Bloomberg Tax and Accounting

INCOME TAX PLANNER™

TAX REFERENCE GUIDE

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CONTENTS

INTRODUCTION

WELCOME TO INCOME TAX PLANNER

Thank you for your interest in IncomeTax Planner, the easy-to-use and power-ful tax planning program that combines the very latest in tax and technology. You need no previous experience with computers to use the program, but we do assume that you are familiar with federal income taxation of individuals.

ABOUT THIS GUIDE

This **Tax Reference Guide** describes the program worksheets and what to enter for each item on the worksheets. It explains how the program computes the amounts in calculated rows, and it contains tax calculation information for both federal and state taxes. It is organized into two chapters:

Chapter 1 – **Federal Tax Worksheets**

Chapter 2 – **State Tax Calculations**

A separate guide – the **Operations Guide** – describes the features of program and it provides instructions on how to use program.

You can access the latest version of these guides on the program's Help menu.

CUSTOMER SUPPORT

If you have questions about using the program, please call our toll-free number 800.424.2938. Bloomberg Tax and Accounting Customer Support is available during regular business hours, 9:00 am to 7:00 pm (ET) to answer any questions you may have.

We invite you to send us comments on the program and guides by submitting a Support Form via our Website at **https://bnasoftware-support.force.com**. You can also submit your comments by mail.

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You will receive prompt notification of program updates or enhancements, and discounts on update prices.

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FEDERAL TAX WORKSHEETS

OVERVIEW

This manual provides descriptions of individual worksheets and describes what to enter for each item on the worksheets. It also explains how the program computes the amounts in calculated rows. Cross-references to relevant Internal Revenue Code sections are provided where appropriate.

Worksheet rows are numbered sequentially in the manual so that they can be easily cross-referenced to items on other worksheets. All worksheet rows are included in the numbering system, regardless of whether they are input items, calculated items, headers, or blank rows. Row numbers can be viewed on the screen by checking **View Worksheet Row Numbers** on the Option menu. Row numbers are always displayed on the **Batch Input**, **Alternative Capital Gains Tax**, and **AMT Alternative Capital Gains Tax** worksheets.

Descriptions and help messages for input and calculated rows are the same, regardless of whether you accessed the row through the **Batch Input** worksheet or through the multi-level worksheet system of **Main Worksheet** and subworksheets.

Note. To determine which subworksheets you may need to use, see **Worksheet Descriptions** on page 9. The worksheet descriptions summarize and outline the purpose of each subworksheet and the calculations that are derived from it.

WORKSHEET DESCRIPTIONS

BATCH INPUT

The **Batch Input** worksheet contains all the program's detail-level input rows, sequentially numbered and grouped under each worksheet title. This

worksheet is provided as an alternative to entering data on the subworksheets. Accessed from: the **Batch Input** option on the Worksheets menu, or press **B**.

INDIVIDUAL ACTIVITIES

These worksheets handle input from 1099s and K–1s. You can enter up to 1000 activities and designate the characteristics of each activity, e.g, passive or nonpassive, active participation rental real estate, etc.

For passive activities, up to 1000 passive activity items are allowed overall, distributed among the activities.

For nonpassive activities, there are entry rows for 60 different types of nonpassive income or loss for each activity.

All data from these worksheets is automatically posted back to the rows labeled "Individual Activities" on other worksheets in the program.

The program automatically creates summary worksheets for the nonpassive data, categorized by type of income and loss. Accessed from: any row labeled "Individual Activities".

See **Individual Activities** on page 25 for details.

SECURITY TRANSACTION ANALYZER

Determines the appropriate holding period and calculates the gain or loss for each security transaction item entered on the worksheet. The **Security Transaction Analyzer** worksheet should only be used for investment transactions. Do not use this worksheet for § 1231 transactions or sale of personal assets (such as a residence). It also should not be used for unrecaptured § 1250 gain. It may be used for collectibles gain or loss (investment only), provided the holding period override is used to select 28% Rate for these gains and losses. Accessed from: **Capital Gains and Losses** and **28% Rate Capital Gains and Losses** subworksheets.

PRESENT VALUE

Contains computations of present value of total taxes to be paid over multiple year periods together with cash flows to be generated by the transactions under analysis. Normally accessed and used after data has been entered in the other worksheets. Accessed from: Worksheets menu.

W-4 WORKSHEET

Computes income withholding needed for the remainder of the year. Accessed from: the Worksheet list.

SUMMARY REPORT

Shows the details behind the tax calculations, following the general format of pages 1 and 2 of federal Form 1040.

MAIN WORKSHEET

The **Main Worksheet** is the starting point of all analyses. It is always open. From this worksheet you can access other subworksheets where you can enter the details of the analysis.

FILING STATUS

Contains taxpayer filing status, amount of elderly and blind additional standard deductions to which the taxpayer is entitled, and designations for must itemize and married separate lived together. Married filing separately is relevant to IRA limitations, passive activity rental real estate deduction limits, and social security exclusion limits. Filing status may be entered instead on the **Main Worksheet**, but the subworksheet must be used for the other items. Accessed from: **Main Worksheet**.

ORDINARY INCOME

Provides access to subworksheets for **Wages**, **Interest and Dividends**, **Self-employment Income and Loss**, **Investment Interest Expense**, **Passive & MAPRRA Income or Loss**, **Publicly Traded Partnerships**, **Section 1231 & Casualty Gain or Loss**, **Other Ordinary Income**, and **IRA Deductions**. Accessed from: **Main Worksheet**.

EXCESS BUSINESS LOSS AND NOLS

This subworksheet computes the limitation for excess business losses under IRC § 461(l). Accessed from: **Ordinary Income** worksheet.

NOL GENERATED

This subworksheet contains items to calculate the Net Operating Loss Generated in 2018 and subsequent years. Accessed from: **Excess Business Loss and NOLs** worksheet.

WAGES

Contains taxpayer's and spouse's FICA wages, 401(k) and SIMPLE wages, and non-FICA wages. Used for purposes of both the income and self-employment tax. It also contains federal, state, and nonresident state withholding. Wages are also relevant for purposes of earned income computations, which are needed for taxpayers who are subject to the Minor Child tax, other taxpayers who must itemize because they are supported, IRA computations, and

taxpayers who are entitled to the earned income credit. Provides access to subworksheets for **Dependent Care Exclusion & Credit** and **Adoption Exclusion & Credit**. Accessed from: **Ordinary Income** subworksheet.

INTEREST AND DIVIDENDS

Contains U.S. Government Interest, Other Interest, Dividend Income, Capital Gain Dividends, Tax Exempt Interest, and Private Activity Bond Interest. Interest and dividends enter into the computation of net investment income for purposes of the investment interest limitation. Provides access to the **Educational Interest Income & Expense** subworksheet. Accessed from: **Ordinary Income** subworksheet.

SELF-EMPLOYMENT INCOME & LOSS

Contains self-employment income and loss for the taxpayer and spouse. Used for both income and self-employment tax purposes. Automatically computes the self-employment tax deductions under IRC §§ 164(f) and 1402(a)(12). Self-employment income is also relevant for purposes of earned income computations, which are needed for taxpayers subject to the Minor Child tax, other taxpayers who must itemize because they are supported, IRA computations, and taxpayers who are entitled to the earned income credit. Provides access to the **Passive and MAPRRA Income/Loss** subworksheet. Accessed from: **Ordinary Income** subworksheet.

