

# 1997 IA 1040 INFORMATION

## YOU DO NOT NEED TO FILE A RETURN OR PAY IOWA INCOME TAX IF...

- a. You are single with a net income (line 26 of the IA 1040) of \$9,000 or less and are not claimed as a dependent on another person's Iowa return.
  - b. You are married with a combined net income (line 26 of the IA 1040) of \$13,500 or less. The combined incomes of both spouses must be used.
  - c. You file as head of household with a net income (line 26 of the IA 1040) of \$13,500 or less.
  - d. You are a qualifying widow(er) this year with a net income (line 26 of the IA 1040) of \$13,500 or less.
  - e. You have a net income (line 26 of the IA 1040) of less than \$4,000 and are claimed as a dependent on another person's Iowa return.
  - f. You are a nonresident or part-year resident and meet one of the above requirements.
  - g. You are a nonresident or part-year resident and your Iowa-source income is less than \$1,000 (line 26 of the IA 126) unless you are subject to Iowa lump-sum or minimum tax. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126, page 18.
- Any "pension/retirement income exclusion" (line 21 of the IA 1040) must be added back when determining eligibility for any of the above exemptions.

## 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 10. 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 Iowa W-4.

## PENSION/RETIREMENT INCOME EXCLUSION

A partial exemption is provided for pensions such as IPERS, annuities, self-employed retirement plans, deferred compensation, IRA distributions, and other retirement benefits to qualified individuals. **Social Security benefits are not included.** For further instructions, see page 9, line 21.

## LOW INCOME BENEFIT (alternate tax computation)

If your filing status is head of household, qualifying widow or widower, married filing separately on the combined return, married filing separate returns, or joint, you may owe less tax by using the alternate tax computation instead of the tax tables. Generally, if your net income is \$25,000 or less, you may qualify. In special cases, net incomes over \$25,000 may qualify. See page 13. *If you are single, you cannot use the alternate tax calculation.*

## 100% HEALTH INSURANCE DEDUCTION

Effective January 1, 1997, health insurance premiums for long-term nursing home coverage will qualify for the Iowa 100% health insurance deduction on the 1997 Iowa 1040. For further information, see page 8, line 18.

## DOMESTIC ABUSE CHECKOFF

The Domestic Abuse Services checkoff has been reinstated. See page 15.

## TO RECEIVE YOUR REFUND FASTER...

...File your Federal and state returns together electronically. Electronic tax filing provides for more 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. Paper-filed returns may take 10 weeks. Contact your tax preparer for more information.

## 10% REDUCTION IN INCOME TAX RATES...

...Is not reflected in this 1997 income tax booklet but will become effective for tax years beginning January 1, 1998. This tax reduction will take effect on the 1998 income tax return to be filed in 1999.

## S CORP AND FRANCHISE TAX CREDITS

The S Corp Credit is available to qualifying resident shareholders of value-added corporations. Call 1-800-532-1531 (in Iowa) or 515/281-7239 and request form IA 134. See page 15, line 54 of this booklet.

The Franchise Tax Credit is available to shareholders of financial institutions (banks). The computation for this tax credit is found on page 14, line 54.

## EXEMPTION OF ACTIVE-DUTY MILITARY PAY

A total income tax exemption exists for active-duty military pay of persons in the National Guard or the armed forces military reserve who served overseas pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area. This exemption is retroactive to November 21, 1995. See page 3.

## MORTGAGE INTEREST CREDIT DEDUCTION

Retroactive to January 1, 1996, taxpayers with the mortgage interest credit can claim on their Iowa return a deduction on 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. See page 12.

## STANDARD DEDUCTION

The standard deduction for 1997 has increased to \$1,410 for filing statuses 1, 3 and 4. For filing statuses 2, 5 and 6, it has increased to \$3,480.

## NEW POLITICAL PARTY CHECKOFF

Effective February 18, 1997, the Reform Party became an official political party in Iowa. This return now includes a checkoff for donations to the Reform Party. See page 17.

## 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, 1998. Pay as much tax with the return as you can, and you will be billed for the balance due plus applicable interest and penalty.

