

2004 Iowa Income Tax Information 2004

Additional expanded instructions are available online at www.state.ia.us/tax.

Due date

Iowa income tax returns are due May 2, 2005.

Farmers and commercial fishers

If at least 2/3 of your income is from farming or commercial fishing, you may avoid penalty for underpayment of estimated tax in one of the following ways: (1) Pay the estimated tax in one payment on or before January 15, 2005, and file the Iowa income tax return by May 2, 2005, or (2) file the Iowa income tax return and pay the tax due in full on or before March 1, 2005.

Who must file?

You must file an Iowa return if you were a resident, part-year resident of Iowa in 2004 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.

- You had a net income (line 26 of the IA1040) of more than \$9,000 and your filing status is single.
- You had a net income (line 26 of the IA1040) of more than \$13,500 and your filing status is other than single.
- You were claimed as a dependent on another person's Iowa return and had a net income (line 26 of the IA1040) of \$5,000 or more.
- You were in the military service with Iowa shown as your legal residence even though stationed outside of Iowa.
- You were subject to Iowa lump-sum tax.
- 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.
- You were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if line 26 of IA 126 is less than \$1,000).

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. IA 126 instructions are available online.

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 (updated 2/8/05)

that is not from wages or salaries. Examples: gambling winnings and unemployment compensation.

If Illinois income tax has been mistakenly withheld from the wages or salary of an Iowa resident, the Iowa resident must file an Illinois income tax return to get a refund.

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 IA1040, 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 IA1040 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 attached.

Note to electronic filers: You must complete the entire IA1040 and IA126 in order to receive a refund when Iowa tax is withheld in error.

Extension requests

Iowa does not have an extension form to obtain additional time to file. To avoid the late-filing penalty, at least 90% of your total tax liability must be paid by May 2; you will automatically have until October 31, 2005, to file your return. You may, however, owe a 2210 penalty for failure to make estimate payments. You will owe interest on any tax due after May 2. If you need to make a tax payment to meet the 90% requirement, see payment options on the back cover of this booklet.

Military income

Information is available on the department's Web site in the 2004 Expanded Instructions.

Injured spouse

The Federal "injured spouse" form is not recognized by the State of Iowa when using filing status 2 or filing status 3. If your spouse's refund will be used to pay a Federal, state, county or city debt, we suggest each spouse file an IA 1040 long form, filing status 4. This will prevent your refund from being applied to your spouse's debt.

Federal bonus depreciation and Section 179 expensing

In a special session held in September 2004, the Iowa Legislature passed legislation to couple with the additional 50% first-year depreciation allowance (bonus depreciation) for assets acquired after May 5, 2003, but before January 1, 2005. In addition, this law also coupled with the increase in Section 179 expensing allowance from \$25,000 to \$100,000 for tax years beginning on or after January 1, 2003 (\$102,000 for 2004). If an adjustment was made to 50% bonus depreciation and increased Section 179 expensing on the 2003 Iowa return, an amended return must be filed to get the benefit of the legislative change. Iowa still does not couple with the 30% bonus depreciation for assets acquired after September 10, 2001, but before May 6, 2003.

Expanded instructions are at www.state.ia.us/tax

2004 IA1040 INSTRUCTIONS

STEP 1 NAME / ADDRESS / SOCIAL SECURITY NUMBER

USE THE PEEL-OFF LABEL ON THE BACK COVER OF THE BOOKLET IF YOU HAVE ONE. If the name or mailing address is incorrect, make the corrections directly on the label. Enter your information on the form if you did not receive a label.

ENTER YOUR / SPOUSE'S SOCIAL SECURITY NUMBER.

