

Iowa Status on Federal Extenders for Tax Year 2008

April 27, 2009

Coupling with Federal Extenders

We continue to receive inquiries about whether Iowa will adopt the federal provisions for what are commonly referred to as the federal "extenders." The Iowa Legislature has adjourned its 2009 session. Iowa will not be coupling with the 2008 federal law provisions related to extenders.

The federal extender provisions include:

- Educator Expenses (Line 24; IA 1040)
- Tuition and Fees (Line 24; IA 1040)
- Itemized Deduction for State Sales / Use Tax Paid (Line 4; IA Schedule A)

Iowa income tax returns must be filed based upon current Iowa law. Therefore, the extenders should not be included on Iowa returns. Taxpayers who have already filed Iowa returns and claimed one or more of the extenders should file an Iowa amended return to exclude any items originally claimed that would not qualify under current Iowa law. The Department made an assumption when printing the 2008 income tax booklet that Iowa would follow the federal treatment; therefore, the information in that booklet is contrary to this updated position.

Other Federal Changes

As a reminder, Iowa did couple with two federal income tax changes that became effective after January 1, 2008:

- The 2008 Legislature coupled with the increased Section 179 expensing to \$250,000 for the 2008 tax year only; and
- Iowa coupled with federal changes to the 2008 research activities credit as it relates to calculation of the Iowa research activities credit.

Instructions / forms begin on the next page.

Iowa Individual Income Tax Expanded Instructions - Tax Year 2008

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TELEPHONE CONTACTS

TTY for hearing impaired: 515/242-5942

Federal income tax refund, Internal Revenue Service:
1-800-829-1040

Status of your Iowa income tax refund: 1-800-572-3944 in Iowa or 515/281-4966. This computerized system accesses the same information as our tax specialists.

Talk to an Iowa tax specialist: For answers to your technical tax questions, call 1-800-367-3388 in Iowa, Omaha, Rock Island, Moline or 515/281-3114. For refund information, see contact numbers above.

eFiling questions: Call our eFile Service Unit at 1-866-503-3453 (toll free) or 1-515-281-8453.

Forms and other tax information faxed directly to you: 1-800-572-3943. For a complete list of available forms and publications, request that the index be faxed to you first. This system is easy to use with a touch-tone telephone.

Forms and other tax information mailed to you:
1-800-532-1531 in Iowa or 515/281-7239 and leave a message.

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MAIL RETURNS/PAYMENTS TO...

Are you receiving a refund or filing a return with no refund and no tax due? Mail your return to:

Iowa Income Tax - Refund Processing
Hoover State Office Building
Des Moines IA 50319-0120

Are you paying additional tax? You can pay by credit card or by ePay through our Web site, or...

Mail your return and payment with IA 1040V Payment Voucher to:

Iowa Income Tax - Document Processing
PO Box 9187
Des Moines IA 50306-9187

Make checks payable to "Treasurer State of Iowa."

Paper-filed returns take weeks to process. If the return contains errors, it may take an additional six months. eFile with direct deposit and receive your refund in days!

IOWA INDIVIDUAL INCOME TAX 2008 — WHAT'S NEW

DUE DATE: April 30, 2009

Farmers and fishers due date: If at least 2/3 of income is from farming or commercial fishing, penalty for underpayment of estimated tax may be avoided in one of the following ways: (1) Pay the estimated tax in one payment on or before January 15, 2009, and file the Iowa income tax return by April 30, or (2) File the Iowa income tax return and pay the tax due in full on or before March 2, 2009.

LINE AND LEGISLATIVE CHANGES

Dependent Child Health Care Coverage: A section has been added to the IA 1040 and IA 1040A in the upper right corner of the first page. Taxpayers are asked to indicate the number of dependent children claimed in Step 3 who do and do not have health care coverage. "Health care coverage" means either private (non-government) coverage or government-sponsored coverage. Taxpayers who do not have health care coverage for their children may be eligible for the state medical assistance program or the *hawk-i* program based on income guidelines. Those who indicate they do not have health care coverage may receive information about these programs.

Bonus Depreciation: Iowa did not adopt the 50 percent "bonus depreciation" provisions of the federal Economic Stimulus Act of 2008 for assets acquired during 2008. The adjustment for depreciation should be made on form IA 4562A to account for the difference between federal and Iowa depreciation.

Section 179 Small Business Expensing: Iowa did adopt the provisions of the federal Economic Stimulus Act of 2008 relating to increasing the expensing amount under Section 179 of the Internal Revenue Code to \$250,000 for the 2008 tax year.

Line 13 Social Security Worksheet

The phase-out of tax on Social Security benefits continues with the 2008 tax year. The worksheet calculates the 32% reduction established by the Iowa Legislature. For more information, see the 2006 Legislative Summary for SF 2408-C.

Line 24 New Adjustments

College Savings Iowa or Iowa Advisor 529 Plan: The deductible amount for tax year 2008 cannot exceed \$2,685 per beneficiary.

Vietnam Conflict Bonus: This bonus is available for persons who served on active duty in the United States armed forces from July 1, 1958, through May 31, 1975.

Reminder - The following are available for 2008: Educator expenses, Tuition and fees deductions

Line 26 Reminder - Filing thresholds for taxpayers 65 and older

An Iowa return is not required for single persons with income of \$18,000 or less, and an Iowa return is not required for all other filers with income of \$24,000 or less. In the case of married persons, the higher threshold amounts apply even if only one spouse is 65 years or older as of December 31 of the tax year.

In meeting the filing requirements, both incomes of husband and wife must be included, and any pension/retirement income exclusion (line 21 of the IA 1040) and any Social Security phase-out amount from line 12 of the Social Security worksheet must be added back.

To claim this benefit, taxpayers must check an informational box. On the paper form, the box is located in the upper right corner of the first page of the IA 1040.

Additional information can be found in the 2006 Legislative Summary SF 2408-A.

Line 27 Federal income tax refund received in 2008

Do not include the federal rebate / economic stimulus check.

Line 33 FICA amount

FICA payments for tax year 2008 in excess of \$6,324 for Social Security tax for each person can be deducted as a federal tax payment.

Line 37 Itemized Deductions

For itemized deduction calculations dependent upon federal Adjusted Gross Income (AGI), the federal AGI thresholds for tax year 2008 are \$159,950 and \$79,975.

The itemized deduction for state sales and use tax paid is allowed on the 2008 federal *and* Iowa Schedule A. The itemized deduction for state sales and use tax paid is allowed on the Iowa Schedule A only if the taxpayer claimed an itemized deduction for state sales and use tax paid on the federal return.

Line 11 of the Iowa Schedule A has the same deduction for qualified mortgage insurance premiums as taken on the federal Schedule A.

School Tuition Organization Tax Credit Contributions: Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of the IA 1040.

Injured Veterans Grant Program Contributions: These contributions do not qualify as itemized deductions.

Charitable Conservation Contribution Tax Credit: Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of the IA 1040.

Line 40 Charitable mileage

The formula to calculate the additional Iowa charitable mileage deduction now uses 39 cents per mile.

Line 41 Standard Deduction for tax year 2008:

Filing Status 1: \$1,750

Filing Status 3 & 4: \$1,750

Filing Status 2, 5 or 6: \$4,310

Line 43 Reminder - Alternate tax calculation for taxpayers 65 or older

Taxpayers who are 65 years of age or older - except taxpayers filing Status 1 - who have income just above the threshold amount of \$24,000 should complete the alternate tax calculation worksheet for taxpayers 65 or older. In the case of married persons, the alternate tax can be applied even if only one spouse is 65 years or older as of December 31 of the tax year.

Additional information can be found in the 2006 Legislative Summary SF 2408-B.

Line 53 Other Iowa Credits

Form IA 148 Tax Credits Schedule must be completed and attached.

Wind Energy Production Tax Credit: Placed in service on or after July 1, 2005, but before July 1, 2012. Valid use includes on-site consumption.

Charitable Conservation Contribution Tax Credit: A tax credit for conveying real property as an unconditional charitable donation in perpetuity to a qualified organization exclusively for conservation purposes. The tax credit is for 50 percent of the fair market value of a qualified real property interest located in Iowa, up to a maximum credit amount of \$100,000.

Line 58 Checkoffs

New: Child Abuse Prevention Program Fund

Combined: Veterans Trust Fund / Volunteer Firefighter Preparedness Fund

Others: Fish and Wildlife Fund; Iowa State Fair Foundation

Line 65 Reminder - Iowa Earned Income Credit

This credit is 7.0% of the federal Earned Income Credit. The Iowa EIC is refundable.

Line 66 Other Refundable Credits

Form IA 148 Tax Credits Schedule must be completed and attached.

Soy-based Transformer Tax Credits: Costs must be incurred after June 30, 2006, and before January 1, 2009.

Line 74 Interest rate in 2009

8% per year; 0.7% per month; 0.021918% per day

A Message to Tax Professionals

Please ask your clients to contribute to one of all of the following checkoffs:



FIREFIIGHTERS



VETERANS TRUST



STATE FAIR



FISH/WILDLIFE



Check Off Child Abuse

Iowa Individual Income Tax Expanded Instructions for Tax Year 2008

STEP 1 NAME AND ADDRESS

ENTER YOUR SOCIAL SECURITY NUMBER ON THE IA 1040

To protect your privacy, your Social Security Number is not shown on the tax booklet or return. This means that you must enter your Social Security Number in the space provided on Step 1 of the return. (Note: If you have changed your name, be sure to notify the Social Security Administration and obtain a corrected card.)

If you are married, also enter your spouse's Social Security Number. Enter the Social Security Numbers in the same order as the names are shown.

FILING PERIOD. If your filing period is other than calendar year 2008, enter the beginning and ending dates of your fiscal tax year on the line provided above the name and address boxes on the return.

NAME AND MAILING ADDRESS. If your name or mailing address is incorrect, make the corrections directly on the tax return.

CHANGE IN NAME OR ADDRESS. Check the correct box to indicate if your name and/or address is the same as on last year's return. If you have not moved or changed your name, but the information is incorrect, check "No" and we will correct it for next year. Also check "No" if this is the first time you are filing an Iowa return.

Please note: If you and your spouse do not have the same last name, check "No" in the box after the question "Are your name, your spouse's name, if applicable, and your address the same as on last year's return?"

IF YOU OR YOUR SPOUSE IS 65 OR OLDER on 12/31/08: Check the box.

HEALTH CARE COVERAGE: Indicate the number of dependent children claimed in Step 3 who do or do not have health care coverage. "Health care coverage" is defined as either private (non-government) coverage or government-sponsored coverage.

If the return indicates that a dependent child does not have health care coverage and the income shown on the tax return does not exceed the highest level of income eligibility for the medical assistance (Medicaid) program or the *hawk-i* (Healthy and Well Kids in Iowa) program, the Department will send a notice to the taxpayer that the dependent child may be eligible for either of these two programs and refer the taxpayer to the Department of Human Services (DHS) for more information.

COUNTY. If the number on the return is incorrect, enter the number of the county you lived in as of December 31, 2008.

Nonresidents and part-year residents who moved out of Iowa before December 31, 2008, 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, 2008.

Military personnel should enter the county number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

SCHOOL DISTRICT NUMBER. The district to enter is the one in which you lived on December 31, 2008. This is not necessarily the district where your children attended school. Even if you do not have children, you must enter this number.

Your voter registration card is a good reference for your school district name.

If the number on the return is not correct, make the correction directly on the tax return.

Nonresidents: Those who did not live in Iowa at all during 2008 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 2008. If you moved out of Iowa before December 31, 2008, enter "9999."

Military personnel should enter the school district number of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

STEP 2 FILING STATUS

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, no matter how they filed on the federal return.

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

STATUS 1. SINGLE.

Check filing status 1 if you were unmarried, divorced, or legally separated on December 31, 2008, and 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.**

STATUS 2. MARRIED FILING JOINT RETURN.

Check filing status 2 if you are married and want to report your income, deductions and exemptions together in one column. Both spouses must sign the return.

Please note:

- a. You must have been husband and wife on December 31, 2008, or
- b. If your spouse died during 2008 and you did not remarry during the year, you may file status 2, 3 or 4.

NONRESIDENTS AND PART-YEAR RESIDENTS of Iowa who are married may file status 2, 3 or 4 for their Iowa return even if only one spouse had income from Iowa sources.

Does your spouse have debts that may be automatically paid (offset) with your refund? Be sure to read our Injured Spouse information.

STATUS 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.

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 federal income tax paid, etc. This information is included with instructions for most lines of the return.

NONRESIDENTS AND PART-YEAR RESIDENTS of Iowa who are married may file status 2, 3, or 4 for their Iowa return even if only one spouse had income from Iowa sources.

PLEASE NOTE:

If married taxpayers file a joint return or file separately on a combined return in accordance with rules prescribed by the Director, both spouses are jointly and *severally liable* for the total tax due on the return, except when one spouse is considered to be an innocent spouse under criteria established pursuant to section 6015 of the Internal Revenue Code.

STATUS 4. MARRIED FILING SEPARATE RETURNS.

Check filing status 4 if you and your spouse file separate tax returns. Write your spouse's Social Security Number, name and net income in the spaces provided at the top of the return in Step 2. The processing of refunds, alternate tax calculations, and/or low-income exemptions will be delayed without this information or supporting schedules.

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 federal income tax paid, etc. This information is included with instructions for each line of the return.

NONRESIDENTS AND PART-YEAR RESIDENTS of Iowa who are married may file status 2, 3, or 4 for their Iowa return even if only one spouse had income from Iowa sources.

Married Separate Filers: Married taxpayers filing married filing separately on a combined return or married filing 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.

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

STATUS 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.

STATUS 6. QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD.

Check filing status 6 if you meet the federal filing requirements for qualifying widow(er).

STEP 3 EXEMPTION CREDITS

YOU (and spouse if married filing joint)

a. Personal Credit.

If you are filing single (filing status 1), married filing separately on a combined return (status 3) or married filing separate returns (status 4) or qualifying widow(er) (status 6), enter "1" in the "Personal Credit" space.

If you are filing married filing joint (status 2) or head of household (status 5), you are eligible for an extra

credit and should enter “2” in the “Personal Credit” space.

Add the number of personal credits and multiply by \$40. Enter this amount on the \$ line.

Note: Dependents filing their own returns claim a \$40 personal exemption credit even though they are claimed as a dependent on another person’s Iowa return.

b. Additional Personal Credit. 65 or older and/or blind:

If you were 65 or older on or before January 1, 2009, you may take an additional personal credit. If your spouse was 65 or older on or before January 1, 2009, and you are filing a joint return (status 2), you may take an additional personal credit for your spouse.

If you were blind on or before December 31, 2008, you may take an additional personal credit. If your spouse was blind on or before December 31, 2008, and you are filing a joint return (status 2), you may take an additional personal credit for your spouse.

Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.

c. Dependents: Consult IRS Publication 17 to learn who qualifies as a dependent.

Enter the number of dependent children and other dependents you are claiming for federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.

The IRS determines whether or not a person is a dependent.

d. Dependent Name(s).

Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.

e. Total.

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

SPOUSE

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

a. Personal Credit.

Enter “1” in the first space and multiply by \$40. Enter \$40 on the \$ line.

b. Additional Personal Credit. 65 or older and/or blind:

If your spouse was 65 or older on or before January 1, 2009, your spouse may take an additional personal credit.

If your spouse was blind on or before December 31, 2008, your spouse may take an additional personal credit.

Add the number of credits for 65 or older and blind and multiply by \$20. Enter this amount on the \$ line.

c. Dependents: Consult IRS Publication 17 to learn who qualifies as a dependent.

Enter the number of dependent children and other dependents the spouse is claiming for federal income tax purposes. Add the number of dependent credits and multiply by \$40. Enter this amount on the \$ line.

The IRS determines whether or not a person is a dependent.

d. Dependent Name(s)

Enter the first name(s) of the claimed dependents. Also enter their last name(s) if different than yours.

e. Total.

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

Married Separate Filers: You may divide the number of dependents you claim between you and your spouse. However, you may not divide any one dependent between each spouse. Each spouse must claim his or her own exemption credits and may not claim any unused part of his or her spouse’s credit.

STEP 4 GROSS INCOME

If using filing status 3 (married filing separately on a combined return), complete both columns A and B of the IA 1040. All other filing statuses complete only column A (you or joint).

All taxpayers including nonresidents report income from all sources (unless specifically exempt, such as U.S. Treasury interest) for the entire year in this section.

NONRESIDENTS and PART-YEAR RESIDENTS must also complete Iowa Schedule IA 126. Report only **Iowa-source** income on the Schedule IA 126, lines 1-26. This schedule will result in a credit for the amount of tax based on income earned outside of Iowa.

1. WAGES, SALARIES, TIPS, ETC. Report the same W-2 income as shown on your federal income tax return, including military income. See line 24, item “o”, for allowable military adjustments.

Note: As a result of federal legislation, the nonresident military taxpayer does not include military pay on line 1 of the IA 1040 (nor is it reported on the IA 126). In general, this applies to active duty military and does not include the National Guard or reserve personnel.

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. Attach a copy of your federal or Iowa Schedule B if total Iowa taxable interest is more than \$1,500.

These lists are taken from Iowa rules 40.2 and 40.3

A. Add interest from all state and municipal securities that you own. Also include interest from state and municipal securities you receive from any trust or mutual fund.

However, interest from certain Iowa state and municipal securities is exempt from Iowa tax and should not be included on this line.

The following securities are exempt:

- Aviation Authority Bonds, Iowa Code section 330A.16
- Beginning Farmer Loan Program Bonds, Iowa Code section 175.17
- Community College Bond Program Bonds, Iowa Code section 260C.71(6)
- Community College Residence Halls and Dormitories Bonds, Iowa Code section 260C.61
- County Health Center Bonds, Iowa Code section 331.441(2)“C”(7)
- E911 Emergency Telephone Service Program Bonds, Iowa Code section 34A.20(6)
- Interstate Bridges Bonds, Iowa Code section 313A.36
- Iowa Board of Regents Bonds for buildings and facilities, Iowa Code chapters 262.41, 262.51 and 262.60
- Iowa College Super Savings Plan Bonds, Iowa Code chapter 262A
- Iowa Higher Education Loan Authority, Iowa Code section 261A.27
- Iowa Municipality Urban Renewal Bonds, Iowa Code section 403.9(2)
- Iowa Rural Water District Revenue Bonds and notes, Iowa Code section 357A.15
- Local Government Flood Damage Program, Iowa Code section 16.183(4)
- Low Income Housing Bonds, Iowa Code section 403A.12
- Municipal Investment Recovery Bonds, Iowa Code section 16.173(4)
- Prison Infrastructure Revenue Bonds, Iowa Code section 16.177(8)
- Regents Institutions Medical and Hospital Buildings at University of Iowa Bonds, Iowa Code section 263A.6

- Soil Conservation Districts Revenue Bonds, Iowa Code section 161A.22
- Quad Cities Interstate Metropolitan Authority Bonds, Iowa Code chapter 28A.24
- Sewage Treatment Works Revenue Bonds, Iowa Code section 16.131(6)
- Underground Storage Tank Fund Revenue Bonds, Iowa Code section 455G.6(14)
- Vision Iowa Program, Iowa Code section 12.71
- Warehouse Project Revenue Bonds, Iowa Code chapter 123.159
- IA Utilities Board and Consumer Advocate Building Bonds, IA Code section 422.7(45)
- Honey Creek Premier Destination Park Bonds, IA Code section 463C.12(8).