## INJURED SPOUSE

"Injured spouse" is not recognized by the State of Iowa when filing an Iowa income tax return jointly or separately on a combined return. If your spouse's refund will be used to pay a Federal, state, county or city debt, use filing status 4, married filing separate returns. Do not list your spouse's name or Social Security Number in Step 1 of your IA 1040, but instead include them in Step 2.

# IA 1040 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 or nonresident of Iowa in 1997 and meet any of the following requirements.**

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 IA 1040) must be added back.

- a. You had a net income (line 26 of the IA 1040) of more than \$9,000 and your filing status is single.
- b. You had a net income (line 26 of the IA 1040) 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 IA 1040) 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 IA 126) was \$1,000 or more. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126, page 18.
- g. You were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax.

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 16 .

## 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 IA 1040 Long Form, you may be able to use the easier-to-complete IA 1040A Short Form if:

- a. You were an Iowa resident for the entire year, and
- b. All of your income in 1997 was from wages, salaries, tips, other employee compensation, unemployment compensation or interest and dividends, and
- c. Your total income subject to tax (line 8, IA 1040A) is \$50,000 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 IA 1040 Long Form even if you do not itemize on your Federal return.

*This booklet does not contain an IA 1040A Short Form. Call 1-800-532-1531 (in Iowa) or 515/281-7239 to order a Short Form.*

### Long Form

You must use this IA 1040 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 IA 1040-V Payment Voucher, or
- f. You received capital gain distributions or nontaxable distributions from stock, or
- g. You paid an Iowa estimated tax in 1997 or wish to credit some or all of your refund to your 1998 estimated tax, or
- h. You paid Federal estimated tax in 1997, 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.

## DEADLINE

1997 Iowa income tax returns are due April 30, 1998. Electronic filers must file Federal and State returns at the same time; the Federal deadline is April 15, 1998.

Electronic filing of returns will be accepted through October 15, 1998. 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

## ADDITIONAL TIME TO FILE

If you owe money and cannot file on time, you must pay at least 90% of the tax you owe by April 30, 1998. To do this, use the IA 1040-V Payment Voucher included in this booklet. Use this voucher whenever you make a tax payment.

If you have at least 90% of the tax paid, you will automatically receive up to a six-month extension to file. You do not need to file a form to receive the extension. Penalty will not be applied, but interest will be charged on the unpaid tax.

If you cannot pay at least 90% of the tax, file your return by April 30, 1998, anyway. If you do not file timely, the penalty is 10% of the unpaid tax. If you file by April 30, 1998, without paying, the penalty is 5% of the unpaid tax.

## ROUNDING OFF TO WHOLE DOLLARS

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

## 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 1998 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 IA 1040 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, 1998, and file your return by April 30, 1998, or you may file your return and pay the tax in full by March 2, 1998.

Nonresidents should refer to Estimated Income Tax for Nonresidents Form 45-005 for making estimated payments.

## 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 IA 1040 and the IA 126. 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 IA 1040; this amount is compared against your Iowa-source income from the IA 126 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

Military service pay is taxable only by the state in which the 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.

Retroactive to November 21, 1995, a total income tax exemption is granted on active-duty military pay of National Guard personnel and the armed forces military reserve personnel who served overseas pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area. To qualify for the income tax exemption, the individual receiving the active-duty military pay must have served overseas due to orders related to peacekeeping in Bosnia-Herzegovina but did not have to serve in the Bosnia-Herzegovina area. To file an amended Iowa income tax return, call 1-800-532-1531 (in Iowa) or 515/281-7239 and request an IA 1040X.

## 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 any 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 1997 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 a check for that amount 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.

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

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 and television and radio vendors. 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.

# IA 1040 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

**FILING PERIOD.** If your filing period is other than calendar year 1997, 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 pre-printed label, 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 any information on the label has changed, **make the corrections directly on the label.** If you did not receive a preprinted label, be sure to fill in all the information. 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 has changed since you last filed, make the corrections on the label.

**2. SOCIAL SECURITY NUMBER.** If you are married and filing status 2 or 3, you must enter both spouses' Social Security Numbers. Status 4 filers do not enter spouse's Social Security Number on this line.

**3. 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, 1997.

Nonresidents and part-year residents who moved out of Iowa before December 31, 1997, 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, 1997.