COUNTY: The list of Iowa counties and their numbers starts on page 16. If the number on the label is not correct, make the correction directly on the label. Enter the number of the county in which you lived on December 31, 2004. **Nonresidents and part-year residents who moved out** of Iowa before December 31, 2004, should enter "00." **Part-year residents who moved into** Iowa should enter the number of the Iowa county in which you lived on December 31, 2004. **Military personnel** should enter the county number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

SCHOOL DISTRICT NUMBER: The list of school district names, numbers and rates starts on page 16. The district to select is the one in which you lived on December 31, 2004. This is not necessarily the district where your children attended school. 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 2004 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 2004. **If you moved out of Iowa** before December 31, 2004, enter "9999." **Military personnel** should enter the school district number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

STEP 2 FILING STATUS AND STEP 3 EXEMPTION CREDITS

STATUS 1. Use if you were unmarried, divorced, or legally separated on December 31, 2004, and you do not meet the requirements for any other filing status.

STATUS 2.

- You were husband and wife on December 31, 2004, or
- Your spouse died during 2004 and you did not remarry during the year. If your spouse died during 2004 and had income, you can also file status 3 or 4.

STATUS 3. If you are married and want to file separately on one return.

STATUS 4. If you and your spouse file separate returns.

STATUS 5. If you are filing as head of household for Federal income tax purposes.

STATUS 6. If you meet the requirements for qualifying widow(er) for Federal income tax purposes.

Married Taxpayers may reduce their tax liability by using filing status 3 or 4.

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 also report Iowa-source income on Schedule IA126.

LINE 1. Report the same W-2 income as shown on your Federal income tax return, including military income. See expanded instructions, line 24 for allowable military adjustments.

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

LINE 2. Include the same amounts of interest income reported on your Federal return with the following modifications:

- Add interest from state and municipal securities unless specifically exempt from Iowa tax. The following securities are exempt: Aviation Authority Bonds, Iowa Code Section 330A.16; Beginning Farmer Loan Program Bonds, Iowa Code Section 175.17; Community College Bond Program Bonds, Iowa Code Section 260C.71(6); Community College Residence Halls and Dormitories Bonds, Iowa Code Section 260C.61; County Health Center Bonds, Iowa Code Section 331.441(2)"C"(7); E911 Emergency Telephone Service Program Bonds, Iowa Code Section 34A.20(6); Interstate Bridges Bonds, Iowa Code Section 313A.36; 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; Iowa Higher Education Loan Authority, Iowa Code Section 261A.27; Iowa Municipality Urban Renewal Bonds, Iowa Code Section 403.9(2); Iowa Rural Water District Revenue Bonds and Notes, Iowa Code Section 357A.15; Local Government Flood Damage Program, Iowa Code Section 16.183(4);

- Low Income Housing Bonds, Iowa Code Section 403A.12; Municipal Investment Recovery Bonds, Iowa Code Section 16.173(4); Prison Infrastructure Revenue Bonds, Iowa Code Section 16.177(8); Regents Institutions Medical and Hospital Buildings at University of Iowa Bonds, Iowa Code Section 263A.6; Soil Conservation Districts Revenue Bonds, Iowa Code Section 161A.22; Quad Cities Interstate Metropolitan Authority Bonds, Iowa Code Chapter 28A.24; Sewage Treatment Works Revenue Bonds, Iowa Code Section 16.131(6); Underground Storage Tank Fund Revenue Bonds, Iowa Code Section 455G.6(14); Vision Iowa Program, Iowa Code Section 12.71; Warehouse Project Revenue Bonds, Iowa Code Chapter 123.159
- 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 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.

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

- Jointly held: divide equally between spouses.
- Held in the name of only one spouse: allocate interest wholly to that spouse.

LINE 3. 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.

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

- 1. Jointly held: divide equally between spouses.
- 2. Held in the name of only one spouse: allocate dividends wholly to that spouse.

LINE 4. Include the same alimony as is shown on your Federal return.

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

LINE 5. 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.

LINE 6. 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. See line 23. Attach a copy of your Federal Schedule D.

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.

LINE 7. 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.

LINE 8. Enter the amount of taxable IRA distributions as shown on your Federal return.

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

LINE 9. The same amounts of pensions and annuities are taxable for Iowa as are taxable on your Federal return, except Railroad Retirement benefits paid by the Railroad Retirement Board. These are not taxable on the Iowa return. Do not subtract any Iowa pension exclusion on this line. See line 21.