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 exempt:

- a. United States Government obligations:** United States Treasury - Principal and interest from bills, bonds, and notes issued by the United States Treasury exempt under 31 USCS Section 3124[a].
 1. Series E, F, G, H and I bonds
 2. United States Treasury bills
 3. U.S. Government certificates
 4. U.S. Government bonds
 5. U.S. Government notes
- b. Territorial obligations:**
 1. Guam - Principal and interest from bonds issued by the Government of Guam (48 USCS section 1423[a]).
 2. Puerto Rico - Principal and interest from bonds issued by the Government of Puerto Rico (48 USCS section 745).
 3. Virgin Islands - Principal and interest from bonds issued by the Government of the Virgin Islands (48 USCS section 1403).
 4. Northern Mariana Islands - Principal and interest from bonds issued by the Government of the Northern Mariana Islands (48 USCS section 1681(c)).
- c. Federal agency obligations:**
 1. Commodity Credit Corporation - Principal and interest from bonds, notes, debentures, and other similar obligations issued by the Commodity Credit Corporation (15 USCS section 713a-5).

2. Banks for Cooperatives - Principal and interest from notes, debentures, and other obligations issued by Banks for Cooperatives (12 USCS section 2134).
3. Farm Credit Banks - Principal and interest from systemwide bonds, notes, debentures, and other obligations issued jointly and severally by Banks of the federal Farm Credit System (12 USCS Section 2023).
4. Federal Intermediate Credit Banks - Principal and interest from bonds, notes, debentures, and other obligations issued by federal Intermediate Credit Banks (12 USCS Section 2079).
5. Federal Land Banks - Principal and interest from bonds, notes, debentures, and other obligations issued by federal Land Banks (12 USCS section 2055).
6. Federal Land Bank Association - Principal and interest from bonds, notes, debentures, and other obligations issued by the federal Land Bank Association (12 USCS section 2098).
7. Financial Assistance Corporation - Principal and interest from notes, bonds, debentures, and other obligations issued by the Financial Assistance Corporation (12 USCS section 2278b–10[b]).
8. Production Credit Association - Principal and interest from notes, debentures, and other obligations issued by the Production Credit Association (12 USCS section 2077).
9. Federal Deposit Insurance Corporation (FDIC) - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Deposit Insurance Corporation (12 USCS section 1825).
10. Federal Financing Bank - Interest from obligations issued by the federal Financing Bank. Considered to be United States Government obligations (12 USCS Section 2288, 31 USCS section 3124[a]).
11. Federal Home Loan Bank - Principal and interest from notes, bonds, debentures, and other such obligations issued by any federal Home Loan Bank and consolidated federal Home Loan Bank bonds and debentures (12 USCS section 1433).
12. Federal Savings and Loan Insurance Corporation (FSLIC) - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Savings and Loan Insurance Corporation (12 USCS section 1725[e]).
13. Federal Financing Corporation - Principal and interest from notes, bonds, debentures, and other such obligations issued by the federal Financing Corporation (12 USCS section 2288(b)).
14. Financing Corporation (FICO) - Principal and interest from any obligation of the Financing Corporation (12 USCS sections 1441[e][7] and 1433).
15. General Services Administration (GSA) v - Principal and interest from General Services Administration participation certificates. Considered to be United States Government obligations (31 USCS section 3124[a]).
16. Housing and Urban Development (HUD).
 - Principal and interest from War Housing Insurance debentures (12 USCS section 1739[d]).
 - Principal and interest from Rental Housing Insurance debentures (12 USCS section 1747g[g]).
 - Principal and interest from Armed Services Mortgage Insurance debentures (12 USCS section 1748b[f]).
 - Principal and interest from National Defense Housing Insurance debentures (12 USCS section 1750c[d]).
 - Principal and interest from Mutual Mortgage Insurance Fund debentures (12 USCS section 1710[d]).
17. National Credit Union Administration Central Liquidity Facility - Income from notes, bonds, debentures, and other obligations issued on behalf of the National Credit Union Administration Central Liquidity Facility (12 USCS section 1795k[b]).
18. Resolution Funding Corporation - Principal and interest from obligations issued by the Resolution Funding Corporation (12 USCS sections 1441[f][7] and 1433).
19. Student Loan Marketing Association (Sallie Mae) - Principal and interest from obligations issued by the Student Loan Marketing Association. Considered to be United States Government obligations (20 USCS Section 1087–2[1], 31 USCS section 3124[a]).
20. Tennessee Valley Authority - Principal and interest from bonds issued by the Tennessee Valley Authority (16 USCS section 831n–4[d]).
21. United States Postal Service - Principal and interest from obligations issued by the United States Postal Service (39 USCS section 2005[d][4]).
22. Treasury Investment Growth Receipts.
23. Certificates on Government Receipts.

The following are not considered federal securities and are taxable:

Federal Agency Obligations:

- Building and Loan Associations
- Credit Unions, federal or state
- Export-Import Bank of the United States
- Farmers Home Administration
- Federal Home Loan Mortgage Corporation (Freddie Mac) Securities
- Federal Housing Administration
- Federal income tax refunds, interest
- Federal National Mortgage Association
- Federal National Mortgage Association (Fannie Mae) Securities
- Government National Mortgage Association (Ginnie Mae) Securities
- Merchant Marine (Maritime Administration)
- Money Market Certificates
- Mortgage Participation Certificates
- Postal Savings Account
- Savings and Loan Associations, federal or State
- Small Business Administration

Obligations of International Institutions:

- Asian Development Bank
- Inter-American Development Bank
- International Bank for Reconstruction and Development (World Bank)

Other Obligations:

- Washington D.C. Metro Area Transit Authority

Married Separate Filers: Divide interest income based on ownership of the account or certificate.

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

3. DIVIDEND INCOME. Attach a copy of your federal or Iowa Schedule B if your Iowa taxable dividends are more than \$1,500. 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 direct federal securities. You cannot take this deduction unless you are provided a statement from the fund giving the percentage of net dividends attributable to direct federal securities. A copy of the statement must be attached to the return to take this deduction.

Interest income from repurchase agreements involving federal securities cannot be deducted.

Married Separate Filers: Divide dividends based on registered ownership of stock.

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

4. ALIMONY RECEIVED. Include the same alimony as shown on your federal return.

Married Separate Filers: Reported by the spouse who received the alimony.

5. BUSINESS INCOME/(LOSS) FROM SCHEDULE C OR C-EZ.

Report the net business income or loss from federal Schedule C or C-EZ. Attach a copy of the federal form.

Reference the IA 4562A if the taxpayer claimed a bonus depreciation deduction on the federal return. Also see line 14.

If one spouse has a loss, the couple may want to calculate using filing status 2 to determine the best tax advantage.

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; the Iowa capital gain deduction is taken on line 23 of the IA 1040.

Iowa taxes capital gains as ordinary income. There is no separate capital gains rate for Iowa purposes.

Iowa tax law follows the federal guidelines on the exclusion of gain on the sale of a principal residence.

A copy of your federal Schedule D must be attached to this return if required for federal.

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 as shown on line 14 of the federal 1040. Attach a copy of federal form 4797.

Married Separate Filers: Divide gains or losses based on ownership of the asset sold or exchanged.

8. TAXABLE IRA DISTRIBUTIONS.

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

Note: The pension/retirement income exclusion is not to be taken on this line. Qualified taxpayers will take the pension/retirement income 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 for federal.

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. In these cases, see the 1099-R issued by IPERS (Iowa Public Employees Retirement System), for the taxable amount.

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.

The pension/retirement income exclusion is not taken on this line. Qualified taxpayers will take the pension/retirement income 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 of the IA 1040. 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.

11. FARM INCOME/(LOSS)

Enter the income or loss from federal Schedule F. Attach a copy to your Iowa return.

Reference the IA 4562A if the taxpayer claimed a bonus depreciation deduction on the federal return. Also see line 14.

Married Separate Filers: Farm income must be reported by the spouse who claims it for self-employment tax purposes on the federal Schedule SE.

If the other spouse claims a share of the farm income, then that spouse must attach a worksheet showing how that share was determined based on capital contribution, management and control, and services rendered.

12. UNEMPLOYMENT COMPENSATION.

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

Married Separate Filers: If both spouses received unemployment benefits, each of the spouses should report the benefits received as shown on the 1099-G for each spouse.

13. TAXABLE SOCIAL SECURITY BENEFITS.

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.

The worksheet below calculates the 32% phase-out on Social Security benefits established by the Iowa Legislature. For more information, see the 2006 Legislative Summary for SF 2408-C.

SOCIAL SECURITY WORKSHEET

1. Enter the amount from Box 5 of form(s) SSA-1099. If you filed a joint federal return, enter the totals for both spouses. Do not include Railroad Retirement benefits from form RRB-1099 here. . 1. _____
2. Enter one-half of line 1 amount. 2. _____
3. Add amounts from the federal 1040 on lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099.* If filing federal 1040A, use lines 7, 8a, 9a, 10, 11b, 12b and 13, plus one-half of any Railroad Retirement Social Security benefits from RRB-1099. Include any bonus depreciation adjustment from line 14 of the Iowa 1040 to compute correct amount. 3. _____
4. Enter the amount from line 8b of your federal 1040 or 1040A. 4. _____
5. Add lines 2, 3, and 4. 5. _____
6. Enter total adjustments from federal 1040, lines 23 through 32, plus any write-in adjustments you entered on the dotted line next to line 36. If filing federal 1040A, use the total of lines 16 and 17. 6. _____
7. Subtract line 6 from line 5. 7. _____
8. Enter one of the following amounts based on the federal filing status used on form 1040 or 1040A. 8. _____
 - Single, head of household, qualifying widow(er): enter \$25,000.
 - Married filing joint: enter \$32,000.
 - Married filing separate: enter -0- if you lived with your spouse at anytime in 2008 or \$25,000 if you did not live with your spouse at any time in 2008.
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. Iowa Taxable Social Security benefits before Phase-out: Enter the smaller of line 2 or line 10. 11. _____
12. Iowa Taxable Social Security Phase-out: Multiply line 11 by 32% (.32). .. 12. _____
13. Iowa Taxable Social Security after Phase-out (Reduced Iowa Taxable Social Security): Subtract line 12 from line 11 and enter here and on line 13 of form IA 1040. 13. _____

*** Iowa taxpayers who received Social Security benefits in 2008 and claimed bonus depreciation on their federal returns for property subject to the bonus depreciation calculation may have to recompute their taxable benefits on the worksheet.**

Those who need to recompute the taxable Social Security benefits should add the bonus depreciation adjustment from line 5 of Schedule IA 4562A to the other amounts shown on line 3 of the Social Security worksheet from the federal return and the RRB 1099. The rest of the form is then completed with the amounts normally used to complete the worksheet from the federal 1040 or 1040A.

Include the following incomes or adjustments to income on line 3 if applicable. (These were excluded from federal AGI.):

- foreign-earned income
- income excluded by residents of Puerto Rico or American Samoa
- proceeds from Savings Bonds used for higher education and
- employer-provided adoption benefits.

Although Railroad Retirement benefits are not taxable, one-half of the benefits received must be used to determine the amount of Social Security benefits that are taxable to Iowa. For purposes of determining taxable Social Security benefits, you must also include interest from federal securities.

Married Separate Filers:

- 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.
- 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:

- a. Baby-sitting income** not reported on federal Schedule C or C-EZ.
- b. Bonus Depreciation adjustment** from the IA 4562A; attach the IA 4562A and IA 4562B to your return.
- c. Capital gains from installment sales in 2008:** Accrual-method taxpayers may now use the installment method for reporting capital gains on their Iowa returns.
- d. College Savings Iowa (Iowa Educational Savings Plan Trust) or Iowa Advisor 529 Plan:** Income received from the cancellation of a participation

agreement to the extent the amount was previously deducted on line 24 of the IA 1040.

e. Director's fees

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

g. Executor's fees

h. Gambling winnings: You must report the full amount of gambling winnings. Report any tax withheld on line 60 of the IA 1040. Gambling losses may be reported as an itemized deduction on Schedule A, but you cannot deduct more than the winnings you report.

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

j. Refundable Iowa Credits received in 2008 which were included as income on the federal 1040 must be added back. This includes **Cow-Calf refunds** received in 2008 (unless reported on federal Schedule F).

k. Refunds: State income tax refunds other than Iowa to the extent that the tax refunded in 2008 was deducted on a prior Iowa return.

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

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

Married Separate Filers: The spouse to whom the income was paid must report that income. 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.

Note: Lines 1-13 must reflect pre-accelerated bonus depreciation figures.

STEP 5 ADJUSTMENTS TO INCOME

All taxpayers report adjustments from *all sources* in this section.

NONRESIDENTS AND PART-YEAR RESIDENTS must also report **Iowa-source** adjustments to income on Schedule IA 126, lines 16-24.

16. PAYMENTS TO AN IRA, KEOGH PLAN, SEP, or SIMPLE or Qualified Plans

Enter the amount claimed on your federal tax return for payments made to your IRA, Keogh Plan, SEP, SIMPLE, or Qualified Plans.

Iowa will allow any 2008 federal changes to certain qualified pension plans and IRAs. Payments made to a Roth IRA are not deductible.

Married Separate Filers:

- **If only one spouse has earned income**, that individual can contribute up to \$5,000 per year (\$6,000 if 50 or older) to an IRA account of the nonworking spouse and up to \$5,000 per year (\$6,000 if 50 or older) to an IRA account of the individual. When claiming the deduction between spouses, the working spouse will usually claim all of the deduction, not to exceed the federal limits for both spouses. However, if the nonworking spouse has any earned income, then the nonworking spouse must claim the deduction to the extent of his/her earned income. The working spouse will then claim the balance of the IRA contribution of both spouses.
- **If both spouses earned income and made contributions to an IRA account**, each spouse must claim his or her own contribution, not to exceed \$5,000 per spouse (\$6,000 if 50 or older).
- **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, SEPs, SIMPLE, or Qualified Plans**, 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 line 27 of your federal 1040 in computing federal adjusted gross income.

Married Separate Filers: The deduction is allocated in the ratio of self-employment tax paid by each spouse to the total self-employment tax paid.

18. HEALTH AND DENTAL INSURANCE DEDUCTION.

Enter 100% of the amount paid for health and dental insurance premiums. This includes all supplemental health insurance, such as Medicare B supplemental medical insurance and Medicare D voluntary prescription drug insurance program (**not** "Medicare tax withheld" on your W-2). 100% of health insurance premiums for long-term nursing home coverage qualifies for the health insurance deduction and is not subject to Schedule A limitations. It is typically to your advantage to take the deduction on line 18

instead of Schedule A, due to the Schedule A reduction of medical and dental expenses by 7.5% of federal AGI. Schedule A may not contain any health or dental insurance premiums which were used as a deduction on line 18.

Do not deduct pretax premiums

This deduction is not available to individuals who have paid health or dental insurance premiums on a pretax basis. **Pretax occurs when** an employer subtracts the amount of the health or dental insurance premium from an employee's gross wages before withholding federal and state income taxes. See your payroll department if you do not know whether or not your health or dental insurance was paid on a pretax basis.

Married Separate Filers:

If one spouse is employed and has health or dental insurance premiums paid through his/her wages, that spouse will claim the entire deduction. If both spouses pay health or dental 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 or dental 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 or dental insurance premiums are paid directly by one spouse, that spouse will claim the entire deduction. If both spouses paid through a joint checking account, the deduction would be allocated between the spouses in the ratio of each spouse's net income to the total net income of both spouses. For this net income calculation, do not include line 18, the health or dental 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. 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, an annuity, a self-employed retirement plan, deferred compensation, IRA distribution or other retirement plan benefits, you may be eligible to exclude from Iowa income tax part or all of the retirement income that is taxable on your federal return. The Roth conversion income, included in net income, is eligible for this exclusion. Social Security benefits are **not** included.

The exclusion can be *up to* \$6,000 for individuals who file status 1, 5 or 6 and *up to* \$12,000 for married taxpayers who file status 2, 3 or 4. (If, for example, an individual has \$5,000 in pension/retirement income, the exclusion will be the actual \$5,000, not the maximum of \$6,000.)

To take this exclusion you or your spouse must meet one of the following conditions:

- 55 years of age or older on December 31, 2008, or
- disabled, or
- a surviving spouse or a survivor having an insurable interest in an individual who would have qualified for the exclusion in 2008 on the basis of age or disability.

A survivor other than the surviving spouse is considered to have an "insurable interest" if the survivor is a son, daughter, mother or father of the annuitant or pensioner.

Married Separate Filers: If both spouses have pension income, whether both or only one meet the eligibility requirements, the exclusion of up to \$12,000 is prorated between them in the ratio that each spouse's pension relates to the total pension received by both spouses.

EXAMPLE

The husband has a taxable pension of \$35,000.

The wife has a taxable pension of \$15,000.

Total of husband and wife: $35,000 + 15,000 = 50,000$

Husband's percent of total income: $35,000$ divided by $50,000 = 70\%$

Husband's portion of the exclusion: Multiply \$12,000 (the maximum exclusion) by 70% = \$8,400. The wife's portion is \$12,000 – \$8,400 = \$3,600.

If only one spouse has pension income, that spouse would take the entire exclusion of up to \$12,000. The spouse who has no pension income would receive no exclusion, even if that spouse is the only one who meets the eligibility requirements.

This information is based on Rule 40.47.

22. MOVING EXPENSE DEDUCTION. Enter moving expenses incurred in 2008. Attach a copy of federal form 3903.

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

23. IOWA CAPITAL GAINS DEDUCTION.

This is a deduction of qualifying net capital gains realized in 2008. *Note:* Line 23 can be more than the net total reported on Schedule D. Unrelated losses are **not** to be included in the computation of the deduction. An example of an unrelated loss is the sale of common stock at a loss.

Definitions

“Lineal descendant” means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren and any other lineal descendants of the taxpayer.

“Holding period” —

For Sales Before 2006: In determining the 10-year holding period for eligibility for the Iowa capital gains deduction, the asset being sold had to be owned by the taxpayer for the immediately preceding 10 years to qualify for the deduction. In cases involving like-kind exchanges, inherited property or gifted property, the time period that the assets were owned may be different than the holding period determined for federal income tax purposes.

For Sales in 2006 and subsequent years: In determining the 10-year holding period for eligibility for the Iowa capital gains deduction, the federal holding period provisions set forth in section 1223 of the Internal Revenue Code and regulations adopted by the Internal Revenue Service will be used.

“Material participation” - Iowa follows federal guidelines for determining material participation for purposes of the capital gains deduction. Determining material participation can be a complex issue.

For further examples in addition to those below see Iowa Administrative Code 40.38.

The following are only a limited sampling of individuals in specific types of activities that may have unique problems or circumstances related to material participation in a business:

1. Limited partners of a limited partnership. The limited partners will not be treated as materially participating in any activity of a limited partnership except in a situation where the limited partner would be treated as materially participating under the material participation tests.

2. Work not customarily done by owners. Work done in connection with an activity shall not be treated as participation in the activity if both of the following apply:

Such work is not of a type that is customarily done by an owner of such activity; and

One of the principal purposes for the performance of such work is to avoid the disallowance of any loss or credit from such activity.