Military personnel should enter "00" unless you actually lived in Iowa on December 31, 1997.

**4. 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, 1997. This is not necessarily the district where your children attended school.

Nonresidents: Those who did not live in Iowa at all during 1997 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 1997.

If you moved out of Iowa before December 31, 1997, enter "9999."

Military personnel should enter "1111" unless you actually lived in Iowa on December 31, 1997.

**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	CR-RT SORT	CR05
①	223-45-6789	223-22-4567	
Coltrane, John & Mary			97L
E. 13th & Walnut			
Des Moines, IA 50319			③ 77-1737 ④

**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.

**1. SINGLE.** Check filing status 1 if you were unmarried, divorced, or legally separated on December 31, 1997, 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:  
a. You were husband and wife on December 31, 1997, or  
b. Your spouse died during 1997 and you did not remarry during the year.

**If you and your spouse both have income, you may pay less tax by filing 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 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. (Dependents filing their own returns can claim a \$20 personal exemption credit even though they are claimed as a dependent on another person's Iowa return.)
- b. 65 or older: If you were 65 years old or older on or before January 1, 1998, you may take one additional personal credit. If your spouse was 65 years old or older on or before January 1, 1998, and you are filing a joint return (status 2), you may take one additional personal credit for your spouse.
- c. Blind: If you were blind on or before December 31, 1997, you may take one additional personal credit. If your spouse was blind on or before December 31, 1997, and you are filing a joint return (status 2), you may take one additional personal credit for your spouse.

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

- a. Enter "1" in the first space.
- b. 65 or older: If your spouse was 65 or older on or before January 1, 1998, your spouse may take one additional personal credit.

c. Blind: If your spouse was blind on or before December 31, 1997, your spouse may take one additional personal credit.

Add the number of personal credits and multiply by \$20. Enter the total dollar amount of \$20 personal credits on the appropriate line.

**DEPENDENTS.** Enter the number of dependent children and other dependents you are claiming for Federal income tax purposes. Multiply the number of dependents by \$40 and enter the total dollar amount on the appropriate line.

**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.

**TOTAL EXEMPTION CREDITS.** Add the amount of \$20 personal credits and \$40 dependent credits and enter the total in the total exemption credits box. Also enter this amount in Step 8, line 47.

**MARRIED SEPARATE FILERS:** Each spouse must claim his or her own credits and may not claim any unused part of his or her spouse's credit.

**NAMES OF DEPENDENTS.** If you claimed any dependents, enter their first name(s). Also enter their last name(s) if different than yours.

### STEP 4 GROSS INCOME

If you use filing status 3 (married filing separately on combined return), complete both columns A and B of the IA 1040. 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 IA 126.

**1. WAGES, SALARIES, TIPS, ETC.** Report the same W-2 income as shown on your Federal income tax return. However, individuals covered by IPERS, Peace Officers, Police and Firefighters Retirement Plans, or the Des Moines Teachers Retirement System must report the state wages from Box 17 of your W-2 form. This amount will be different than the Federal wages shown in Box 1 of your W-2 because of a change in the treatment of contributions made to these pension plans.

**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.

However, interest from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line. The following are exempt: Iowa Board of Regents Bonds for buildings and facilities; Iowa College Super Savings Plan Bonds, Iowa Code Chapter 262A; Soil Conservation Districts Revenue Bonds; 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, 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.

- 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. Securities income from repurchase agreements involving Federal securities cannot be deducted. 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.

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 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. Any Iowa capital gain deduction is calculated on the IA 100 and taken on line 23. A copy of your Federal Schedule D must be attached to this return if one is required for your Federal return.

**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.

**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 IA 1040.

**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 IA 1040.

**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.

**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.

**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.

**13. TAXABLE SOCIAL SECURITY BENEFITS.** For 1997 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, 10b, 11b and 12 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 31. If filing Federal 1040A, use line 15c.   | 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 1997 or \$25,000 if you did not live with your spouse at any time in 1997. | 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 IA 1040.   | 11. _____ |

\* Include the following incomes on line 3 if applicable. (These were excluded from Federal AGI.): foreign earned income, income excluded by residents of Puerto Rico, American Samoa and Guam, and proceeds from Savings Bonds used for higher education. 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 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.

