refund of the Iowa Child and Dependent Care Credit and may file a return to claim this credit. For more information, see the instructions for line 65 on page 17.

## WHICH FORM TO FILE

If you are married and both you and your spouse have separate incomes, you may owe less tax if you file separately on a combined return (status 3) or separate returns (status 4). To do this, you must use the IA1040 Long Form.

### Short Form

Although any Iowa resident may use the IA1040 Long Form, you may be able to use the easier-to-complete IA1040A Short Form if:

- a. You were an Iowa resident for the entire year, and
- b. All of your income in 2000 was from wages, salaries, tips, other employee compensation, unemployment compensation or interest and dividends, and
- c. Your total income subject to tax (line 8, IA1040A) is \$51,700 or less, and
- d. You do not itemize deductions on your Iowa return. NOTE: You may find it beneficial to itemize for Iowa purposes using the IA1040 Long Form even if you do not itemize on your Federal return.

*This booklet does not contain an IA1040A Short Form. Call 1-800-532-1531 (in Iowa) or 515/281-7239 to order a Short Form.*

### Long Form

You must use this IA1040 Long Form if:

- a. You do not meet all of the qualifications listed above for filing a Short Form, or
- b. You are married filing separate, combined (status 3) or separate (status 4) returns, or
- c. You are required to use the Federal 1040 Long Form, or
- d. You file on a fiscal year basis, or
- e. You made an additional payment of tax with the IA1040-V Payment Voucher, or
- f. You received capital gain distributions or nontaxable distributions from stock, or
- g. You paid an Iowa estimated tax in 2000 or wish to credit some or all of your refund to your 2001 estimated tax, or

- h. You paid Federal estimated tax in 2000, or
- i. You made payments to an IRA or Keogh plan, or
- j. You are required to pay Iowa lump-sum or minimum tax, or
- k. You received taxable Social Security benefits, or
- l. You are claiming credits other than personal, dependent or Earned Income credits, or
- m. You are claiming the Child and Dependent Care Credit, or
- n. You received taxable pension or annuity income, or
- o. You are filing electronically, or
- p. You qualify for the Cow-Calf Refund, or
- q. You qualify for the S Corp Credit, or
- r. You qualify for the Health Insurance Deduction, or
- s. You qualify for the Claim of Right Credit/Deduction, or
- t. You qualify for the Research Activities Credit, or
- u. You qualify for the Franchise Tax Credit, or
- v. You qualify for the assistive device credit, or
- w. You qualify for the property rehabilitation credit.

## DEADLINE

2000 Iowa income tax returns are due April 30, 2001. Electronic filers must file Federal and State returns at the same time.

Electronic filing of returns will be accepted through October 15, 2001. Contact your tax professional about filing electronically.

## RETURNS MUST BE MAILED TO

Income Tax Processing, Iowa Department of Revenue and Finance, Hoover State Office Building, Des Moines, IA 50319-0120

## INCOME TAX REFUND STATUS

For information on the status of your current-year income tax refund, please call 1-800-572-3944 (in Iowa) or 515/281-4966.

## ESTIMATED PAYMENTS

Iowa residents who expect to owe tax of \$200 or more for 2001 from income not subject to withholding tax must make quarterly estimated tax payments to avoid a penalty for underpayment of estimated tax. These payments are made with an IA1040 ES form.

If two-thirds or more of your estimated gross income is from farming or commercial fishing, you have two other options. You may pay the estimated tax in one payment on or before January 15, 2001, and file your return by April 30, 2001, or you may file your return and pay the tax in full by March 1, 2001.

Nonresidents with nonwage income from Iowa, see IA 1040ES instructions.

## NONRESIDENTS AND PART-YEAR RESIDENTS

If you are a nonresident or a part-year resident with income from Iowa sources, you must complete both the IA1040 and the IA126. Attach a complete copy of your Federal return.

Tax calculation is not a matter of simply determining Iowa-source income and calculating tax based on that income. You must use all-source income on the IA1040; this amount is compared against your Iowa-source income from the IA126 to determine Iowa tax.

## RECORD KEEPING

Iowa income tax returns, Federal returns, and all relevant schedules should be kept for at least three years after filing the return.

## IOWANS PAID IN FOREIGN CURRENCY

Iowa residents who are paid in foreign currency must convert the currency to U.S. dollars as was done for Federal tax purposes.

## CERTIFIED TAX RETURNS FOR NONRESIDENTS

Residents of other states who need a certified copy of the Iowa return for filing with their state of residence must include an extra copy of their Iowa return and a self-addressed stamped envelope when they file. A note stating the purpose of the extra copy should be included. The department will stamp the copy and return it to you.

## MILITARY PERSONNEL

Active-duty military service pay is taxable only by the state in which the armed forces service member is a legal resident, which is usually the state of residence at the time he/she enters the service. Income of Iowa residents in military service is taxable to the same extent as it is taxable for Federal purposes, even if the Iowa residents are stationed outside of Iowa or outside of the United States.

To make a change of residence, you must have physical presence in the new state as well as show intent to establish residency in that state. Intent can be shown by registering to vote, recording a last will and testament, purchasing a home for use as your principal residence, and complying with the income tax laws of the other state if the state has an income tax. Form DD 2058 must also be filed with the military payroll office. A combination of these actions is required to change your state of legal residency.

A spouse of an Iowa resident in the armed forces who was a resident of another state at the time of their marriage will generally not be considered an Iowa resident until he or she has lived in Iowa with the resident spouse.

Iowans in the armed forces who serve in an area designated as a qualified hazardous duty zone are entitled to the same tax benefits as Iowa residents who serve in a combat zone. Therefore, Iowa residents who serve in a hazardous duty zone will be given additional time to file returns, make tax payments other than withholding payments and file appeals on tax matters.

## IOWA AND ILLINOIS RECIPROCAL AGREEMENT

Any wages or salary made by an Iowa resident working in Illinois is taxable only to Iowa and not to Illinois. Any wages or salary made by an Illinois resident working in Iowa is taxable only to Illinois and not to Iowa.

An Iowa resident working for wages or salary in Illinois should complete and file Illinois form IL-W-5-NR "Employee's Statement of Nonresidence in Illinois" with the employer so that the employer will withhold Iowa income tax. An Illinois resident working for wages or salary in Iowa should complete and file the IA 44-016 "Employee's Statement of Nonresidence in Iowa" with the employer so that the employer will withhold Illinois income tax.

Iowa WILL tax any Iowa-source income received by an Illinois resident that is not from wages or salaries. Illinois WILL tax any Illinois-source income received by an Iowa resident that is not from wages or salaries. Examples of income that are not wages and salaries and, therefore, not covered under the Iowa-Illinois Reciprocal Agreement are Iowa gambling winnings and unemployment compensation for employment in Iowa.

If Illinois income tax has been mistakenly withheld from the wages or salary of an Iowa resident, then the Iowa resident must file an Illinois income tax return to get a refund. Any questions on how to complete the Illinois return should be directed to the Illinois Department of Revenue at 1-800-732-8866.

Illinois residents who have had Iowa income tax withheld in error from their wages and have no other Iowa-source income must file an Iowa income tax return requesting a refund. They should complete Steps 1, 2, and 3 of the IA 1040, show "0" on line 1 of Step 4 and line 26 of Step 5, write "Illinois resident tax withheld in error" on the face of the return. On the back of the IA 1040 on lines 61, 67, 68, 69 and 70, enter the Iowa tax withheld, sign the return and attach copies of W-2s to the front of the return. Copies of Federal and Illinois returns must be enclosed.

**Note to electronic filers:** You must complete the entire IA 1040 and IA 126 in order to receive a refund of Iowa tax withheld in error.

## AMENDING TAX RETURNS

To amend a 2000 return or a return for a prior year, use an IA 1040X. Attach the Federal 1040X and any amended supplementary Federal or Iowa forms.

If your original return requested a refund, wait until you receive your refund before filing an amended return to make sure you made no errors on your original return.

If you paid tax with your original return, attach a photocopy of the front and back of your canceled check to your amended return.

If you owe additional tax with the amended return, calculate the tax, penalty and interest due and include both your check and the IA 1040-V Payment Voucher with the amended return.

No penalty for additional tax is due if you voluntarily file an amended return and pay all tax due prior to any contact by the Department. However, interest will be due.

**Do not send amended returns with the current-year return.**

## HOW TO PRORATE

Taxpayers using filing status 3 or 4 may be required to prorate (divide) certain entries on the IA 1040, such as taxable Social Security benefits, Federal income tax refunds, estimated Federal tax payments, itemized deductions, etc. Here is an example of how a husband and wife would prorate a Federal refund:

Husband has net income of \$15,000. Wife has net income of \$30,000. Federal refund from a jointly filed return: \$1,000.

$$\begin{array}{r} \text{(Wife's net income)} \quad \quad \quad \$30,000 = 66.7\% \\ \hline \text{(Total of husband's and wife's net income)} \quad \$45,000 \end{array}$$

Then take  $\$1,000 \times 66.7\% = \$667$ . This is the wife's portion of the refund to be entered on line 27. The husband's portion is  $\$1,000 - \$667 = \$333$ , which is entered on line 27 in the other column.

Round to the nearest one-tenth of a percent. For example, 66.74% becomes 66.7% and 66.75% becomes 66.8%

## CONFIDENTIALITY AND

## FAIR INFORMATION PRACTICES NOTICE

Information from your return may be made available to the Internal Revenue Service or to tax officials of another state under a tax information exchange program. Except as allowed by law, information on your return cannot be released to anyone who is not an Iowa Department of Revenue and Finance employee. Any Department of Revenue and Finance employee who discloses tax return information without legal authority is subject to a fine of \$1,000. If you do not provide necessary information or if you provide fraudulent information, you may be charged penalties and interest and may be subject to criminal prosecution.

## CONSUMER'S USE TAX

If you purchase tangible property for use in Iowa from a business located outside of Iowa and the seller does not charge you Iowa sales tax on the purchase, you owe a 5% tax known as the consumer's use tax on the price of the purchase. This includes items purchased from catalogs, magazines, television and radio vendors, and through the Internet. Send a separate check payable to "Treasurer State of Iowa" with a note explaining that the check is for consumer's use tax and listing the items purchased and prices. Keep copies for your records.

## OUT-OF-STATE CREDIT FOR MINIMUM TAX OR LUMP SUM TAX PAID TO ANOTHER STATE

If you were an Iowa resident or part-year resident and were assessed a minimum tax or a special tax on a lump sum distribution by another state on items similarly taxed by Iowa, you must separately compute an out-of-state tax credit for each of these items. This credit is computed on the IA 130.

# 2000 IA1040 LONG FORM RETURN INSTRUCTIONS

Type or clearly print all information on the return and be sure to sign your return.

Instructions for married couples filing separately on a combined return (status 3) and married couples filing separate returns (status 4) are in the shaded boxes titled MARRIED SEPARATE FILERS.

## STEP 1 NAME AND ADDRESS

### ENTER YOUR SOCIAL SECURITY NUMBER ON THE IA1040

To protect your privacy, your Social Security Number is no longer shown on the pre-printed label which contains your name and address. This means that you must now enter your Social Security Number in the space provided on page 1 of the IA1040.

If you are married, also enter your spouse's number. Be sure to enter the numbers in the same order as the names are shown.

**FILING PERIOD.** If your filing period is other than calendar year 2000, enter the beginning and ending dates of your tax year on the line provided above the name and address boxes on the return.

If this booklet has a preprinted label on the back cover, attach it to the return you file. If someone else prepares your return or if you file electronically, ask the preparer to use the label. Using the preprinted label will speed up the processing of your return. We are not able to print new labels if yours is lost or destroyed.

If you did not receive a preprinted label, be sure to fill in all the information on the return. If the information is incomplete, it will slow down the processing of your return.

**1. NAME AND MAILING ADDRESS.** If your name or mailing address is incorrect, make the corrections directly on the label.

**2. COUNTY.** The list of Iowa counties and their numbers starts on page 26. If the number on the label is incorrect or if you did not receive a label, enter the number of the county you lived in as of December 31, 2000.

Nonresidents and part-year residents who moved out of Iowa before December 31, 2000, should enter "00" as your county number.

Part-year residents who moved into Iowa should enter the number of the Iowa county in which you lived on December 31, 2000.

Military personnel should enter "00" unless you actually lived in Iowa on December 31, 2000.

**3. SCHOOL DISTRICT NUMBER.** The list of school district names, numbers and rates begins on page 26. The district to choose is the one in which you lived on December 31, 2000. This is not necessarily the district where your children attended school. Your school district number can be found on your voter registration card. If the number on the label is not correct, make the correction directly on the label.

Nonresidents: Those who did not live in Iowa at all during 2000 should enter "0000" for the school district number.

Part-year residents who moved into Iowa should enter the Iowa school district in which you lived on the last day of 2000.

If you moved out of Iowa before December 31, 2000, enter "9999."

Military personnel should enter "1111" unless you actually lived in Iowa on December 31, 2000.