3. Participation in a business by an investor. Work done by an individual in the individual's capacity as an investor in an activity is not considered to be material participation in the business or activity unless the investor is directly involved in the day-to-day management or operations of the activity or business.

4. Farmers

a. Cash farm lease. A farmer who rents farmland on a cash basis will not generally be considered to be materially participating in the farming activity. The burden is on the landlord to show there was material participation in the cash-rent farm activity.

b. Farm landlord involved in crop-share arrangement. A farm landlord is subject to self-employment tax on net income from a crop-share arrangement with a tenant. The landlord is considered to be materially participating with the tenant in the crop-share activity if the landlord meets one of the four following tests:

TEST 1. The landlord does any three of the following: (1) Pay or be obligated to pay for at least half the direct costs of producing the crop; (2) Furnish at least half the tools, equipment, and livestock used in producing the crop; (3) Consult with the tenant; and (4) Inspect the production activities periodically.

TEST 2. The landlord regularly and frequently makes, or takes part in making, management decisions substantially contributing to or affecting the success of the enterprise.

TEST 3. The landlord worked 100 hours or more spread over a period of five weeks or more in activities connected with crop production.

TEST 4. The landlord has done tasks or performed duties which, considered in their total effect, show that the landlord was materially and significantly involved in the production of the farm commodities.

c. Conservation reserve payments. Farmers entering into long-term contracts providing for less intensive use of highly erodible or other specified cropland can receive compensation for conversion of such land in the form of an “annualized rental payment.” Although the CRP payments are referred to as “rental payments,” the payments are considered to be receipts from farm operations and not rental payments from real estate.

If an individual is receiving CRP payments and is not considered to be retired from farming, the CRP payments are subject to self-employment tax. If individuals actively manage farmland placed in the CRP program by directly participating in seeding, mowing, and planting the farmland or by overseeing these activities, the owner will be considered to have had material participation in the farming activity.

NOTE:

A retired farmer must be receiving Social Security retirement benefits. A disabled farmer must have a mental or physical impairment which creates an inability to materially participate in the operation of the farm.

“Materially participating in a farming activity for the current year”

The retired / disabled farmer must have materially participated in the operation of the farm for five of the last eight years before retirement or disability. That is, the farmer must have been:

- subject to self-employment tax in five of the eight years before retirement or disability **and**
- actively farming so the income was reported on Schedule F **or**
- materially participating in a crop-share activity for five of the eight last years

A surviving spouse of a farmer is treated as materially participating in the farming activity for the current tax year if the farmer met the material participation requirement at the time of death and the spouse actively participates in the farming business activity. That is, the spouse participates in the making of management decisions relating to the farming activity or arranges for others to provide services such as repairs, plowing, and planting.

5. Rental activities or businesses. The general rule is that a taxpayer who actively participates in a rental activity or business which would be considered to have been material participation in another business or activity would be deemed to have had material participation in the rental activity unless covered by a specific exception. For example, the exceptions for farm rental activities in numbered paragraphs “4,” “5,” and “6” immediately above. Rental activity or rental business has the same meaning as the term is used in Section 469(c) of the Internal Revenue Code.

EXAMPLE. Ryan Stanley is an attorney who has owned two duplex units since 1991 and has received rental income from these duplexes since 1991. Mr. Stanley is responsible for the maintenance of the duplexes and may hire other individuals to perform repairs and other upkeep on the duplexes. However, no person spends more time in maintaining the duplexes than Mr. Stanley. The duplexes are sold in 2008, resulting in a capital gain. Mr. Stanley can claim the capital gain deduction on the 2008 Iowa return since he met the material participation requirements for this rental activity.

Qualifying capital gains result from the sale of the following:

- a. Real property used in a business in which the taxpayer materially participated for 10 years immediately prior to the sale, and which has been held for a minimum of 10 years immediately prior to its sale.

Example: Joe and John Smith are brothers who inherited farmland upon the death of their parents. The farmland was cash rented by the brothers. Any capital gain from the sale of the farmland would not qualify for the capital gains exclusion since the material participation test was not met.

- b. A business in which the taxpayer materially participated for 10 years immediately prior to the sale and which has been held for a minimum of 10 years immediately prior to its sale. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business which is intangible personal property such as client lists, goodwill, patents, trade names, and similar items. This means that the sale of the assets of a business during the tax year must represent at least 90% of the fair market value of all of the tangible personal property of the business on the date of sale of the business assets. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement for material participation.
- c. Cattle and horses used for breeding, draft, dairy or sporting purposes and held for 24 months by the

taxpayer who received in excess of 50% of his or her gross income from farming and ranching. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching.

- d. Breeding livestock, other than cattle and horses, held for 12 months by the taxpayer who received in excess of 50% of his or her gross income from farming or ranching. Sale to an individual who is a lineal descendent of the taxpayer eliminates the requirement to have in excess of 50% of gross income from farming and ranching. *Note:* The cattle, horses, and other livestock that are excluded from taxation are the sales of the same classes of livestock that qualify for capital gain treatment under section 1231 of the Internal Revenue Code.
- e. Timber held by the taxpayer for more than one year. Timber includes evergreen trees, such as Christmas trees, that are more than six years old at the time they are cut and sold for ornamental purposes. "Timber" means timber that qualifies for capital gain treatment under section 1231 of the Internal Revenue Code.

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

Non-Qualifying Capital Gains

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

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

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

Installment Sales

In the case of installment sales of qualified real property and installment sales of businesses where the selling price of the business assets is paid to the seller in more than one year, only installments received in the 2008 tax year qualify for this deduction on the 2008 return.

In the case of an installment sale of a business which was made in a year prior to 1998, only installments received in 1998 or in subsequent tax years will be exempt from income tax in cases where the taxpayer at the time of the installment sale had met conditions that would exempt the net capital gain from tax, if the installment sale had occurred in 1998 or later. Accrual-method taxpayers: See instructions for line 14 of the IA 1040.

Net Operating Losses

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

Married Separate Filers: Divide the capital gain deduction based on ownership of the asset.

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

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

a. Accrual method:

Taxpayers who had capital gains in 2008 that were reported on the installment method for federal tax purposes and the entire gain was reported for Iowa in a prior year do not have to report installments.

b. Alternative motor vehicle deduction:

Alternative motor vehicle deduction of \$2,000 for those completing federal form 8910 (Alternative Motor Vehicle Credit)

The Internal Revenue Service certifies whether or not a vehicle qualifies.

A complete list of vehicle models that have been certified for the Alternative Motor Vehicle Credit can be seen on the IRS Web site.

c. Beneficiaries, exemption of payments to:

Installment payments and lump sum payments received by a beneficiary from an annuity of a deceased employee, are exempt from income tax if the payments are included in the deceased employee's estate for Iowa inheritance tax purposes. If this annuity income is included as part of Iowa gross income and included in the deceased employee's estate for Iowa inheritance tax purposes, enter that amount on this line.

d. Capital gains from installment sales in 2008:

The installment method for reporting capital gains for accrual accounting taxpayers is adopted for Iowa individual income tax purposes for tax years beginning on or after January 1, 2002. However, if you used the accrual method of accounting and reported the entire capital gain on the 2001 Iowa return which was reported on the installment method for federal tax purposes, deduct the amount reported of any additional installments from that capital gain on this line.

e. Capital or ordinary gain from involuntary conversion related to eminent domain:

An exclusion of both capital gain and ordinary gains is available for individual income taxpayers relating to capital or ordinary gain income realized by a taxpayer as a result of the involuntary conversion of property due to eminent domain. Eminent domain relates to the authority of certain government agencies or instrumentalities of government to condemn private property for any public improvement, public purpose, or other public use.

If there is no ordinary or capital gain recognized for tax purposes because the converted property is replaced with property that is similar to, or related in use to, the converted property, there is no exclusion allowed for Iowa tax purposes until the remaining gain is recognized for federal tax purposes or until the time of disposition of the replacement property. Any exclusion allowed for Iowa tax purposes does not alter the basis of the property as established for federal tax purposes, so the basis will remain the same for both federal and Iowa tax purposes.

f. Claim of Right Deduction:

If income was repaid in the 2008 tax year and was reported and taxed on a prior Iowa return, that income may be deducted on the 2008 tax return. However, it may be to your advantage to take a credit on line 66. You may take either the deduction on this line or take a credit on line 66, but not both.

Example of Claim of Right Deduction: A taxpayer reported \$7,000 in unemployment benefits on the 2006 Iowa return. In early 2008 the taxpayer was notified that \$4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 2008. The taxpayer may claim a \$4,000 income adjustment on line 24 of the 2008 Iowa return.

g. Iowa 529 Education Savings Plans:

If you, your spouse, or any other interested party participate in College Savings Iowa 529 Plan (Iowa Educational Savings Plan Trust) or the Iowa Advisor 529 Plan, each may deduct an amount contributed not to exceed \$2,685 per beneficiary. These are Iowa Section 529 Plans. **Please note:** A rollover from another state's 529 plan qualifies toward the deduction for Iowa income tax.

h. Disability income exclusion:

You may exclude from Iowa tax a portion of the disability pay you received in 2008 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, 2008, you had not yet reached the age when your employer's retirement program would have required you to retire.

If you meet all of these conditions, 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.

i. Domestic production activities deduction from line 35 of the federal 1040:

Iowa allows the deduction for qualified production activities income set forth in Section 199 of the Internal Revenue Code.

j. Educator expenses:

Enter out-of-pocket teacher expenses as allowed on the federal 1040. A deduction is allowed for up to \$250 annually of expenses incurred by teachers, instructors, counselors, principals, etc., for books,

supplies, computer equipment and materials used in the classroom.

k. 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.

l. 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.

m. Film production income exclusion (HF 892-C)

Income received by Iowa residents from qualified film expenditures relating to certain film, television or video projects is eligible for this exclusion. The film, television or video project must be registered with the film office of the Department of Economic Development and must have expenditures of at least \$100,000 in Iowa

A qualified expenditure is a payment to an Iowa resident for the sale, rental or furnishing of tangible personal property or for services directly related to the registered project. The exclusion is allowed only to the extent that income is included in federal adjusted gross income.

A taxpayer who claims the film qualified expenditure tax credit is not eligible for the income tax exclusion.

n. Foreign-earned income exclusion and/or foreign housing deduction from federal form 2555 or form 2555EZ.

o. Gains or losses from distressed sale transactions:

If you need information, e-mail our tax specialists at idr@iowa.gov.

p. Health savings account deduction from line 25 of the federal 1040

q. Injured veterans program, contributions to (do not put on IA Schedule A)

An injured veteran's grant program is available under the Iowa Department of Veteran Affairs. Money appropriated for these grants will be given to veterans injured in a combat zone after September 11, 2001. The grants cannot exceed \$10,000 per injured veteran. The Department of Veteran Affairs may also receive money from any public or private source for purposes of providing grants to injured veterans.

A deduction is allowed for the amount paid by a taxpayer to the Department of Veteran Affairs for the purposes of providing grants to the injured veterans grant program. Do not claim these amounts on the Iowa Schedule A.

r. Injured veterans program, grants from

The amount of Department of Veteran Affairs grant money received by an injured veteran that is included in the veteran's federal adjusted gross income is not included in the veteran's Iowa net income.

s. 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.

t. Military exemptions:

See military information beginning on page 50.

u. Net operating loss, Iowa:

Residents: Enter any Iowa net operating loss carryforward from the prior year and attach the supporting schedule.

Nonresidents: Enter any Iowa-source net operating loss carryforward on your Schedule IA 126. Nonresidents do not enter net operating losses on the IA 1040 return.

See Iowa Net Operating Loss Worksheet for additional information on the carryback provision.

v. Organ transplant expenses:

A deduction in computing Iowa adjusted gross income is not allowed for taxpayers for un-reimbursed expenses relating to a human organ transplant. The taxpayer, while living, who donates all or part of a designated human organ can claim a deduction for un-reimbursed expenses such as travel expenses, lodging expenses and lost wages.

The deduction is limited to \$10,000, and a taxpayer can only claim this deduction once. If a taxpayer claims this deduction for Iowa tax purposes, the taxpayer cannot also claim these same unreimbursed expenses as an itemized deduction for medical expenses on the Iowa return.

w. Partnership income and/or S corporation income:

Enter modifications that decrease the income if the income is declared on line 10 of the IA 1040.

x. 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.

y. Student Loan Interest Deduction:

Enter the same figure that is allowed on your federal 1040, line 33.

z. Tuition and fees deduction:

Enter the amount from the federal 1040 or federal 1040A.

NOTE: this deduction can only be taken on the Iowa return if the same deduction was taken for federal tax purposes - if the federal Lifetime Learning or Hope credits were taken in lieu of the deduction, no deduction is allowed on the IA 1040 even though those credits are not allowed for Iowa purposes.

aa. Victim compensation awards (SF 70)

To the extent included in federal adjusted gross income, the following items can be excluded from Iowa adjusted gross income for individual income tax:

- Amounts of victim compensation awards paid under the victim compensation program administered by the Department of Justice under Iowa Code section 915.81
- Amounts of victim restitution payments received pursuant to Iowa Code chapters 910 and 915
- Amounts of damages awarded by a court, and received by a taxpayer, in a civil action filed by the victim against an offender

bb. Vietnam veterans bonus (SF 578)

A Vietnam Conflict Veterans Bonus fund is established under the Iowa Department of Veterans Affairs.

This bonus is available for persons who served on active duty in the United States armed forces from July 1, 1958, through May 31, 1975.

Eligible persons may receive:

- Active duty in the Vietnam service area during the specified period: \$17.50 for each month, not to exceed \$500.
- Persons who served on active duty during the specified period but not in the Vietnam service area: \$12.50 per month, not to exceed \$300.

The maximum compensation a person can receive under this bill must be reduced by the amount of any Vietnam veterans bonus received by that person for service prior to July 1, 1958. The amount of bonus received by a Vietnam veteran that is included in the veteran's federal adjusted gross income is not included in the veteran's Iowa net income.

cc. Wages paid to 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 qualifying new employee. 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 in a work release program. All types of businesses 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.

Further information is available in the following online publications:

- Benefit for hiring ex-offenders
- Benefit for hiring persons with disabilities

dd. Work Opportunity Credit:

If you claimed a Work Opportunity Credit on your federal income tax return, enter the amount here.

ee. Other Federal Adjustments:

Other Federal Adjustments prior to the calculation of federal 1040 line 38 (federal AGI) not already taken on the IA 1040.

Married Separate Filers:

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

25. TOTAL ADJUSTMENTS. Add lines 16 through 24.

26. NET INCOME. Subtract line 25 from line 15 and enter the result.

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 57 and complete the remainder of the return.

Even if you owe no tax, you must file an income tax return to get a refund of any refundable Iowa credits or any Iowa tax withheld. If you are exempt from tax, you may want to change your IA W-4 form with your employer to eliminate state withholding from your wages.

The following income must be included when determining if you are eligible for the \$9,000 exemption or the \$13,500 exemption (\$18,000 or \$24,000 if 65 or older on 12/31/08).

- 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 Social Security Phase-out amount from line 12 of the Social Security worksheet.
- d. Any amount of lump-sum distribution separately taxed on federal form 4972.
- e. Any net operating loss carryover.

FILING STATUS 1, SINGLE:

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

- a. Your net income from all sources, line 26, is \$9,000 or less and you are not claimed as a dependent on another person's Iowa return. (\$18,000 if you are 65 or older on 12/31/08)
- b. Your net income from all sources, line 26, is less than \$5,000 and you are claimed as a dependent on another person's Iowa return.
- c. You were a nonresident or part-year resident and had net income from Iowa sources of less than \$1,000. To review instructions for "Iowa-source income," see the instructions for lines 1-26 of the IA 126. 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 married filing jointly, married filing separately on a combined return, head of household, or qualifying widow(er), you are exempt from Iowa tax if you meet either of the following conditions:

- a. Your net income from all sources, line 26, is \$13,500 or less and you are not claimed as a dependent on another person's Iowa return. (\$24,000 if you or your spouse is 65 or older on 12/31/08)
- b. You were a nonresident or part-year resident and had net income from Iowa sources of less than \$1,000. To review instructions for "Iowa-source income," see the instructions for lines 1-26 of the IA 126. If Iowa tax was withheld, you must complete the IA 1040 and the IA 126 in order to receive a refund of the tax.

Nonresidents and Part-year Residents

IMPORTANT: If you were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if Iowa-source income is less than \$1,000), you are required to file an Iowa return reporting the lump-sum and/or minimum tax even if you have no regular Iowa income tax liability.

Married Separate Filers:

- Married taxpayers filing married filing separately on a combined return or married filing 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 2008.

If you received a refund of federal income tax during 2008, 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. The federal refund must be included on this line because you benefited from being able to deduct federal taxes on the prior year's Iowa return which reduced your Iowa taxable income for that year. The amount reported on this line should not exceed the total amount of any federal tax deduction taken on the prior year(s) Iowa return.

Include the following:

- **The refund you received from your 2007 federal tax return**

To find the amount you received, check your records or call the IRS at 1-800-829-1040. This information is not available from the Iowa Department of Revenue.

- **Any federal refunds received in 2008 for other years that were amended or filed late**
- **Any portion of the federal refund received due to the motor vehicle fuel tax credit must be reported on the Iowa return.**

If you chose to have any part of an overpayment of federal income tax credited to estimated tax payments for 2008, the amount should be claimed as 2008 estimated tax paid on line 32. The total federal overpayment must also be reported on line 27.

Do NOT include the federal refund in the following situations:

- Do not include any part of the refund received from earned income credit, additional child tax credit, or economic stimulus rebate.

- You are filing an Iowa return for 2008 for the first time because you moved into Iowa during the year. A refund of federal tax received in 2008 is not reported if the tax was not deducted from Iowa income in a prior year.
- The refund you received was from a year in which you did not take a deduction for the payment of federal tax because your income was less than the minimum amount for paying Iowa tax or your tax for that year was calculated using the alternate tax computation.
- You were a nonresident for the tax year of the refund and were not required to file an Iowa return for that year.

Married Separate Filers:

If the refund received in 2008 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 2007 federal refund received in 2008 would be prorated using the spouses' net incomes from the 2007 Iowa return. NOTE: For purposes of reporting on line 27, the refund must be prorated in this manner even if the refund itself was divided between spouses in some other way, either by mutual agreement or other requirement.

Example of how to prorate:

Wife's income is \$10,500
 Husband's income is \$15,500
 Total: \$26,000
 Federal refund: \$1,200

Divide wife's income by total income: \$10,500 divided by \$26,000 = 40%
 The husband's income is, therefore, 60% of their combined income.

In this example, line 27 is \$720 (60%) of the federal refund for the husband, and \$480 (40%) of the federal refund for the wife.

28. SELF-EMPLOYMENT/HOUSEHOLD EMPLOYMENT TAXES.

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

32. FEDERAL ESTIMATED TAX PAYMENTS MADE IN 2008.

Enter the federal estimated income tax payments made in 2008. Include any overpayment applied from your 2007 federal income tax. The overpayment must also be included on line 27. You can deduct only the federal estimated income tax payments made during calendar year 2008.

For example, include a federal estimated income tax payment for 2007 paid in January 2008, but not an estimated tax payment for 2008 paid in January 2009.

Married Separate Filers: All federal estimated tax payments made in 2008 are divided between spouses in the same ratio as their incomes not subject to federal withholding for the 2008 tax year.