QUALIFIED INCOME AMOUNT

This subworksheet contains the computation of the deductible amount for an activity for purposes of the qualified business income deduction. Accessed from:

- **Passive Activity** worksheet
- **Nonpassive Activity** worksheet
- **Taxpayer's Self Employment** worksheet
- **Spouse's Self Employment** worksheet
- **Other Ordinary Income** worksheet

SECTION 1231 & CASUALTY GAIN/LOSS (REGULAR TAX)

Contains items needed to compute and determine the character of casualty and Section 1231 asset sale gain or loss. Also contains items needed for the computation of net investment income. Provides access to the **Passive & MAPRRA Inc/Loss** and **Publicly Traded Partnerships** subworksheets. Accessed from: **Ordinary Income** and **Capital Gains and Losses** subworksheets.

CASUALTY GAINS AND LOSSES

This subworksheet calculates regular tax casualty gains and losses and posts its result to the regular tax **Section 1231 & Casualty Gain/Loss** subworksheet. Accessed from: **Section 1231 & Casualty Gain/Loss** subworksheet.

PASSIVE & MAPRRA INCOME OR LOSS (REGULAR TAX)

Contains items needed for calculation of income and loss for purposes of the regular tax. Handles both passive losses for all taxpayers and material participation rental real estate losses of real estate professionals. Provides access to the **Passive Real Estate Exemption** subworksheet. Accessed from: **Ordinary Income**, **Capital Gains and Losses**, and **28% Rate Capital Gains and Losses** subworksheets.

PASSIVE REAL ESTATE EXEMPTION

Contains items necessary to calculate the allowable exemption for active participation rental real estate activities. Accessed from: **Passive & MAPRRA Inc/Loss** subworksheet.

PUBLICLY TRADED PARTNERSHIPS (REGULAR TAX)

Contains computation of income and loss from publicly traded partnership passive activities. Accessed from: **Ordinary Income** and **Capital Gains and Losses** subworksheets.

INVESTMENT INTEREST EXPENSE

Contains items needed to automatically compute the investment interest limitation. Handles carryovers in multiple-year situations. Automatically activates the **Net Investment Income** worksheet, which computes net investment income. Accessed from: **Ordinary Income** subworksheet.

NET INVESTMENT INCOME

Computes net investment income for purposes of the regular tax investment interest limitation. Collects items of net investment income from other worksheets including **Section 1231 & Casualty Gain/Loss**, **Capital Gains and Losses**, **Other Income**, **Itemized Deductions**, and **Publicly Traded Partnerships**. Where those worksheets apply, they should be used in conjunction with this one. This worksheet is activated automatically when the **Investment Interest Expense** worksheet is activated. Accessed from: **Investment Interest Expense** subworksheet.

TAXPAYER'S AND SPOUSE'S FOREIGN EARNED INCOME EXCLUSION

This worksheet computes the taxpayer's and spouse's foreign earned income and housing exclusion, as well as the housing deduction. Accessed from: **Ordinary Income** subworksheet.

OTHER ORDINARY INCOME

Contains social security benefits, tax refunds, alimony income, unemployment compensation, investment income and expense (other than interest and dividends), NOL deduction, and other ordinary income. Used to automatically compute the social security exclusion. Also contributes to the investment interest limitation. Alimony is used for IRA computations. The NOL deduction and state tax refunds are AMT adjustments. Provides access to the **State Estimated & Withholding** subworksheet. Accessed from: **Ordinary Income** subworksheet.

IRA DEDUCTIONS

Contains items needed for the limitations on IRA deductions as well as limitations on Roth IRA contributions. Accessed from: **Ordinary Income** subworksheet.

TAXPAYER'S AND SPOUSE'S KEOGH AND SEP DEDUCTIONS

Contains items needed to compute the amount of the Keogh and Simplified Employee Plan Deductions for the taxpayer and self-employed spouse of the taxpayer. Accessed from: **Ordinary Income** subworksheet.

EDUCATIONAL INTEREST INCOME & EXPENSE

Contains items needed to compute the exclusion for U.S. savings bond interest received in a year when the taxpayer has educational expenses, as well as the deduction for educational loan interest. Accessed from: **Interest and Dividends** and **Ordinary Income** subworksheets.

EDUCATION EXPENSES

Computes the Hope Scholarship credit and Lifetime Learning credit allowed by IRC § 25A for education expenses. It also calculates the education expense deduction allowed by IRC § 222 for years 2002 through 2005. Accessed from: **Credits** and **Ordinary Income** subworksheets.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

This subworksheet contains items needed to compute the amount of the deduction allowed for income from qualified domestic production activities. Accessed from: **Ordinary Income** subworksheet.

CAPITAL GAINS AND LOSSES

Computes carryover of capital losses in multiple-year situations. Also contains items needed for the computation of net investment income. Provides access to subworksheets for handling Passive & MAPRRA Income/Loss, Publicly Traded Partnerships, Section 1231 Casualty Gain/Loss, Interest and Dividends, 28% Rate Capital Gains and Losses, Security Transaction Analyzer, Lump Sum Distribution, and 2003 Post 5/5 Capital Gains and Losses. This worksheet is automatically activated when you activate the **Interest and Dividends** worksheet. Accessed from: **Main Worksheet**.

2003 POST 5/5 CAPITAL GAINS AND LOSSES

This subworksheet computes the net capital gain for the portion of 2003 on or after May 6, the effective date of the 2003 change in the capital gains taxes. Accessed from: **Capital Gains and Losses** worksheet.

LUMP SUM DISTRIBUTION

Computes the 5- or 10- year tax on lump sum distributions from qualified plans and the special 20% tax on the capital gain portion of the distributions. Accessed from: **Capital Gains and Losses** and the **Self-employment & Other Taxes** subworksheets.

28% RATE CAPITAL GAINS AND LOSSES

This subworksheet computes the amount of long-term net capital gain or loss on sales after July 28, 1997, and before January 1, 1998, of property held for more than one year but not more than 18 months. Also included on this worksheet are gains and losses from collectibles, small business stock gain (Section 1202), and long-term capital loss carryovers. For 1997, 28% rate gains and losses also include all long-term capital gains and losses from pre-May 7 sales and exchanges. Provides access to the **Passive & MAPRRA Income/Loss**, **Publicly Traded Partnerships**, **Section 1231 Casualty Gain/Loss**, and **Interest and Dividends** subworksheets and is automatically activated when you activate the **Interest and Dividends** or the **Capital Gains and Losses** worksheets. Accessed from: **Capital Gains and Losses** worksheet.

ITEMIZED DEDUCTIONS

Contains items needed to limit the following items:

- medical expenses
- employee business expenses
- casualty losses
- miscellaneous itemized deductions

The program automatically applies the 3% floor limitation to itemized deductions required for post-1990 years. The subworksheet also contains items needed to compute net investment income. In addition, entries for medical, miscellaneous itemized, taxes, and interest are used for alternative minimum tax adjustments.