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

LINE 10. Report the income or loss from Federal Schedule E and attach a copy.

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.

LINE 11. 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.

LINE 12. Enter the amount of unemployment compensation benefits that was taxable on your Federal return, except for unemployment compensation and sickness insurance benefits paid by the Railroad Retirement Board.

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.

LINE 13. 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.

Line 13 Social Security Worksheet

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, 9a, 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, 9a, 10, 11b, 12b and 13, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099. Include any bonus depreciation adjustment from line 14 of the Iowa 1040 to compute correct amount. 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 35 less lines 26 and 27. If filing Federal 1040A, use line 20 less lines 18 and 19. 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 or 1040A. 8. _____
Single, head of household, qualifying widow(er): enter \$25,000. — Married filing joint: enter \$32,000.
— Married filing separate: enter -0- if you lived with your spouse at anytime in 2004 or \$25,000 if you did not live with your spouse at any time in 2004.
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. _____

* Foot note and Social Security Worksheet information continues on page 6.

SOCIAL SECURITY WORKSHEET, CONTINUED

*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.

LINE 14. Enter taxable income not reported on lines 1-13.


Write an explanation of the type of income. Examples of income to be reported include:

- a. **Baby-sitting income** not reported on Federal Schedule C or C-EZ.
- b. **Bonus depreciation adjustment** from the IA 4562A; attach the IA 4562A to your return.
- c. **Capital gains from installment sales in 2004:** Accrual-method taxpayers may now use the installment method for reporting capital gains on their Iowa returns.

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.

LINE 16.  Enter the amount claimed on your Federal tax return for payments made to your IRA, Keogh Plan, SEP, SIMPLE, or Qualified Plans. Payments to a ROTH IRA are not deductible.

MARRIED SEPARATE FILERS:

- a. If only one spouse has earned income, that individual can contribute up to \$3,000 per year (\$3,500 if 50 or older) to an IRA account of the nonworking spouse and up to \$3,000 per year (\$3,500 if 50 or older) to an IRA account of the individual.
- b. If both spouses earned income and made contributions to an IRA account, each spouse must claim his or her own contribution, not to exceed \$3,000 per spouse (\$3,500 if 50 or older).
- c. 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.
- d. For Keogh Plans, SEPs, SIMPLE, or Qualified Plans, each spouse must claim his or her individual contributions.

LINE 17. Enter the amount of self-employment tax that was deductible on line 30 of 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.

d. Director's fees

e. Drilling: Intangible drilling costs that were reported on Federal form 6251 less any amounts amortized in the tax year.

f. Executor's fees

g. Gambling winnings: You must report the full amount of gambling winnings. Report any Iowa tax withheld on line 61 of the IA1040. Gambling losses may be reported as an itemized deduction on Schedule A, but you cannot deduct more than the winnings you report.

h. Iowa Educational Savings Plan Trust: Income received from the cancellation of a participation agreement to the extent the amount was previously deducted on line 24 of the IA 1040.

i. Partnership income and/or S Corporation income: Modifications that increased the income.


j. Refundable Iowa Credits received in 2004 which were included as income on the federal 1040 must also be added back. This includes **Cow-Calf refunds** received in 2004 (unless reported on Federal Schedule F).

k. Refunds: State income tax refunds other than Iowa to the extent that the tax refunded in 2004 was deducted on a prior Iowa return.

l. Wells: Percentage depletion from an oil, gas or geothermal well that was reported on Federal form 6251.

m. Other income as reported on line 21 of the Federal 1040.

MARRIED SEPARATE FILERS: The spouse to whom the income was paid must report that income.

LINE 18.  Enter 100% of the amount paid for health and dental insurance premiums. This includes all supplemental health insurance, such as Medicare B supplemental medical insurance (**not** "Medicare tax withheld" on your W-2) and long-term nursing home coverage. 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.