33. ADDITIONAL FEDERAL TAX PAID IN 2008.

A. Enter the amount of additional federal income tax paid during 2008 for tax year 2007 and any other years before 2007. The amount of additional federal income tax paid is deductible only if Iowa income tax returns were required to be filed for the year for which the additional federal income tax was paid. Include only the actual federal tax payments made in 2008, but DO NOT include the following:

- penalties
- interest
- excise tax on early withdrawal of qualified plans

REFUNDABLE CREDITS on the federal 1040 may be included on IA 1040, line 33, to the extent federal income tax was paid by applying the federal refundable credits, such as:

- earned income credit
- additional child tax credit
- others

Any refundable federal credits that reduce federal income tax liability are allowed as a federal tax deduction on the Iowa return. This amount is equal to the federal tax paid by the refundable credits.

In determining the order of applying the refundable federal tax credits, the federal Earned Income Credit (EIC) should be applied first, followed by the additional child tax credit, and then any other refundable federal credits.

Married Separate Filers: The additional federal tax paid must be divided between the spouses in the ratio of the spouses' Iowa net incomes for the prior years for which they paid additional federal income tax.

B. FICA payments in excess of \$6,324 for Social Security tax for each person and the motor vehicle fuel tax credit from the 2008 federal return can be deducted as a federal tax payment on line 33. Any excess FICA tax and federal fuel 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.

36. BALANCE. Enter the amount(s) from line 35 on line 36. Complete applicable lines 37 through 41, if you are itemizing deductions. Skip lines 37 through 40 and go to line 41 if you are taking the standard deduction.

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 are using the federal Schedule A, complete applicable lines 37-40, check the itemized box on line 41 and enter your total itemized deduction. Attach the federal Schedule A to your return.

If you are using the Iowa Schedule A, enter the amount of the itemized deductions on line 39. Skip lines 37 and 38.

Attach the Iowa Schedule A to your return and check the itemized box on line 41.

STANDARD DEDUCTION

If you use the Iowa standard deduction check the standard box on line 41 and enter your standard deduction.

- \$1,750 for filing statuses 1, 3 and 4
- \$4,310 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.

37. TOTAL ITEMIZED DEDUCTIONS FROM FEDERAL SCHEDULE A.

GENERAL INSTRUCTIONS

Iowa follows federal guidelines for Schedule A itemized deductions with certain exceptions. Enter on line 37 the total amount of itemized deductions claimed on your federal Schedule A. If you are using the Iowa Schedule A, enter the amount of itemized deductions on line 39. Skip lines 37 and 38. To complete either the federal or Iowa Schedule A, refer to the federal 1040 instruction booklet. Attach your Iowa Schedule A or federal Schedule A to your return. Taxpayers with federal bonus depreciation must complete and attach the Iowa Schedule A.

DEDUCTING STATE SALES TAX

For Iowa purposes, the itemized deduction for state sales and use tax paid is allowed only if the taxpayer claimed an itemized deduction for state sales and use tax paid on the federal return. If a taxpayer claimed state income taxes as an itemized deduction on the federal return, or claimed the standard deduction on the federal return, the taxpayer cannot claim an itemized deduction for state sales and use tax paid on the Iowa return.

In addition, if the taxpayer claims the itemized deduction for state sales and use tax paid on the federal return, the taxpayer cannot claim an itemized deduction for the school district surtax and EMS surtax on the Iowa return.

MEDICAL, DENTAL AND INSURANCE EXPENSES

Health insurance premiums, line 1:

100% of the amount paid for health insurance premiums is deductible on line 18 of the IA 1040. It may be to your advantage to take this deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18.

Schedule A, line 2:

Certain itemized deductions are allowed only to the extent that the deductions exceed a percentage of federal adjusted gross income. These include medical and dental

expenses that exceed 7.5% of federal adjusted gross income. The federal adjusted gross income used to determine these deductions is the taxpayer's federal adjusted gross income plus any bonus depreciation adjustment from line 14 of the IA 1040.

VEHICLE REGISTRATION FEE DEDUCTION AND WORKSHEET 150

If you itemize deductions, a portion of the automobile or multipurpose vehicle annual registration fee you paid in 2008 may be deducted as personal property tax on your Iowa Schedule A, line 6, and federal Schedule A, line 7.

This deduction is for annual registration fees paid based on the value of qualifying automobiles and multipurpose vehicles. Multipurpose vehicles are defined as motor vehicles designed to carry not more than 10 people, and constructed either on a truck chassis or with special features for occasional off-road operation [Iowa Code section 321.1(44)]. Annual registration fees on the following vehicles are not deductible: pickups, motor trucks, work vans, ambulances, hearses, non-passenger-carrying vans, campers, motorcycles, or motor bikes.

Newer Vehicles:

Use the following worksheet to calculate the deductible amount of annual registration fees paid in 2008 for qualifying automobiles (model year 1998 or newer) and multipurpose vehicles (model year 1993 or newer).

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 for line 37. 3. _____

EXAMPLE

Lola purchased an automobile from Jennifer. The actual fee Lola 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. 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. _____

Older Vehicles:

For qualifying automobiles (model year 1997 or older) and multipurpose vehicles (model year 1992 or older) the deductible amount is 60% of the annual registration fees paid in 2008.

QUALIFIED MORTGAGE INSURANCE PREMIUMS

Line 11 of the Iowa Schedule A has the same deduction for qualified mortgage insurance premiums as taken on the federal Schedule A.

JOB EXPENSES AND MISC. DEDUCTIONS

Certain job expenses and miscellaneous deductions allowed to the extent the deductions are greater than 2% of the taxpayer's federal adjusted gross income.

IF AGI EXCEEDS \$159,950 (\$79,975 if married filing separately for federal purposes)

If your adjusted gross income on line 38, federal form 1040 (line 21, federal form 1040A) plus any Iowa bonus depreciation adjustment from line 14 of the IA 1040 exceeds \$159,950 (\$79,975 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 Iowa Itemized Deductions Worksheet (IA 104) to determine the amount to enter on line 39.

EXCEPTIONS TO FEDERAL SCHEDULE A

Federal bonus depreciation. If itemizing, taxpayers that have federal Bonus Depreciation on form IA 4562A must complete the Iowa Schedule A rather than using a copy of the federal Schedule A.

Health insurance premiums. 100% of the amount paid for health insurance premiums is deductible on line 18 of the IA 1040. It may be to your advantage to take this deduction on line 18 instead of Schedule A. Schedule A may not contain any health insurance premiums which were used as a deduction on line 18.

Injured Veterans Grant Program Contributions.

These contributions do not qualify as itemized deductions.

Charitable Conservation Contribution Tax Credit. Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of the IA 1040.

Mortgage Interest Credit Deduction. Taxpayers with the mortgage interest credit can claim on their Iowa return a deduction on line 9b of Iowa 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.

School Tuition Organization Contributions. Do not include as an itemized deduction any contributions for which a credit is claimed on line 53 of the IA 1040.

Married Separate Filers:

- If you used Iowa Schedule A, enter the totals from line 29 and line 30, Iowa Schedule A, in Columns A and B on line 39 of the IA 1040.
- If you used federal Schedule A, you should prorate your itemized deductions between you and your spouse in the ratio of each spouse's net income on line 26, IA 1040 to the total net income of both spouses. (However, this allocation of itemized deductions should be done after any Iowa income tax is subtracted from the total itemized deductions claimed on federal Schedule A.)
- Line 38 and line 40 of the IA 1040 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 from federal Schedule A 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. See IA 1040, line 26.

39. BALANCE. Subtract line 38 from line 37 if your calculations are from the federal Schedule A.

Note: If your calculations are from the Iowa Schedule A, enter the amount of the itemized deductions from the Iowa Schedule A.

40. OTHER DEDUCTIONS. Enter the total of all other deductions:

Note: You cannot take deductions on this line if you take the standard deduction on your Iowa return.

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 for medical reasons (see IRS guidelines for medical mileage rate). 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. See IA 1040, line 26.

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 2008. **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 or if the adoption does not occur.**

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. See IA 1040, line 26.

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

Number of miles x 39¢/mile

Less charitable mileage deduction entered on federal or Iowa Schedule A

Equals additional mileage deduction for charitable purposes.

Married Separate Filers: These deductions must be divided between husband and wife in the ratio of their respective net incomes. See IA 1040, line 26.

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 2008, the Iowa standard deduction is:

- If filing status 1, enter the lesser of \$1,750 or the amount on line 36.
- If filing status 3 or 4, each spouse enters the lesser of \$1,750 or the amount on line 36.
- If filing status 2, 5 or 6 is marked, enter the lesser of \$4,310 or the amount on line 36.

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.

42. TAXABLE INCOME.

Subtract line 41 from line 36 and enter the difference. If line 41 is greater than line 36, enter zero.

STEP 8 TAX CALCULATION

43. TAX OR ALTERNATE TAX.

First, determine tax from tax tables, formula at the end of the tax tables, or tax rate schedule.

If the taxable income on line 42 (column A or column B):

- is less than \$95,400, use the tax tables
- is more than \$95,400, use the formula at the end of the tax tables or the tax rate schedule

Second, compute alternate tax, which may reduce tax liability.

Compare the tax calculated using one of the methods shown above to the alternate tax calculated below. Enter the smaller amount on line 43.

Taxpayers using filing status 1 do not qualify for the alternate tax calculation.

If you are filing status 4 and do not provide the other spouse's income in Step 2 of the IA 1040, you are not allowed to use the alternate tax calculation.

Filing statuses 2, 3, or 4 with a current year net operating loss:

The alternate tax computation is **not** available to married taxpayers using filing status 2, 3, or 4 when one spouse has a current year net operating loss and the spouse chooses to carry back or carry forward the net operating loss. If the spouse with the current year net operating loss chooses not to carry the net operating loss back or forward, then the alternate tax computation is allowed. A statement that the taxpayer will not carry forward or carry back the current year net operating loss must be attached to the return.

Filing statuses 2, 3, 4, 5, and 6 without a current year net operating loss:

If the combination of your net income(s) from line 26 PLUS any net operating loss carryback or carryforward, any pension exclusion taken on line 21 of the IA 1040, and any Social Security Phase-out taken on line 12 of the Social Security worksheet exceeds \$13,500 (\$24,000 if you or your spouse is 65 or older on 12/31/08), 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.

ALTERNATE TAX WORKSHEET

1. Add the total net income(s) from line 26 and any net operating loss carryback or carryforward, and pension exclusion from line 21 and Social Security Phase-out taken on line 12 of the Social Security worksheet of the IA 1040, and enter here. Filing statuses 3 or 4 enter combined totals of both spouses. 1. _____
2. Enter \$13,500 (\$24,000 if you or your spouse is 65 or older on 12/31/08). 2. _____
3. Income subject to alternate tax. Subtract line 2 from line 1. 3. _____
4. Multiply line 3 by 8.98% (.0898). 4. _____
5. Using the tax tables, determine the tax on the taxable income from line 42 of the IA 1040. Status 3 and 4 filers: Calculate tax separately and combine the amounts. 5. _____
6. Compare the amounts on line 4 and line 5. Enter the smaller amount here and on line 43, IA 1040. 6. _____

Married Separate Filers: (including status 4):

If you are using the tax tables, the formula at the end of the tax tables, or the tax rate schedule:

Enter the tax for line 42, column A, on line 43, column A. If filing status 3, also enter the tax for line 42, column B, on line 43, column B.

If you are using the alternate tax:

Use the combined net incomes of both spouses to compute the alternate tax.

Prorate the alternate tax between spouses in the ratio of the net income of each spouse to the combined net income of both spouses.

“Net income” for purposes of this proration is the amount from line 26, plus any net operating loss carryback or carryforward, any pension exclusion from line 21 and

Social Security Phase-out taken on line 12 of the Social Security worksheet.

Examples are in the online version of the expanded instructions.

44. IOWA LUMP-SUM TAX.

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.

Iowa lump-sum tax applies only if IRS form 4972 was used to compute the federal tax on any portion of the lump-sum distribution. **(If there is no federal lump-sum tax, then there is no Iowa lump-sum tax.)**

IOWA RESIDENTS: Enter 25% of the federal tax from IRS form 4972 on line 44 of the IA 1040. Attach federal form 4972.

PART-YEAR RESIDENTS: If a lump-sum distribution reported on federal form 4972 was received while an Iowa resident, 25% of the federal tax from form 4972 must be entered on line 44. Part-year residents who receive a lump-sum distribution while not an Iowa resident are not subject to Iowa lump-sum tax on that distribution. A copy of the federal form 4972 must be attached.

NONRESIDENTS: Nonresidents receiving lump-sum distributions are not subject to Iowa lump-sum tax.

Married Separate Filers (including status 4): Lump-sum tax is reported by the spouse who received the distribution.

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. However, you may be subject to Iowa Minimum Tax even if you have no liability for federal minimum tax. All taxpayers with a tax preference item or adjustment are to attach a copy of the IA 6251 to their IA 1040 even if there is no Iowa minimum tax.

If you had tax preference items and adjustments in 2008, 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.

Married Separate Filers (including status 4): Each spouse that had tax preference items and adjustments must complete their own IA 6251.

46. TOTAL TAX.

Add lines 43, 44, and 45.

Taxpayers who have had a distressed sale in 2008 and have included the gain in net income may be eligible to limit their tax to their net worth immediately prior to the distressed sale. If you qualify, limit the amount on line 46 to your net worth before the distressed sale and attach an Iowa Income Tax Balance Sheet/Statement of Net Worth (form IA 6251B).

47. TOTAL EXEMPTION CREDITS.

Enter the total amount of exemption credits from Step 3.

48. TUITION AND TEXTBOOK CREDIT.

Taxpayers who have one or more dependents attending Kindergarten through 12th grade in an accredited Iowa school may take a credit for each dependent for amounts paid for tuition and textbooks. Dependents must have attended a school in Iowa that is accredited under section 256.11, not operated for a profit and adheres to the provisions of the U.S. Civil Rights Act of 1964.

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

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

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

“Tuition” means any charges for the expense of personnel, buildings, equipment and materials other than textbooks, and other expenses that relate to the teaching of only those subjects legally and commonly taught in Iowa’s public elementary and secondary schools.

“Textbooks” means books and other instructional materials used in teaching those same subjects. This includes fees, books and materials for extracurricular activities.

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

The cost of the following items are eligible for the credit:

- **Books:** books and other instructional materials used in teaching subjects legally and commonly taught in

Iowa's public elementary and secondary schools, including those needed for extracurricular activities

- **Clothing:** "non-street" costumes for a play or special clothing for a concert not suitable for everyday wear
- **Driver's Education:** only if paid to the school
- **Dues, Fees and Admissions:** includes those paid for extracurricular activities such as activity fees; booster club dues; fees for track and cross-country; activity ticket or admission for high school athletic events; fees for a physical education event such as roller skating
- **Materials:** includes materials for extracurricular activities, such as sporting events, speech activities, musical or dramatic events, awards banquets, homecoming, prom, and other school-related social events
- **Music:** rental of musical instruments for school or band; music/instrument lessons at a school; sheet music used in a school; valve oil; cork grease; music books and reeds used in school bands or orchestras
- **Shop class and mechanics class:** cost of required basic materials
- **Shoes:** football, soccer and golf shoes; cleats for football shoes; track spike shoes
- **Travel:** non-travel fees for field trips if the trip is during school hours
- **Tuition:** the school must be accredited; amounts paid are not allowed if they relate to teaching of religious tenets or doctrines of worship
- **Uniforms:** band, hockey and football uniforms

The cost of the following items are NOT eligible for the credit:

- **Books:** yearbooks
- **Clothing:** clothes which can be used for streetwear, such as T-shirts for extracurricular events such as track and science; clothing for a play or concert that is suitable for everyday wear; prom dresses and tuxedos
- **Dues, Fees and Admissions:** sports-related socials; special education programs like career conferences; special testing like SAT, PSAT and Iowa talent search tests
- **Music:** purchase of musical instruments; cost of music lessons outside of school; sheet music for private use
- **Religion:** Amounts paid are not allowed if they relate to teaching of religious tenets or doctrines of worship.

- **Shoes:** basketball shoes and other shoes suitable for everyday wear
- **Shop class and mechanics class:** optional expenditures for wood or materials or for repair of personal vehicles
- **Travel:** travel expenses for trips
- **Tuition:** any amount for food, lodging, clothing or transportation of a student

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

Enter the total allowable credit on line 48. Retain records of your calculation, showing the name of each dependent, school(s) attended, and an itemized list of qualifying expenses.

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

Married Separate Filers: This 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.

49. TOTAL CREDITS. Add lines 47 and 48.

50. BALANCE. Subtract the amount on line 49 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 50 of the IA 1040 that would reduce the combination of net income from line 26 plus any net operating loss carryback or carryforward, any pension exclusion from line 21 of the IA1040 and any Social Security phase-out taken on line 12 of the Social Security worksheet to less than \$9,000 (\$18,000 if you are 65 or older as of 12/31/08).

If subtracting line 50 from the total of lines 21, 26, any net operating loss carryback or carryforward, and Social Security phase-out results in a difference of less than \$9,000 (\$18,000 if you are 65 or older as of 12/31/08), the entry on line 50 must be reduced as calculated on the following worksheet.

TAX REDUCTION WORKSHEET

1. Add:

- (a) net income from line 26, IA 1040
 - (b) pension exclusion from line 21, IA 1040
 - (c) any net operating loss carryback or carryforward
 - (d) Social Security Phase-out from line 12 of the Social Security Worksheet (line 13, IA 1040) **1.** _____
- 2.** Write \$9,000 on this line if you are 64 or younger. Write \$18,000 if you are 65 or older as of 12/31/08. **2.** _____
- 3.** Subtract line 2 from line 1. **3.** _____
- 4.** Enter the amount from line 50, IA 1040. **4.** _____
- 5.** Compare lines 3 and 4. Enter the smaller number here. If this number is different than the one on line 50, IA 1040, substitute this number. Write "tax reduction" to the left of line 50. **5.** _____

Examples are available on the online version of the expanded instructions.

51. CREDIT FOR NONRESIDENT OR PART-YEAR RESIDENT.

Part-year residents and nonresidents: Before you can complete the rest of the return, you will need to complete the IA 126.

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.

You may owe less tax by using filing status 3 or 4.

2008 INSTRUCTIONS FOR SCHEDULE IA 126

You will need to complete the IA 1040 Long Form lines 1 – 50 before you can complete the IA 126. The IA 1040 must be completed using all-source income. Nonresidents and part-year residents of Iowa will use the IA 126 to figure your Iowa source income. The final credit from this form is used as a credit to reduce total tax on your IA 1040.

For part-year Iowa residents, Iowa net income on the IA 126 includes all income received while living in Iowa plus any Iowa-source income received while a nonresident.

For nonresidents, Iowa net income on the IA 126 will include all income from Iowa sources. Complete lines 1-26 of the IA 126 using only income from Iowa sources. Enter the amount of credit from line 33, IA 126 on line 51, IA 1040.

Married Separate Filers: Divide your Iowa income between spouses using the instructions given for the corresponding line on the IA 1040 for married separate filers.

1. WAGES, SALARIES, TIPS, ETC.

Part-year residents: Include all W-2 income earned while an Iowa resident, even if it was earned in another state, and any income for services performed in Iowa while a nonresident of the state. If it was earned in another state, you may also need to fill out the IA 130 (pdf) when you pay tax to the other state. You will need to check with that state for their filing requirements.