**OCCUPATION.** Examples are doctor, farmer, homemaker, student, and military.

**RESIDENCY INFORMATION.** Indicate if there is a change in name(s) or address from last year's return.

### EXAMPLE OF PREPRINTED LABEL

		② 77-1737	③
①	Coltrane, John		
	Coltrane, Mary		
	1305 E Walnut		00L
	Des Moines, IA 50319-7214		

Use of the preprinted label on your tax booklet will speed processing of your return.

Write changes directly on your label after drawing a line through the incorrect information.

## STEP 2 FILING STATUS

Your filing status on the Iowa return is usually the same filing status as on your Federal return. However, married taxpayers have the option of either filing jointly (status 2) or filing separately (statuses 3 or 4) on the Iowa return.

If you and your spouse both have income, you may pay less tax by filing status 3 or 4.

**1. SINGLE.** Check filing status 1 if you were unmarried, divorced, or legally separated on December 31, 2000, and you do not meet the requirements for any other filing status. All single filers must answer the question, "Were you claimed as a dependent on another person's Iowa return?" **If this question is not answered, you will be taxed as a dependent.**

**2. MARRIED FILING JOINT RETURN.** Check filing status 2 if you want to report your income, deductions and exemptions together and:

- You were husband and wife on December 31, 2000, or
- Your spouse died during 2000 and you did not remarry during the year. If your spouse died during 2000 and had income, you can also file status 3 or 4.

**NONRESIDENTS AND PART-YEAR RESIDENTS.** Nonresidents of Iowa who are married may file a joint Iowa return although only one spouse had income from Iowa sources.

**3. MARRIED FILING SEPARATELY ON COMBINED RETURN.** Check filing status 3 if you are married and want to file separately on one return. If you receive a refund, it will be made payable to both husband and wife. Both spouses must sign the return.

**MARRIED SEPARATE FILERS:** Taxpayers using filing status 3 or 4 may have to prorate (divide) certain items between them on the return. These items include Federal income tax refunds, additional income tax paid, etc. See page 3 for information on how to prorate.

Filing statuses continued on next page.

**4. MARRIED FILING SEPARATE RETURNS.** Check filing status 4 if you and your spouse file separate returns. Write your spouse's Social Security Number, name and net income in the spaces provided. Processing of refunds is delayed if this information is not provided. Also, no alternate tax calculation or low income exemption is allowed without it. Each return must be filed with all supporting schedules.

**5. HEAD OF HOUSEHOLD.** Check filing status 5 if you are filing as head of household for Federal income tax purposes. If you have a qualifying person living with you that you cannot claim as a dependent on this return, enter that person's name and Social Security Number. If you are filing as qualifying widow(er) with dependent child for Federal income tax purposes, you cannot file as head of household on your Iowa return.

**6. QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD.** Check filing status 6 if you meet the requirements for qualifying widow(er) for Federal income tax purposes.

### STEP 3 EXEMPTION CREDITS

#### PERSONAL AND DEPENDENT CREDITS

**You** (and spouse if filing jointly)

- a. If you are filing single (filing status 1), separately either on a combined return (status 3) or on separate returns (status 4) or qualifying widow(er) (status 6), enter "1" in the first space. If you are filing joint (status 2) or head of household (status 5), you are eligible for an extra credit and should enter "2" here. Add the number of personal credits and multiply by \$40. Enter this amount on the \$ line. (Dependents filing their own returns can claim a \$40 personal exemption credit even though they are claimed as a dependent on another person's Iowa return.)
- b. 65 or older and/or blind: If you were 65 or older on or before January 1, 2001, you may take one additional personal credit. If your spouse was 65 or older on or before January 1, 2001, and you are filing a joint return (status 2), you may take one additional personal credit for your spouse. If you were blind on or before December 31, 2000, you may take one additional personal credit. If your spouse was blind on or before December 31, 2000, and you are filing a joint return (status 2), you may take one additional personal credit for your spouse. Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.
- c. Enter the number of dependent children and other dependents you are claiming for Federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.
- d. Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.

e. Add the dollar amounts and enter on the TOTAL line and on line 47, column A.

**Spouse** (Complete only if married filing separately on a combined return, filing status 3)

- a. Enter "1" in the first space and multiply by \$40. Enter \$40 on the \$ line.
- b. 65 or older and/or blind: If your spouse was 65 or older on or before January 1, 2001, your spouse may take one additional personal credit. If your spouse was blind on or before December 31, 2000, your spouse may take one additional personal credit. Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.
- c. Enter the number of dependent children and other dependents the spouse is claiming for Federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.
- d. Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.
- e. Add the dollar amounts and enter on the TOTAL line and on line 47 and column B.

**MARRIED SEPARATE FILERS:** You may divide the number of dependents you claim between you and your spouse. However, you may not divide any one dependent between each spouse. Each spouse must claim his or her own exemption credits and may not claim any unused part of his or her spouse's credit.

### STEP 4 GROSS INCOME

If you use filing status 3 (married filing separately on combined return), complete both columns A and B of the IA1040. All other filing statuses need to complete only column A.

ALL taxpayers including nonresidents report income from ALL SOURCES in this section. NONRESIDENTS and PART-YEAR RESIDENTS must also report Iowa-source income on the Schedule IA126.

**1. WAGES, SALARIES, TIPS, ETC.** Report the same W-2 income as shown on your Federal income tax return.

**MARRIED SEPARATE FILERS:** W-2 income is reported by the spouse earning the income.

**2. TAXABLE INTEREST INCOME.** Include the same amounts of interest income reported on your Federal return with the following modifications:

- a. Add interest from all state and municipal securities that you own and interest from state and municipal securities you receive from any trust or mutual fund. However, interest from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line. The following securities are exempt: Iowa Board of Regents Bonds for buildings and facilities, Iowa Code Chapters 262.41, 262.51 and 262.60; Iowa College Super Savings Plan Bonds, Iowa Code Chapter 262A; Soil Conservation Districts Revenue Bonds, Iowa Code Chapter 467A; Iowa Municipality Urban Renewal Bonds, Iowa Code Chapter 403; Low Income Housing Bonds, Iowa

Code Chapter 403A; Warehouse Project Revenue Bonds, Iowa Code Chapter 123; Sewage Treatment Works Revenue Bonds, Iowa Code Chapter 16.131; Beginning Farmer Loan Program Bonds, Iowa Code Chapter 175; Underground Storage Tank Fund Revenue Bonds, Iowa Code Chapter 455G; E911 Emergency Telephone Service Program Bonds, Iowa Code Chapter 34A; Iowa Rural Water District Revenue Bonds and notes, Iowa Code Chapter 357A; Aviation Authority Bonds, Iowa Code Chapter 330A; County Health Center Bonds, Iowa Code Chapter 331; Quad Cities Interstate Metropolitan Authority Bonds, Iowa Code Chapter 28A; Municipal Investment Recovery Bonds, Iowa Code Chapter 16; Prison Infrastructure Revenue Bonds, Iowa Code Chapter 16; Local Government Flood Damage Program, Iowa Code Chapter 16; Community College Residence Halls and Dormitories Bonds, Iowa Code Chapter 260C; Community College Bond Program Bonds, Iowa Code Chapter 260C; Regents Institutions Medical and Hospital Buildings at University of Iowa Bonds, Iowa Code Chapter 263A; Interstate Bridge Bonds, Iowa Code Chapter 313A; Vision Iowa Program, Iowa Code Section 17.7168 (issued on or after 7-1-00), Iowa Higher Education Loan Authority, Iowa Code Chapter 261A.27 (issued on or after 7-1-00).

- b. Deduct interest received from Federal securities (for example U.S. Savings Bonds, U.S. Treasury Notes). Do not subtract interest from repurchase agreements of U.S. Government securities. The following are not considered Federal securities and are taxable: Government National Mortgage Association (Ginnie Mae) Securities; Federal National Mortgage Association (Fannie Mae) Securities; Federal Home Loan Mortgage Association (Freddie Mac) Securities; Money Market Certificates.

Attach a copy of your Federal or Iowa Schedule B if your Iowa taxable interest is more than \$400.

**MARRIED SEPARATE FILERS:** Divide interest income based on ownership of the account or certificate.

- a. Jointly held: Divide equally between spouses.  
b. Held in the name of only one spouse: Allocate interest wholly to that spouse.

**3. DIVIDEND INCOME.** Report the same dividends as you reported on your Federal return with the following modifications:

- a. Add all dividends from mutual funds, investment trusts, or regulated investment companies investing in state and municipal bonds.  
b. Deduct that portion of any net dividends from a mutual fund, investment trust, or regulated investment company that is attributable to Federal securities. You cannot take this deduction unless you are provided a statement from the fund giving the percentage of net dividends attributable to Federal securities. A copy of the statement must be attached to the return to take this deduction. Securities income from repurchase agreements involving Federal securities cannot be deducted.

Attach a copy of your Federal or Iowa Schedule B if your dividends are more than \$400.

**MARRIED SEPARATE FILERS:** Divide dividends based on registered ownership of stock.

- a. Jointly held: Divide equally.  
b. Held in the name of only one spouse: Allocate dividends wholly to that spouse.

**4. ALIMONY RECEIVED.** Include the same alimony as is shown on your Federal return.

**MARRIED SEPARATE FILERS:** Reported by the spouse who received the alimony.

**5. BUSINESS INCOME/(LOSS) FROM SCHEDULE C OR C-EZ.** Report the net business income or loss from Federal Schedule C or C-EZ. Attach a copy of the Federal form.

**MARRIED SEPARATE FILERS:** Reported by the spouse deriving the income or loss.

**6. CAPITAL GAIN/(LOSS).** Enter 100% of any capital gain or loss as reported on line 13 of your Federal 1040. Do not subtract any Iowa capital gain deduction on this line. A copy of your Federal Schedule D must be attached to this return if one is required for your Federal return. Iowa tax law follows the federal guidelines on the exclusion of gain on the sale of a principal residence.

**MARRIED SEPARATE FILERS:** Taxpayers who filed separate Federal returns should report capital gains or losses as reported for Federal tax purposes. If a joint Federal return was filed, each spouse must report capital gains on the basis of ownership of the property sold or exchanged. The combined net capital gain or loss must be the same as reported on the joint Federal return. If a joint Federal return was filed and both spouses have capital losses, each spouse may claim up to a \$1,500 capital loss plus any unused portion of their spouse's \$1,500 loss limitation. If both spouses are reporting capital losses, the sum of both spouses' losses may not exceed \$3,000.

**7. OTHER GAINS/(LOSSES).** If you sold or exchanged assets used in a trade or business and completed Federal form 4797, enter 100% of the gain or loss. Attach a copy of Federal form 4797.

**MARRIED SEPARATE FILERS:** Divide gains or losses based on ownership of the asset sold or exchanged.

**8. TAXABLE IRA DISTRIBUTIONS.** Enter the amount of taxable IRA distributions as shown on your Federal return. Current traditional IRA owners may convert or "roll over" amounts from existing IRAs to a Roth IRA. However, any taxable amounts that you transfer from an existing IRA to a Roth IRA must be included in your income for tax purposes.

**NOTE:** The pension/retirement income exclusion is not to be taken on this line. Qualified taxpayers will take this exclusion on line 21 of the IA1040.

**MARRIED SEPARATE FILERS:** Taxable IRA distributions should be reported by the spouse whose name is on the account.

**9. TAXABLE PENSIONS AND ANNUITIES.** The same amounts of pensions and annuities are taxable for Iowa as are taxable on your Federal return. However, if you are a State or local government employee who retired after December 31, 1994,

your taxable pensions and annuities on your Iowa return may be different than on your Federal return.

All Railroad Retirement benefits paid by the Railroad Retirement Board are not taxable on the Iowa return. These benefits should not be included on this line.

NOTE: The pension/retirement income exclusion is not to be taken on this line. Qualified taxpayers will take this exclusion on line 21 of the IA1040.

**MARRIED SEPARATE FILERS:** The taxable portion of pensions and annuities is reported by the spouse who received the income.

**10. RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, TRUSTS, ETC.** Report the income or loss from Federal Schedule E. Any modifications to Federal partnership income and/or S Corporation income should be shown on line 14 or line 24. Attach a copy of Federal Schedule E.

**MARRIED SEPARATE FILERS:** Divide income or loss from Schedule E based upon ownership of the asset-producing income or partnership interest or individual named as beneficiary.

**13. TAXABLE SOCIAL SECURITY BENEFITS.** For 2000 Iowa does not tax Social Security benefits in the same manner as the Internal Revenue Service. To compute the amount of Social Security benefits that are taxable to Iowa, complete the worksheet below.