- 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 1997 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.

**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 IA 126.

- 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.

### MARRIED SEPARATE FILERS:

- Effective January 1, 1997, 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. The total contributions to IRAs for both spouses cannot exceed the combined compensation of the couple for the tax year.
- 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.

- 17. ONE-HALF OF SELF-EMPLOYMENT TAX.** Enter the amount of self-employment tax that was deductible on 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 insurance. Effective January 1, 1997, health insurance premiums for long-term nursing home coverage qualify for the health insurance deduction. It is to your advantage to take the deduction on line 18 instead of Schedule A. If you have included any health insurance premiums on Schedule A under medical and dental expenses, you must reduce your Schedule A deduction by the

amount of health insurance premiums deducted 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 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.

- 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.

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

- Jointly held - divide the penalty equally between spouses.
- 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 such as IPERS, annuity, self-employed retirement plan, deferred compensation, IRA distribution or other retirement plan benefits, you may be eligible to exclude from Iowa income taxes a portion of the retirement income that is taxable on your Federal return. Social Security benefits are *not* included. For joint filers (status 2), the exclusion is the lesser of \$6,000 or the taxable amount of the retirement income. For all other filing statuses, each eligible taxpayer can claim as an exemption the lesser of \$3,000 or the taxable amount of his or her retirement income. To take this exclusion you must meet one of the following conditions:

- a. 55 years of age or older on December 31, 1997, 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 1997 on the basis of age or disability.

**22. MOVING EXPENSE DEDUCTION.** Enter the deduction for moving expenses incurred in 1997. Attach a copy of Federal Form 3903 or 3903F.

**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.** A partial deduction of qualifying capital gains realized in 1997 may be taken if the gain resulted from the sale of the following:

- a. Real property or other 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. Note that for purposes of this deduction, Iowa follows Federal laws and rules for determining “material participation.”
  - 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.
  - c. Cattle and horses used for certain 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.
  - 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.
  - e. Timber held by the taxpayer for at least one year.
- Capital gains from the sale of rental property, stocks and/or bonds do not qualify for this deduction.

If you wish to claim this deduction you must fill out a Schedule IA 100 and attach it to your return.

**24. OTHER ADJUSTMENTS.** Enter the amount 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 1997 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, 1997, you had not yet reached the age when your employer’s retirement program would have required you to retire.

If you meet all of the above 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.

**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 1997 tax year and was reported and taxed on a prior Iowa return, that income may be deducted on the 1997 tax return. However, it may be to your advantage to take a credit on line 66. (See page 16 for more information and examples.) You may take either the deduction on this line or take a credit on line 66, but not both.

**l. 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.

**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.

- 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 IA 1040.
- c. Any amount of lump-sum distribution separately taxed on Federal Form 4972.

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

**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 \$4,000 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 IA 126, page 18. If Iowa tax was withheld you must complete the IA 1040 and the IA 126 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:

- 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.
- 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 instructions for lines 1-26 of the IA 126, page 18. You must complete the IA 1040 and the IA 126 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.

## STEP 6 FEDERAL TAX ADDITION AND DEDUCTION

**27. FEDERAL INCOME TAX REFUND RECEIVED IN 1997.** If you received a refund of Federal income tax during 1997, 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 1996 Federal tax return and any refunds received in 1997 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 1997, the amount should be claimed as 1997 estimated tax paid on line 32 and the total overpayment reported on line 27.

A refund of Federal tax received in 1997 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:

- a. You are filing an Iowa return for 1997 for the first time because you moved into Iowa during the year.

- b. 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.
- c. The refund or a part of the refund was due to the Earned Income Credit. Earned Income Credit is not reportable and should be subtracted from the total refund before entering the refund amount on line 27.
- d. 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 1997 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 1996 Federal refund received in 1997 would be prorated using the spouses’ net incomes from the 1996 Iowa return.

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

- a. 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 1997.** Enter the Federal estimated income tax payments made in 1997. You may include the credit applied from your 1996 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 1997. This means that you would include a Federal estimated income tax payment for 1996 paid in January 1997, but would not include an estimated tax payment for 1997 paid in January 1998.