Provides access to the **State Estimated and Withholding** subworksheet.

 subworksheets for computing limitations on investment interest expense, charitable contributions, and to the

This worksheet is automatically activated when you activate any of the worksheets:

- Sec. 1231 Ordinary & Casualty Gain/Loss
- Investment Interest Expense
- Passive & MAPRRA Income/Loss
- Publicly Traded Partnerships
- State Estimated and Withholding Payments.

Accessed from: **Main Worksheet**.

CHARITABLE CONTRIBUTIONS

Contains items needed for automatic computation of the regular tax charitable contribution limitations. Handles carryovers in multiple-year situations. Accessed from: **Main Worksheet**.

STATE ESTIMATED AND WITHHOLDING

Summarizes the computations and provides access to these subworksheets: **Resident State Estimated & Withholding Payments**, **NY Nonresident State Estimated & Withholding Payments**, and **Other Nonresident State Estimated & Withholding Payments**. These subsworksheets contain items needed to compute the state credit for taxes paid and withheld, the federal deduction for such taxes, and the refund for overpayments. Accessed from: **Main Worksheet** and **Itemized Deductions** subworksheet.

RESIDENT STATE ESTIMATED AND WITHHOLDING PAYMENTS

Contains items needed to compute the resident state credit for taxes paid and withheld, the federal deduction for such taxes, and the refund for overpayments. Accessed from: **State Estimated and Withholding** subworksheet.

STATE AND LOCAL SALES TAXES

This subworksheet contains items needed to compute the deduction for state and local sales taxes allowed in lieu of the deduction for state income taxes. Accessed from: **Itemized Deductions** worksheet.

QUALIFIED RESIDENCE INTEREST

This subworksheet contains items needed to calculate the qualified residence interest deduction. Accessed from: **Itemized Deductions** subworksheet.

STANDARD DEDUCTION

This subworksheet contains items needed to compute the federal standard deduction. Accessed from: **Main Worksheet**.

QUALIFIED INCOME DEDUCTION

This subworksheet contains the computation of the qualified business income deduction. Accessed from: **Main Worksheet**.

QUALIFIED INCOME LOSS ALLOCATION

This subworksheet tracks the loss carryovers and allocations for qualified business losses. Accessed from: **Qualified Income Deduction** worksheet.

ALTERNATIVE MINIMUM TAX

Contains items needed for calculating the alternative minimum tax. Adjustments for medical expense, taxes, housing interest, miscellaneous itemized interest, and the 3% itemized deductions floor are computed automatically on this subworksheet based on the **Itemized Deductions** subworksheet if the **Itemized Deductions** subworksheet is active. This worksheet is always active. The adjustment for tax refunds is computed automatically based on entries on the **Other Ordinary Income** worksheet. The preference for private activity bond interest is computed automatically based on entries on the **Interest and Dividends** worksheet.

Allows access to subworksheets for calculating the impact on alternative minimum tax of income or loss from passive/MAPRRA activities, publicly traded partnerships, Sec.1231 and casualty gains and losses, capital gains

and losses, investment interest expense, and charitable contributions. Also provides access to the **AMT Alternative Capital Gains Tax** worksheet.

All worksheets associated with the alternative minimum tax calculation (except the **AMT Charitable Contribution Adjustment**) are activated automatically when the program begins and remain active at all times. Accessed from: **Main Worksheet**.

SECTION 1231 & CASUALTY GAIN/LOSS (ALTERNATIVE MINIMUM TAX)

Contains items needed to compute and determine the character of casualty and § 1231 asset sale gain/loss for alternative minimum tax purposes. Provides access to subworksheets for handling **Passive & MAPRRA – Alt Min** and the **Publicly Traded Partnerships – Alt Min** items. Accessed from: **Alternative Minimum Tax** worksheet.

INVESTMENT INTEREST (ALTERNATIVE MINIMUM TAX)

Contains items needed for the alternative minimum investment interest deduction. This worksheet is always active. Accessed from: **Alternative Minimum Tax** worksheet.

AMT CHARITABLE CONTRIBUTIONS ADJUSTMENT

Contains items necessary to adjust the charitable contribution deduction for AMT purposes. Handles AMT charitable contribution carryovers in multiple-year situations. Accessed from: **Alternative Minimum Tax** worksheet.

CAPITAL GAIN OR LOSS (ALTERNATIVE MINIMUM TAX)

Contains items needed for alternative minimum capital gain and loss computations. This worksheet is always active. Provides access to subworksheets for handling **Passive & MAPRRA – Alt Min**, **Publicly Traded Partnerships – Alt Min**, **28% Rate Capital Gains or Loss – Alt Min**, and **Section 1231 & Casualty Gain/Loss – Alt Min** items. Accessed from: **Alternative Minimum Tax** worksheet.

2003 POST 5/5 CAPITAL GAINS AND LOSSES (ALTERNATIVE MINIMUM TAX)

This subworksheet computes the net capital gain for the portion of 2003 on or after May 6, the effective date of the 2003 change in the capital gains taxes. Accessed from: **Capital Gains and Losses** worksheet

28% RATE CAPITAL GAIN OR LOSS (ALTERNATIVE MINIMUM TAX)

Contains items needed for alternative minimum 28% rate capital gain and loss computations. This worksheet is always active. Provides access to subworksheets for handling **Passive & MAPRRA – Alt Min**, and **Publicly Traded Partnerships – Alt Min**, and **Section 1231 & Casualty Gain/Loss – Alt Min** items. Accessed from: **Capital Gain/Loss – Alt Min** subworksheet.

PASSIVE & MAPRRA (ALTERNATIVE MINIMUM TAX)

Contains items needed for calculation of passive/MAPRRA income and loss for purposes of the alternative minimum tax. Handles both passive losses for all taxpayers and material participation rental real estate losses of real estate professionals. This worksheet is always active. Provides access to the **Real Estate Exemption – Alt Min** subworksheet. Accessed from: **Alternative Minimum Tax** worksheet.

REAL ESTATE EXEMPTION (ALTERNATIVE MINIMUM TAX)

Contains items necessary to adjust the passive activity real estate exemption as computed for AMT purposes. Accessed from: **Passive & MAPRRA – Alt Min** subworksheet.

PUBLICLY TRADED PARTNERSHIPS (ALTERNATIVE MINIMUM TAX)

Contains computation of income and loss from publicly traded partnership passive activities for alternative minimum tax purposes. This worksheet is always active. Accessed from: **Alternative Minimum Tax** worksheet.

AMT ALTERNATIVE CAPITAL GAINS TAX

This report shows the details behind the computation of the AMT alternative capital gains tax calculations, following the general format of IRS form 6251. Allows you to select years to apply the 2004 technical correction to these computations. Accessed from: **Alternative Minimum Tax** worksheet.

MINOR CHILD TAX

Contains information needed to calculate the special tax on unearned income of minor children. Accessed from: **Main Worksheet**.

ALTERNATIVE CAPITAL GAINS TAX

This output report shows the details behind the computation of the alternative capital gains tax calculations, following the general format of the IRS worksheet for Schedule D. Accessed from: **Main Worksheet**.

19

FARM INCOME AVERAGING

Contains information needed to calculate the farm income averaging tax described in IRC Section 1301 applicable to years after 1997. Accessed from: **Main Worksheet**.