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 he/she 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 both spouses paid through a joint checking account, the deduction would be allocated 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.

LINE 19. Enter the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity.

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

LINE 20. 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.

LINE 21. 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. Social Security benefits are *not* included. The exclusion can be up to \$6,000 for individuals who file status 1, 5 or 6 and up to \$12,000 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, 2004, 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 2004 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 \$12,000 is prorated between them in the ratio that each spouse's pension relates to the total pension received by both spouses. If only one spouse has pension income, that spouse would take the entire exclusion of up to \$12,000. The spouse who has no pension income would receive no exclusion, even if that spouse is the one who meets the eligibility requirements.

LINE 22. Enter the deduction for moving expenses incurred in 2004. 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.

LINE 23. This is a 100% deduction of qualifying net capital gains realized in 2004. Capital gains from the sales of stocks, bonds, and investment property do not qualify for the capital gain deduction even if sold to lineal descendants of the owners of the property. Non-farm rental property may qualify.

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.

LINE 24. Enter the total of other allowable adjustments as listed below. Attach an explanation for each adjustment.

- a. Accrual method
- b. Beneficiaries, exemption of payments to
- c. Capital gains from installment sales
- d. Claim of Right deduction may be taken on line 24 or line 66, but not both
- e. Disability income exclusion, attach IA 2440
- f. Employer Social Security credit from Federal return
- g. Federal alcohol fuel credit from Federal return
- h. Foreign-earned income exclusion and/or foreign housing deduction from Federal return
- i. Gains or losses from distressed sale transactions
- j. Hybrid/clean fuel vehicle deduction from Federal return
- k. In-home health care
- l. Iowa Educational Savings Plan Trust
- m. Medical savings account deduction from Federal return
- n. Military exemptions
- o. Net operating loss, Iowa
- p. Partnership income and/or S corporation income
- q. Speculative shell buildings
- r. Student Loan Interest Deduction from Federal 1040, line 26
- s. Teacher expenses as taken on Federal 1040, line 23
- t. Tuition and fees deduction, only if taken on Federal 1040, line 27, or 1040A, line 19
- u. Wages paid to certain individuals
- v. Work Opportunity Credit from Federal return
- w. Other Federal Adjustments prior to the calculation of Federal 1040 line 36 (Federal AGI) not already taken on the IA 1040

MARRIED SEPARATE FILERS: When the adjustment is attributable to a specific spouse, it is taken by that spouse. When the adjustment is not attributable to any one spouse, it must be prorated based on the net income amounts on line 26. Calculate through line 26 as if the adjustment in question were excluded. If the adjustment is attributable to a dependent, such as the tuition and fees deduction, it is prorated based on net income before the adjustment in question.

Line 26 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.

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

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:

- a. 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.

- b. Your net income from all sources, line 26, is less than \$5,000 and you are claimed as a dependent on another person's Iowa return.
- c. 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 IA126. 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 on a combined return, head of household, or qualifying widow(er), you are exempt from Iowa tax if you meet either of the following conditions:

- a. 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. (continued on page 10)

- b. 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 online

STEP 6 FEDERAL TAX ADDITION AND DEDUCTION

LINE 27. Any Federal income tax refund received during 2004 must be reported on this line. To find out the amount of your Federal refund, you must contact the IRS at 1-800-829-1040 or www.irs.gov.

If you chose to have any part of an overpayment of Federal income tax credited to estimated tax payments for 2004, the amount should be claimed as 2004 estimated tax paid on line 32. The total overpayment must be reported on line 27.

Do not include the Federal refund in the following situations:

- Do not include any part of the refund received from earned income credit or additional child tax credit.
- You are filing an Iowa return for 2004 for the first time because you moved into Iowa during the year. A refund of Federal tax received in 2004 is not reported if the tax was not deducted from Iowa income in a prior 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 using the alternate tax computation.
- You were a nonresident for the tax year of the refund and were not required to file an Iowa return for that year.