- |   |           |
|---|-----------|
| 1. Enter the amount from Box 5 of form(s) SSA-1099. If you filed a joint Federal return, enter the totals for both spouses. Do not include Railroad Retirement benefits from form RRB-1099 here.  | 1. _____  |
| 2. Enter one-half of line 1 amount.   | 2. _____  |
| 3. Add amounts from the Federal 1040 on lines 7, 8a, 9, 10, 11, 12, 13, 14, 15b, 16b, 17, 18, 19, and 21, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099.* If filing Federal 1040A, use lines 7, 8a, 9, 10, 11b, 12b and 13, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099.                        | 3. _____  |
| 4. Enter the amount from line 8b of your Federal 1040 or 1040A.   | 4. _____  |
| 5. Add lines 2, 3, and 4.   | 5. _____  |
| 6. Enter total adjustments from Federal 1040, line 32 less line 24. If filing Federal 1040A, use line 18 less line 17.  | 6. _____  |
| 7. Subtract line 6 from line 5.   | 7. _____  |
| 8. Enter one of the following amounts based on the Federal filing status used on form 1040.<br>Single, head of household, qualifying widow(er): enter \$25,000.<br>Married filing joint: enter \$32,000.<br>Married filing separate: enter -0- if you lived with your spouse at anytime in 2000 or \$25,000 if you did not live with your spouse at any time in 2000. | 8. _____  |
| 9. Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, none of the Social Security benefits are taxable.  | 9. _____  |
| 10. Enter one-half of line 9.   | 10. _____ |
| 11. Taxable Social Security benefits: Enter the smaller of line 2 or line 10 here and on line 13 of form IA1040.  | 11. _____ |

\* Include the following incomes or adjustments to income on line 3 if applicable. (These were excluded from Federal AGI.): Foreign earned income, income excluded by residents of Puerto Rico, American Samoa and proceeds from Savings Bonds used for higher education and employer-provided adoption benefits. Although Railroad Retirement benefits are not taxable, one-half of the benefits received must be used to determine the amount of Social Security benefits that are taxable to Iowa. For purposes of determining taxable Social Security benefits, you must also include interest from Federal securities.

**MARRIED SEPARATE FILERS:**

- a. If both spouses received Social Security benefits, the taxable amount is allocated between the spouses in the ratio of the benefits received by one spouse to the total benefits received.
- b. If only one spouse received benefits, that spouse should report the portion of the benefits that is taxable.

**11. FARM INCOME/(LOSS).** Enter the income or loss from Federal Schedule F. Attach a copy to your Iowa return.

**MARRIED SEPARATE FILERS:** Farm income must be reported by the spouse who claims it for self-employment tax purposes on the Federal Schedule SE. If the other spouse claims a share of the farm income, then that spouse must attach a worksheet showing how that share was determined based on capital contribution, management and control, and services rendered.

**12. UNEMPLOYMENT COMPENSATION.** Enter the amount of unemployment compensation benefits you received, which was reported on form 1099-G. This is the same amount that was taxable on your Federal return, except for unemployment compensation and sickness insurance benefits paid by the Railroad Retirement Board, which are exempt from Iowa income tax.

**MARRIED SEPARATE FILERS:** If both spouses received unemployment benefits, each of the spouses should report the benefits received as shown on the 1099-G for each spouse.

- 14. OTHER INCOME.** Enter taxable income not reported on lines 1-13. Attach an explanation of the type of income. Examples of income to be reported on line 14 include:
- Modifications to partnership income and/or S Corporation income if the modifications increase the income.
  - Gambling winnings. You must report the full amount of gambling winnings. Report any tax withheld on line 61 of the IA 1040. If you had any gambling losses, you may take them as an itemized deduction on Schedule A, but you cannot deduct more than the winnings you report.
  - State income tax refunds other than Iowa to the extent that the tax refunded in 2000 was deducted on a prior Iowa return.
  - Director's fees.
  - Executor's fees.
  - Babysitting income not reported on Schedule C or C-EZ.
  - Intangible drilling costs that were reported on Federal form

- 6251 less any amounts amortized in the tax year.
- Percentage depletion from an oil, gas or geothermal well that was reported on Federal form 6251.
  - Income received from the cancellation of a participation agreement in the Iowa educational savings plan trust to the extent the amount was previously deducted on line 24 of the IA 1040.
  - Cow-Calf refunds received in 2000 (unless reported on Schedule F).

**MARRIED SEPARATE FILERS:** The spouse to whom the income was paid must report that income. Modifications to partnership and/or S Corporation income are allocated between spouses in the same manner as that income was divided on line 10, IA 1040.

- 15. GROSS INCOME.** Add lines 1 through 14 and enter the total.

## STEP 5 ADJUSTMENTS TO INCOME

All taxpayers report adjustments from all sources in this section. **NONRESIDENTS AND PART-YEAR RESIDENTS** also report Iowa-source adjustments to income on the Schedule IA126.

- 16. PAYMENTS TO AN IRA, KEOGH PLAN OR SEP.** Enter the amount claimed on your Federal tax return for payments made to your IRA, Keogh Plan or SEP. Payments made to a Roth IRA are not deductible.

insurance. 100% of health insurance premiums for long-term nursing home coverage qualify for the health insurance deduction and are not subject to Schedule A limitations. It is to your advantage to take the deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18. Note that no deduction is available to any individual who paid health insurance premiums on a pretax basis. Pretax occurs when an employer subtracts the amount of the health insurance premium from an employee's gross wages before withholding of Federal and state income taxes. See your payroll department if you do not know whether or not your health insurance was paid on a pretax basis.

### MARRIED SEPARATE FILERS:

- If only one spouse has earned income, that individual can contribute up to \$2,000 per year to an IRA account of the nonworking spouse and up to \$2,000 per year to an IRA account of the individual. When claiming the deduction between spouses, the working spouse will usually claim all of the deduction. However, if the nonworking spouse has any earned income, then the nonworking spouse must claim the deduction to the extent of his/her earned income, not to exceed \$2,000. The total contributions to IRAs for both spouses cannot exceed the combined compensation of the couple for the tax year or \$4,000, whichever is less.
- If both spouses earned income and made contributions to an IRA account, each spouse must claim his or her own contribution, not to exceed \$2,000 per spouse.
- If both spouses made contributions to an IRA but only a portion of the contribution is deductible on the Federal return, the amount of the IRA deduction that is allowed for Federal income tax purposes must be allocated between the spouses in the ratio of the IRA contribution made by each spouse to the total IRA contribution made by both spouses.
- For Keogh Plans and SEPs each spouse must claim his or her individual contributions.

### MARRIED SEPARATE FILERS:

If one spouse is employed and has health insurance premiums paid through his/her wages, that spouse will claim the entire deduction. If both spouses pay health insurance premiums through their wages, each spouse will claim what that individual paid. If both spouses have self-employment income, the deduction for self-employed health insurance must be allocated between the spouses in the ratio of each spouse's self-employment income to the total self-employment income of both spouses. If health insurance premiums are paid directly by one spouse, that spouse will claim the entire deduction. If paid by both spouses, such as through a joint checking account, then allocate this deduction between the spouses in the ratio of each spouse's net income to the total net income of both spouses. For this net income calculation, do not include line 18, the health insurance deduction.

- 17. ONE-HALF OF SELF-EMPLOYMENT TAX.** Enter the amount of self-employment tax that was deductible on line 27 your Federal 1040 in computing Federal adjusted gross income.

**MARRIED SEPARATE FILERS:** The deduction is allocated in the ratio of self-employment tax paid by each spouse to the total self-employment tax paid.

- 18. HEALTH INSURANCE DEDUCTION.** Enter 100% of the amount paid for health insurance premiums. This includes all supplemental health insurance, such as Medicare B supplemental medical

- 19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS.** The form 1099-INT given to you by your bank or other savings institutions will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity. Enter this amount here. Be sure to include interest income from the time deposit on line 2 of the IA 1040.

See page 9 for Married Separate Filers Information.

**MARRIED SEPARATE FILERS:** Divide the penalty amount between spouses based upon registered ownership of the time deposit.

- a. Jointly held: Divide the penalty equally between spouses.
- b. Held in the name of only one spouse: Allocate the entire penalty to that spouse.

**20. ALIMONY PAID.** Enter the amount of alimony payments or separate maintenance payments that were deductible on your Federal tax return.

**MARRIED SEPARATE FILERS:** Only the spouse liable for these payments can deduct the alimony paid.

**21. PENSION/RETIREMENT INCOME EXCLUSION.** If you or your spouse receive a pension, an annuity, a self-employed retirement plan deferred compensation, IRA distribution or other retirement plan benefits, you may be eligible to exclude from Iowa income tax part or all of the retirement income that is taxable on your Federal return. The Roth conversion income, included in net income, is eligible for this exclusion. Social Security benefits are *not* included. The exclusion can be up to \$5,000 for individuals who file status 1, 5 or 6 and up to \$10,000 for married taxpayers who file status 2, 3 or 4. To take this exclusion you or your spouse must meet one of the following conditions:

- a. 55 years of age or older on December 31, 2000, or
- b. disabled, or
- c. a surviving spouse or a survivor having an insurable interest in an individual who would have qualified for the exclusion in 2000 on the basis of age or disability.

**MARRIED SEPARATE FILERS:** If both spouses have pension income, whether both or only one meet the eligibility requirements, the exclusion of up to \$10,000 is prorated between them in the ratio that each spouse's pension relates to the total pension received by both spouses.

**EXAMPLE:** The husband has a taxable pension of \$35,000 and the wife has a taxable pension of \$15,000.

$$\frac{\text{Husband}}{\text{Total of husband and wife}} = \frac{35,000}{35,000+15,000} = \frac{35,000}{50,000} = 70\%$$

Multiply \$10,000 (the maximum exclusion) by 70% = \$7,000. This is the husband's portion of the exclusion. The wife's portion is \$10,000 - \$7,000 = \$3,000.

If only one spouse has pension income, that spouse would take the entire exclusion of up to \$10,000. The spouse who has no pension income would receive no exclusion, even if that spouse is the one who meets the eligibility requirements.

**22. MOVING EXPENSE DEDUCTION.** Enter the deduction for moving expenses incurred in 2000. Attach a copy of Federal form 3903.

**MARRIED SEPARATE FILERS:** This deduction must be divided between spouses based on earned income received after their move. If one spouse can show that the move was made for that spouse, that spouse is entitled to the entire deduction.

**23. IOWA CAPITAL GAINS DEDUCTION.** For tax years beginning January 1, 1998, two changes have occurred regarding the Iowa Capital Gains Deduction:

- (a) an increase to a 100% deduction of qualifying capital gains realized in 2000.
- (b) change in eligibility requirements for an individual who sells to a lineal descendent. The term "lineal descendent" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren and any other lineal descendants of the taxpayer.

Qualifying capital gains result from the sale of the following:

- a. Real property used in a business in which the taxpayer materially participated\* for 10 years prior to the sale, and which has been held for a minimum of 10 years immediately prior to its sale.
- b. A business in which the taxpayer was employed or in which the taxpayer materially participated\* for 10 years and which has been held for a minimum of 10 years immediately prior to its sale. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business which is intangible personal property such as client lists, goodwill, patents, trade names, and similar items. This means that the sale of the assets of a business during the tax year must represent at least 90% of the fair market value of all of the tangible personal property of the business on the date of sale of the business assets.
  - Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement for material participation.
- c. Cattle and horses used for breeding, draft, dairy or sporting purposes and held for 24 months by the taxpayer who received in excess of 50% of his or her gross income from farming and ranching.
  - Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching.
- d. Breeding livestock, other than cattle and horses, held for 12 months by the taxpayer who received in excess of 50% of his or her gross income from farming or ranching.
  - Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching.

Note: The cattle, horses, and other livestock that are excluded from taxation are the sales of the same classes of livestock that qualify for capital gain treatment under section 1231 of the Internal Revenue Code.

e. Timber held by the taxpayer for more than one year. Timber includes evergreen trees, such as Christmas trees, that are more than six years old at the time they are cut and sold for ornamental purposes. "Timber" means timber that qualifies for capital gain treatment under section 1231 of the Internal Revenue Code.

The sale of items "a" through "e" by partnerships, subchapter S corporations and LLCs, where the capital gains flow through to the owners of the entities for Federal income tax purposes are eligible for the 100% capital gains deduction in cases where the owners meet the qualifications for ownership and material participation. **However**, sales of the same items by a C corporation do not qualify for the capital gains deduction except when the capital gains from the sales of the corporation's assets are reported by the shareholders due to a liquidation of the corporation. The liquidation must be recognized as a sale of assets under section 331 of the Internal Revenue Code. The shareholders must meet the qualifications for ownership and material participation.

\* Iowa follows Federal guidelines for determining “**material participation**” for purposes of the capital gains deduction for sales of business assets. Although determining material participation can be a complex issue, some examples are as follows: (1) Retired or disabled farmers are considered to have materially participated in a farm activity for the period prior to the sale if the farmer materially participated in the farm activity five of the eight years immediately prior to retirement or disability. (2) A surviving spouse of a deceased farmer is considered to be materially participating for the tax year if the farmer met the material participation requirements at the time of death and the spouse actively participates in the farming business activity. (3) An individual who has materially participated in a business for five of the past 10 years is considered materially participating for the current year and the individual who has materially participated in a personal service business for at least three years is considered to be materially participating for life. (4) A farmer who sells farmland that has been rented on a cash basis would not generally be considered to have materially participated in the farming activity. However, a farm landlord involved in a crop-share arrangement would in most cases be considered to be materially participating in the operation of the farm activity. If a question should arise as to the extent of a taxpayer’s participation in a business, the burden of proof is on the taxpayer to show the participation in the business was material.

**Capital Gains on Installment Sales.** In the case of installment sales of qualified real property and installment sales of businesses where the selling price of the business assets is paid to the seller in more than one year, only installments received in the 2000 tax year qualify for this deduction on the 2000 return.