FOREIGN INCOME EXCLUSION TAXES

This subworksheet computes the special taxes on foreign earned income and housing excluded under Section 911, in years after 2005. Accessed from:

- **Main Worksheet**
- **Alternative Minimum Tax** worksheet
- **Minimum Tax Credit** worksheet

CREDITS

Contains nonrefundable and refundable credits. Provides access to subworksheets used for:

- withholding and estimated tax payments
- calculating the minimum tax credit
- calculating the earned income credit
- calculating the 2001 10% bracket credit
- calculating the dependent care exclusion and credit
- calculating the adoption exclusion and credit
- calculating the child tax credit
- calculating the Hope scholarship credit and lifetime learning credit
- calculating the credit for elective deferrals
- calculating the credit for nonbusiness energy property
- calculating the credit for residential energy efficient property
- calculating the D.C. Homebuyer credit
- calculating the affordable care credit
- calculating the 2020 Recovery Rebate Credit
- calculating the Self-employed Sick Leave Credit
- calculating the Self-employed Family Leave Credit

This subworksheet is activated automatically when the program begins and must remain active at all times. Accessed from: **Main Worksheet**.

2001 10% BRACKET CREDIT

This subworksheet computes the 5% credit allowed in 2001 in lieu of the 10% bracket. Accessed from: **Credits** worksheet

DEPENDENT CARE EXCLUSION AND CREDIT

Computes the exclusion for employer-provided dependent care and the credit for child and dependent care expenses. Accessed from: **Credits and Wages** subworksheets.

ADOPTION EXCLUSION AND CREDIT

Computes the exclusion for employer-provided adoption assistance and the credit for adoption expenses. Accessed from: **Credits and Wages** subworksheets.

CHILD TAX CREDIT

Computes the child tax credit allowed by IRC § 24. Accessed from: **Credits** subworksheet.

CREDIT FOR ELECTIVE DEFERRALS AND IRAS

This subworksheet calculates the credit allowed by IRC § 25B for contributions to IRAs and other elective deferrals. Accessed from: **Credits** subworksheet.

NONBUSINESS ENERGY PROPERTY CREDIT

This subworksheet calculates the credit allowed by IRC § 25C for windows, insulation and qualified energy efficiency improvements. Accessed from: **Credits** subworksheet.

RESIDENTIAL ENERGY EFFICIENCY PROPERTY CREDIT

This subworksheet calculates the credit allowed by IRC § 25D for photovoltaic property, solar water heating property, and qualified fuel cells. Accessed from: **Credits** subworksheet.

D.C. HOMEBUYER CREDIT

Computes the D.C. Homebuyer credit provided by IRC § 1400C for a first-time homebuyer of a principal residence in the District of Columbia. Accessed from: **Credits** subworksheet.

MINIMUM TAX CREDIT

Contains items for calculation of the minimum tax credit that arise when there are deferral preferences for alternative minimum tax purposes. This subworksheet is always active. Accessed from: **Credits** worksheet.

WITHHOLDING, ESTIMATED AND PENALTY

Contains entries for federal withholding and estimated tax payments. Computes the penalty for underpayment of estimated taxes. Accessed from: **Credits** and the **Self-employment & Other Taxes** subworksheets.

EARNED INCOME CREDIT

Calculates the earned income credit provided by IRC § 32. Accessed from: **Credits** subworksheet.

MAKING WORK PAY CREDIT

This subworksheet contains items needed to compute the amount of the making work pay credit in 2009 and 2010. Accessed from: **Credits** subworksheet.

2008 RECOVERY REBATE CREDIT

This subworksheet contains items needed to compute the amount of the Recovery rebate and the credit for the rebate in 2008. Accessed from: **Credits** subworksheet.

2020 RECOVERY REBATE CREDIT

This subworksheet computes the rebate and credit allowed in 2020 under the CARES Act (Pub. L. No. 116-136). Accessed from: **Credits** subworksheet.

2020 SELF-EMPLOYED FAMILY LEAVE CREDIT

This subworksheet computes the family leave credit allowed in 2020 under the Families First Coronavirus Response Act (Pub. L. No. 116-127). Accessed from: Credits subworksheet.

2020 SELF-EMPLOYED SICK LEAVE CREDIT

This subworksheet computes the sick leave credit allowed in 2020 under the Families First Coronavirus Response Act (Pub. L. No. 116-127). Accessed from: Credits subworksheet.

FIRST-TIME HOMEBUYER CREDIT

This subworksheet calculates the credit allowed by IRC § 36 for a first-time homebuyer of a principal residence. Accessed from: **Credits** subworksheet and **Self-employment and Other Taxes** subworksheet

SELF-EMPLOYMENT AND OTHER TAXES

Contains computation of taxpayer's and spouse's self-employment tax (based on entries on the **Self-employment Income & Loss** worksheet) as well as investment credit recapture and taxes on early or excess distributions from qualified plans. Allows access to subworksheets used for calculating the lump sum tax and the penalty for underpayment of estimated taxes. Accessed from: **Main Worksheet**.

HIGH-INCOME HEALTH INSURANCE TAX

This subworksheet computes the 0.9% tax on wages and self-employment income for high-income taxpayers in years after 2012. Accessed from: **Self-employment and Other Taxes** worksheet.

MEDICARE INVESTMENT INCOME TAX

This subworksheet computes the 3.8% tax on investment income for high-income taxpayers in years after 2012. Accessed from: **Self-employment and Other Taxes** worksheet.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION FOR INVESTMENT

This subworksheet contains items needed to compute the amount of the deduction from qualified domestic production activities allowed for purposes of the Medicare Investment Income Tax. Accessed from: **Medicare Investment Income Tax** worksheet.

ALLOCABLE STATE INCOME TAX DEDUCTION

This subworksheet computes the allocation of the state income tax deduction for purposes of the Medicare Investment Income Tax. Accessed from: **Medicare Investment Income Tax** worksheet.

STATE TAX REFUND: INVESTMENT

This subworksheet computes the includible refund of state income tax for purposes of the Medicare Investment Income Tax in years after 2013. Accessed from: **Medicare Investment Income Tax** worksheet.

AFFORDABLE CARE CREDIT AND SHARED RESPONSIBILITY PAYMENT

This subworksheet computes the Affordable Care Credit under IRC § 36B and the Shared Responsibility Payment under Section 5000A for years after 2013. Accessed from: **Self-Employment and Other Taxes** worksheet and the **Credits** worksheet.

ACCESSING HELP

A summarized version of the worksheet row descriptions can be viewed online by using one of these methods:

KEYBOARD   To use the keyboard to call up a row's help message, click on that row and press F1.

MOUSE   Alternatively, you can use the mouse to view the help for a particular row: Select Help from the Help menu. Then click Help for current row to call up the help message for that row.

IRS FORM LINE NUMBERS

Unless otherwise noted, all references to IRS forms in this manual are to the forms for the year immediately prior to the year of publication.

WORKSHEETS

BATCH INPUT

The **Batch Input** worksheet is a worksheet containing all the program's detail-level input rows, sequentially numbered and grouped under each worksheet title. This worksheet is provided as an alternative to entering data on the subworksheets.

Input rows are numbered on the **Batch Input** worksheet. Additional unnumbered rows are worksheet titles and are displayed in the same manner as calculated rows.