MARRIED SEPARATE FILERS: If the refund received in 2004 was from a jointly-filed Federal return, it must be divided between the spouses in the ratio of the spouses’ Iowa net incomes in the year for which the refund was issued.

LINE 28.

- a. 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.

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.

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.

LINE 37. If itemizing, taxpayers that have **Federal Bonus Depreciation** on form IA 4562A must complete the Iowa Schedule A rather than using a copy of the Federal Schedule 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 home mortgage interest paid in the tax year and not just the home mortgage interest that was deducted on the Federal Schedule A.

Health Insurance Premiums. Do not include any health insurance premium taken on line 18 of the IA 1040.

Vehicle Registration Fee Deduction. If you itemize deductions, a portion of the automobile registration fee you paid in 2004 may be deducted as personal property tax on your Iowa Schedule A, line 6, and Federal Schedule A, line 7. This deduction is for registration fees paid on automobiles for 1993 and newer model years. See 2004 Expanded Instructions on our Web site for a list of vehicles that do not qualify. If your vehicle is model year 1992 or older, see line 40.

instructions for lines 1-26 of the IA126. You must complete the IA1040 and the IA126 in order to receive any refund. Illinois residents: See inside front cover, reciprocal agreement.

- b. If any part of the Federal tax payments on lines 31, 32 or 33 include Federal Household Employment taxes, then 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. Household Employment taxes are divided between husband and wife in the ratio of their respective net incomes.

LINE 31. 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.

LINE 32. Enter the Federal estimated income tax payments made in 2004. Include any credit applied from your 2003 Federal income tax overpayment.

MARRIED SEPARATE FILERS: All Federal estimated tax payments made in 2004 are divided between spouses in the same ratio as their incomes not subject to Federal withholding for the 2004 tax year.

LINE 33.

- a. Enter the amount of additional Federal income tax paid during 2004. 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’ Iowa net incomes for the prior years for which they paid additional Federal income tax.

- b. FICA payments in excess of \$5,449.80 for Social Security tax for each person and credit for Federal tax paid on fuel can be deducted as a Federal tax payment on line 33.

Line 37 Vehicle Registration Deduction Worksheet

1. Enter the actual registration fee paid 1. _____
2. Take the weight of your vehicle and divide it by 250. The weight is found on your registration. 2. _____
3. Subtract line 2 from line 1. This is the deductible amount for line 37. 3. _____

Iowa Itemized Deduction Worksheet form IA 41-104 must be used if your Federal AGI is more than \$142,700.

See online 2004 Expanded Instructions.

LINE 38. 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.

LINE 40. Other deductions include the following:

- a. Expenses Incurred for Care of a Disabled Relative
- b. Adoption Expenses
- c. 1992 or older vehicle registration fee deduction: 60% of registration fee paid in 2004 (continued on page 9)

Continued from page 8

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

1. Number of miles x 22¢/mile 1. _____
2. Less charitable mileage deduction entered on Federal or Iowa Schedule A . 2. _____
3. Equals additional mileage deduction for charitable purposes. 3. _____

STEP 8 TAX CALCULATION

LINE 43. The tax tables are on page 15 for all filing statuses. **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. This is not available to status 1 filers.

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 Calculation

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. 2. _____ — 13,500
3. Income subject to alternate tax. 3. _____
4. Multiply line 3 by 8.98% (.0898). 4. _____
5. Using the tax tables, determine the tax on the taxable income from line 42 of the IA1040. Status 3 and 4 filers: Calculate tax separately and combine the amounts. 5. _____
6. Compare the amounts on line 4 and line 5. Enter the smaller 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 of the IA 1040, 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.

LINE 44. Enter 25% of Federal tax from form 4972

LINE 45. 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. However, 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 2004, 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.

LINE 48. Enter 6.5% (0.065) of the Federal Earned Income Credit claimed on your Federal return.

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.

LINE 41. Mark the correct box to show the deduction method used.

STANDARD: Tax year 2004, standard deduction is:

- Filing Status 1: \$1,580
- Filing Status 3 & 4: \$1,580 for each spouse
- Filing Status 2, 5 or 6: \$3,880

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.