**MARRIED SEPARATE FILERS:** All Federal estimated tax payments made in 1997 are divided between spouses in the same ratio as their incomes not subject to Federal withholding for the 1997 tax year.

**33. ADDITIONAL FEDERAL TAX PAID IN 1997.**

- a. Enter the amount of additional Federal income tax paid during 1997 for tax year 1996 and any other years before 1996. 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 1997, 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 \$4,054.80 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 \$1,410 for filing statuses 1, 3 and 4, and is \$3,480 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, IA 1040 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. If you have included any health insurance premiums on Schedule A under medical and dental expenses, you must reduce your Schedule A deduction by the amount of health insurance premiums deducted on line 18. See the instructions for line 18.

If your adjusted gross income on line 33, Federal Form 1040 (line 16, Federal Form 1040A) exceeds \$121,200 (\$60,600 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 \$121,200**

This worksheet will compute the amount of itemized deductions to enter on line 39 of the IA 1040. 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 IA 1040 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 IA 1040 that was deducted on Federal Schedule A.

1. Enter the allowable Federal itemized deductions as shown on line 35 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 IA 1040. 9. \_\_\_\_\_

#### a. Mortgage Interest Credit Deduction

Retroactive to January 1, 1996, taxpayers with the mortgage interest credit can claim on their Iowa return a deduction on 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. Therefore, this change will apply to both the 1996 and 1997 tax years. To file an amended return, call 1-800-532-1531 (in Iowa) or 515/281-7239 and request an IA 1040X.

#### 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. \$150
2.  $3,000 \div 250$ . 2. 12
3. Subtract line 2 from line 1. This is the deductible amount. 3. \$138

This deduction is for tax paid on automobiles and 1993 or later model multipurpose vehicles. See page 13, 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 deduction 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 1997**. 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 1997 registration fees for model year 1992 and earlier multipurpose vehicles is allowed. Multipurpose vehicles are defined as a motor vehicle 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
3. **Equals** additional mileage deduction for charitable purposes.

## STEP 8 TAX CALCULATION

**43. TAX OR ALTERNATE TAX.** Compare the regular tax from the tax tables found on pages 21-25 with the alternate tax calculated below and enter the smaller on line 43. If taxable income on line 42 exceeds \$50,000, use the formula at the end of the tax tables on page 25 to compute your tax.

**ALTERNATE TAX MAY REDUCE TAX LIABILITY.** For filing statuses 2, 3, 4, 5, and 6 (**not filing status 1, Single**): 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 IA 1040. 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. <u>    - \$13,500    </u> |
| 3. Income subject to alternate tax.  | 3. _____                     |
| 4. Multiply line 3 by 9.98%.   | 4. _____                     |
| 5. Using the tax tables, determine the tax on the taxable income from line 42 of the IA 1040 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, IA 1040.   | 6. _____                     |

**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 1997, the Iowa standard deduction is a **flat** amount as follows:

If filing status 1, 3, or 4 is marked, enter on line 41 **the lesser** of \$1,410 or the amount on line 36.

If filing status 3 or 4, **each** spouse enters **the lesser** of \$1,410 or the amount on line 36.

If filing status 2, 5 or 6 is marked, enter on line 41 **the lesser** of \$3,480 or the amount on line 36.

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

**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, 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.

**44. IOWA LUMP-SUM TAX.** If the 5-year or 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 1997, 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 1997 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 need further information, contact Taxpayer Services.

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 is 10% 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.

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.

Amounts paid are not allowed if they relate to teaching of religious tenets, doctrines of worship or relate to extracurricular activities, driver's education, and activities of a similar nature.

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 10%.

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 \$100 (10% of \$1,000 maximum) for Patty and \$70 (10% of \$700) for Mark, for a total credit of \$170.

**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 IA 1040 that would reduce the combination of net income from line 26 and pension exclusion from line 21 of the IA 1040 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 IA 1040. 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, IA 1040. 4. \_\_\_\_\_
5. Compare line 3 and line 4. Enter the smaller number here. If this number is different than the one on line 51, IA 1040, 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 IA 126, line 33. A copy of Schedule IA 126 and a copy of your Federal return must be attached. See instructions for IA 126 beginning on page 18.