Note. If you call up the **Batch Input** worksheet before entering any data, "Joint" Filing Status is entered for all years (except for Minor Child computations), default answers are entered for all Yes/No questions, and all numeric cells contain zeros.

SELECTING BATCH INPUT

You may find it faster and more convenient to use the **Batch Input** worksheet to enter the data for some items, while using the regular worksheets for other items.

To open the **Batch Input** worksheet, select **Batch Input** from the Worksheets menu. You can also select it from the Worksheet List.

ENTERING DATA ON THE BATCH INPUT WORKSHEET

You enter numbers on the **Batch Input** worksheet in the same way as you enter numbers on any other worksheet.

Use this worksheet just as you would use the program's regular worksheets. Data is posted automatically to the appropriate worksheets for calculation and display. Calculations are performed automatically during batch input if you select **Calculations On** (Options menu).

On the **Batch Input** worksheet, you can only enter data into the program's lowest level rows. For example, there is no row for "Interest and Dividends" on the **Batch Input** worksheet. There are, instead, many rows where you can enter the detailed interest and dividends data (e.g., "U.S. Gov't Interest", "Private Activity Bond Int", etc.).

You can use the Edit menu commands on both regular worksheets and the **Batch Input** worksheet.

INDIVIDUAL ACTIVITIES

The **Individual Activities** worksheets handle input from K–1s and 1099s on an activity-by-activity basis. Depending on the amount of available memory, you can enter up to 1000 activities and designate the characteristics of each activity, e.g., passive or nonpassive, active participation rental real estate, etc. All data from these worksheets is automatically posted back to the rows labeled "Individual Activities" on other worksheets in the program.

The **Individual Activities** worksheets may be accessed from any row labeled "Individual Activities" or from the Worksheets menu.

PASSIVE ACTIVITIES For passive activities, up to 1000 passive activity items are allowed overall, distributed among the activities (which are also limited to 1000).

NONPASSIVE ACTIVITIES For nonpassive activities, there are entry rows for 60 different types of nonpassive income or loss for each activity. Summary worksheets for the nonpassive data, categorized by type of income and loss, are created automatically. You can have up to 1000 nonpassive activities overall.

Note. This section covers what to enter from a tax standpoint. For operational information such as how to enter data, Edit menu commands, moving within the worksheet, etc., see **Individual Activities (Passive and Nonpassive Items)** in Chapter 6 of the **Operations Guide**.

When you open an **Individual Activities** worksheet, you will see an **Individual Activities** worksheet window where you enter the name of the activity and its characteristics, i.e., passive, active real estate, Trade or Business, etc. All activities, passive and nonpassive, are entered in this worksheet window.
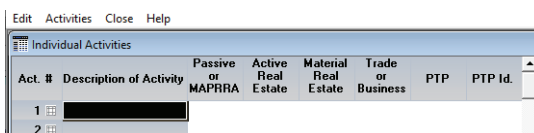
Note that the **Individual Activities** worksheet has its own menu bar and commands. The commands on the regular Edit menu are not available when entering data on the **Individual Activities** worksheet. To the left of each Activity is a white inactive worksheet icon indicating that no data has yet been entered for the activity. This icon changes to a blue active worksheet icon when data has been entered. The columns headed **Description of Activity**, **Passive or MAPRRA**, **Active Real Estate**, **PTP**, and **PTP Id** must be completed for each activity. All columns are described below.

(1) Description

Enter an optional description for the activity. The description has no effect other than to enable you to identify the activity on other worksheets and on reports.

(2) Passive or MAPRRA

Answer "Yes" if the activity is either a passive activity with respect to the taxpayer or a material participation real estate activity of a real estate professional. See IRC § 469(c)(7).

If you answer "Yes," you will be able to enter up to 15 passive activity or MAPRRA items for this activity on a **passive/MAPRRA activity** worksheet. If you answer "No," you will only be able to access the worksheet for entering nonpassive items. Nonpassive entries may be made for both passive/MAPRRA and nonpassive activities.

(3) Active Real Estate

Answer "Yes" if the activity is an Active Participation Rental Real Estate Activity (APRRA) and, therefore, qualifies for the $25,000 exemption in IRC § 469(i). If not, enter N (No). The program has no provision for activities that are active real estate in one year and not the next, or vice versa.

(4) Material Real Estate

Answer "Yes" or "No" to indicate whether the activity is a Material Participation Rental Real Estate activity of a real estate professional. See IRC § 469(c)(7). The program takes this answer into account in treating income and loss of the activity in post-1993 years. See NOTE 9 for the **Passive & MAPRRA Income and Loss** worksheet on page 192.

(5) Trade or Business

Answer Yes or No to indicate whether the Material Participation Rental Real Estate activity is a an active trade or business for purposes of the Medicare Investment Income Tax with respect to the taxpayer as defined in the statute and final regulations. See Explanation of Provisions for Treas. Reg. § 1.1411 in REG-130507-11 and Treas. Reg. § 1.1411-5 example 2. A Yes indicates that any items entered as MAPRRA items for the activity will be treated as trade or business items. The question has no effect on non-MAPRRA items of the activity.

(6) PTP – Publicly Traded Partnership

Answer "Yes" or "No" to indicate whether the activity is owned by a publicly traded partnership. See IRC § 469(k). This item relates only to passive activities and no entry may be made in this field unless the activity has been designated as a passive activity on this worksheet.

(7) PTP ID – Publicly Traded Partnership Identifier

Enter up to 3 letters to identify the activity as belonging to a particular PTP. For the purpose of determining whether the PTP is a gain or a loss PTP (and for other purposes), the program offsets gains and losses from activities in the same PTP against each other. Therefore, the program needs to know which activities are in the same PTP. See the Instructions for Form 8582. This field must be completed.

ENTERING ITEMS FOR INDIVIDUAL ACTIVITIES

When you complete the last item on this worksheet for an activity, another worksheet appears, labeled with the Description entered for that activity. If the activity is a passive activity or MAPRRA, this worksheet will contain a row to access the worksheet containing the nonpassive items, and rows on which to enter the passive/MAPRRA items. If the activity is a nonpassive activity, you will be brought directly to the worksheet containing the nonpassive items.

INDIVIDUAL ACTIVITY (PASSIVE/MAPRRA ITEMS)

For passive and MAPRRA activities, the following worksheet appears. As each passive/MAPRRA activity item is completed, another item automatically appears. To access the worksheet for nonpassive items, double-click (or press W) on the first row, "Nonpassive Items."

		Case 1			Case 2		
		2019	2020	2021	2019	2020	2021
(1)	Nonpassive Items	0	0	0	0	0	0
	PASSIVE AND MAPRRA ITEMS:						
(2)	Sold this year (Y/N)	No	No	No	No	No	No
(3)	Qualified Income Amount	0	0	0	0	0	0
(4)	Item 1:						
(5)	Type: Other Ordinary						
	Current Year Income/Loss	0	0	0	0	0	0
	AMT Adjs to Income/Loss	0	0	0	0	0	0
	Prior Year Unallowed Losses	0	0	0	0	0	0
	AMT Prior Year Unallowed Losses	0	0	0	0	0	0
	Current Year Allowed	0	0	0	0	0	0
	AMT Current Year Allowed	0	0	0	0	0	0
	Item 2:						
	Totl Passv & MAPRRA:Reg Tx	0	0	0	0	0	0
	Totl Passive & MAPRRA:AMT	0	0	0	0	0	0

(1) Nonpassive Items

No entry may be made on this row. It is used only to access the **Nonpassive Items** worksheet.