LINE 49. Taxpayers who have one or more dependents attending Kindergarten through 12th grade in an accredited Iowa school may take a credit for each dependent for amounts paid 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.

The credit amount is 25% of the first \$1,000 paid for each dependent for tuition and textbooks.

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.

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

"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. This includes fees, books and materials for extracurricular activities.

Examples of extracurricular activities: sporting events, speech activities, musical or dramatic events, driver's education (if paid to a school), awards banquets, homecoming, prom (clothing does not qualify), and other school related social events, etc.

For lists of items eligible and not eligible for the credit, see 2004 Expanded Instructions on our Web site.

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

Example: Students 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.

LINE 52. 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 online instructions for IA126. You may owe less tax by using filing status 3 or 4.

LINE 54. Enter the total of the credits listed:

- a. Endow Iowa Tax Credit
- b. Franchise Tax Credit
- c. Investment Tax Credits (See expanded instructions.)
- d. Minimum Tax Carry Forward Credit

- e. New Jobs Credit
- f. S Corp Apportionment Credit

LINE 56. Multiply the amount on line 55 by the surtax rate and enter the result. Surtax rates are listed at the end of this booklet.

STEP 9 CREDITS

LINE 61. Enter the total amount of income tax withheld for Iowa on your W-2s, W-2Gs, and/or 1099s.

LINE 62. Enter the total amount of 2004 Iowa estimated tax payments. This includes any fourth quarter payment made in January 2005 and any payments made with the IA 1040-V Payment Voucher for 2004. Also include any overpayment from your 2003 income tax return that you applied to your estimated tax for 2004.

LINE 63. 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 by completing the IA 130 form.

LINE 64. Enter the amount of Motor Fuel Tax Credit from Schedule IA 4136. The Federal Schedule 4136 cannot be used. The Iowa credit does **not** apply to fuel used in on-road vehicles or pleasure boats. If you have an Iowa Motor Fuel Tax Refund Permit Number and have claimed any refunds during the tax year, do **not** claim any credit on this line.

LINE 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.

Use the following worksheet to calculate the 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.

CHILD AND DEPENDENT CARE CREDIT 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 IA1040, 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: 0%
Enter % here	2. _____
3. Multiply line 1 by percentage on line 2. Enter the result here and on line 65 of the IA1040. **3.** _____

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

$$\frac{\text{Iowa net income (line 26, IA126)}}{\text{All-source net income of you and spouse (line 26, IA 1040)}} \times \text{credit calculated above} = \text{credit on line 65}$$

LINE 66. Enter the total of other credits.

- a. Assistive Device Tax Credit
- b. Claim of Right deduction can be taken on line 24 or line 66, but not both
- c. Ethanol Blended Gasoline Tax Credit; attach form IA 6478
- d. Property Rehabilitation Tax Credit
- e. Refundable Investment Tax Credits (value-added agricultural projects or biotechnology-related processes) See expanded instructions.
- f. Research Activities Credit

STEP 10 REFUND OR AMOUNT YOU OWE

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 must be added to delinquent tax. Interest is added at a rate of 0.5% per month beginning on the day after the due date of the return and accrues each month until paid in full.

LINE 75. You have three paperless options to pay the amount due. See the back cover of this booklet. You may also mail a check or money order with an IA 1040-V Payment Voucher payable to: Treasurer, State of Iowa. Write your Social Security Number on the check or money order. Do not send in any payment of less than one dollar.

MAILING ADDRESSES:

Receiving Refund/No Tax Due Paying Additional Tax

Iowa Income Tax Refund Processing Hoover State Office Building Des Moines IA 50319-0120	Iowa Income Tax Document Processing PO Box 9187 Des Moines IA 50306-9187
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STEP 13: COW/CALF REFUND. Form IA 132 and expanded instructions are on our Web site.

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.

DUE DATE

Iowa Income Tax Returns are due Monday, May 2.