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

Note: As a result of federal legislation, the nonresident military taxpayer does not include military pay on line 1 of the IA 126 (nor is it reported on the IA 1040). In general, this applies to active duty military and does not include the National Guard or reserve personnel.

2. TAXABLE INTEREST INCOME.

Part-year residents: Report all interest shown on the IA 1040 which accrued while an Iowa resident and any interest received while a nonresident which was derived from a trade, business or profession carried on within Iowa.

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

3. DIVIDEND INCOME.

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

Nonresidents: Report the dividends derived from an Iowa trade, business or profession.

4. ALIMONY RECEIVED.

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

Nonresidents: Do not enter anything on this line.

5. BUSINESS INCOME OR (LOSS).

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

2008 INSTRUCTIONS FOR SCHEDULE IA126 continued

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

6. CAPITAL GAIN OR (LOSS).

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

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

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

NOTE: You may have a gain here even if you have a net loss on the IA 1040.

7. OTHER GAINS OR (LOSSES).

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

Nonresidents: Report any gains or losses from federal form 4797 if the property was located in Iowa.

NOTE: You may have a gain here even if you have a net loss on the IA 1040.

8. TAXABLE IRA DISTRIBUTIONS.

Part-year residents: Report any taxable IRA distributions received while an Iowa resident.

Nonresidents: Do not enter anything on this line.

9. TAXABLE PENSIONS AND ANNUITIES.

Pension income is taxable to the state you live in when you receive it.

Part-year residents: Report any pension and annuity income reported on line 9 of the IA 1040 which was received while an Iowa resident.

Nonresidents: Do not enter anything on this line.

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

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

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

11. FARM INCOME OR (LOSS).

Part-year residents: Report all net farm income earned or received while an Iowa resident. Also report all net income from Iowa farm activities while a nonresident using the instructions for nonresidents that follow.

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

12. UNEMPLOYMENT COMPENSATION.

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

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

13. TAXABLE SOCIAL SECURITY BENEFITS.

Part-year residents: Report any Social Security income reported on line 13 of the IA 1040 which was received while an Iowa resident.

Nonresidents: Do not enter anything on this line.

14. OTHER INCOME.

Part-year residents: Report any income on line 14 of IA 1040 which was received while an Iowa resident or income from Iowa sources while a nonresident. This includes gambling income and the Bonus Depreciation Adjustment attributable to Iowa from the IA 4562A.

Nonresidents: Report all other taxable income from Iowa sources. This includes gambling income.

2008 INSTRUCTIONS FOR SCHEDULE IA 126 continued

16. PAYMENTS TO AN IRA, KEOGH OR SEP.

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

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

17. ONE-HALF OF SELF-EMPLOYMENT TAX.

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

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

18. HEALTH INSURANCE DEDUCTION.

Part-year residents:

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

b. Deducted through wages. Enter 100% of the health insurance premiums that were not withheld from your wages on a pretax basis while an Iowa resident.

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

Nonresidents:

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

b. Deducted through wages. Enter 100% of the health insurance premiums that were not withheld from your wages on a pretax basis by the ratio of Iowa wages to total wages.

c. Paid direct by taxpayer. Multiply the health insurance premiums that you paid by the ratio of your Iowa-source net income on line 26 of the IA 126 to total net income on line 26 of the IA 1040. For this net income calculation, do not include line 18, the health insurance deduction in the above-referenced net income amounts.

19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS.

Part-year residents: Deduct the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its

maturity while an Iowa resident or what was derived from an Iowa trade, business or profession.

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

20. ALIMONY PAID.

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

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

21. PENSION/RETIREMENT INCOME EXCLUSION.

Part-year residents: If you qualify for this exclusion on the IA 1040, you may exclude the amount of taxable retirement income received while an Iowa resident, up to a maximum of \$6,000 (if filing status 1, 5, or 6) or \$12,000 (if filing status 2, 3, or 4).

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

22. MOVING EXPENSES.

Part-year residents who moved into Iowa can enter any moving expenses from line 22 of the IA 1040 that relate to the move to Iowa.

Part-year residents moving out of Iowa cannot take any deduction on this line.

Nonresidents: Do not enter anything on this line.

23. IOWA CAPITAL GAIN DEDUCTION.

Enter 100% of qualifying capital gains that are attributable to Iowa sources.

24. OTHER ADJUSTMENTS.

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

26. IOWA NET INCOME.

Subtract line 25 from line 15 and enter the difference on this line. If line 26 is \$1,000 or more or you are subject to Iowa lump-sum or minimum tax, complete lines 27 through 33. If line 26 is less than \$1,000 and you are not subject to Iowa lump sum or minimum tax, you are not required to file an Iowa income tax return. However, if you had Iowa tax withheld and are requesting a refund, put 100% on line 29 and complete the remainder of the schedule.

Examples of how to complete the IA 126 are available on our Web site in the online 2008 Expanded Instructions.

1040 INSTRUCTIONS continued

52. BALANCE. Subtract the amount on line 51 from line 50. If less than or equal to zero, enter zero.

53. OTHER NONREFUNDABLE IOWA CREDITS. Enter the total of the credits from Part I of the IA 148 Tax Credits Schedule.

Form IA 148 Tax Credits Schedule must be completed.

a. Economic Development Region Revolving Fund Tax Credit:

An economic development region revolving fund tax credit is available for individual income tax.

An economic development region will consist of no less than three counties, unless two contiguous counties have a combined population of at least 300,000. These economic development regions must establish a focused economic development effort that will include a regional development plan relating to areas such as advanced manufacturing, life sciences and biotechnology, insurance or financial services, and information solutions. These regions may create a revolving fund.

A tax credit equal to 20% of the contribution made to an economic development region revolving fund is available for individual income, corporation income tax. If the contribution is made by a partnership, limited liability company, S corporation, estate or trust, the tax credit is claimed by an individual based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation or estate or trust. Any tax credit in excess of the tax liability can be carried forward for the following 10 years or until depleted, whichever is the earlier. The tax credit cannot be carried back to a year prior to when a contribution was made, and the credit is not transferable.

The total amount of tax credits authorized during a fiscal year cannot exceed \$2 million. Any credit amount less than \$2 million that is unused in a fiscal year can be carried forward to the succeeding fiscal year.

The Iowa Department of Economic Development is responsible for administering and authorizing these tax credits.

Sections 422.11K, 422.33(17) and 422.60(9)

b. Endow Iowa Tax Credit:

The Endow Iowa Tax Credit is equal to 20% of a taxpayer's endowment gift to a qualified community foundation. The gift must be for a permanent endowment fund established to benefit a charitable cause in Iowa. The Iowa Department of Economic Development is responsible for registering and authorizing the tax credits, and controlling the distribution of these tax credits.

Any tax credit in excess of the taxpayer's tax liability can be carried forward for the following five years or until depleted, whichever occurs first.

An individual can claim the credit for a gift made by a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed to the individual, based on the pro rata share of earnings from the pass-through entity.

422.11H, 422.33(14) and 422.60(7)

c. 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.

Iowa imposes a franchise tax on financial institutions, and Iowa does not recognize the S corporation election for Iowa franchise tax purposes. Therefore, the franchise tax credit is allowed to avoid double taxation of income.

Starting with any financial institutions organized as limited liability companies on or after July 1, 2004, the franchise tax credit is also available to members of the limited liability company. The limited liability company would file the franchise tax return, and members of the limited liability company would be eligible to take the franchise tax credit.

The Franchise Tax Credit Worksheet will help you calculate the credit. You do not need to send it with your return, but keep it with your tax records.

Sections 422.11 and 422.33(8)

d. Housing Investment Tax Credit

Starting in 1999, for taxpayers approved by the Iowa Department of Economic Development under the Eligible Housing Enterprise Zone Program, an investment tax credit is available equal to 10% of the new investment directly related to the building or rehabilitation of homes in an enterprise zone. This is a nonrefundable credit, with a 7-year carryforward. The credit is claimed on form IA 3468. The credit is based

on a maximum of \$140,000 for each single-family home or for each unit of a multiple dwelling.

Starting in 2003, for the investment tax credit for eligible housing projects only, the credit can be transferred to another person or entity, if low-income housing credits under Section 42 of the Internal Revenue Code was used to help finance the housing project.

Effective for projects beginning on or after July 1, 2005, the investment tax credit can be transferred if the housing development is located in a brownfield site or in a blighted area.

e. Investment Tax Credit:

An investment tax credit of 10% of the purchase price of real property including any buildings and structures located on the real property, cost of machinery and equipment and the cost of improvements to real property is available to an eligible business. An eligible business must be approved by the Iowa Department of Economic Development under the New Jobs and Income Program, New Capital Investment Program, Enterprise Zone Program, or the High Quality Job Creation Program. Any credit in excess of the tax liability can be carried forward seven years or until used, whichever comes first. If you are a partner, shareholder, member, or beneficiary in a partnership, 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 individuals earnings of the qualifying entity.

If, however, the eligible business sells, disposes of, razes, otherwise renders unusable all or a part of the land, buildings, or other existing structures within five years of purchase, the investment tax credit must be recaptured in the year that all or a part of the property is sold, disposed of, razed, otherwise rendered unusable. The percentage of investment credit that is recaptured is from 100% if the property is sold, disposed of, razed, otherwise rendered unusable in the first year to 20% if the property is sold, disposed of, razed, otherwise rendered unusable in the fifth year.

The credit is determined by multiplying the qualifying new investment by 10 percent, except for the New Capital Investment Program, which has various rates of 1-5%, and the High Quality Job Creation Program, which has various rates of 1-10%, depending on the amount of qualifying investment and number of jobs created. New investment includes the cost of machinery and equipment purchased for use in the operation of the eligible business, and the cost of

improvements to real property. New investment also includes the cost of land and any buildings and structures located on the land. The credit can be taken in the year the qualifying asset is placed in service. For businesses qualified on or after July 1, 2005, under the Enterprise Zone program and the High Quality Job Creation Program, the investment tax credit is amortized over a 5-year period. For the Housing Enterprise Zone Program, the credit can be taken in the year the home is ready for occupancy.

Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following 7 tax years or until depleted, whichever is earlier.

Eligible businesses involved in the production of value-added agricultural products or biotechnology-related processes may elect to refund all or a portion of the unused credit by applying for a tax credit certificate from the Department of Economic Development. The credit amount shown on the tax credit certificate may be claimed on line 66.

High Quality Job Creation Program:

Effective July 1, 2005, the High Quality Job Creation Program replaces the New Jobs and Income Program and the New Capital Investment Program. This affects tax years ending on or after July 1, 2005. These businesses must be approved by the Department of Economic Development to qualify for the tax credits. The amount of tax credits is dependent on the number of jobs created and the qualifying investment made. The new jobs must pay at least 130% of the average county wage to be eligible for these tax credits. The tax credits are as follows:

Pay 130% - 159% of average county wage

- Number of new jobs is zero

Investment less than \$100,000 - 1% Investment tax credit

Investment of \$100,000 - \$499,999 - 1% Investment tax credit and sales tax refund

Investment of \$500,000 or more - 1% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 1-5

Investment less than \$100,000 - 2% Investment tax credit

Investment of \$100,000 - \$499,999 - 2% Investment tax credit and sales tax refund

Investment of \$500,000 or more - 2% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 6-10

Investment less than \$100,000 - 3% Investment tax credit

Investment of \$100,000 - \$499,999 - 3% Investment tax credit and sales tax refund

Investment of \$500,000 or more - 3% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 11-15

Investment less than \$100,000 - 4% Investment tax credit

Investment of \$100,000 - \$499,999 -4% Investment tax credit and sales tax refund

Investment of \$500,000 or more - 4% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 16 or more

Investment less than \$100,000 - 5% Investment tax credit

Investment of \$100,000 - \$499,999 - 5% Investment tax credit and sales tax refund

Investment of \$500,000 or more - 5% Investment tax credit, sales tax refund and additional R & D credit

**High Quality Job Creation Program continued
Pay 160% or more of average county wage and investment is at least \$10 million**

- Number of new jobs is 21-30

6% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

- Number of new jobs is 31-40

7% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

- Number of new jobs is 41-50

8% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

- Number of new jobs is 51-60

9% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

- Number of new jobs is 61 or more

10% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

High Quality Job Creation Program continued

The investment tax credit is amortized equally over a 5-year period, instead of the entire credit being available upon project completion. The investment tax credit in excess of the tax liability can be credited to the tax liability for the following seven years or until depleted, whichever occurs first.

The investment tax credit remains at 10% for both the enterprise zone program and the eligible housing enterprise zone program. However, the investment tax

credit must be amortized over a 5- year period for the enterprise zone program for projects approved on or after July 1, 2005.

f. Iowa 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. This is a one-time credit, equal to 6% of the taxable wages which the employer is required to contribute to the state unemployment compensation fund.

Compute this credit on form IA 133 and attach to your return.

For 2008, this tax credit would equal \$1,368 for each job created. It is a nonrefundable credit with a 10-year carryforward.

Section 422.11A and 422.33(6)

g. Minimum Tax Carry Forward Credit:

You may be eligible for this credit if you paid Iowa minimum tax in prior years based on tax preferences and adjustments. The credit is limited to the extent the regular tax exceeds the alternative minimum tax for a tax year. There is no limit on the number of years this credit can be carried forward. Compute on form IA 8801 and attach to the IA 1040.

Sections 422.11B, 422.33(7) and 422.60(3)

h. Renewable Energy Credit

A producer or purchaser of renewable energy from a facility approved by the Iowa Utilities Board is entitled to a tax credit equal to 1.5 cents per kilowatt hour of electricity, or \$4.50 per million BTUs of heat, refuse-derived fuel, methane gas or other biogas; or \$1.44 per 1,000 standard cubic feet of hydrogen fuel.

The facilities approved cannot exceed 180 megawatts of nameplate generating capacity related to wind energy facilities, and cannot exceed the combined output of 20 megawatts of capacity and 167 billion BTUs of heat related to other facilities.

Any tax credit in excess of the tax liability can be carried forward for seven years. A tax credit certificate is issued by the Department of Revenue for the amount of the credit, and the credit can be transferred once. A producer or purchaser can receive the tax credit certificates for a ten year period, and no credit can be used for a tax year beginning prior to July 1, 2006.

Sections 422.11J, 422.33(16) and 422.60(8)

i. S Corp Apportionment Credit:

Individual resident shareholders of S corporations which conduct business within and without Iowa can claim a tax credit. The credit is structured so that the S corporation is taxed on the greater of income attributable to Iowa under the single sales factor or actual distributions by the S corporation less federal income tax. The intent is to treat S corporations similar to C corporations who are entitled to apportion income within and without Iowa. Complete form IA 134 and attach to the IA 1040.

Section 422.8(2)(b)

j. School Tuition Organization Tax Credit Contributions:

A school tuition organization tax credit is available for individual income tax equal to 65% of the amount of a contribution made by a taxpayer to a school tuition organization. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

A school tuition organization must be a charitable organization in Iowa that is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code that allocates at least 90% of its annual revenue in tuition grants for children who reside in Iowa to allow them to attend a qualified school of their parents' choice. The school tuition organization must represent more than one school, and they can only provide tuition grants to eligible students who are members of households whose annual income does not exceed an amount equal to three times the most recently published federal poverty guidelines published by the U.S. Department of Health and Human Services.

The Department will authorize school tuition organizations to issue tax credit certificates for the following tax year.

The organization will then issue tax credit certificates to the persons that made a contribution to the organization, and the certificate must be attached to the tax return to claim the credit. The tax credit certificate will contain the taxpayer's name, address, tax identification number, amount of contribution, amount of the tax credit, and any other information required by the Department.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is the earlier. The amount of the contribution cannot be taken as a itemized deduction for charitable contributions for Iowa income tax purposes.

Section 422.11M

NONRESIDENTS AND PART-YEAR RESIDENTS

The school tuition organization tax credit must be adjusted using the following steps:

Step 1. Divide Iowa net income (line 26, IA 126) by all-source net income of you and spouse (line 26, IA 1040).

Step 2. Multiply Step 1 above by the amount of credit shown on the tax credit certificate.

Step 3. Enter this amount in column D on Part I of the IA 148.

k. Venture Capital Credit - Iowa Fund of Funds:

Starting in 2002, a contingent tax credit is available for investments to a qualifying business, community-based seed capital fund, or a venture capital fund certified by the Iowa Capital Investment Board. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. The Iowa fund of funds will make investments in venture capital funds who make a commitment to consider investments in businesses located in Iowa.

The contingent tax credits are capped at \$100 million in the aggregate, and cannot be claimed until at least 5 years after the investment is made. Also, only \$20 million of credits can be claimed in one year. The credit is nonrefundable, with a 7-year carryforward.

The tax credit certificate issued by the Iowa Capital Investment Board must be attached to the Iowa return.

Section 15E.66

l. Venture Capital Credit - Qualified Business or Seed Capital Fund:

Starting in 2002, a tax credit is allowed for 20% of the equity investment made into a qualifying business or community-based seed capital fund approved by the Iowa Capital Investment Board. This credit is focused on "angel investors" who make investments in start-up companies. The tax credit cannot be claimed until 3 years after the investment is made; for example, investors who made investments in 2005 cannot claim the tax credit until the 2008 tax return.

Credits can be claimed until the total cap of \$10 million is reached. This is a nonrefundable credit, with a 5-year carryforward.

Sections 15E.43, 422.11F, 422.33(12) and 422.60(5)

m. Venture Capital Credit - Venture Capital Funds:

Starting in 2002, a tax credit is allowed for 6% of the equity investment made in a venture capital fund approved by the Iowa Capital Investment Board. The tax credit cannot be claimed until 3 years after the

investment is made; for example, investors who made investments made in 2005 cannot claim the tax credit until the 2008 tax return. The credits are capped in the aggregate at \$5 million. This is a nonrefundable credit, with a 5-year carryforward.

Sections 15E.51, 422.11G, 422.33(13) and 422.60(6)

n. Wind Energy Production Tax Credit:

The wind energy production facility must be placed in service on or after July 1, 2005, but before July 1, 2012, to qualify for the tax credit. If the facility is not operational within 18 months of approval by the Utilities Board due to the unavailability of necessary equipment, the facility will be allowed an additional 12 months to become operational.

The credit is equal to one cent multiplied by the number of kilowatt-hours of electricity sold or used for on-site consumption. Any tax credit in excess of the tax liability can be carried forward for seven years. A tax credit certificate is issued by the Department of Revenue for the amount of the credit, and the credit can be transferred once. The credit cannot be used for a tax year beginning prior to July 1, 2006.

In cases where the applicant is a partnership, limited liability company, S corporation, estate, trust, or other reporting entity which elects to have income taxed directly to an individual and the applicant is also eligible to receive renewable electricity production tax credits authorized under section 45 of the Internal Revenue Code, the credit does not have to be based upon the individual's pro rata share of earnings from the entity. There are two alternatives to issue the tax credits, as noted below:

- The credit can be claimed based on the amounts designated by the eligible partnership, limited liability company or S corporation to a partner, member or shareholder or;
- The credit and all future rights to the tax credit may be distributed to an equity holder or beneficiary as a liquidating distribution or portion thereof, of a holder or beneficiary's interest in the applicant entity

In both cases, the applicant must identify, in their application for the tax credit certificate, the holders or beneficiaries that are to receive the tax credit certificates.