In the case of an installment sale of a business which was made in a year prior to 1998, only installments received in 1998 or in subsequent tax years will be exempt from income tax in cases where the taxpayer at the time of the installment sale had met conditions that would exempt the net capital gain from tax, if the installment sale had occurred in 1998 or later.

**The Iowa Capital Gain Deduction and Net Operating Losses.** For tax years beginning on or after January 1, 1998, the capital gain deduction otherwise allowable is not allowed in computing a net operating loss deduction for purposes of carrying the net operating loss deduction to another tax year. Further, when applying an NOL from tax year 1998 or later, the capital gain deduction is not allowed in the carryback or carryover tax year and must be added back to that year’s income to the extent of the NOL.

**Non-Qualifying Capital Gains.** Capital gains from the sales of stocks, bonds, investment property, and rental property do not qualify for the capital gain deduction even if sold to lineal descendants of the owners of the property. The Federal guideline applies for determining material participation for investment property. Capital gains from the sale of real property held for 10 or more years for speculation, but not used in a business, do not qualify for the deduction.

If the sale of the assets of a business involves the sale of merchandise or inventory of a business, proceeds from these sales do not qualify for the capital gains deduction.

Capital gains from the sale of capital stock of an Iowa corporation or capital gains from the sale of an ownership interest in a partnership, limited liability company, or other business entity do not constitute a qualifying sale of a business for purposes of the capital gains deduction.

**MARRIED SEPARATE FILERS:** Divide the capital gain deduction based on ownership of the asset.

- a. Jointly held: Divide equally between spouses.
- b. If other than jointly held: Divide between spouses based on percentage of ownership.

**24. OTHER ADJUSTMENTS.** Enter the total of other allowable adjustments as described below. Attach an explanation for each adjustment.

**a. Disability Income Exclusion** – You may exclude from Iowa tax a portion of the disability pay you received in 2000 if

you meet ALL of the following conditions:

- You received disability pay, and
- You were not yet 65 when your tax year ended, and
- You retired on disability and were totally and permanently disabled when you retired, and
- On January 1, 2000, you had not yet reached the age when your employer’s retirement program would have required you to retire.

If you meet all of these conditions, call 1-800-532-1531 (in Iowa) or 515/281-7239 to obtain form IA 2440. YOU MUST COMPLETE AND ATTACH FORM IA 2440 TO TAKE THIS EXCLUSION. A doctor’s statement must accompany each year’s return attesting to the taxpayer’s complete and permanent disability.

- b. Iowa Net Operating Loss** – Residents: Enter any Iowa net operating loss carryforward from the prior year and attach a supporting schedule. Nonresidents: Enter any Iowa source net operating loss carryforward on your Schedule IA 126. Nonresidents do **not** enter net operating loss on the Iowa 1040 return. See Iowa Net Operating Loss worksheet for additional information on the new carryback provision.
- c. Gains or Losses From Distressed Sale Transactions** – If you need further information, contact Taxpayer Services.
- d. Modifications to partnership income and/or S Corporation income** if the modifications decrease the income.
- e. Work Opportunity Credit** – If you claimed a Work Opportunity Credit on your Federal income tax return, enter the amount here.
- f. Federal Alcohol Fuel Credit** – If you claimed an Alcohol Fuel Credit on your Federal tax return, enter the amount of your Alcohol Fuel Credit here and attach a copy of Federal form 6478.
- g. Deduction For Wages Paid Certain Individuals** – If you operate a business, you may qualify for an additional deduction of 65% of the wages paid in the first 12 months up to a maximum deduction of \$20,000 per individual to qualifying new employees. This deduction is in addition to the wage deduction you were allowed on Federal Schedule C. To qualify, the new employee(s) must be disabled or an ex-offender on parole, probation, or work release program. All types of business may qualify for this deduction for hiring qualifying ex-offenders. However, the deduction for hiring qualifying persons with disabilities is restricted to certain small businesses. Contact Taxpayer Services for more specific information on this deduction.
- h. Speculative Shell Buildings** – If you are the owner of a qualifying speculative shell building, enter the difference between the depreciation taken on this building on your Federal return and the depreciation that you could take under the accelerated cost recovery system of the Internal Revenue Code if the building were classified as 15-year property. Attach a worksheet showing this calculation.
- i. In-Home Health Care** – To the extent included in Iowa gross income, deduct any state Supplementary Assistance payments received for unskilled in-home health-related care services to a family member.
- j. Employer Social Security Credit** – If your business was in the food or beverage industry and you claimed a refundable credit for a portion of employer Social Security tax on employee tips, you may claim a deduction on line 24 for this credit.
- k. Claim of Right Deduction** – If income was repaid in the 2000 tax year and was reported and taxed on a prior Iowa

return, that income may be deducted on the 2000 tax return. However, it may be to your advantage to take a credit on line 66. (See page 17 for more information and examples.) You may take either the deduction on this line or take a credit on line 66, but not both.

**i. Medical Savings Account Deduction** – If you claimed a Medical Savings Account Deduction on your Federal income tax return, enter the amount of this deduction here and attach a copy of Federal form 8853.

**m. Iowa Educational Savings Plan Trust** – If you participate in the Iowa Educational Savings Plan Trust, you (and/or a spouse who also contributes) may deduct an amount contributed not to exceed \$2,054 per beneficiary.

**n. Student Loan Interest Deduction** – Enter the same figure that is allowed on your Federal return.

**o. Foreign-earned Income Exclusion** and/or foreign housing deduction from Federal form 2555 or form 2555EZ.

**25. TOTAL ADJUSTMENTS.** Add lines 16 through 24; enter the total.

**26. NET INCOME.** Subtract line 25 from line 15; enter the net income.

#### QUALIFICATIONS FOR EXEMPTION FROM TAX:

*If you qualify for the low income exemption as explained below, enter the words "low income exemption" in the area to the left of your net income figure on line 26. Enter zero on line 58 and complete the remainder of the return.*

The following income must be included when determining if you are eligible for the \$9,000 exemption or the \$13,500 exemption.

- The incomes of both husband and wife must be combined to determine if you meet this exemption from tax.
- The amount of any **pension exclusion** that is taken on line 21 of the IA1040.
- Any amount of lump-sum distribution separately taxed on Federal form 4972.
- Any net operating loss carryover.

**IMPORTANT NOTE:** This exemption from income tax DOES NOT apply to any liability for Iowa minimum tax.

## STEP 6 FEDERAL TAX ADDITION AND DEDUCTION

### 27. FEDERAL INCOME TAX REFUND RECEIVED IN 2000.

If you received a refund of Federal income tax during 2000, you must report the amount on this line. It must be reported even if you used the standard deduction on the prior year's Iowa return. Include the refund you received from your 1999 Federal tax return and any refunds received in 2000 for other years that were amended or that were filed late. **To find out the amount of your Federal refund, you must contact the IRS at 1-800-829-1040. This information is *not* available at any Iowa Department of Revenue and Finance office.**

If you chose to have any part of an overpayment of Federal income tax credited to estimated tax payments for 2000, the amount should be claimed as 2000 estimated tax paid on line 32 and the total overpayment reported on line 27.

A refund of Federal tax received in 2000 is not reported if the tax was not deducted from Iowa income in a prior year. Some examples of instances in which you do not report a Federal refund are:

- You are filing an Iowa return for 2000 for the first time because you moved into Iowa during the year.
- The refund you received was from a year in which you did not take a deduction for the payment of Federal tax because your income was less than the minimum amount for paying Iowa tax or your tax for that year was calculated

**FILING STATUS 1, SINGLE:** If you are using filing status 1 (single), you are exempt from Iowa tax if you meet any of the following three conditions:

- Your net income from all sources, line 26, is \$9,000 or less and you are not claimed as a dependent on another person's Iowa return.
- Your net income from all sources, line 26, is less than \$4,000 and you are claimed as a dependent on another person's Iowa return.
- You were a nonresident or part-year resident and had net income from Iowa sources of less than \$1,000. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126, page 19. If Iowa tax was withheld you must complete the IA1040 and the IA126 in order to receive a refund of the tax.

**ALL OTHER FILING STATUSES:** If you are filing jointly, separate combined, head of household, or qualifying widow(er), you are exempt from Iowa tax if you meet either of the following conditions:

- Your net income from all sources, line 26, is \$13,500 or less and you are not claimed as a dependent on another person's Iowa return.
- You were a nonresident or part-year resident and had net income from Iowa sources of less than \$1,000. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126, page 19. You must complete the IA1040 and the IA126 in order to receive any refund.

**MARRIED SEPARATE FILERS:** Married taxpayers filing separate combined or separate returns must use the combined income of both spouses in determining eligibility for exemption from tax. If either spouse has a net operating loss that is carried back or forward, then the other spouse cannot use the low income exemption. If the spouse with the net operating loss chooses not to carry the loss back or forward, then the other can claim the low income exemption. A statement must be attached to the return saying that the spouse with the net operating loss will not carry it back or forward.

using the alternate tax computation.

- Any part of the federal refund due to Earned Income Credit or the Additional Child Tax Credit is not reportable and should be subtracted from the total refund before entering the refund amount on line 27.
- You were a nonresident for the tax year of the refund and were not required to file an Iowa return for that tax year.

**MARRIED SEPARATE FILERS:** If the refund received in 2000 was from a jointly filed Federal return, it must be divided between the spouses in the ratio of the spouses' net incomes in the year for which the refund was issued. Example: A 1999 Federal refund received in 2000 would be prorated using the spouses' net incomes from the 1999 Iowa return.

### 28. SELF-EMPLOYMENT/HOUSEHOLD EMPLOYMENT TAXES.

- Federal self-employment tax is not allowed as a deduction for Federal taxes in this step of the Iowa return (see line 17 for partial deductibility as an adjustment to income). If any part of the Federal tax payments on lines 31, 32 or 33 include self-employment tax, then the self-employment tax must be added back on line 28.

- b. Federal Household Employment taxes are not allowed as a deduction for Federal taxes on the Iowa return. If any part of the Federal tax payments on lines 31, 32 or 33 include Federal Household Employment taxes, then the Federal Household Employment taxes must be added back on line 28.

**MARRIED SEPARATE FILERS:** Each spouse must claim his or her own self-employment tax. The Household Employment taxes are divided between husband and wife in the ratio of their respective net incomes.

- 29. ADDITION FOR FEDERAL TAXES.** Add lines 27 and 28 and enter the total. If no Federal refund or self-employment/Household Employment tax is reportable to Iowa, enter zero.
- 30. TOTAL.** Add lines 26 and 29.
- 31. FEDERAL TAX WITHHELD.** Enter the amount listed in the box labeled "Federal income tax withheld" on the W-2 or 1099 form(s) that you received.

**MARRIED SEPARATE FILERS:** Each spouse may claim only his or her own Federal income tax withheld from wages.

- 32. FEDERAL ESTIMATED TAX PAYMENTS MADE IN 2000.** Enter the Federal estimated income tax payments made in 2000. You may include the credit applied from your 1999 Federal income tax overpayment only if the overpayment is included on line 27. You can deduct only the Federal estimated income tax payments made in 2000. This means that you would include a Federal estimated income tax payment for 1999 paid in January

2000, but would not include an estimated tax payment for 2000 paid in January 2001.

**MARRIED SEPARATE FILERS:** All Federal estimated tax payments made in 2000 are divided between spouses in the same ratio as their incomes not subject to Federal withholding for the 2000 tax year.

**33. ADDITIONAL FEDERAL TAX PAID IN 2000.**

- a. Enter the amount of additional Federal income tax paid during 2000 for tax year 1999 and any other years before 1999. The amount of additional Federal income tax paid is deductible only if Iowa income tax returns were filed for the year for which the additional Federal income tax was paid. Include only the actual Federal tax payments made in 2000, but DO NOT include penalties and interest.

**MARRIED SEPARATE FILERS:** The additional Federal tax paid must be divided between the spouses in the ratio of the spouses' net incomes for the prior years for which they paid additional Federal income tax.

- b. FICA payments in excess of \$4,724.40 for Social Security tax for each person and Federal gas tax credit can be deducted as a Federal tax payment on line 33. Any excess FICA tax and Federal gas tax refunded to you must be added back as a Federal tax refund in the year received. If you are self-employed, any self-employment tax you pay cannot cause an excess FICA payment.

- 34. DEDUCTION FOR FEDERAL TAXES.** Add lines 31, 32 and 33.
- 35. BALANCE.** Subtract the amount on line 34 from line 30 and enter here and on line 36, side 2.

**STEP 7 ITEMIZED OR STANDARD DEDUCTION**

You may itemize deductions or claim the Iowa standard deduction, whichever is larger. You may itemize deductions on your Iowa return even if you did not itemize deductions on your Federal return.

**ITEMIZED DEDUCTION** If you itemize complete lines 37-40, check the itemized box on line 41 and enter your total itemized deduction.

**STANDARD DEDUCTION** If you use the Iowa standard deduction check the standard box on line 41 and enter your standard deduction. The standard deduction is \$1,470 for filing statuses 1, 3 and 4, and is \$3,630 for filing statuses 2, 5, and 6.