(2) Sold this Year (Y/N)

Answer Yes if the taxpayer is disposing of his entire interest in the activity this year in a fully taxable transaction. If not, enter N (No). In multiple-year situations, "this year" refers to the year heading the column in which the answer appears, and only one column can contain a "Yes" answer. See IRC § 469(g).

For years after 2017 and before 2026, for a publicly traded partnership that has been sold do not enter a loss for Domestic Production/Qualified Ordinary Income. Such losses do not factor into Qualified Publicly Traded Partnership Income. Enter such losses as Ordinary Other Non Self-employment Income or Loss. See IRC § 199A(e)(5).

(3) Qualified Income Amount

The qualified business amount for the activity. Press W to access the **Qualified Income Deduction – Passive** worksheet for details.

(4) Item [Description]

Enter an optional description of the item. Generally, it is suggested that you use the Form 1040 Schedule or Form number since it appears that this is the breakdown of items the IRS requires. Enter any of the following:

- Schedule C, E, or F
- Form 4797 — Part I
- Form 4797 — Part II
- Schedule D — Part I
- Schedule D — Part II
- Form 4684, Section B

See **Note 1** on page 72.

(5) Item Type

Select the type of Item from the drop-down list. The item type specifies how the program will distribute the re-sults to the other worksheets.

The types are listed below in non-abbreviated form:

- Ordinary Domestic Production/Qualified Business Non-Self-employment Income or Loss
- Ordinary Other Non-Self-employment Income or Loss
- Unrecaptured Section 1250/1231 Gain
- Section 1231 28% Rate Gain/Loss
- Other Section 1231 Gain/Loss
- Ordinary Property Disposition Gain/Loss
- Short-term Capital Gain/Loss
- 28% Rate Capital Gain/Loss
- Other Long-term Gain/Loss
- Unrecaptured Section 1250 Casualty Gain
- Other Casualty Gain/Loss
- Taxpayer's Domestic Production/Qualified Business Self-employment Income or Loss
- Spouse's Domestic Production/Qualified Business Self-employment Income or Loss
- Taxpayer's Other Self-employment Income or Loss

- Spouse's Other Self-employment Income or Loss

For years after 2017 and before 2026, the Ordinary Domestic Produc-tion/Qualified Business Non Self-employment Income or Loss, Taxpayer's Domestic Production/Qualified Business Self-employment In-come or Loss, and Spouse's Domestic Production/Qualified Business Self-employment Income or Loss item types are used to generate Qualified Business Income for the purpose of calculating the Qualified Business Income Deduction under IRC § 199A. For fiduciaries only include the amount allocated to the fiduciary. Do not include any amounts allocated to the beneficiaries. See Proposed Treasury Regulation §1.199A-6.

For years after 2017 and before 2026, for a publicly traded partnership that has been sold do not enter a loss for Domestic Production/Qualified Ordinary Income. Such losses do not factor into Qualified Publicly Traded Partnership Income. Enter such losses as Ordinary Other Non Self-employment Income or Loss. See IRC § 199A(e)(5).

Note. Under Notice 90-21, I.R.B. 1990-12, page 9, most casualty losses associated with passive activities are not passive activity deductions and should not be entered on the passive activity worksheets.

NOTE 1

The program supports separate item types for 28% rate passive activity capital gain and loss and passive activity section 1231 gain or loss.

The program also gives you the option of re-designating such items as 28% rate items automatically. Once such items are predesignated as 28% rate items, you should examine each of them. If there are post-1996 current year entries in any such item, you should determine whether this current year gain or loss is properly a 28% rate item, a 20% (other) item or an unrecaptured section 1250 item. If it is not a 28% rate gain or loss, it should be moved from the 28% item and combined with any other existing item in the correct category. You should make certain that the proper type has been designated for each passive item and that there are no duplicate types for any activity. You should also check the "Adjustment to 28% Rate Investment:" and "Adjustment to 28% Rate Trade/Business:" rows on the **Section 1231 & Casualty Gain/Loss** worksheet to remove any duplicate entries.

NOTE 2

You should follow the breakdown of items as required by the instructions to Form 8582 (except for the suggestion in the instructions for 1997 that certain item types create separate activities; see **NOTE 10** of the **Passive & MAPRRA Income and Loss** worksheet on page 192). It is not necessary, however, to allocate the gain and loss items among each other as described in the Instruc-

tions to Form 8582, since the program handles this allocation automatically. Further, an item of income or loss should be entered only once. Therefore, enter ordinary self-employment income only as TpSE (Taxpayer's Self-employment) or SpSE Income (Spouse's Self-employment), not as Ordinary.

Note also that it may be desirable in a few rare cases to have two items for a particular category. Specifically, there is no separate category in the program for 28% rate casualty gain or loss. The 28% rate portion of such gains and losses is handled (along with other casualty 28% rate section 1231 gains and losses) by a user adjustment on the **Section 1231 and Casualty Gain or Loss** worksheet. Therefore, where there are both 28% rate and 20% rate casualty gains and losses, you may wish to create two casualty gain or loss items. This allows the program to keep track of any passive carryovers in these separate subcategories and allows you to more easily identify the income and loss allowed for each such subcategory for purposes of the adjustment.

INDIVIDUAL ACTIVITY (NONPASSIVE ITEMS)

Activity 001

NONPASSIVE ITEMS

(1) Taxpayer's Domestic Production/Qualified Business Self-employment Income or Loss
(2) Taxpayer's Other Self-Employment Income
(3) Spouse's Domestic Production/Qualified Business Self-employment Income or Loss
(4) Spouse's Other Self-Employment Income
(5) Other Domestic Production/Qualified Business Income or Loss
(6) W-2 Wages Paid
(7) Qualified Income Amount
(8) Other General Ordinary Income or Loss
(9) U.S. Government Interest
(10) Other Interest
(11) Qualified Dividends
(12) Nonqualified Dividends
(13) REIT Dividends
(14) Unrecaptured Section 1250 Cap Gain Dividends
(15) 28% Rate Capital Gain Dividends
(16) 5-Year Capital Gains Dividends Purchased Pre-2001
(17) 2003 Post 5/5 Capital Gain Dividends
(18) Other Long-term Capital Gain Dividends
(19) Private Act Bond Interest
(20) Other Exempt Interest
(21) 2003 >5/5 Short-term Investment Capital Gain or Loss
(22) Other Short-term Investment Capital Gain or Loss
(23) 2003 >5/5 Short-term Non-Investment Capital Gain or Loss
(24) Other Short-term Non-Investment Capital Gain or Loss
(25) 28% Rate Investment Capital Gain or Loss
(26) 5-Year Investment Gain Purchased Pre-2001
(27) 2003 >5/5 Long-term Investment Capital Gain or Loss
(28) Other Long-term Investment Capital Gain or Loss
(29) 28% Rate Non-Investment Capital Gain or Loss