Sections 422.11J, 422.33(16) and 422.60(8)

o. Agricultural Assets Transfer Credit

A tax credit for agricultural asset transfers from a taxpayer to beginning farmers is available for individual and corporation income taxpayers.

The tax credit is only allowed for agricultural assets that are subject to a lease or rental agreement. The lease must be for a term of at least two years, but not more than five years. The taxpayer must meet certain qualifications as established by rules adopted by the Iowa Agricultural Development Authority. The beginning farmer must be eligible to receive financial assistance as required by Code section 175.12.

The tax credit is based upon the gross amount paid to the taxpayer under the lease agreement by the beginning farmer. The tax credit equals 5% of the amount paid to the taxpayer under the agreement or, in the alternative; the tax credit equals 15% of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals.

A tax credit certificate, which is issued by the Iowa Agricultural Development Authority, must be attached to the taxpayer's tax return for the year in which it is used. Any tax credit in excess of the tax liability can be carried forward for the following five years or until depleted, whichever is the earlier. A tax credit is not transferable to any other person other than the taxpayer's estate or trust upon the taxpayer's death. If the tax credit is issued to a partnership, limited liability company, S corporation, estate or trust, the tax credit can be claimed by the individual based on the pro rata share of the income of the entity.

The lease or rental agreement may be terminated by either the taxpayer or the beginning farmer. If the Agricultural Development Authority determines that the taxpayer is not at fault for the termination, the Authority will not issue a tax credit certificate for subsequent years, but any prior tax credit certificates issued will be allowed. If the Authority determines that the taxpayer is at fault for the termination, any prior tax credit certificates issued will be disallowed, and the tax credits can be recaptured by the Department of Revenue.

p. Film Expenditure Tax Credit

A film qualified expenditure tax credit is available for individual income, corporation income, franchise, insurance premiums and moneys and credits tax.

The tax credit is equal to 25% of a taxpayer's qualified expenditures in a film, television or video project registered with the film office of the Iowa Department of Economic Development. The film,

television or video project must have expenditures of at least \$100,000 in Iowa to be registered with the film office.

A qualified expenditure is a payment to an Iowa resident or an Iowa-based business for the sale, rental, or furnishing of tangible personal property or for services directly related to the registered project. This includes, but is not limited to: aircraft, vehicles, equipment, material, supplies, accounting, animals and animal care, artistic and design services, delivery and pickup services, graphics, labor and personnel, lighting, makeup and hairdressing, film, music, photography, sound, video and related services, printing, research, site fees and rental, travel related to Iowa distant locations, trash removal and cleanup, and wardrobe. Labor and personnel does not include the director, producers, or cast members other than extras and stand-ins. A list of eligible expenditures is available from the film office of the Iowa Department of Economic Development.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is earlier. If the taxpayer earning the credit is a partnership, limited liability company, S corporation or estate or trust electing to have the income taxed to an individual, the individual may claim the tax credit based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, or estate or trust.

After the project has been registered and the expenditures have been incurred, the Iowa Department of Economic Development will issue a tax credit certificate to the taxpayer containing the name, address, tax identification number, date of project completion and the amount of the tax credit.

The tax credit certificate may be transferred to any person or entity. Within 90 days of transfer, the transferee will submit the transferred tax credit certificate to the Iowa Department of Revenue along with a statement containing the amount of credit to be transferred. Within 30 days of receiving the transferred tax credit certificate, the Iowa Department of Revenue will issue a replacement tax credit certificate to the transferee.

Any consideration received for the transfer of the tax credit is not included in income for individual income, corporation income or franchise tax purposes. Any consideration paid for the transfer of the tax credit will not be deducted from income for individual, corporation income or franchise tax purposes.

q. Film Investment Tax Credit

A film investment tax credit is available for individual income, corporation income, franchise, insurance premiums and moneys and credits tax.

The tax credit is equal to 25% of a taxpayer's investment in a film, television or video project registered with the film office of the Iowa Department of Economic Development. The film, television or video project must have expenditures of at least \$100,000 in Iowa to be registered with the film office.

A taxpayer cannot claim the film investment tax credit for qualified expenditures for which the film expenditure tax credit was claimed.

Any credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever is earlier. If the taxpayer earning the credit is a partnership, limited liability company, S corporation or estate or trust electing to have the income taxed to an individual, the individual may claim the tax credit based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, or estate or trust.

After verifying the eligibility for the tax credit, the Iowa Department of Economic Development will issue a tax credit certificate to the taxpayer containing the name, address, tax identification number, date of project completion and the amount of the tax credit.

The tax credit certificate may be transferred to any person or entity. Within 90 days of transfer, the transferee will submit the transferred tax credit certificate to the Iowa Department of Revenue along with a statement containing the amount of credit to be transferred. Within 30 days of receiving the transferred tax credit certificate, the Iowa Department of Revenue will issue a replacement tax credit certificate to the transferee. Any consideration received for the transfer of the tax credit is not included in income for individual income, corporation income or franchise tax purposes. Any consideration paid for the transfer of the tax credit will not be deducted from income for individual, corporation income or franchise tax purposes.

r. Charitable Conservation Contribution Tax Credit

Effective for tax years beginning on or after January 1, 2008, a tax credit is available for individual income and corporation income tax equal to 50 percent of the fair market value of a qualified real property interest located in Iowa that is conveyed as an unconditional charitable donation in perpetuity by a taxpayer to a

qualified organization exclusively for conservation purposes. The maximum amount of the credit is \$100,000. The amount of the contribution for which the tax credit is claimed is not deductible as an itemized deduction for Iowa income tax purposes.

The terms “conservation purpose,” “qualified organization” and “qualified real property interest” mean the same as set forth in Section 170(h) of the Internal Revenue Code. Any tax credit in excess of the tax liability is not refundable but may be credited to the tax liability for the following 20 years or until depleted, whichever is the earlier.

54. BALANCE.

Subtract the amount on line 53 from the amount on line 52. If less than zero, enter zero.

55. SCHOOL DISTRICT SURTAX and EMERGENCY MEDICAL SERVICES SURTAX.

If you do not know your school district name, it is listed on your voter registration card.

Multiply the amount on line 54 by the surtax rate and enter the result. Residents of school districts that do not have a surtax should enter zero on line 55. 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.

Taxpayers without children, or without children in public school, are still subject to this tax.

Counties may impose a countywide Emergency Medical Services (EMS) income surtax. At this time, Appanoose is the only county that has an EMS surtax. The EMS surtax is included in the school district surtax list.

If you itemize, you may claim the school district surtax/EMS surtax shown on your 2007 Iowa income tax return as an itemized deduction on line 4a. of the 2008 Iowa Schedule A.

56. TOTAL TAX. Add lines 54 and 55 and enter the total on line 56.

57. TOTAL TAX BEFORE CONTRIBUTIONS.

Add the amounts in columns A and B on line 56 and enter the total on line 57.

58. CONTRIBUTIONS.

Enter your voluntary contributions to any of the following “checkoffs” in boxes 58a, 58b, 58c, and 58d. 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 2009 return if the return is filed

during the 2009 calendar year. If you file an amended return, you cannot change your contribution.

58a.

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.

58b.

IOWA STATE FAIR FOUNDATION.

(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.

58c.

FIREFIGHTERS.

You may contribute any amount of \$1 or more to this fund. This checkoff will be used to train Iowa’s firefighters. The money collected will be used to offset the financial burdens that many fire departments deal with when it comes to ensuring their firefighters are adequately trained in all facets of emergency response.

58c.

VETERANS TRUST FUND.

You may contribute any amount of \$1 or more to the Veterans Trust Fund. This fund assists veterans with job training, expenses related to facility or at-home care, individual or family counseling, and other services.

58d.

CHILD ABUSE PREVENTION.

You may contribute any amount of \$1 or more to this fund. Proceeds will go to support the Iowa Child Abuse Prevention Program, which funds crisis and respite child care, parent education, child sexual abuse prevention programs, and young parent support.

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.

59. TOTAL TAX AND CONTRIBUTIONS.

Add lines 57 and 58 and enter the total on line 59.

STEP 9 CREDITS

60. IOWA INCOME TAX WITHHELD.

Enter the total amount of income tax withheld for Iowa from 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. Photocopies of originals are accepted. Your W-2s W-2Gs, and/or 1099s must be complete and legible with no alterations.

Married Separate Filers (including status 4):

Withholding is reported by the spouse receiving the W-2, W-2G and/or 1099.

61. ESTIMATE AND VOUCHER PAYMENTS.

Enter the total amount of 2008 Iowa estimated tax payments. This includes any fourth-quarter payment made in January 2009 and any payments made with the IA 1040-V Payment Voucher for tax year 2008. Also include any overpayment from your 2007 Iowa income tax return that you applied to your estimated tax for 2008. You cannot claim any additional Iowa income tax paid for 2007 or for any prior tax years as an estimated payment.

Why bother with paper?

You can arrange to have your estimate payments paid directly from your credit union or bank account and you can check your estimate payment history through ePay on our Department's Web site.

In addition, you can make your final income tax payment by credit card.

62. 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 a credit on this line. Use form IA 130 to compute the 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.
- 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.

- An IA 130 form must be figured separately for each state or foreign country. The combined total of all credits cannot exceed the Iowa tax liability.
- Resident shareholders of S Corporations who have income from the corporation that was apportioned outside Iowa on the IA134 and not taxed by Iowa **cannot** claim an out-of-state tax credit on this income.

In order to receive the credit, a complete copy of your income tax return(s) filed with the other state(s) must be submitted with your Iowa return, along with a copy of the IA 130. If you are claiming the credit for taxes paid to a foreign country, attach a copy of federal form 1116, Computation of Foreign Tax Credit if it is required with your federal return.

SPECIAL INSTRUCTIONS FOR MINIMUM TAX OR LUMP-SUM DISTRIBUTION TAX:

- If you were assessed a minimum tax or a special tax on a lump-sum distribution by another state on items similarly taxed on your Iowa return, you must separately compute an out-of-state credit for each of these items. Do not include minimum tax or a special lump-sum tax in computation of regular tax credit.
 - Minimum Tax - Report the amount of preference items taxed by the other state on line 1. However, a preference item may be included in line 1 only if it is also a preference item for Iowa purposes. Divide the amount on line 1 by the total amount of tax preferences taxed by Iowa. Enter this amount on line 2. Enter on line 3 the minimum tax figure from line 45, IA 1040. On line 5, report only the portion of the minimum tax liability from the other state which applies to preference items which were also taxed in Iowa.
 - Lump-Sum Distribution - Report on line 1 the amount of distribution subject to special lump-sum tax by other state (do not include distribution taxed by other state as part of gross income). Utilize the total lump-sum distribution taxed by Iowa to compute the percentage on line 2 and report on line 3 the Iowa Lump-Sum Distribution Tax from line 44, IA 1040.
- Examples** on how to complete the IA 130 are available in the online Expanded Instructions.

63. MOTOR FUEL TAX CREDIT.

Enter the amount of Motor Fuel Tax Credit from Schedule IA 4136, line 7. The federal Schedule 4136 cannot be used. The Iowa credit does not apply to gasoline used in on-road vehicles or pleasure boats.

If you have an Iowa Motor Fuel Tax Refund Permit number and have claimed any refunds during the tax year, do not claim any credit on this line.

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.

64. CHILD AND DEPENDENT CARE CREDIT OR EARLY CHILDHOOD DEVELOPMENT TAX CREDIT.

Only one of the following two credits may be taken:

- Child and Dependent Care Credit **OR**
- Early Childhood Development Tax Credit.

Only taxpayers with a net income of less than \$45,000 are eligible to take one of these credits. 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.

These credits are 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 one of these credits. You may be eligible for the Child and Dependent Care Credit even though you were unable to take it on your federal return.

CHILD AND DEPENDENT CARE CREDIT

If you are choosing the Child and Dependent Care Credit, use the following worksheet to calculate the credit.

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 completed federal form 2441 or Schedule 2 of federal 1040A.

CHILD AND DEPENDENT CARE CREDIT WORKSHEET

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

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

	allowable %	allowable %
Less than \$10,000	75%	\$25,000 - \$34,999 ... 50%
\$10,000 - \$19,999	65%	\$35,000 - \$39,999 ... 40%
\$20,000 - \$24,999	55%	\$40,000 - 44,999 ... 30%
		\$45,000 and over: 0%

Enter % here **2.** _____

3. Multiply line 1 by percentage on

line 2. Enter the result here and on line 64 of the IA 1040. **3.** _____

NONRESIDENTS AND PART-YEAR RESIDENTS

The Child and Dependent Care Credit must be adjusted using the following steps:

Step 1. Divide Iowa net income (line 26, IA 126) by all-source net income of you and spouse (line 26, IA 1040)

Step 2. Multiply Step 1 above by the amount of credit calculated in the worksheet, line 3.

Step 3. Enter this amount on line 65 of the IA 1040.

EARLY CHILDHOOD DEVELOPMENT CREDIT

If you are choosing the Early Childhood Development Tax Credit, you may take the credit equal to 25% of the first \$1,000 of qualifying expenses paid in 2008 for each dependent from the ages of three through five.

Expenses that qualify include the following:

- Services provided by a preschool, as defined in Code section 237A.1
- Books that improve child development, such as textbooks, music and art books, teacher’s editions and reading books
- Instructional materials required to be used in a lesson activity, such as paper, notebooks, pencils and art supplies
- Lesson plans and curricula
- Child development and educational activities outside the home, such as drama, art, music and museum activities and the entrance fees for such activities

Early childhood development expenses that do NOT qualify include:

- Food, lodging, or membership fees relating to child development and educational activities outside the home
- Services, materials, or activities for the teaching of religious tenets, doctrines, or worship, if the purpose of these expenses is to instill those tenants, doctrines or worship

NONRESIDENTS AND PART-YEAR RESIDENTS

No adjustment is required to the Early Childhood Development Tax Credit.

Married Separate Filers: In computing the credit, the combined net income of both spouses must be used. The Child Care Credit must be divided between husband and wife in the ratio of each spouse’s net income to their combined net income.

65. IOWA EARNED INCOME TAX CREDIT.

The Iowa Earned Income Tax Credit is a refundable credit.

This credit is available only to taxpayers who qualify for the federal Earned Income Tax Credit (EITC).

To find out if you qualify for federal EITC, see the IRS EITC information or call the IRS at 1-800-829-1040.

To calculate the Iowa Earned Income Tax Credit, multiply your federal EITC by .07 (7.0%).

If you qualify for the low income exemption as explained in the instructions for line 26, and are filing an Iowa return **only** to claim a refund of the Earned Income Tax Credit, enter the words “low income exemption” in the area to the left of your net income figure on line 26. Enter zero on line 59. Enter the amount of your Iowa Earned Income Tax Credit on lines 65, 67, 68, 69, and 70.

NONRESIDENTS AND PART-YEAR RESIDENTS:

The Iowa Earned Income Credit must be adjusted using the following formula:

[Iowa net income (line 26, IA 126) divided by All-source net income of you and spouse (line 26, IA 1040)] multiplied by the Iowa Earned Income Credit = credit on line 65

Married Separate Filers: The Iowa Earned Income Tax 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.

66. OTHER REFUNDABLE CREDITS.

Enter the total of other credits from Part II of the IA 148 Tax Credits Schedule.

Form IA 148 Tax Credits Schedule must be completed.

a. Assistive Device Tax Credit:

Eligible small businesses can take an assistive device tax credit for purchasing, renting or modifying an assistive device or making workplace modifications for employees with disabilities. The credit is limited to 50% of the first \$5,000 paid for the assistive device or workplace modification. The certificate for entitlement to the credit, issued by the Iowa Department of Economic Development, must be attached to the Iowa return. The certificate is valid only for the tax year in which the assistive device was installed or workplace modifications were completed.

422.11E and 422.33(9)

Rule 701-42.14.

b. Biodiesel Blended Fuel Tax Credit:

This is not a motor fuel tax credit or refund. It is an income tax credit. Attach a copy of form IA 8864 to your Iowa income tax return.

This credit is available to retail dealers who sell biodiesel blended fuel through motor fuel pumps during the tax year. Of the total gallons of diesel fuel sold by the retail dealer during the tax year, 50 percent or more must be biodiesel fuel to be eligible for the credit. The credit applies to biodiesel blended fuel formulated with a minimum percentage of 2 percent by volume of biodiesel, if the formulation meets the standards of Code section 214A.2.

The tax credit equals 3 cents multiplied by the total number of gallons of biodiesel blended fuel gallons sold during the retail dealer’s tax year.

Any credit in excess of the tax liability may be refunded or, in the alternative, credited to the tax liability for the following year. If the biodiesel blended fuel tax credit is earned by partnerships, limited liability companies, S corporations, estates or trusts where income is taxed directly to the individual, the credit can be claimed by the individual based on the pro rata share of the individual’s earnings in the entity.

422.11P and 422.33(11C)

c. Claim of Right Credit:

A credit may be taken if there was income repaid in the 2008 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. 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 2006 and reported it on the 2006 Iowa return. In 2008 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 2008. After recomputing the 2006 Iowa return, there is a \$440 reduction in tax. The taxpayer may claim a credit of \$440 on line 66 of the 2008 Iowa return.

422.5(10)

d. E85 Gasoline Promotion Tax Credit:

This is not a motor fuel tax credit or refund. It is an income tax credit. Attach a copy of form IA 135 to your Iowa income tax return.

An income tax credit is available to retail dealers of gasoline who sell E85 gasoline through motor fuel

pumps during the tax year.

A retail dealer of gasoline will be able to claim the E85 gasoline promotion tax credit even if the dealer claims an ethanol blended gasoline tax credit for the same tax year for the same ethanol gallons sold for 2006-2008. Any credit in excess of the tax liability is refundable. The credit can be claimed on form IA 135.

The amount of the credit is determined by multiplying the total number of E85 gallons sold by the following rate:

- Calendar years 2006, 2007 and 2008: 25 cents
- Calendar years 2009 and 2010: 20 cents
- Calendar year 2011: 10 cents
- Calendar year 2012: 9 cents
- Calendar year 2013: 8 cents
- Calendar year 2014: 7 cents
- Calendar year 2015: 6 cents
- Calendar year 2016: 5 cents
- Calendar year 2017: 4 cents
- Calendar year 2018: 3 cents
- Calendar year 2019: 2 cents
- Calendar year 2020: 1 cent
- Calendar year 2021 and subsequent : 0 cents

For retail dealers of gasoline whose tax year is not on a calendar year basis, the retail dealer may compute the tax credit on the gallons of E85 gallons sold using the year using the applicable credit amounts as shown above. A retail dealer of gasoline whose tax year ends prior to December 31, 2020, can continue to claim the tax credit in the following tax year for any E85 gallons sold through December 31, 2020. For a retail dealer whose tax year is not on a calendar year basis and who did not claim the E85 credit on the previous return, the dealer may claim the credit for the current tax year for the period beginning on January 1 of the previous tax year to the last day of the previous tax year. This section is repealed on January 1, 2021.

A retail dealer of gasoline will be able to claim the E85 gasoline promotion tax credit even if the dealer claims an ethanol blended gasoline tax credit for the same tax year for the same ethanol gallons sold.