**MARRIED SEPARATE FILERS:** If one spouse uses the standard deduction, then both spouses must use the standard deduction, even if separate Iowa returns are filed.

- 36. BALANCE.** Enter the amount on line 35, side 1, IA1040 on line 36. Complete lines 37 through 41, if you are itemizing deductions. Skip to line 41 if you are taking the standard deduction.
- 37. TOTAL ITEMIZED DEDUCTIONS FROM SCHEDULE A.** Enter the total amount of itemized deductions claimed on your Federal or Iowa Schedule A. To complete either the Federal or Iowa Schedule A, refer to the Federal 1040 instruction booklet. Attach your Iowa or Federal Schedule A to your return.
- 100% of the amount paid for health insurance premiums is now deductible on line 18. It is to your advantage to take this deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18. See the instructions for line 18.
- If your adjusted gross income on line 33, Federal form 1040 (line 19, Federal form 1040A) exceeds \$128,950 (\$64,475 if filing married separate for Federal purposes), you may not be

able to deduct all of your itemized deductions. If your Federal adjusted gross income exceeds the above amounts, you must complete the worksheet below to determine the amount to enter on line 39.

**Iowa Itemized Deduction Worksheet form 41-104 to be used only if your Federal AGI is more than \$128,950**

This worksheet will compute the amount of itemized deductions to enter on line 39 of the IA1040. Married separate filers (status 3 or 4) need to prorate their itemized deductions on line 39 in the ratio of each spouse's net income on line 26 of the IA1040 to the total net income of both spouses. If you did not itemize on your Federal return, you will need to complete the schedule below as if you *did* complete Federal Schedule A.

Note: Deduct from lines 1, 2 and 4 the amount of health insurance premiums from line 18 of the IA1040 that was deducted on Federal Schedule A.

**Iowa Itemized Deduction Worksheet Form 41-104**

(continued from page 12)

1. Enter the allowable Federal itemized deductions as shown on line 36 of the Federal 1040. 1. \_\_\_\_\_
2. Add the amounts on Federal Schedule A, lines 4, 13, 19, plus any gambling losses included on line 27 and enter here. 2. \_\_\_\_\_
3. Subtract line 2 from line 1. 3. \_\_\_\_\_
4. Add the amounts on Federal Schedule A, lines 4, 9, 14, 18, 19, 26, and 27 and enter here. 4. \_\_\_\_\_
5. Subtract line 2 from line 4. 5. \_\_\_\_\_
6. Divide line 3 by line 5 and enter the percentage here. 6. \_\_\_\_\_ %
7. Enter the amount of Iowa income tax that is included in line 5 of the Federal Schedule A. 7. \_\_\_\_\_
8. Multiply line 7 by the percent on line 6. 8. \_\_\_\_\_
9. Subtract line 8 from line 1. Enter this amount on line 39 of the IA1040. 9. \_\_\_\_\_

**a. Mortgage Interest Credit Deduction**

Taxpayers with the mortgage interest credit can claim on their Iowa return a deduction on line 9b of Schedule A for all mortgage interest paid in the tax year and not just the mortgage interest that was deducted on the Federal Schedule A.

**b. Automobile Registration Fee Deduction**

If you itemize deductions, a portion of the amount of automobile registration fees may be deducted as personal property tax on your Iowa and Federal Schedule A.

Use the following worksheet to calculate the deductible amount:

1. Enter the actual registration fee paid. 1. \_\_\_\_\_
2. Take the weight of your automobile and divide it by 250. The weight is found on your automobile registration certificate. 2. \_\_\_\_\_
3. Subtract line 2 from line 1. This is the deductible amount. 3. \_\_\_\_\_

Example: Jason purchased an automobile from Patty. The actual fee he paid to register the automobile at the courthouse was \$150. The weight of the automobile is 3,000 pounds. The deductible amount is calculated as follows:

- |  |                             |
|--|-----------------------------|
| 1. The actual registration fee paid.                           | 1. <u>    \$150    </u>     |
| 2. 3,000 ÷ 250.  | 2. <u>       12      </u>   |
| 3. Subtract line 2 from line 1. This is the deductible amount. | 3. <u>      \$138      </u> |

This deduction is for fees paid on automobiles and 1993 or later model multipurpose vehicles. See page 14, line 40 for a definition of multipurpose vehicles and for the treatment of the registration fees paid on multipurpose vehicles with a 1992 or earlier model year. **Registration fees on pickup trucks, vans, campers, etc., still do not qualify as an itemized deduction.**

**MARRIED SEPARATE FILERS:** If you used Iowa Schedule A, enter the totals from lines 29 and 30, Iowa Schedule A, in Columns A and B on this line. If you used Federal Schedule A, you should prorate your itemized deductions between you and your spouse in the ratio of each spouse's net income on line 26, IA 1040 to the total net income of both spouses. (However, this allocation of itemized deductions should be done after any Iowa income tax is subtracted from the total itemized deductions claimed on Federal Schedule A.) Lines 38 and 40 should also be divided between husband and wife in the ratio of their respective net incomes.

**38. IOWA INCOME TAX.** If your total itemized deductions on line 37 includes Iowa income tax, enter the amount of Iowa income tax.

**MARRIED SEPARATE FILERS:** Iowa income tax deduction must be divided between husband and wife in the ratio of their respective net incomes.

**39. BALANCE.** Subtract line 38 from line 37.

**40. OTHER DEDUCTIONS.**

**a. Expenses Incurred for Care of a Disabled Relative:** Expenses, not to exceed \$5,000, incurred in caring for a disabled relative in your home may be deducted. The expenses which may be claimed are those for the care of a person who is your grandchild, child, parent or grandparent. The disabled person must be unable, by reason of physical or mental disability, to live independently and must be receiving or be eligible to receive medical assistance benefits under Title XIX of the U.S. Social Security Act.

An itemized schedule of expenses must be included with the return and may include items such as food, clothing, medical expenses not otherwise deductible, and transportation. Expenses not directly attributable to the care of the relative, such as rent, mortgage payments, interest, utilities, house insurance, and taxes cannot be included. Only expenses which are not reimbursed may be claimed.

A statement from a qualified physician certifying that the person with the disability is unable to live independently must be submitted with the return the first year a deduction is taken and every third year thereafter.

**MARRIED SEPARATE FILERS:** The total deduction claimed by both spouses for each relative with a disability may not exceed \$5,000. This deduction must be divided between husband and wife in the ratio of their respective net incomes.

**b. Adoption Expenses:** If you adopted a child during the tax year, you may be eligible for an additional itemized deduction for a portion of the adoption expenses paid in 2000. This deduction is taken in the year that the expenses are paid even if the child is not placed in your home during that year. A deduction is allowable for expenses including medical costs relating to the child's birth, any necessary fees, and all other costs connected with the adoption procedure. Attach a separate schedule listing the adoption expenses. Subtract 3% of your total Iowa net income entered on line 26 from the total of qualifying adoption expense. If married, 3% of the combined

net income must be subtracted. Only the amount which exceeds 3% of your total Iowa net income may be deducted.

**MARRIED SEPARATE FILERS:** This deduction must be divided between husband and wife in the ratio of their respective net incomes.

**c. Multipurpose Vehicle Registration Fee.** An itemized deduction of 60% of the 2000 registration fees for model year 1992 and earlier multipurpose vehicles is allowed. Multipurpose vehicles are defined as motor vehicles designed to carry not more than 10 people and constructed on a truck chassis or with special features for occasional off road use. If the letters MV are printed next to the word "style" on the registration certificate, the vehicle is a multipurpose vehicle. Multipurpose vehicles do not include pickups, motor trucks, ambulances, hearses, motorcycles or motor bikes. A portion of the amount of registration fees paid on 1993 and later model year multipurpose vehicles qualify as an itemized deduction on your Iowa and Federal Schedule A. See line 37 instructions.

**d. Mileage Deduction Charitable Purposes.** Iowa allows you an additional deduction for automobile mileage driven for charitable organizations. To calculate the deduction:

1. Number of miles X 21¢/mile
2. Less charitable mileage deduction entered on Federal or Iowa Schedule A

### STEP 8 TAX CALCULATION

**43. TAX OR ALTERNATE TAX.** Compare the regular tax from the tax tables found on pages 22-25 with the alternate tax calculated below and enter the smaller on line 43. If taxable income on line 42 exceeds \$52,290, use the formula at the end of the tax tables on page 25 to compute your tax.

**ALTERNATE TAX MAY REDUCE TAX LIABILITY. Single taxpayers do not qualify for the alternate tax calculation.**

**For filing statuses 2, 3, 4, 5, and 6:** If the combination of your net income from line 26 PLUS any pension exclusion taken on line 21 exceeds \$13,500, you may OWE LESS TAX by completing the worksheet below to compute your tax liability. Enter this alternate tax on line 43 if it is less than the tax from the tax table. If you are married filing separately and one spouse has a net operating loss that will be carried back or forward, then you cannot use the alternate tax computation. If the spouse with the net operating loss elects not to carry the net operating loss back or forward, then you can use the alternate tax computation. A statement must be attached to the return saying that the spouse with the net operating loss will not carry it back or forward.

#### ALTERNATE TAX WORKSHEET

1. Enter the total of net income from line 26 and pension exclusion from line 21 of the IA1040. Filing statuses 3 or 4 enter combined totals of both spouses. 1. \_\_\_\_\_
2. Subtract \$13,500 from line 1, enter the difference on line 3. 2. -\$13,500
3. Income subject to alternate tax. 3. \_\_\_\_\_
4. Multiply line 3 by 8.98%. 4. \_\_\_\_\_
5. Using the tax tables, determine the tax on the taxable income from line 42 of the IA1040 and enter here. Status 3 and 4 filers calculate tax separately, combine and enter total here. 5. \_\_\_\_\_
6. Compare the amounts on line 4 and line 5. Enter the lesser amount here and on line 43, IA1040. 6. \_\_\_\_\_

**MARRIED SEPARATE FILERS:** (including status 4): Use the combined net incomes of both spouses to compute the alternate tax. If you are status 4 and do not provide the other spouse's income in step 2 on page 1, you will not be allowed the alternate tax calculation. Divide the alternate tax between spouses in the ratio of the net income of each spouse to the combined net income of both spouses.

3. **Equals** additional mileage deduction for charitable purposes.

**MARRIED SEPARATE FILERS:** These deductions must be divided between husband and wife in the ratio of their respective net incomes.

**41. ITEMIZED OR STANDARD DEDUCTION.** Mark the correct box to show the deduction method you are using, itemized or standard, and enter the applicable amount as described below.

**ITEMIZED:** Add lines 39-40 and enter the total on line 41. This is your total itemized deduction.

**STANDARD:** For tax year 2000, the Iowa standard deduction is:

If filing status 1, 3, or 4 is marked, enter on line 41 **the lesser** of \$1,470 or the amount on line 36.

If filing status 3 or 4, **each** spouse enters **the lesser** of \$1,470 or the amount on line 36.

If filing status 2, 5 or 6 is marked, enter on line 41 **the lesser** of \$3,630 or the amount on line 36.

**42. TAXABLE INCOME.** Subtract line 41 from line 36 and enter the difference.

**44. IOWA LUMP-SUM TAX.** If the 10-year averaging method was used to compute Federal tax on all or part of a lump-sum distribution, an Iowa resident must enter 25% of the Federal tax from form 4972 on line 44. Attach Federal form 4972.

A lump-sum distribution occurs when in one tax year you receive the total balance from the pension or profit-sharing plan of an employer due to termination of employment, termination of the plan, or death of the employee.

**NONRESIDENTS AND PART-YEAR RESIDENTS:** If a lump-sum distribution reported on Federal form 4972 was received while an Iowa resident or as a result of Iowa earnings, 25% of the Federal tax from form 4972 must be entered on line 44. Nonresidents receiving lump-sum distributions due to documented retirement or death of an annuitant are *not* subject to Iowa lump-sum tax. A copy of the Federal form 4972 must be attached.

**45. IOWA MINIMUM TAX.** The Iowa Minimum Tax is imposed, for the most part, on the same tax preference items and adjustments on which Federal minimum tax is imposed. You may be subject to Iowa Minimum Tax even if you have no liability for Federal minimum tax. If you had tax preference items and adjustments in 2000, see form IA 6251 for further information.

**NONRESIDENTS AND PART-YEAR RESIDENTS:** If you have Iowa-source tax preferences or adjustments, you may be subject to Iowa Minimum Tax. See form IA 6251.

**46. TOTAL TAX.** Add lines 43, 44 and 45. Taxpayers who have had a distressed sale in 2000 and have included the gain in net income may be eligible to limit their tax to their net worth immediately prior to the distressed sale.

If you qualify, limit the amount on line 46 to your net worth before the distressed sale and attach an Iowa Income Tax Balance Sheet/Statement of Net Worth (form 41-135).

**47. TOTAL EXEMPTION CREDITS.** Enter the total amount of exemption credits from step 3, side 1.

**48. IOWA EARNED INCOME CREDIT.** This credit is available to taxpayers who qualify for the Federal Earned Income Credit. To claim the Iowa Earned Income Credit, enter 6.5% of the Federal Earned Income Credit that you claimed on your Federal return.