Activity 001 (continued)

(30) 2003 >5/5 Long-term Non-Investment Capital Gain or Loss
(31) Other Long-term Non-Investment Capital Gain or Loss
(32) Short-term Investment Casualty Loss
(33) Unrecaptured Section 1250 Trade or Business Casualty Gains
(34) Other Trade or Business Casualty Gains
(35) Unrecaptured Section 1250 Investment Casualty Gains
(36) Other Investment Casualty Gains
(37) Trade or Business Casualty Losses
(38) Investment Casualty Losses
(39) Section 1231 Trade or Business Condemnation Gains
(40) Section 1231 Investment Condemnation Gains
(41) Section 1231 Unrecaptured Section 1250 Trade or Business Gains
(42) Section 1231 28% Rate Trade or Business Gain or Loss
(43) Other Section 1231 Trade or Business Gain or Loss
(44) Section 1231 Unrecaptured Section 1250 Investment Gain
(45) Section 1231 28% Rate Investment Gain or Loss
(46) Other Section 1231 Investment Gain or Loss
(47) Other Unrecaptured Section 1250 Investment Gain
(48) Schedule E Investment Interest Expense
(49) Schedule A Investment Interest Expense
(50) Ordinary Property Disposition Gain or Loss – Investment
(51) 1033 Ordinary Gain – Investment
(52) Other Ordinary Investment Income
(53) AGI Investment Expenses
(54) Itemized Investment Expenses
(55) Ordinary Property Disposition Gain or Loss – Non-investment
(56) General Business Credit
(57) Foreign Tax Credit
(58) AMT Foreign Tax Credit
(59) Exclusion Preferences
(60) Exclusion Adjustments
(61) Deferral Preferences
(62) Deferral Adjustments

Note. To access the worksheet containing the nonpassive items for an activity, double-click (or press W) on the "Nonpassive Items" row of the **Passive and MAPRRA Activity Items** worksheet. If the activity has been characterized as nonpassive, the program skips the **Passive and MAPRRA Activity Items** worksheet and goes directly to the **Nonpassive Items** worksheet. The rows on this worksheet are described on the following pages.

When you have entered the nonpassive items for an activity, press q to return to the **Individual Activities** worksheet, where you can start a new activity. When the activities have all been completed, press q to return to the worksheet row through which you accessed the **Individual Activities** worksheets.

If you accessed the worksheets through a nonpassive "Individual Activities" row, the program will summarize all the items posted back to that row from the individual activity nonpassive items worksheets. Thereafter, when you double-click (or press W) on any nonpassive "Individual Activities" row, the program will take you to the summary worksheet for that item. If you move the cursor to a particular activity on that worksheet and double-click again, the program takes you directly to that activity on the **Activities** worksheet.

(1) Taxpayer's Domestic Production/Qualified Business Self-employment Income or Loss

Taxpayer's nonpassive self-employment qualified production income or loss attributable to the activity. See IRC § 199. Include domestic production self-employment income of sole proprietorships and partnerships in which the taxpayer or the spouse materially participates. Do **not** reduce the amount by the Section 164(f) deduction or the deduction under Section 1402(a)(12). For 2010, self-employment income is reduced by the taxpayer's health insurance deduction under IRC § 162(l)(4). If the taxpayer has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Taxpayer's Keogh and SEP Deductions** worksheet. For purposes of IRC § 199A, the program will consider qualified income entered on this row to be from the same trade or business as the qualified income entered on the "Spouse's Domestic Production Self-employment Income or Loss" row below.

Use the "Spouse's Domestic Production Self-employment Income or Loss" row to enter the domestic production income or loss of the spouse.

For years after 2017 and before 2026, enter the taxpayer's qualified business self-employment income or loss. Use the spouse's qualified business self-employment income or loss row below for the spouse. See IRC § 199A.

Do **not** include passive activity or MAPRRA domestic production self-employment income or loss. Instead, press Esc to enter such income or loss as a passive activity or MAPRRA item on the **Passive & MAPRRA Items** worksheet.

When running a taxpayer and spouse analysis, enter the taxpayer's domestic production self-employment income on this row in the Taxpayer column and the spouse's domestic production self-employment income on the "Spouse's Domestic Production Self-employment Income" row below in the Spouse column.

For years before 2005, this row will be N/A.

(2) Taxpayer's Other Self-employment Income or Loss

Taxpayer's nonpassive ordinary net earnings or loss from self-employment attributable to the activity, other than domestic production income or loss. Do **not** reduce the amount by the Section 164(f) deduction or the deduction under Section 1402(a)(12). For 2010, self-employment income is reduced by the taxpayer's health insurance deduction under IRC § 162(l)(4). If the taxpayer has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Taxpayer's Keogh and SEP Deductions** worksheet.

Use the "Spouse's Other Self-employment Income" row below to enter nonpassive self-employment income of the taxpayer's spouse.

When running a taxpayer and spouse analysis, enter the taxpayer's self-employment income on this row in the Taxpayer column and the spouse's self-employment income on the "Spouse's Self-employment Income" row below in the Spouse column.

Do **not** include passive activity or MAPRRA self-employment income or loss. Instead, press Esc to enter such income or loss as a passive activity or MAPRRA item on the **Passive & MAPRRA Items** worksheet.

(3) Spouse's Domestic Production Self-employment Income or Loss

Spouse's nonpassive self-employment qualified production income or loss attributable to the activity. See IRC § 199. Include domestic production self-employment income of sole proprietorships and partnerships in which the taxpayer or the spouse materially participates. Do **not** reduce the amount by the Section 164(f) deduction or the deduction under Section 1402(a)(12). For 2010, self-employment income is reduced by the spouse's health insurance deduction under IRC § 162(l)(4). If the spouse has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Spouse's Keogh and SEP Deductions** worksheet. For purposes of IRC § 199A, the program will consider qualified income entered on this row to be from the same trade or business as the qualified income entered on the "Taxpayer's Domestic Production Self-employment Income or Loss" row above.

Use the "Taxpayer's Domestic Production Self-employment Income or Loss" row to enter the domestic production income or loss of the spouse.

For years after 2017 and before 2026, enter the spouse's qualified business self-employment income or loss. Use the taxpayer's qualified business self-employment income or loss row above for the taxpayer. See IRC § 199A.

Do **not** include passive activity or MAPRRA domestic production self-employment income or loss. Instead, press Esc to enter such income or loss as a passive activity or MAPRRA item on the **Passive & MAPRRA Items** worksheet.

When running a taxpayer and spouse analysis, enter the spouse's domestic production self-employment income on this row in the Spouse column and the taxpayer's domestic production self-employment income on the "Taxpayer's Domestic Production Self-employment Income" row below in the Taxpayer column.

For years before 2005, this row will be N/A.

(4) Spouse's Other Self-employment Income or Loss

Spouse's nonpassive ordinary net earnings or loss from self-employment attributable to the activity, other than domestic production income or loss. Do **not** reduce the amount by the Section 164(f) deduction or the deduction under Section 1402(a)(12). For 2010, self-employment income is reduced by the spouse's health insurance deduction under IRC § 162(l)(4). If the spouse has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Spouse's Keogh and SEP Deductions** worksheet.