Any credit in excess of the tax liability may be refunded or, in the alternative, credited to the tax liability for the following year. If the E85 gasoline promotion tax credit is earned by partnerships, limited liability companies, S corporations, estates or trusts where income is taxed directly to the individual, the credit can be claimed by the individual based on the pro rata share of the individual's earnings in the entity.

422.11O and 422.33(11B)

e. Ethanol Blended Gasoline Tax Credit – form IA 6478:

This is not a motor fuel tax credit or refund. It is an income tax credit. Attach a copy of form IA 6478 to your Iowa income tax return.

Effective for tax years beginning on or after January 1, 2002, a retail gasoline dealer may claim an ethanol blended gasoline tax credit against that taxpayer's individual income tax liability. The taxpayer must operate at least one retail motor fuel site at which more than 60 percent of the total gallons of gasoline sold and dispensed through one or more motor fuel pumps by the taxpayer in the tax year is ethanol blended gasoline. The tax credit shall be calculated separately for each retail motor fuel site operated by the taxpayer. The amount of the credit for each eligible retail motor fuel site is two and one-half cents multiplied by the total number of gallons of ethanol blended gasoline sold and dispensed through all motor fuel pumps located at that retail motor fuel site during the tax year in excess of 60 percent of all gasoline sold and dispensed through motor fuel pumps at that retail motor fuel site during the tax year.

EXAMPLE: A taxpayer sold 100,000 gallons of gasoline at the taxpayer's retail motor fuel site during the tax year, 70,000 gallons of which was ethanol blended gasoline. The taxpayer is eligible for the credit since more than 60 percent of the total gallons sold were ethanol blended gasoline. The number of gallons in excess of 60 percent of all gasoline sold is 70,000 less 60,000, or 10,000 gallons. Two and one-half cents multiplied by 10,000 equals a \$250 credit available.

The credit may be calculated on form IA 6478. The credit must be calculated separately for each retail motor fuel site operated by the taxpayer. Therefore, if the taxpayer operates more than one retail motor fuel site, it is possible that one retail motor fuel site may be eligible for the credit while another retail motor fuel site may not. The credit may be taken only for those retail motor fuel sites for which more than 60 percent of gasoline sales involve ethanol blended gasoline.

Any credit in excess of the taxpayer's tax liability is refundable. In lieu of claiming the refund, the taxpayer may elect to have the overpayment credited to the tax liability for the following tax year.

A taxpayer may claim the ethanol blended gasoline tax credit even if the taxpayer also claims the E85 gasoline promotion tax credit provided in rule

42.31(422) for the same tax year for the same ethanol gallons.

EXAMPLE: A taxpayer sold 200,000 gallons of gasoline at a retail motor fuel site in 2008, of which 160,000 gallons was ethanol blended gasoline. Of these 160,000 gallons, 1,000 gallons was E85 gasoline. Taxpayer is entitled to claim the ethanol blended gasoline tax credit of two and one-half cents multiplied by 40,000 gallons, since this constitutes the gallons in excess of 60 percent of the total gasoline gallons sold. Taxpayer may also claim the E85 gasoline promotion tax credit on the 1,000 gallons of E85 gasoline sold.

42.16(1) Definitions. The following definitions are applicable to this rule:

“Ethanol blended gasoline” means the same as defined in Iowa Code section 214A.1 as amended by 2006 Iowa Acts, House File 2754, section 3.

“Gasoline” means any liquid product prepared, advertised, offered for sale or sold for use as, or commonly and commercially used as, motor fuel for use in a spark-ignition, internal combustion engine, and which meets the specifications provided in Iowa Code section 214A.2.

“Motor fuel pump” means a pump, meter, or similar commercial weighing and measuring device used to measure and dispense motor fuel for sale on a retail basis.

“Retail dealer” means a person engaged in the business of storing and dispensing motor fuel from a motor fuel pump for sale on a retail basis, regardless of whether the motor fuel pump is located at a retail motor fuel site including a permanent or mobile location.

“Retail motor fuel site” means a geographic location in this state where a retail dealer sells and dispenses motor fuel on a retail basis. For example, tank wagons are considered retail motor fuel sites.

“Sell” means to sell on a retail basis.

Iowa Administrative Rule 42.16

Allocation of credit to owners of a business entity.

If the taxpayer that was entitled to the ethanol blended gasoline tax credit is a partnership, limited liability company, S corporation, estate, or trust, the business entity shall allocate the allowable credit to each of the individual owners of the entity on the basis of each owner’s pro-rata share of the earnings of the entity to the total earnings of the entity. Therefore, if a partnership has an ethanol blended gasoline tax credit of \$3,000 and one partner of the partnership receives 25 percent of the earnings of the partnership, that

partner would receive an ethanol blended gasoline tax credit for the tax year of \$750 or 25 percent of the total ethanol blended gasoline tax credit of the partnership.

422.11C and 422.33(11)

f. Historic Preservation and Cultural and Entertainment District Tax Credit:

Starting in 2000, a historic preservation and cultural and entertainment district tax credit is available for 25 percent of the qualified costs of rehabilitation of eligible property in Iowa. This credit is administered by the state historic preservation office of the Iowa Department of Cultural Affairs.

Prior to the 2007 tax year, any credit in excess of the tax liability was subject to a refund at a discounted amount. Beginning with the 2007 tax year, any credit in excess of the tax liability is fully refundable and no longer discounted. The credit is capped at \$10 million for the fiscal year ending June 30, 2008, \$15 million for the fiscal year ending June 30, 2009, and \$20 million for the fiscal year ending June 30, 2010 and subsequent fiscal years. Starting in 2003, the historic preservation and cultural and entertainment district tax credit can be transferred to any person or entity.

This information is based on rule 701-42.15.

422.11D, 422.33(10), 422.60(4) and 404A.2

g. Investment Tax Credits - refundable (IA 3468) (value-added agricultural projects or biotechnology-related processes)

Eligible businesses involved in the production of value-added agricultural products or biotechnology-related processes may elect to refund all or a portion of the unused credit by applying for a tax credit certificate from the Department of Economic Development. The credit amount shown on the tax credit certificate may be claimed on line 66.

For a more detailed description of this credit, see line 53.

h. Research Activities Credit:

IA 128 or IA 128A

Starting in 1985, a credit became available for 6.5 percent of Iowa’s apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures.

Starting in 2000, taxpayers may choose to take the alternative incremental research credit in a manner

consistent with the federal alternative incremental research credit. This credit is claimed on form IA 128A. A taxpayer may choose each year whether to take the alternative credit or the “regular” research credit for Iowa tax purposes.

Taxpayers who are approved by the Iowa Department of Economic Development under the New Jobs and Income Program or the Enterprise Zone program can double their research credit claimed on either form IA 128 or IA 128A. The research credit can also be doubled under the High Quality Job Creation Program for taxpayers approved by the Department of Economic Development if certain criteria is met.

Iowa has not coupled with the “New Alternative Simplified Research Credit” which can be elected at the federal level.

Sections 422.10 and 422.33(5) and 15.335 and 15A.9(8)

i. Soy-Based Transformer Fluid Tax Credit:

A soy-based transformer fluid tax credit is available for individual income and corporation income tax.

This credit can be claimed by an electric utility equal to the costs incurred by the utility during the tax year for the purchase and replacement costs relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. The costs must be incurred after June 30, 2006, and before January 1, 2009, and the costs must be incurred during the first 18 months of the transition. The cost of the purchase and replacement cannot exceed \$2 per gallon of soy-based transformer fluid, and the number of gallons eligible for the credit cannot exceed 20,000 gallons per electric utility. The total amount of soy-based transformer fluid eligible for a tax credit cannot exceed 60,000 gallons in the aggregate.

If the electric utility elects to take the tax credit, any costs incurred in the transition that are deductible for federal income tax purposes cannot be deducted for Iowa tax purposes. Any credit in excess of the tax liability can be refunded, or credited to the next year’s estimated tax. Any credit earned by a partnership, limited liability company, S corporation, estate, or trust can be claimed by an individual based on the pro rata share of earnings of the partnership, limited liability company, S corporation, estate, or trust.

The electric utility must apply for the tax credit by submitting an application and a copy of a signed purchase agreement or other agreement to purchase soy-based transformer fluid to the Department of Revenue. The Department will calculate the amount of the credit and issue a tax credit certificate to the

applicant. The tax credit shall contain the taxpayer’s name, address, tax identification number, the amount of credit, the first year the certificate may be used, the type of tax to which the credit will apply, and any other information required by the Department. The certificate shall only list one type of tax for which the credit may be applied.

If the application for the tax credit is denied, the applicant has 60 days from the date of the denial to file an appeal with the Department.

Sections 422.11M and 422.33(20)

j. Wage-Benefit Tax Credit

For new jobs created on or after June 9, 2005, a wage-benefit tax credit is available to non-retail, non-services businesses which create new jobs related to the location or expansion of a business in Iowa. This will affect tax years ending on or after June 9, 2006. If the annual wage and benefits equals at least 130 percent of the average county wage, but less than 160 percent, the tax credit equals 5 percent of the wages and benefits paid. If the annual wage and benefits is 160 percent or greater of the average county wage, the tax credit equals 10 percent of the wages and benefits paid. No tax credit is issued for any new jobs created on or after July 1, 2008.

Businesses must apply to the Department for this credit, and the amount of credit is limited to \$10 million for the fiscal year ending June 30, 2007, and is limited to \$4 million for fiscal years ending June 30, 2008, through June 30, 2011. No tax credits will be issued for fiscal years ending June 30, 2012, and for subsequent fiscal years.

The credits are issued on a “first-come, first-serve” basis. If the business retains the job, the tax credit will be allowed for the subsequent four years. Any tax credit in excess of the tax liability can be refunded.

Sections 422.11L, 422.33(18) and 422.60(10)

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 59, subtract line 59 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 2009 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.

Paper-filers: Allow at least 10-12 weeks to receive your refund. **Errors delay return processing.** Paper returns have a higher error rate than returns filed electronically. Errors delay a refund up to six additional months. Direct deposit is not available to paper filers.

E-filers: Receive your refund in two weeks or less. Iowa has several options for e-filing. Some of them are free. **Direct deposit is available only to e-filers.** Direct deposit of Iowa refunds can only be made into one account.

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 2009. 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 2009, the return **must** be filed by December 31, 2009, and this choice **cannot** be changed after December 31, 2009.

2008 returns filed after December 31, 2009, may not request that overpayment be applied to estimated tax. Any overpayment will be refunded.

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 59, subtract line 68 from line 59 and enter the difference.

About 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.

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 elect to use the annualized method of computing the penalty, attach a copy of your worksheet to your tax return.

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

Examples of how to complete the IA 2210 are in the 2008 online version of the Expanded Instructions.

Individuals who expect to owe Iowa tax of \$200 or more for the tax year from income not subject to Iowa withholding tax must make quarterly estimated tax payments. These payments may be made through ePay (direct debit) on our Web site or with an IA 1040ES form.

Married Separate Filers (including status 4): The IA 2210 should be calculated separately for each spouse.

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

74a. PENALTY

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.

You will never be subject to both the 5% and 10% penalties. The penalty will be the applicable 5% or 10%, but not a total of 15%.

74b. INTEREST.

Interest must be added to delinquent tax. Interest is added at a rate of 0.7% per month beginning on the day following the due date of the return and accrues each month until paid in full. Part of a month constitutes a whole month, so if you pay the tax on June 3, you are late for May and June for a total interest rate of 1.4% (2 x 0.7%).

75. TOTAL AMOUNT DUE.

Add lines 72, 73, and 74 and enter the total on line 75. Iowa does not have a payment plan option. Pay as much as you can, and you will be billed for the balance due. Do not send cash.

You have these payment options:

ePay (direct debit) from our Web site

Arrange to have your balance due paid directly from your bank or credit union account through eFile & Pay.

Credit Card Online

Type in your credit card information and the type of payment. A 2.5% service fee will be charged by Official Payments Corp. Cards accepted: Visa, Master Card, American Express, Discover.

Credit Card by phone at 1-800-2PAY-TAX (800-272-9829)

Call the toll-free number and give your credit card information and the type of payment. A 2.5% service fee will be charged by Official Payments Corp. Cards accepted: Visa, Master Card, American Express, Discover.

Mail a check or money order...with an IA 1040V
Payment Voucher payable to: Treasurer, State of Iowa. On the check or money order, write the taxpayer's name (if different than that on the check), the type of tax being paid, and the tax year on the return. Do not send in any payment of less than one dollar. The mailing address is on the voucher.

STEP 11: POLITICAL CHECKOFF.

You may assign \$1.50 of your Iowa tax to a specified political party or to the Iowa Election Campaign Fund to be distributed among the qualifying political parties. A qualified political party is one whose candidate for President 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.

This year's qualified political parties are:

- Democratic Party
- Republican Party
- Campaign Fund (split between the two parties)

STEP 12:

DO YOU REALLY NEED A PAPER FORM?

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 next year, check the appropriate box above the signature line. Taxpayers who electronically filed their returns (either with the federal return or alone) will not receive a booklet next year. This will help conserve natural resources and reduce printing costs. **If you eFile, you will receive your refund in days.** Paper returns take weeks to process.

STEP 13: COW-CALF REFUND.

The cow-calf refund will be allowed only to qualified individual taxpayers who operate cow-calf beef operations in Iowa. For details on qualifications for this refund, see form IA 132 (pdf).

After completing the IA 132 enter the refund amount(s) (not to exceed \$3,000) on the specific lines under Step 13 on the individual IA 1040. If claims exceed the allotted distribution amount, refunds will be prorated.

The completed IA 132 form must be postmarked by October 31, 2009, for calendar year filers or within 10 months of the end of the tax year for fiscal filers. If for some reason the income tax return cannot be filed by the above due dates, the IA 132 may be sent as a separate document to the following address:

Taxpayer Services Section
Iowa Department of Revenue
PO Box 10457
Des Moines, IA 50306-0457

If the IA 132 was inadvertently not included with the income tax return, DO NOT amend the income tax return simply to send the IA 132. Mail the IA 132 separately to the preceding address by the required postmark dates.

The 2008 IA 132 refund will not be paid until February 28, 2010, for claimants on a calendar tax year. The calendar tax year ends December 31 of each year. The filing date for fiscal year filers will determine which year the claim will be paid on February 28 of that year.

STEP 14: SIGNATURE.

Returns are not processed and refunds are not issued if returns are not signed. If you and your spouse file a joint

or combined return, both of you must sign the return. Include a daytime telephone number.

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

DECEASED TAXPAYER:

Write “deceased” on the top of the tax return. 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. If you have the legal authorization to file for the decedent, sign the return with your legal title or authorization. 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.

ADDITIONAL INFORMATION

WHO MUST FILE?

YOU MUST FILE AN IOWA RETURN IF...

...you were a resident or part-year resident of Iowa in 2008 and meet any of the following requirements.

Nonresidents, see items f. and g.

In meeting the filing requirements below, you must add back the pension exclusion (line 21, IA 1040), the Social Security phase-out amount from line 12 of the Iowa Social Security worksheet, any amount of lump sum distribution separately taxed on federal form 4972 and any net operating loss carryover.

Note to married couples: Incomes of both spouses must be included when determining who must file.

- a. You had a net income (line 26 of the IA1040) of more than \$9,000 and your filing status is single. (\$18,000 if 65 or older on 12/31/08)
- b. You had a net income (line 26 of the IA1040) of more than \$13,500 and your filing status is other than single. (\$24,000 if your or your spouse is 65 or older on 12/31/08)
- c. You were claimed as a dependent on another person's Iowa return and had a net income (line 26 of the IA1040; line 4 of the IA 1040A) of \$5,000 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 Iowa lump-sum tax.
- f. You were a nonresident or part-year resident and your net income from Iowa sources (line 26 of the IA126 (pdf) was \$1,000 or more. In the case of married nonresidents, the spouses' combined income is used to determine if their income is high enough to require them to file an Iowa return. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126.
- g. You were a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa minimum tax (even if Iowa-source income is less than \$1,000).

IOWA AND ILLINOIS RECIPROCAL AGREEMENT

Any wages or salary earned by an Iowa resident working in Illinois is taxable only to Iowa and not to Illinois. Any wages or salary earned 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 (pdf) "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, unemployment compensation for employment in Iowa, and Schedule C income earned in Iowa.

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

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 IA1040, show "0" on line 1 of Step 4 and line 26 of Step 5, write "Illinois resident tax withheld in error" on the face of the return. On the back of the IA 1040 on lines 60, 67, 68, 69 and 70, enter the Iowa tax withheld, sign the return and attach copies of W-2s to the front of the return. Copies of federal and Illinois returns must be enclosed.

ARE YOU A RESIDENT OF IOWA FOR TAX PURPOSES?

A person can be a resident of only one state at any given time. Usually, it is clear which state that is. Normally, it is the state in which one lives and works. Occasionally, however, the question of residency can be a little more difficult to answer. If a person moves during the year, or for some reason spends an extended period of time outside the state, the actual state of residence may not always be as obvious.

The issue of residency hinges mainly on the *intent* of the individual. That intent is often clear and easy to determine. If a person moves from one state to another with the intent of changing residence, that person will take certain actions. He or she will typically take obvious steps to eliminate ties and contacts with the former state, and establish similar ties and contacts with the new state. In some cases, however, the actions taken by the individual may create some confusion as to the actual intent.

When a person's intent is not readily apparent, several factors are used as a guide to measure that intent. No single factor can be used. All the facts and circumstances of the case must be weighed in their totality to determine a person's intent and residency. Some of the factors used in this analysis are listed below:

- Are you registered to vote in Iowa?
- Have you voted in Iowa? (in person or by absentee ballot)
- Do you or any of your family attend Iowa schools?
- Do you have an Iowa telephone listing and service?
- Do you receive your mail in Iowa?
- Do you have an Iowa driver's license?
- Is your automobile registered in Iowa? Do you have Iowa license plates?
- Do you own a home in Iowa?
- Do you claim homestead and/or military credits for property tax?
- Do you live in any other state for more days of the tax year than in Iowa?
- Do you receive income from an Iowa source?
- Do you receive services from doctors, dentists, attorneys, CPAs or any other professionals located in Iowa?
- Do you have an active membership in an Iowa church, club, professional or civic organization in Iowa, and participate as a result of the membership?

- Do you claim a benefit on the federal income tax return based on an Iowa home being the principal place of business?
- Do you have active checking or savings accounts or use of safe deposit boxes located in Iowa?
- Do you have a location of employment in Iowa or active participation in a business within Iowa?

Please keep in mind that no single factor will typically be sufficient to make a residency determination. When viewed as a whole, the answers to the above questions will generally give a good indication as to the individual's intent, and therefore, to the state of residence.

For more details on the subject of residency, including several examples, please refer to Iowa Rule 701-38.17.

INJURED SPOUSE

The "Injured spouse" designation is not recognized by the State of Iowa when using "married filing a joint return," filing status 2, or "married filing separately on a combined return," filing status 3.

If your spouse's refund will be used to pay a federal, state, county or city debt, you must use the IA 1040 Long Form, filing status 4, "married filing separate returns" to prevent your refund from being applied to your spouse's debt.

Examples of "debt" include unpaid child support, college loans, tax, court fees and fines, and overpayments of ADC/FIP, food stamps, and unemployment.

AMENDING TAX RETURNS

Amended returns will take at least six months to process.