If you did not file a Federal income tax return, you may wish to review the instructions for Federal 1040 or 1040A to determine if you are eligible to claim the Federal Earned Income Credit. For additional information, contact the IRS at 1-800-829-1040.

**MARRIED SEPARATE FILERS:** The Iowa Earned Income Credit must be divided between husband and wife in the ratio of each spouse's earned income to the total earned income of both spouses. Earned income includes wages, salaries, tips or other compensation and net earnings from self-employment. Any unused part of this credit cannot be used by the other spouse

**49. TUITION AND TEXTBOOK CREDIT.** Taxpayers who have one or more dependents attending grades KINDERGARTEN THROUGH TWELVE in an Iowa school may take a credit for each dependent for amounts paid for tuition and textbooks. The credit percentage is 25% of the first \$1,000 paid for each dependent for tuition and textbooks. Dependents must have attended a school in Iowa that is accredited under section 256.11, not operated for a profit and adheres to the provisions of the U.S. Civil Rights Act of 1964.

Expenses for textbooks or other items for home schooling or schooling outside an accredited school do not qualify for the credit.

In the case of divorced or separated parents, only the spouse claiming the dependent can claim the amounts paid by that spouse for tuition and textbooks for that dependent.

Tuition means any charges for the expense of personnel, buildings, equipment and materials other than textbooks, and other expenses that relate to the teaching of only those subjects legally and commonly taught in Iowa's public elementary and secondary schools. "Textbooks" means books and other instructional materials used in teaching those same subjects. The definition of "textbooks" has expanded to include books and materials for extracurricular activities. Examples of extracurricular activities include sporting events, speech activities, musical or dramatic events, driver's education, etc.

The cost of **the following items are eligible** for the credit: cleats for football shoes, football, soccer and golf shoes, costumes for a play, special clothing for a concert, rental of musical instruments for school or band or for lessons at a school, sheet music used in a school, and cost of basic materials for shop class and mechanics class, band, hockey and football uniforms.

The cost of **the following items are not eligible** for the credit: basketball shoes, purchase of musical instruments, clothing for a play or concert that is suitable for everyday wear, travel expenses for trips, cost of music lessons outside of school, and expenditures for wood or materials for making furniture or for repair of personal vehicles.

Amounts paid are not allowed if they relate to teaching of religious tenets or doctrines of worship. Tuition does not include charges made to compensate a school for feeding, lodging, clothing or transporting a dependent.

Calculate the proper amount of expenses per dependent and multiply the amount – not to exceed \$1,000 – by 25%.

Enter the total allowable credit on line 49. Retain records of your calculation, showing the names of each dependent, school(s) attended, and an itemized list of qualifying expenses.

Example: Patty and Mark have qualifying expenses of \$1,400 and \$700 respectively. Their parents can take a credit of \$250 (25% of \$1,000 maximum) for Patty and \$175 (25% of \$700) for Mark, for a total credit of \$425.

**MARRIED SEPARATE FILERS:** The Tuition and Textbook Credit must be divided between husband and wife in the ratio of their respective net incomes. Any unused part of this credit cannot be used by the other spouse. Credit can be claimed only for dependents listed on the return.

**50. TOTAL CREDITS.** Add lines 47, 48 and 49.

**51. BALANCE.** Subtract the amount on line 50 from the amount on line 46. If less than zero, enter zero.

**TAX REDUCING INCOME TO LESS THAN \$9,000 FOR TAXPAYERS USING FILING STATUS 1, SINGLE:** Taxpayers using filing status 1 are not eligible to use the alternate tax computation. However, a single taxpayer who is not claimed as a dependent on another person's Iowa return cannot have a tax figure on line 51 of the IA1040 that would reduce the combination of net income from line 26 and pension exclusion from line 21 of the IA1040 to less than \$9,000. If subtracting line 51 from the total of lines 21 and 26 results in a difference of less than \$9,000, the entry on line 51 must be reduced as calculated on the worksheet below.

**TAX REDUCTION WORKSHEET**

1. Enter the total of the net income from line 26 and pension exclusion from line 21 of the IA1040. 1. \_\_\_\_\_
2. Subtract \$9,000 from line 1. Enter the difference on line 3. 2.     - \$9,000
3. Result: 3. \_\_\_\_\_
4. Enter the tax from line 51, IA1040. 4. \_\_\_\_\_
5. Compare line 3 and line 4. Enter the smaller number here. If this number is different than the one on line 51, IA1040, substitute this number. Write "tax reduction" to the left of line 51. 5. \_\_\_\_\_

**52. CREDIT FOR NONRESIDENT OR PART-YEAR RESIDENT.** Enter the amount of your nonresident/part-year resident tax credit from Schedule IA126, line 33. A copy of Schedule IA126 and a copy of your Federal return must be attached. See instructions for IA126 beginning on page 19. You may owe less tax by using filing status 3 or 4.

**53. BALANCE.** Subtract the amount on line 52 from line 51.

**54. OTHER IOWA CREDITS.** Enter the total of the credits listed below:

**Franchise Tax Credit** - If a financial institution as defined in Section 581 of the Internal Revenue Code elects to file as an S corporation for Federal income tax purposes and therefore have its income taxed directly to the shareholders, those shareholders qualify for a Franchise Tax Credit. This credit is calculated by first determining the taxpayer's pro rata share of the financial institution's Iowa net income, line 12 of the IA 1120F. This amount is then subtracted from the individual's taxable income, line 42 of the IA 1040. Next, determine a tax on this amount and subtract from this the total credits from line 50 of the IA 1040.

Then subtract this figure from the tax, line 51 of the IA 1040. This amount is the Franchise Tax Credit allowed. It cannot exceed the taxpayer's pro rata share of the franchise tax paid by the financial institution. Attach a separate schedule to the IA 1040 showing how the credit was computed.

**S Corp Credit** - Iowa resident shareholders of all S corporations doing business within and without Iowa may be eligible for a credit. This credit is based on the ratio of the greater of the portion of S Corporation income attributable to Iowa sources or the portion of any distributions made from income on which Iowa income tax has not been paid to total income. Complete form IA 134 and attach to the IA 1040.

**New Jobs Credit** - If you started a new business or increased employment of your existing business by 10% and your business had a 260E agreement with a vocational school or area community college, you may qualify for the New Jobs Credit. This credit includes the training of existing employees. Compute this credit on form IA 133 and attach to your return.

**Investment Tax Credit** - An investment tax credit of 10% of the purchase price of real property including any buildings and structures located on the real property, cost of machinery and equipment and the cost of improvements to real property is available to an eligible business. Any credit in excess of the tax liability can be carried forward seven years or until used, whichever comes first. If you are a partner, shareholder, member, or beneficiary in a partnership, Subchapter S Corporation, Limited Liability Company, estate or trust, you may claim the investment tax credit for the qualifying entity. The amount of the credit to you is based on your pro rata share of the individual's earnings of the qualifying entity. Please attach supporting documentation to the IA 1040.

**Minimum Tax Carry Forward Credit** - You may be eligible for this credit if you paid Iowa minimum tax in 1987 or following years based on tax preferences and adjustments other than the appreciated property charitable deduction tax preference. Compute on form IA 8801 and attach to the IA 1040.

**55. BALANCE.** Subtract the amount on line 54 from the amount on line 53. If less than zero, enter zero.

**61. IOWA INCOME TAX WITHHELD.** Enter the total amount of income tax withheld for Iowa on your W-2s, W-2Gs, and/or 1099s. This will be the figure shown in the box labeled "State income tax withheld." Copies of the W-2s W-2Gs, and/or 1099s showing Iowa tax withheld must be attached to the return. Your W-2s W-2Gs, and/or 1099s must be complete and legible with no alterations.

**62. ESTIMATE AND VOUCHER PAYMENTS.** Enter the total amount of 2000 Iowa estimated tax payments. This includes any fourth-quarter payment made in January 2001 and any payments made

**56. SCHOOL DISTRICT SURTAX/EMERGENCY MEDICAL SERVICES SURTAX.** Multiply the amount on line 55 by the surtax rate and enter the result. Surtax rates are listed beginning on page 26. Residents of school districts that do not have a surtax should enter zero on line 56. The applicable school district is the one in which you resided on the last day of the tax year, not necessarily the district where your children attend school. Counties may impose a countywide Emergency Medical Services (EMS) income surtax. At this time, Appanoose is the only county that has an EMS surtax.

If you itemize on the Iowa Schedule A, you may claim the 1999 school district surtax and EMS surtax as an itemized deduction. This deduction is taken on line 4 of the Iowa Schedule A.

**57. TOTAL TAX.** Add lines 55 and 56 and enter the total on line 57.

**58. TOTAL TAX BEFORE CONTRIBUTIONS.** Add the amounts in columns A and B on line 57 and enter the total on line 58.

**59. CONTRIBUTIONS.** Enter your voluntary contributions to either of the following "checkoffs" in boxes 59a and 59b. Please note that you may contribute to either of the checkoffs regardless of whether you are entitled to a refund or owe additional taxes, but your contribution will reduce your refund or add to the amount you owe. Your contribution will qualify as a charitable contribution on your 2001 return. The contribution can be made on this return only if the return is filed during the 2001 calendar year. If you file an amended return, you cannot change your contribution.

**59a. FISH AND WILDLIFE FUND (Chickadee Checkoff).**



You may contribute any amount of \$1 or more to the Iowa Fish and Wildlife Protection Fund. Your contribution through this checkoff is the primary support for Iowa's Wildlife Diversity Program which monitors, researches and manages the state's nongame species of wildlife. According to the Natural Resource Commission policy, 100% of the money donated to this program goes to the Wildlife Diversity Program.

**59b. CORN DOG CHECKOFF.** You may contribute any amount of \$1 or more to this fund. The proceeds from this checkoff will be added to other sources such as gifts, donations and bequests to be used by the Iowa State Fair Blue Ribbon Foundation to fund capital projects and improvements to property on the Iowa State Fairgrounds.



**MARRIED SEPARATE FILERS:** Married couples filing separately on a combined return (filing status 3) must enter their combined checkoff amounts in the appropriate box (es) if both choose to contribute to a specific checkoff.

**60. TOTAL TAX AND CONTRIBUTIONS.** Add lines 58 and 59 and enter the total on line 60.

### STEP 9 CREDITS

with the IA 1040-V Payment Voucher. Also include any overpayment from your 1999 income tax return that you applied to your estimated tax for 2000. You cannot claim as an estimated payment any additional Iowa income tax paid for 1999 or for any prior tax years.

**63. OUT-OF-STATE TAX CREDIT.** All income an Iowa resident earns is taxable to Iowa to the same extent that it is taxable on the Federal return even if the income was earned in another state or foreign country. If another state or foreign country taxes that same income, then the Iowa resident may be able to claim the Out-Of-

State Tax Credit on this line. Use form IA 130 to compute your Out-Of-State Tax Credit.

- a. Nonresidents of Iowa cannot claim this credit.
- b. Part-year residents of Iowa may claim this credit only if the income they earned during that part of the year that they were Iowa residents was also taxed by another state or country.
- c. The state or foreign income tax imposed on your income is the tax shown on the income tax return you filed with that state or country. It is not the amount that was withheld from your wages.
- d. The Out-Of-State Tax Credit must be figured separately for each state or foreign country. The combined total of all credits cannot exceed the Iowa tax liability.

**In order to receive the credit**, a complete copy of your income tax return filed with the other state must be submitted with your Iowa return, along with a copy of the IA 130. If you are claiming the Out-Of-State Tax Credit on tax paid to a foreign country, attach a copy of Federal form 1116 or other document showing the foreign tax paid.

**64. MOTOR VEHICLE FUEL TAX CREDIT.** Enter the amount of Motor Vehicle Fuel Tax Credit from Schedule IA 4136. The Federal Schedule 4136 cannot be used. The Iowa credit does not apply to gasoline used in automobiles or pleasure boats. If you have an Iowa Motor Fuel Tax Refund Permit number and have claimed any refunds during the tax year, NO Motor Vehicle Fuel Tax Credit can be allowed on the Iowa income tax return.

For partnerships and S Corporations, the amount of credit reported by each partner or shareholder is based on his or her share of earnings or losses. An additional schedule must be sent in with the IA 4136 which should list the name of the partnership or S Corporation, its Federal identification number, the total number of gallons purchased, and how the number of gallons are divided among the partners or shareholders. Schedule IA 4136 may be obtained by calling 1-800-532-1531 (in Iowa) or 515/281-7239.

**65. CHILD AND DEPENDENT CARE CREDIT.** Only taxpayers with a net income of less than \$40,000 are eligible for this credit. If you are married, your net income and the net income of your spouse must be combined to determine if you qualify, even if your spouse does not file an Iowa return.

This credit is refundable. Even though you may not be required to file an Iowa return, you may wish to do so in order to claim a refund for this credit. You may be eligible for this credit even though you were unable to take it on your Federal return.

Use the following worksheet and percentage table to calculate the Child and Dependent Care Credit. The percentages are based on your Iowa net income on line 26. You must attach a copy of your Federal form 2441 or Schedule 2 of Federal 1040A used to calculate your Federal Child and Dependent Care Credit.