- 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 "value-added 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** - 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.

**Seed Capital Credit** - This credit expired December 31, 1995. If you have a prior-year carryover credit, enter it on this line.

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

**56. SCHOOL DISTRICT SURTAX/EMERGENCY MEDICAL SERVICES SURTAX.** School districts and counties imposing an income surtax in 1997 are listed beginning on page 26. 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 now impose a countywide Emergency Medical Services (EMS) income surtax. At this time, Appanoose is the only county that has an EMS surtax. Multiply the amount on line 55 by the surtax rate and enter the result. Residents of school districts which do not have a surtax should enter zero on line 56.

If you itemize on the Iowa Schedule A, you may claim the 1996 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 any of the following "checkoffs" in boxes 59a through 59c. Please note that you may contribute to any 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 1998 return. The contribution can be made on this return only if the return is filed during the 1998 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. STATE FAIRGROUNDS RENOVATION (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.

**59c. DOMESTIC ABUSE SERVICE CONTRIBUTION.** You may contribute any amount of \$1 or more to the Domestic Abuse Services Program. Contributions to this checkoff are used to provide emergency shelter services, support services, and other services to victims of domestic abuse or sexual assault.



**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

**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 1997 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 1997 Iowa estimated tax payments. This includes any fourth-quarter payment made in January 1998 and any payments made with the IA 1040-V Payment Voucher. Also include any overpayment from your 1996 income tax return that you applied to your estimated tax for 1997. You cannot claim as an estimated

payment any additional Iowa income tax paid for 1996 and any prior 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.

- Nonresidents of Iowa cannot claim this credit.
- 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. **NOTE:** The credit cannot exceed the amount of the Iowa tax imposed on the same income that was taxed by the other state or foreign country.

**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 .

**WORKSHEET**

1. Enter the amount from line 9 of Federal Form 2441 or line 9 of Schedule 2 of Federal Form 1040A. 1. \_\_\_\_\_
2. If total of line 26 of the IA 1040, columns A and B, is: allowable %
 

Less than \$10,000	75%
\$10,000 - \$19,999	65%
\$20,000 - \$24,999	55%
\$25,000 - \$34,999	50%
\$35,000 - \$39,999	40%
\$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. \_\_\_\_\_

**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.

**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 if you increased Iowa research activities in 1997 over the activities for the base period. For details on qualification for the credit and how to compute the credit see Form IA 128.

**b. Claim of Right Credit –** A refundable credit may be taken if there was income repaid in the current 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 10 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 1996 and reported it on the 1996 Iowa return. In 1997 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 1997. After recomputing the 1996 Iowa return, there is a \$440 reduction in tax. The taxpayer may claim a credit of \$440 on line 66 of the 1997 Iowa return.

**Example of Claim of Right Deduction:** A taxpayer reported \$7,000 in unemployment benefits on the 1996 Iowa return. In early 1997 the taxpayer was notified that \$4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 1997. The taxpayer may claim a \$4,000 income adjustment on line 24 of the 1997 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 1998 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 10 weeks to receive your refund check if you file a paper return, four weeks if you file electronically, and about three 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 1998. 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 1998, 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 0.8% per month beginning on the due date of the return and accrues each month until you make payment. 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 1.6% (2 x 0.8%). 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.** Write your Social Security Number on the check or money order. Please complete the enclosed IA 1040-V Payment Voucher and send it and your check/money order with your income tax return. Do **not** staple either the IA 1040-V Payment Voucher or your check/money order to your return or to each other. 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.

**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.

**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. 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.

**COW-CALF REFUND:** The Cow-Calf Refund will be allowed for tax years beginning on and after January 1, 1997, 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 \$99,600 or less. In the case of married individuals, their combined Federal taxable income must be \$99,600 or less in order for them to be eligible. This qualification replaces the criteria that were applicable for Cow-Calf Refund claims for tax years beginning in 1996. 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 1997 income tax return. A total of \$2 million is to be distributed as Cow-Calf Refunds for 1997 returns. If the claims exceed that amount, refunds will be prorated. Enter the refund amount(s) on the line(s) above the signature block.

**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 personal or business identification number and phone 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.