To amend a 2008 return or a return for a prior year, use an IA1040X or the appropriate-year IA 1040 with the word "Amended" written at the top. Include an explanation of the change(s). 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 owe additional tax with the amended return, calculate the tax, penalty and interest due and include both your check and the IA 1040-V payment voucher with the amended return. You may make your tax payment online through ePay (direct debit) on our Web site or with a credit card.

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.

ATTACHMENTS

Attach all necessary supporting schedules and a copy of your federal return.

If a schedule is required but results in zero, you must still attach it.

TAX ADJUSTMENTS BY THE DEPARTMENT

If the Department of Revenue 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.

ESTIMATED PAYMENTS

Iowa residents who expect to owe tax of \$200 or more for 2008 from income not subject to withholding tax must make quarterly estimated tax payments to avoid a penalty for underpayment of estimated tax.

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

You can set up your payments to be automatically deducted from your bank or credit union account by using ePay (direct debit) on our Web site.

If you wish to make your payments with paper, you must use the IA 1040 ES form.

Estimated payments may also be made by credit card.

Farmers and Commercial Fishers

If at least 2/3 of your income is from farming or commercial fishing, you may avoid penalty for underpayment of estimated tax in one of the following ways:

1. Pay the estimated tax in one payment on or before January 15, 2009, and file the Iowa income tax return by April 30, **or**
2. File the Iowa income tax return and pay the tax due in full on or before March 2, 2009.

EXTENSION REQUESTS

Our agency does not have an extension form to obtain additional time to file, nor do we honor a federal extension.

If at least 90% of your total tax liability is paid by April 30, 2009, you will automatically have until November 2, 2009, to file your return. You will not be charged a late file penalty. However, you may owe a 2210 penalty for failure to make estimate payments. You will owe interest on any tax still due on April 30.

How to determine if 90% of the tax you owe has already been paid:

Step 1: From the IA 1040:

A. Add lines 49, 51, 53, 68, and 75 if payment was made by April 30.

B. Add lines 46, 55, and 73.

Step 2: Divide A by B. If the result is equal to at least 90%, an extension is automatic.

Example:

A equals \$4,434.

B equals \$5,017.

A divided by B is 88.4%.

This result is less than 90%. No extension is available to this taxpayer. This taxpayer will owe penalty and interest on the unpaid tax.

Example:

A equals \$4,834.

B equals \$5,017.

A divided by B is 96.4%.

This taxpayer receives an automatic extension and will pay only interest on the unpaid tax.

If you need to make a tax payment to meet the 90% requirement, you may:

- arrange payment from your bank account through ePay (direct debit) on our Web site.
- pay by credit card online or by telephone
- use the IA 1040V payment voucher form

DECEASED TAXPAYER

Write “deceased” on the top of the tax return. 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. If you have the legal authorization to file for the decedent, sign the return with your legal title or authorization. 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.

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.

NET OPERATING LOSSES

Iowa net operating losses will be carried back two years, except for losses incurred in Presidentially-declared disaster areas (3-year carryback) and losses incurred by farm corporations (5-year carryback). See IA 123 for the net operating loss worksheet.

NONRESIDENTS NEEDING CERTIFIED TAX RETURNS

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.

NONRESIDENTS WITH GAMBLING WINNINGS

Complete the IA 1040, showing income from all sources similar to your federal return. Show gambling winnings as Other Income on line 14. Take eligible gambling losses on Schedule A (pdf). Complete the return through line 50. Then use the IA 126 (pdf) to determine your credit based upon the percentage of Iowa income to total income. This credit is taken on line 51. Attach a copy of your federal return.

REFUNDS MAY BE USED TO PAY DEBT

The State of Iowa may take refunds to pay certain debts. This process is called *offsetting refunds*.

Debts that may be offset include:

- taxes owed the State of Iowa
- taxes owed the Internal Revenue Service
- unpaid child support
- overpayment of unemployment
- fines owed to counties
- unpaid college aid loans
- food stamp overpayment
- ADC (Aid to Dependent Children)/FIP overpayment
- any other debt owed to a State agency

When a refund is kept by the State to pay debt, a letter is sent to the taxpayer by the agency offsetting the money. For example, when a refund from an individual income tax return is used to pay back child support, the Department of Human Services will send a letter to the taxpayer.

A refund or payment may be taken to pay more than one debt; for instance, if a taxpayer owes College Aid money and also has an unpaid county fine. Each offsetting agency has up to 45 days to process their offset. If an entire refund or payment is not needed to pay the debt, the remainder will be sent to the taxpayer. This process may take at least 45-60 days.

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.

Example 1: How a husband and wife would prorate a federal refund:

2007 federal refund received in 2008 from a jointly-filed return: \$1,000

Husband has net income of \$15,000 on the 2007 IA 1040.

Wife has net income of \$30,000 on the 2007 IA 1040.

Total net income: \$45,000 on the 2007 IA 1040.

Divide wife's net income by total income.

The result is the percent of total income earned by the wife.

(Wife's net income) \$30,000 = 66.7%

(Total of husband's and wife's net income) \$45,000

Then take \$1,000 X 66.7% = \$667. This is the wife's portion of the refund, reported on line 27 in her column.

The husband's portion is

\$1,000 - \$667 = \$333, which is entered on line 27 in the other column.

These two amounts are entered on line 27 of the 2008 IA 1040.

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

Example 2: How to prorate Social Security

Husband receives Social Security benefits of \$30,000

Wife receives Social Security benefits of \$20,000

Total benefits are \$50,000

Divide the husband's benefits - \$30,000 - by the total benefits - \$50,000.

The result - 60% - is the percent of total benefits earned by the husband.

Complete the Iowa Social Security worksheet to determine what amount is taxable to Iowa. In this example, the total taxable Social Security benefits are \$8,000. Now prorate the \$8,000 between husband and wife.

Multiply \$8,000 by 60%, which equals \$4,800. This is the husband's portion of taxable Social Security benefits to be entered on line 13.

The wife's portion is \$8,000 - \$4,800 = \$3,200 which is entered on line 13 in the other column.

Example 3. Federal estimated tax payment proration

Husband has income of \$75,000 that is not subject to federal withholding.

Wife has income of \$8,000 that is not subject to federal withholding.

Iowa Department of Revenue

Their total income not subject to federal withholding is \$83,000.

The estimated federal tax payments for this year totaled \$18,000.

Divide the husband's income by the total. The result is the percent of income earned by the husband.

Husband's income not subject to federal withholding = \$75,000 = 90.36% (90.4%)

[Total of husband and wife's income *not* subject to federal withholding = \$83,000]

Multiply \$18,000 by 90.4% = \$16,272. This is husband's portion to be entered on line 32.

The wife's portion is \$18,000 - \$16,272 = \$1,728, which is entered on line 32 in the other column.

RECORD KEEPING

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

CREDITS: REFUNDABLE vs NONREFUNDABLE

Nonrefundable Tax Credit

A nonrefundable tax credit will reduce your tax liability. This credit may reduce your tax liability down to zero, but it will never generate a refund.

Refundable Tax Credit

A refundable tax credit will also reduce your tax liability. However, if this tax credit exceeds your tax liability it will generate an Iowa refund. An example of this type of credit is the Iowa Child and Dependent Care Credit or any other credit taken in Step 9 of the IA 1040 individual income tax form.

Please note: While Iowa and the IRS may have the same type of credit, it may or may not be refundable on both returns.

ROUNDING TO WHOLE DOLLARS

Use whole dollars to complete your return instead of dollars and cents. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar.

For example, \$129.49 becomes \$129 and \$235.50 becomes \$236.

If you need to add two or more amounts to enter on a line, add them together first, then round.

For example, if you received two W-2 forms, one showing wages of \$5,000.55 and the other for \$18,500.73, add them for a total of \$23,501.28. The amount you enter on line 1 of the IA 1040 would be \$23,501.

WHAT TO DO IF YOU DON'T RECEIVE YOUR W-2

Each year many Iowans do not get W-2s from their employers by the January 31 date required by the IRS.

1. If you have moved, call your employer with your new address.
2. If you still have a problem, first go back to your employer and try to find out why you have not received the W-2.
3. You may also call the IRS at 1-800-829-1040. They will work with you and explain the steps needed to receive a substitute W-2.

Iowa will accept a copy of the substitute W-2 filed with the IRS. However, the substitute W-2 may not show Iowa withholding. No credit for Iowa withholding can be given in this case unless you have pay stubs that show Iowa withholding.

4. If you filed a return with the IRS for the year that you can't find your W-2, you can fill out federal form 4506 (request for copy of tax return). Your copy will include W-2's and any State withholding tax. The IRS may charge a fee for this service.
5. The Social Security Administration (SSA) will provide copies of Forms W2 for retirement purposes at no charge and for other than retirement purposes for a fee. Call 1-800-772-1213, or visit the SSA Web site at <http://www.ssa.gov> for instructions on how to obtain wage information from the SSA.

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 employee. Any Department of Revenue 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

Information for businesses and individuals

Do you purchase items from out of state or from catalogs, magazines, vendors who advertise on television or radio, or through the Internet? Will those items be used in Iowa? Would they be subject to Iowa sales tax if purchased in Iowa?

Are you paying sales tax on those purchases? If not, you owe Iowa tax on the purchase price.

If you purchase tangible property for use in 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 tax was established in 1937, three years after the sales tax was enacted, to create a fair playing field for Iowa businesses. The rate of the consumer's use tax is always equal to the state sales tax rate.

Individuals:

To pay your consumer's use tax, send a check payable to "Treasurer State of Iowa" to the Iowa Department of Revenue, PO Box 10412, Des Moines IA 50306-0412 with a note explaining that it is for consumer's use tax. Include a list of the items purchased and their prices. Keep copies for your records. Do not use the consumer's use tax return, which is for businesses that make these types of purchases on a regular basis.

Businesses:

Businesses making taxable purchases on a regular basis should register with our Department to file consumer's use tax returns. However, some businesses may only occasionally make purchases for their own use and owe Iowa consumer's use tax. If this type of purchase is not typical for your business, instead of separately registering for consumer's use tax, you can report the purchase on Line 2 "goods consumed" of your quarterly sales tax return or file and pay the tax as outlined for individuals above.

For more information, see our Consumer's Use Tax publication.

IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL

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

WHEN MUST A MILITARY PERSON FILE AN IOWA INCOME TAX RETURN?

If a military person is an Iowa resident, he or she must file an Iowa individual income tax return if:

- married and their combined income totals more than \$13,500 (\$24,000 if your or your spouse is 65 or older on 12/31/08)
- single and total income is more than \$9,000 (\$18,000 if 65 or older on 12/31/08)
- has income of \$5,000 or more and is claimed as a dependent on another person's Iowa return
- filing as head of household or qualifying widow(er) and total income is more than \$13,500 (\$24,000 if 65 or older on 12/31/08)

School District Surtax: For tax years beginning on or after January 1, 2005, the school district surtax is applicable for resident members of the armed forces of the United States living in an Iowa school district, even if the member is not physically present in Iowa on the last day of the tax year. (IAC 42.1)

RESIDENCY: (IAC 38.17)

Each person has one and only one state of residence. A person may be a resident of a state even though he or she does not actually live in the state.

A military person does not lose "home state" residency simply by being absent from the state while in the military. (Section 574 of the Soldiers and Sailors Civil Relief Act)

When is a military person an Iowa resident?

A military person is an Iowa resident if:

- he or she was a resident of Iowa at the time of enlistment and/or
- Iowa is declared as his or her Military Home of Record

A person remains an Iowa resident until positive action is taken to establish residency in another state.

Establishing residency in another state

To establish residency in another state, a military person must first complete form DD2058, State of Legal Residence Certificate, which is available from the payroll officer of the Military Office of Personnel. This alone does not establish residency. A combination of the actions listed below is required to establish legal residence in another state.

- physical presence in the other state
- registering to vote in the other state
- changing driver's license
- registering vehicles in the other state
- applying for other privileges offered by the other state
- payment of real estate tax and/or income tax in the new state

If steps are not taken to change residency, a military person remains a resident of Iowa and is subject to Iowa income tax laws.

The Director of the Iowa Department of Revenue may require an individual to provide proof that residency has been established in another state.

Residency of spouses of military personnel

A spouse of an Iowa-resident military person is not considered a resident of Iowa simply by marriage. If, however, the spouse was an Iowa resident when they married, the spouse is an Iowa resident until other action is taken to establish residency in another state.

If the spouse is an Iowa resident and has Iowa-source income, it may be beneficial to use filing status 3 (married filing separately on the combined return form).

Filing status 3 or 4 (married filing separately on the combined return or married filing separate returns) may be used by nonresident spouses with no Iowa-source income.

Nonresidents/part-year residents stationed in Iowa

Military persons who are not residents of Iowa are required to file Iowa income tax returns if their all-source income meets the above requirements and their Iowa-source income is \$1,000 or more.

Nonresident Military Income

The following apply for Iowa as a result of federal legislation.

The nonresident military taxpayer does not include military pay on line 1 of the IA 1040 and also does not report it as Iowa income on the IA 126. The net result is a reduction of the tax rate on any other Iowa-source income.

IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL *continued*

In general, this applies only to active duty military and does not include the National Guard or reserve personnel.

Exceptions may exist if nonresident military are under active duty orders under a specific federal section — 502(f) of Title 32 of the United States Code.

All income, excluding military pay, is included on the Iowa income tax return (IA 1040) and tax is initially calculated on all-source income. Once this is done, the nonresident or part-year resident turns to another Iowa form, the IA 126 Nonresident and Part-Year Resident Schedule. Only Iowa-source income is included on this form and will not include military pay when calculating the credit. That credit is entered on the IA 1040 and is designed to minimize the taxation of income by Iowa and the other state.

Nonresidents and part-year residents must file both the IA 1040 and the IA 126 with a complete copy of the federal return. They cannot use the IA 1040A short form.

WHAT INCOME IS SUBJECT TO IOWA TAX? (IAC 40.5)

Military pay to Iowa residents is taxable to Iowa to the same extent it is taxable on the federal level regardless of where the person is stationed when it is received.

Other income earned by an Iowa resident stationed in or out of Iowa is also taxable to Iowa to the same extent it is taxable on the federal level. If any of that income is correctly taxed by another state, then Iowa allows an out-of-state tax credit on the IA 1040. This credit is calculated on the IA 130 form, which must be attached to the IA 1040 with a copy of the other state's return.

WHAT INCOME IS NOT SUBJECT TO IOWA TAX?

Combat zone pay

Income excluded by the federal government is also excluded for Iowa income tax purposes. For example, combat zone pay is excluded on the Iowa return because it is excluded for federal income tax purposes.

Iowa follows the federal treatment of the military adjustments to gross income.

The Internal Revenue Service Web site is your best source of qualifying combat zones and tax breaks related to military personnel.

Operation Iraqi Freedom, Operation Noble Eagle, or Operation Enduring Freedom (IAC 40.61)

There is an income tax exemption for active duty pay received by a person in the National Guard or armed forces military reserve for service performed on or after January 1, 2003, pursuant to military orders for Operation Iraqi Freedom, Operation Noble Eagle, or Operation

Enduring Freedom. The individual needs only to be called to active duty under the appropriate orders to qualify for the exemption of active duty pay. The individual does not have to be serving overseas to be eligible for the exemption, but can be serving in Iowa or elsewhere in the United States under the appropriate military orders and qualify for the exemption for active duty pay.

Note that if a person in the National Guard or military reserve was called to active duty pursuant to military orders for an operation or purpose other than the operations specified above, the active duty pay is not exempt from Iowa income tax. (IAC 40.61)

Include all income on line 1 with other W-2, 1099, or W-2G income. Qualifying military income is then deducted on line 24. If you file a paper return, attach a copy of your orders. If you file electronically, keep a copy of your orders with your tax records in case the Department requests them at a later date.

Persian Gulf Conflict and/or Bosnia-Herzegovina Peacekeeping (IAC 40.40, IAC 40.51)

There is an income tax exemption for active-duty pay received by a person in the National Guard or armed forces military reserve for services performed on or after August 2, 1990, pursuant to military orders related to the Persian Gulf Conflict and/or for services performed on or after November 21, 1995, pursuant to military orders related to peacekeeping in Bosnia-Herzegovina.

Military Student Loan Exemption (IAC 40.63)

Military student loan repayments included in federal adjusted gross income are exempt from Iowa income tax if the following criteria are met.

This exemption may be taken by persons in the:

- armed forces
- armed forces military reserve
- National Guard

The individual must be on active duty at the time of the loan repayment.

Include the loan repayment amount in line 1 and deduct it in line 24. (IAC 40.63)

Exclusion of Distributions from Retirement Plans by National Guard members and members of military reserve forces of the United States (IAC 40.58)

If a National Guard member or member of the military reserve is called to active state or federal duty and makes a withdrawal from a qualified retirement account of the member, the amount of the withdrawal is not subject to Iowa income tax or state tax penalty. If this income is

IOWA TAX RESPONSIBILITIES OF MILITARY PERSONNEL continued

reported as taxable pension income on line 9 of the Iowa return, enter that amount on line 24 of the Iowa 1040.

FORGIVENESS OF TAX: (IAC 39.11)

Iowa income tax is forgiven if:

- the deceased was killed in a combat zone, or
- the taxpayer is missing in action and presumed dead, or
- the deceased was killed outside the United States due to terrorist or military action while he/she was a military or civilian employee of the United States and
- the person's federal income tax was forgiven

Single status: Iowa income tax is forgiven for the tax year in which the individual was killed or was missing and presumed dead and for the tax year prior to the year of death.

Married / year of death: If the deceased was married at the time of death, all tax is forgiven for the year of death if the filing status is joint or married filing separately on the combined return for that tax year.

Married / prior year: All tax is forgiven if the deceased was married at the time of death and a joint return or a married filing separate return was filed for the year prior to death. Please note that if the deceased had filed using the married filing separately on the combined return status, only the state income tax attributable to the deceased will be forgiven. Prior-year returns cannot be amended to change the filing status. (IAC 39.11)

RETURN DUE DATE AND EXTENSIONS (IAC 39.12, IAC 39.14)

The usual filing deadline for Iowa income tax returns is April 30. If 90 percent of the tax due is paid by that time, the deadline is extended to October 31. No extension form is available or required.

Qualifying individuals are granted extensions under certain circumstances for filing returns and for other acts related to the Department. These are listed below.

Who qualifies for an extension?

- A person in the armed forces serving in an area designated by the President or the Congress as a combat zone or hazardous duty area
- A person in the armed forces deployed outside the United States away from the person's permanent duty station while participating in an operation designated by the Secretary of Defense as a contingency operation as defined in 10 U.S.C. §101(a)(13) or by operation of law
- A person serving in support of those forces
- A spouse of a person listed above if they file jointly or separately on a combined return
- An eligible individual who was continuously hospitalized because of illness or injury in the combat zone

"Other acts related to the Department" includes:

- Filing claims for refund for any tax administered by the Department
- Making tax payments other than withholding payments
- Filing appeals on the tax matters
- Filing other tax returns
- Performing other acts described in the Department's rules

Extension periods

In general, the additional time period for filing state returns and performing other acts is 180 days after the person leaves the combat zone or hazardous duty area.

IRS MILITARY WEB PAGE:

For further information about federal provisions, go to the Internal Revenue Service Web site at www.irs.gov