**MARRIED SEPARATE FILERS:** In computing the credit, the combined net income of both spouses must be used. The Child Care Credit must be divided between husband and wife in the ratio of each spouse's net income to their combined net income.

#### WORKSHEET

1. Enter the amount from line 9 of Federal form 2441 or line 9 of Schedule 2 of Federal form 1040A. Note: Use the Child Care Credit prior to any Federal Alternative Minimum Tax calculation.
  1. \_\_\_\_\_

2. If total of line 26 of the IA 1040, columns A and B, is:

	allowable %	allowable %
Less than \$10,000 .....	75%	\$25,000-\$34,999 ..... 50%
\$10,000-\$19,999 .....	65%	\$35,000-\$39,999 ..... 40%
\$20,000-\$24,999 .....	55%	\$40,000 and over: not eligible for credit
	Enter % here	2. _____

3. Multiply line 1 by percentage on line 2. Enter the result here and on line 65 of the IA 1040.
   
3. \_\_\_\_\_

**NONRESIDENTS AND PART-YEAR RESIDENTS** - This credit must be adjusted using the following formula:

$$\frac{\text{Iowa net income (line 26, IA 126)}}{\text{All-source net income of you and spouse (line 26, IA 1040)}} \times \text{credit calculated above} = \text{credit on line 65}$$

#### 66. OTHER REFUNDABLE CREDITS.

**a. Research Activities Credit**—You may be eligible for this credit or alternative research credit if you increased Iowa research activities in 2000 over the activities for the base period. For details on qualification for the credit and how to compute the credit see form IA 128 or IA 128A.

**b. Assistive Device Tax Credit**—For tax years beginning on or after January 1, 2000, eligible small businesses can take an assistive device tax credit for purchasing, renting or modifying an assistive device or making workplace modifications for employees with disabilities. The certificate for entitlement of the credit issued by the Iowa Department of Economic Development must be attached to the Iowa return. The certificate is valid only for the tax year in which the assistive device was installed or workplace modifications were completed. If the credit is taken for Iowa purposes, the small business shall not deduct on the Iowa return the cost of assistive devices or workplace modifications deducted on the federal return. Any credit in excess of the tax liability can be refunded.

**c. Property Rehabilitation Tax Credit**—For tax years beginning on or after January 1, 2000, eligible businesses can take a property rehabilitation tax credit for qualifying rehabilitation costs for eligible property. The property rehabilitation tax credit certificate issued by the Iowa Department of Cultural Affairs must be attached to the Iowa return. The credit is limited to the tax shown on the return. However, the credit in excess of the tax liability is eligible for refund at a discounted amount.

**d. Claim of Right Credit**—A refundable credit may be taken if there was income repaid in the 2000 tax year that was reported and taxed on a prior Iowa return. To calculate the credit, recompute the tax in the prior year without the repaid income. Enter the tax reduction that was calculated as a credit on this line. However, it may be to your advantage to take an income adjustment on line 24. (See page 11 for more information.) You may take either the credit on this line or a deduction of the amount repaid on line 24, but not both.

**Example of Claim of Right Credit:** A taxpayer received a \$5,000 bonus in 1998 and reported it on the 1998 Iowa return. In 2000 the taxpayer's employer advised that the bonus was awarded in error and was to be repaid. The bonus was repaid by the end of 2000. After recomputing the 1998 Iowa return, there is a \$440 reduction in tax. The taxpayer may claim a credit of \$440 on line 66 of the 2000 Iowa return.

**Example of Claim of Right Deduction:** A taxpayer reported \$7,000 in unemployment benefits on the 1998 Iowa return. In early 2000 the taxpayer was notified that \$4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 2000. The taxpayer may claim a \$4,000 income adjustment on line 24 of the 2000 Iowa return.

**67. TOTAL.** Add the amounts on line 61 through 66 and enter the total.

**68. TOTAL CREDITS.** Add columns A and B of line 67; enter the total.

## STEP 10 REFUND OR AMOUNT YOU OWE

**69. AMOUNT YOU OVERPAID.** If line 68 is **more than** line 60, subtract line 60 from line 68 and enter the difference. You can have all or part of this amount refunded to you on line 70. The remainder, if any, can be applied to your estimated tax for 2001 on line 71.

**70. AMOUNT TO BE REFUNDED.** Enter the portion of the amount shown on line 69 you wish to have refunded to you. Allow at least eight weeks to receive your refund check or correspondence if you file a paper return, four weeks if you file electronically, and about two weeks if you file electronically and have your refund deposited directly into your bank account. Any error on your return will delay your refund.

**71. OVERPAYMENT APPLIED TO ESTIMATED TAX.** Subtract line 70 from line 69. This is the amount that will be applied to your estimated tax for 2001. Enter this amount on line 71 (use only column A if you and your spouse file jointly). If you choose to apply part or all of your overpayment to your estimated tax for 2001, this election cannot be changed after your return is filed. If you do not make any entry on line 70 or 71, the entire amount of the overpayment on line 69 will be refunded to you.

THE TOTAL OF LINES 70 AND 71 MUST EQUAL THE AMOUNT ON LINE 69.

**MARRIED FILING SEPARATELY ON A COMBINED RETURN:** Entries in both column A and column B will establish two estimated tax accounts, and you and your spouse will receive separate estimate forms to complete.

**72. AMOUNT OF TAX YOU OWE.** If line 68 is **LESS THAN** line 60, subtract line 68 from line 60 and enter the difference.

**Iowa income tax withholding.** If the amount you owe (line 72) or the amount you overpaid (line 69) is large, you may wish to file a new IA W-4 with your employer to change the amount of Iowa income tax withheld from your pay. The ability to file a new IA W-4 is based upon certain qualifications contained in the instructions for that form.

**73. PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX.** If you are required to make estimated tax payments but fail to make the payments, you are subject to a penalty in addition to any tax you may owe. The penalty is determined in the same way as for Federal purposes. Consequently, you must include your Iowa income, lump-sum, and minimum taxes when calculating the penalty for underpayment of estimated tax. If you are subject to this penalty, complete IA 2210 (IA 2210F for farmers and fishers) and enter the penalty on this line. Attach a copy of the IA 2210 or IA 2210F to your return.

If you are due a REFUND, subtract the penalty amount from the overpayment you show on line 70 or line 71.

**74. PENALTY AND INTEREST.** Enter the penalty on line 74a, the interest on line 74b and the total on line 74.

**74a. 10% Penalty for Failure to Timely File a Return:** If you do not file your return by the due date and at least 90% of the correct tax is not paid, you owe an additional 10% of the unpaid tax.

**5% Penalty for Failure to Timely Pay the Tax Due:** If you file your return on time but do not pay at least 90% of the correct tax due, you owe an additional 5% of the unpaid tax.

**74b. INTEREST.** Interest must be added to delinquent tax. Interest is added at a rate of 0.9% per month beginning on the due date of the return and accrues each month until paid in full. Part of a month constitutes a whole month, so if you pay the tax on June 3, you are late for May and June for a total interest rate of 1.8% (2 x 0.9%). Contact Taxpayer Services if you need to know the interest that has accrued on the unpaid tax.

**75. TOTAL AMOUNT DUE.** Add lines 72, 73, and 74 and enter the total on line 75. Pay in full the amount due with a check or money order

payable to: **TREASURER, STATE OF IOWA.** Do not send in any payment of less than one dollar. Write your Social Security Number on the check or money order. Please complete the enclosed IA1040-V Payment Voucher and send it and your check/money order with your income tax return. To insure accurate processing, please staple first your W-2s to your return; on top of this, staple the IA 1040-V Payment Voucher and your check. Iowa does not have a payment plan option. Pay as much as you can with the return, and you will be billed for the balance due. Do not send cash.

**TAX ADJUSTMENTS BY THE DEPARTMENT.** If the Department of Revenue and Finance adjusts your return, we will use the tax rates provided by Iowa law. The calculation of your tax liability by the Department may vary by up to \$4 from the tax table.

**STEP 11: POLITICAL CHECKOFF.** You may assign \$1.50 of your Iowa tax to a specified political party or to the Iowa Election Campaign Fund to be distributed among the qualifying political parties. A qualified political party is one whose candidate for President or Governor received at least 2% of the total vote cast in the last general election. A husband and wife may each assign \$1.50 to the party of his or her choice regardless of the filing status of the return. This does not reduce your refund or increase your amount due. This checkoff is an optional feature and is not required to process your return.

**STEP 12: DON'T NEED FORMS MAILED TO YOU NEXT YEAR?** Taxpayers who pay someone else to prepare their returns probably do not use the income tax return booklets mailed to them each year. If you do not need a booklet mailed to you next year, check the appropriate box above the signature line.

If you check the box to receive a label only, you will receive a card with your peel-off name and address label attached. This option is not available to electronic filers. If you do not want a booklet or a label, you may choose this option by checking the appropriate box. Telling us that you do not need a booklet next year will help conserve natural resources and reduce unnecessary printing costs.

**STEP 13: COW-CALF REFUND:** The Cow-Calf Refund will be allowed only to qualified individual taxpayers who operate cow-calf beef operations in Iowa. A qualified taxpayer is an individual with a Federal taxable income of \$103,982 or less. In the case of married individuals, their combined Federal taxable income must be \$103,982 or less in order for them to be eligible. For details on qualifications for this refund, see form IA 132. This form must be filed within 10 months of the end of the tax year and filed with the taxpayer's 2000 income tax return. A total of \$2 million is to be distributed as Cow-Calf Refunds for 2000 returns. If the claims exceed that amount, refunds will be prorated. Enter the refund amount(s) on the line(s) above the signature block.

**STEP 14: SIGNATURE.** Returns are not processed and refunds are not issued if returns are not signed. If you and your spouse file a joint or combined return, both of you must sign. Include a daytime telephone number. If you file electronically, be sure to sign form IA 8453, which is provided by your tax professional.

If a tax professional prepared your return, he/she must also sign and enter his/her telephone number and social security, employer identification, or personal tax identification number.

**DECEASED TAXPAYER:** If your spouse died and you are filing a joint or combined return, write on the deceased's signature line "Filing as a surviving spouse" and the date of death. Also, attach any forms required to be filed with your Federal return, such as Federal form 1310 or a copy of the court certificate showing your appointment as a personal representative of the decedent.

**SUPPORTING SCHEDULES.** Attach all necessary supporting schedules and a copy of your Federal return. The 1040 PC computer version of the Federal return will be accepted.

## INSTRUCTIONS FOR SCHEDULE IA126

Schedule IA126 is to be used only by nonresidents and part-year residents (taxpayers who moved into or out of Iowa during 2000). It is used to calculate the nonresident and part-year resident credit to be entered on line 52 of the IA1040.

All nonresidents and part-year residents of Iowa must use Schedule IA126 to compute their total Iowa net incomes. For nonresidents, Iowa net income will include all income from Iowa sources. For part-year Iowa residents, Iowa net income includes all income received while living in Iowa plus any Iowa-source income received while a nonresident.

Nonresidents and part-year residents are required to include copies of their Federal income tax returns with their Iowa returns. Almost all items on the IA126 are taxed in the same manner for Iowa as for Federal.

Complete lines 1-26 of the IA126 using only income from Iowa sources. Lines 1-26 of the IA1040 must be completed using all-source income. Enter the amount of credit from line 33, IA126 on line 52, IA1040.

**MARRIED SEPARATE FILERS:** Divide your Iowa income between spouses using the instructions given for the corresponding line on the IA1040 for married separate filers.

### Following are two examples of how nonresidents of Iowa would list their income.

#### Example 1

Chad is a resident of Nebraska and works in Iowa. His income includes wages earned in Iowa and interest income from a Nebraska bank. Chad will report the wages and interest on the IA1040 as all-source income and then list his wages only on the IA126 as his Iowa-source income.

#### Example 2

Laura lived in Illinois all of 2000 and earned \$25,000 in wages from Iowa and won \$5,000 on an Iowa riverboat. She will need to report all of her income on the IA1040 as all-source income and include only the gambling income on the IA126 as her Iowa-source income.

Iowa has a reciprocal agreement with the State of Illinois, which means that wages and salaries would be taxed to the individual's state of residence. All income received from gambling activities in Iowa is taxable to Iowa regardless of the individual's state of

residence. For information on the Iowa-Illinois reciprocal agreement, see page 3.

### Following is an example of how a part-year resident of Iowa would list her income.

#### Example 3

Jill lived and worked in Iowa from January through June of 2000. In addition to her wages, she received interest income from an Iowa bank.

Jill then moved to Missouri and was employed there for the remainder of the year. She continued receiving interest income from the Iowa bank through all of 2000.

Jill will report all of her income from both states on the IA1040 as all-source income. She will report only the wages and interest income earned while an Iowa resident on the IA126 as Iowa-source income. The interest income earned from the Iowa bank during the last half of the year is not considered Iowa-source income since Jill was no longer an Iowa resident.

## IA 126 LINE INSTRUCTIONS

### 1. WAGES, SALARIES, TIPS, ETC.

**Part-year residents:** Include all W-2 income earned while an Iowa resident and any income for services performed in Iowa while a nonresident of the state.

**Nonresidents:** Allocate to Iowa only Iowa-source income. If the portion of employee compensation earned in Iowa by a nonresident is not reported separately, allocate the compensation based upon the number of days worked in Iowa to total work days.

### 2. TAXABLE INTEREST INCOME.

**Part-year residents:** Report all interest shown on the IA1040 which accrued while an Iowa resident and any interest received while a nonresident which was derived from a trade, business or profession carried on within Iowa.

**Nonresidents:** Report only that interest derived from an Iowa trade, business or profession.

### 3. DIVIDEND INCOME.

**Part-year residents:** Report all dividends received while an Iowa resident and any dividends derived from an Iowa trade, business or profession while a nonresident.

**Nonresidents:** Allocate to Iowa only those dividends derived from an Iowa trade, business or profession.

### 4. ALIMONY RECEIVED.

**Part-year residents:** Include all alimony or separate maintenance payments received while an Iowa resident.

**Nonresidents:** Alimony and separate maintenance payments received from an Iowa resident by a nonresident are not Iowa-source income.

### 5. BUSINESS INCOME OR (LOSS).

**Part-year residents:** Include all Schedule C or C-EZ income earned while an Iowa resident and any portion of business income or loss earned while a nonresident attributable to a business conducted in Iowa.

**Nonresidents:** Allocate to Iowa only that portion of business income or loss attributable to a business conducted in Iowa. Attach a supporting schedule showing Iowa gross receipts divided by total gross receipts; multiply this ratio times the total net income from Schedule C or C-EZ. A sale is considered an Iowa sale if goods are delivered or shipped to a point within the state regardless of F.O.B. point.

### 6. CAPITAL GAIN OR (LOSS).

**Part-year residents:** Include 100% of the capital gains or losses from assets sold during the time they were Iowa residents. In addition, capital gains or losses from assets sold while a nonresident of Iowa should be reported on the basis of the instructions for nonresidents that follow.

**Nonresidents:** Include in Iowa income 100% of capital gains or losses from the following:

- a. Sales of real or tangible personal property if the property was located in Iowa at the time of the sale; or
- b. Sales of intangible personal property if the taxpayer's commercial domicile is in Iowa.

**7. OTHER GAINS OR (LOSSES).**

**Part-year residents:** Report 100% of gains or losses from assets sold or exchanged while an Iowa resident and any gains or losses from Federal form 4797 while a nonresident if the property was located in Iowa at the time of sale or exchange.

**Nonresidents:** Allocate to Iowa any gains or losses from Federal form 4797 if the property was located in Iowa.

**8. TAXABLE IRA DISTRIBUTIONS.**

**Part-year residents:** Report any taxable IRA distributions received while an Iowa resident. To calculate Roth conversion income, multiply the total conversion income by the ratio of months residing in Iowa in the tax year over 12.

**Nonresidents:** Iowa-source IRA distributions received by a nonresident are not taxable to Iowa.

**9. TAXABLE PENSIONS AND ANNUITIES.**

**Part-year residents:** Report any pension and annuity income reported on line 9 of the IA1040 which was received while an Iowa resident.

**Nonresidents:** Iowa-source pension and annuity incomes received by a nonresident are not taxable to Iowa. **Nonresidents do not enter anything on this line.**

**10. RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, TRUSTS, ETC.**

**Part-year residents:** Include all income shown on Federal Schedule E which was earned or received while an Iowa resident and all rents and royalties from Iowa sources and partnerships or S Corporation income earned or received while a nonresident.

**Nonresidents:** Allocate to Iowa all rents and royalties from Iowa sources and all Iowa partnership or S Corporation income. See instructions for allocation of business income on line 5 of this section.

**11. FARM INCOME OR (LOSS).**

**Part-year residents:** Include all net farm income earned or received while an Iowa resident. Also include all net income from Iowa farm activities while a nonresident using the instructions for nonresidents given below.

**Nonresidents:** Include the total net income from the Iowa farm activities. If farm activities were conducted both within and without Iowa, provide a separate schedule showing allocation of the income and expenses to Iowa.

**12. UNEMPLOYMENT COMPENSATION.**

**Part-year residents:** Report all unemployment benefits received while an Iowa resident and those benefits received the rest of the year that relate to past employment in Iowa.

**Nonresidents:** Allocate to Iowa the unemployment benefits that relate to employment in Iowa. If the unemployment benefits relate to employment in Iowa and employment in another state, report the benefits to Iowa on the basis of the Iowa salaries and wages to the total salary and wages.

**13. TAXABLE SOCIAL SECURITY BENEFITS.**

**Part-year residents:** Report any Social Security income reported on line 13 of the IA1040 which was received while an Iowa resident.

**Nonresidents:** Iowa-source Social Security income received by a nonresident is not taxable to Iowa. Nonresidents do not enter anything on this line.

**14. OTHER INCOME.**

**Part-year residents:** Include any income on line 14 of IA1040 which was received while an Iowa resident or income from Iowa sources while a nonresident. See the instructions for line 14 of IA1040 for a list of income items that are reported on line 14 of IA126.

**Nonresidents:** Include all other taxable income from Iowa sources such as gambling winnings or Iowa modifications to partnership income and/or S Corporation income.

**15. GROSS INCOME.** Add lines 1 through 14 and enter the total.

**16. PAYMENTS TO AN IRA, KEOGH OR SEP.**

**Part-year residents:** Deduct the portion of payments made to an IRA, Keogh or SEP plan while an Iowa resident.

**Nonresidents:** Deduct the portion of payments made to an IRA, Keogh or SEP plan in the ratio of earned income allocated to Iowa to total earned income.

**17. ONE-HALF OF SELF-EMPLOYMENT TAX.**

**Part-year residents:** Deduct the portion of the self-employment tax that is attributable to the self-employment income earned while an Iowa resident.

**Nonresidents:** Deduct the portion of the amount allowed on your Federal return in the ratio of your Iowa self-employment income to your total self-employment income.

**18. HEALTH INSURANCE DEDUCTION.**

**Part-year residents:**

**a. Self-employed.** Enter 100% of the health insurance premiums paid by a self-employed individual while an Iowa resident.

**b. Deducted through wages.** Enter 100% of the health insurance premiums paid through your wages while an Iowa resident. No deduction is available to any individual who paid health insurance premiums on a pretax basis. Pretax occurs when an employer subtracts the amount of the health insurance premium from an employee's wages before computing Federal and State income taxes.

**c. Paid direct by taxpayer.** Enter 100% of the health insurance premiums that you paid while an Iowa resident.

**Nonresidents:**

**a. Self-employed.** Multiply 100% of the health insurance premiums paid by a self-employed individual by the ratio of Iowa self-employment income to total self-employment income.

**b. Deducted through wages.** Multiply 100% of the health insurance premiums paid through your wages by the ratio of Iowa wages to total wages.

**c. Paid direct by taxpayer.** Multiply 100% of the health insurance premiums that you paid directly by the ratio of your Iowa net income to total net income. For this net income calculation, do not include line 18, the health insurance deduction.

**19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS.**

**Part-year residents:** Deduct the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity while an Iowa resident.

**Nonresidents:** Deduct the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity that was derived from an Iowa trade, business or profession.

**20. ALIMONY PAID.**

**Part-year residents:** Deduct alimony paid while an Iowa resident.

**Nonresidents:** Deduct alimony paid in the ratio of Iowa gross income to total gross income.

**21. PENSION/RETIREMENT INCOME EXCLUSION.**

**Part-year residents:** If you qualify for this exclusion (see page 9, line 21) you may exclude the amount of taxable retirement income received while an Iowa resident, up to a maximum of \$5,000 (if filing status 1, 5, or 6) or \$10,000 (if filing status 2, 3, or 4).

**Nonresidents:** Iowa-source retirement income received by a nonresident is not taxable to Iowa. Therefore, you do not qualify to take this exclusion.

**22. MOVING EXPENSES.**

**Part-year residents** who moved into Iowa can enter any moving expenses from line 22 of the IA1040 that relate to the move to Iowa. Part-year residents moving out of Iowa cannot take any deduction on this line.

**Nonresidents:** You may not take any deduction on this line.

**23. IOWA CAPITAL GAIN DEDUCTION.** Enter 100% of qualifying capital gains that are attributable to Iowa sources. For further information, see page 9, line 23.

**24. OTHER ADJUSTMENTS.** Deduct miscellaneous adjustments to income in the same ratio as the income to which the adjustment relates was allocated to Iowa.

**25. TOTAL ADJUSTMENTS.** Add lines 16 through 24 and enter the total.

**26. IOWA NET INCOME.** Subtract line 25 from line 15 and enter the difference on this line. If line 26 is less than \$1,000 and you are not subject to Iowa lump-sum or minimum tax, stop here. You are exempt from Iowa income tax. If line 26 is \$1,000 or more, complete lines 27 through 33 of this schedule.

**27. ALL-SOURCE NET INCOME.** Enter the amount(s) from line 26 of the IA1040 on line 27 of the Schedule IA126.

**28. IOWA INCOME PERCENTAGE.** Divide the amount(s) on line 26 by the amount(s) on line 27. Round the resulting percentage to the nearest tenth of one percent. (Example: 70.6% not 70.56%). Enter this percent on line 28. If your Iowa net income is equal to or larger than your all-source income, enter 100%.

**29. NONRESIDENT/PART-YEAR RESIDENT CREDIT PERCENTAGE.** Subtract the percentage on line 28 from 100% and enter the balance on line 29.

**30. IOWA TAX ON TOTAL INCOME.** Enter on line 30 the tax shown on IA1040, line 43. However, if you are a single taxpayer who benefits from the tax reducing income to less than \$9,000 rule as explained on page 15, skip lines 30 and 31 and enter the reduced tax on line 32.

**31. TOTAL CREDITS.** Enter the total credits shown on IA1040, line 50.

**32. TAX AFTER CREDITS.** Subtract line 31 from line 30.

**33. NONRESIDENT/PART-YEAR RESIDENT TAX CREDIT.** Multiply the amount on line 32 by the percentage on line 29. Enter the result on line 33 and on IA1040, line 52.

**EXAMPLES OF SCHEDULE IA130**

Schedule IA130, the State of Iowa Out-of-State Credit Computation, is only for residents or part-year residents of Iowa who earned income while an Iowa resident which was taxed by another state or foreign country. Nonresidents of Iowa may not complete the IA130 nor claim the out-of-state tax credit.

**Below are two examples on how to complete the IA130.**

**EXAMPLE 1: FULL-YEAR IOWA RESIDENTS ONLY**

Jennifer lived in Iowa all year but worked in both Iowa and Nebraska. She earned \$10,000 in Iowa. She also earned \$15,000 in Nebraska that was taxed by Nebraska. Jennifer would report \$25,000 on line 15 of the IA1040 as gross income. Line 55 of the IA1040 would be \$1,050. On the Nebraska state return the tax imposed\* on her income was \$450.

1. Amount of gross income you received that was taxed by the other state/foreign country.	1.	<u>15,000</u>
2. Gross income for residents from line 15, IA1040	2.	<u>25,000</u>
3. Divide line 1 by line 2 and enter the percentage (not to exceed 100.0%)	3.	<u>60%</u>
4. Tax from line 55, IA1040 (less lump sum tax and minimum tax)	4.	<u>1,050</u>
5. Multiply line 4 by percentage on line 3	5.	<u>630</u>
6. Enter the tax imposed* by the other state or foreign country	6.	<u>450</u>
7. Enter the smaller of line 5 or 6. This is your out-of-state tax credit. Enter this amount on line 63, IA1040	7.	<u>450</u>

\*"Tax imposed" is the tax calculated from the formula/tables on the other state/foreign country tax return, less any non-refundable credits. Do not reduce this figure by the tax withheld or estimated tax payment made to the other state/foreign country.

**EXAMPLE 2: PART-YEAR IOWA RESIDENTS ONLY**

Benny lived in Iowa until the end of June. July 1 he moved to Missouri. He worked all year in the state of Missouri. Benny earned a salary of \$30,000 for the year, \$15,000 while he lived in Iowa and \$15,000 while he lived in Missouri. Benny also earned \$10,000 farm rental income from farmland located in Iowa. Line 55 of the IA1040 would be \$1,292. On the Missouri state return, the tax imposed\* on his income was \$1,000.

1. Amount of gross income received while you were an Iowa resident that was taxed by the other state/foreign country.	1.	<u>15,000</u>
2. Gross income for part-year residents from line 15, IA126	2.	<u>25,000</u>
3. Divide line 1 by line 2 and enter the percentage (not to exceed 100.0%)	3.	<u>60%</u>
4. Tax from line 55, IA1040 (less lump sum tax and minimum tax)	4.	<u>1,292</u>
5. Multiply line 4 by percentage on line 3	5.	<u>775</u>
6. Enter the tax imposed* by the other state or foreign country	6.	<u>1,000</u>
7. Enter the total amount of gross income taxed by the other state/foreign country.	7.	<u>30,000</u>
8. Divide line 1 by line 7 and enter the percentage (not to exceed 100.0%)	8.	<u>50%</u>
9. Multiply line 6 by the percentage on line 8	9.	<u>500</u>
10. Enter the smaller of line 5 or 9. This is your out-of-state tax credit. Enter this amount on line 63, IA1040	10.	<u>500</u>