Use the "Taxpayer's Other Self-employment Income" row above to enter nonpassive self-employment income of the taxpayer.

When running a taxpayer and spouse analysis, enter the spouse's self-employment income on this row in the Spouse column and the taxpayer's self-employment income on the "Taxpayer's Self-employment Income" row above in the Taxpayer column.

Do **not** include passive activity or MAPRRA self-employment income or loss. Instead, press Esc to enter such income or loss as a passive activity or MAPRRA item on the **Passive & MAPRRA Items** worksheet.

(5) Other Domestic Production/Qualified Business Income or Loss

For years before 2018, enter ordinary nonpassive activity income or loss from qualified production or activities. Do not include self-employment domestic production income or loss, which should be entered instead on the self-employment rows above. See IRC § 199.

For fiduciaries only include the amount allocated to the fiduciary. Do not include any amounts allocated to the beneficiaries. See Proposed Treasury Regulation § 1.199A-6.

For years after 2017 and before 2026, enter qualified business income or loss. Do not include qualified business self-employment income or loss, which should instead be entered on the self-employment rows above. See IRC § 199A.

For years before 2005, this row will be N/A.

(6) W-2 Wages Paid

The amount of wages the taxpayer is required to include on W-2s with respect to employment of employees of the taxpayer during the calendar year ending during the taxpayer's taxable year. See IRC § 199(b)(2). For years beginning after May 17, 2006, do not include any amount which is not properly allocable to domestic production gross receipts.

> **Caution!** The amount entered here is used solely for purpose of computing the deduction for domestic production activities. It does not otherwise enter into the computation of taxable income. Therefore, you must include this amount elsewhere (for example as a deduction in computing self-employment or other income) for it to be properly deducted in computing taxable income.

For years before 2005, or from 2018 through 2025, this row will be N/A.

(7) Qualified Income Amount

The amount of the qualified income for the activity, computed on the subworksheet. Press W or double click on the row to activate the subworksheet.

(8) Other General Ordinary Income or Loss

Nonpassive ordinary income or loss attributable to the activity other than income listed on the rows below and other than income listed on the rows above.

Include non-investment, nonpassive ordinary income and loss items such as S Corporation trade or business income or loss, trade or business depreciation recapture and short-term gain and loss from the sale of trade or business assets except such income as is entered on the rows below and above.

Enter depreciation recapture and other ordinary disposition gain or loss on the "Ordinary Property Disposition" rows, below, and not on this row.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(9) U.S. Government Interest

Interest attributable to the activity on U.S. government obligations which is exempt from state income taxes.

For a passive activity or MAPRRA, include U. S. Government interest described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program includes this item in ordinary income, as well as on the **Net Investment Income** worksheet, used for the investment interest limitation. It also may be considered by the state tax computation if you have **Income Tax Planner with Fifty States**.

The program includes the amount on the "Interest and Dividends" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(10) Other Interest

Taxable interest attributable to the activity on obligations other than U.S. governmental. Include saving accounts, corporate bonds, etc.

For a passive activity or MAPRRA, include other interest described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program includes this item in ordinary income, as well as on the **Net Investment Income** worksheet, used for the investment interest limitation. It also may be considered by the state tax computation if you have **Income Tax Planner with Fifty States**.

The program includes the amount on the "Interest and Dividends" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(11) Qualified Dividends

Ordinary Income corporate dividends attributable to the activity that qualify for capital gain treatment in years after 2002. See IRC § 1(h)(11). For years before 2003 enter all Ordinary income dividends received on corporate stock.

For a passive activity or MAPRRA, include qualified dividends described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program includes this item in ordinary income, as well as on the **Net Investment Income** worksheet, used for the investment interest limitation. It also may be considered by the state tax computation if you have **Income Tax Planner with Fifty States**. For years 2003 and later, the program treats these dividends as subject to long-term capital gain rates.

The program includes the amount on the "Interest and Dividends" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(12) Nonqualified Dividends

Ordinary income dividends attributable to the activity that do not qualify for capital gain treatment in years after 2002. See IRC § 1(h)(11). For years before 2003 this row will be N/A.

For a passive activity or MAPRRA, include non-qualified dividends described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program includes this item in ordinary income as well as on the **Net Investment Income** worksheet, used for the investment interest limitation. It also may be considered by the state tax computation if you have **Income Tax Planner with Fifty States**.

The program includes the amount on the "Interest and Dividends" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(13) REIT Dividends

Qualified REIT dividends, which means any dividend from a real estate investment trust received during the taxable year which is not a capital gain dividend, as defined in IRC § 857(b)(3), and is not qualified dividend income, as defined in IRC § 1(h)(11). Such amounts are used in computing the qualified business income deduction. See IRC § 199A(e)(3).

For fiduciaries only include the amount allocated to the fiduciary. Do not include any amounts allocated to the beneficiaries. See Proposed Treasury Regulation §1.199A-6.

If the REIT dividends are also qualified dividends, enter them on this row, but also on the qualified dividends row above, with an offsetting entry on the "Nonqualified Divdends" row.

(14) Unrecaptured Section 1250 Capital Gain Dividends

Dividends representing unrecaptured section 1250 gain attributable to the activity in years after 1996. See IRC § 1(h).

For a passive activity or MAPRRA, include any such dividends described in IRC § 469(e)(1)(A)(i)(portfolio income). The program automatically includes the amount entered here in total long-term capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(15) 28% Rate Capital Gain Dividends

Dividends attributable to the activity representing 28% rate capital gain. 28% rate gains and losses arise from the sale or exchange after 7/28/97 and before 1/1/98 of capital assets held more than one year but not more than 18 months, and 1997 sales before 5/7/97 of assets held more than one year. 28% rate gains and losses also include collectibles gains and losses. See IRC § 1(h).

Do **not** include Section 1202 (small business stock) dividends. Instead, see the "Qualified Small Business Stock Gain" row on the **28% Rate Capital Gains and Losses** worksheet.

For a passive activity or MAPRRA, include any dividends described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program automatically includes the amount entered here in total 28% rate capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(16) 5-Year Capital Gain Dividends Purchased Pre-2001

Dividends attributable to the activity representing qualified 5-year investment gain from the sale of capital assets for which the holding period begins before 1/1/01. See IRC § 1(h)(2).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(17) 2003 Post 5/5 Capital Gain Dividends

Dividends attributable to the activity representing capital gain properly taken into account for the portion of the taxable year on or after May 6, 2003, other than 28% rate, unrecaptured section 1250, or 5-year gain. Such capital gain is subject to special transition rules. See the Jobs and Growth Tax Relief Reconciliation Act of 2003, section 301(c). For all years other than 2003, this row will be N/A.

(18) Other Long-Term Capital Gain Dividends

Dividends attributable to the activity representing long-term capital gain other than unrecaptured section 1250 gain, 28% rate capital gain, and 2003 post 5/5 gain.

Note. For 2003, enter capital gain dividends from sales properly taken into account for the portion of the taxable year on or after 5/6/03 on the row above. Do not include such dividends on this row.

Do **not** include Section 1202 (small business stock) dividends. Instead, see the "Qualified Small Business Stock Gain" row on the **28% Rate Capital Gains and Losses** worksheet. See IRC § 1(h).

For a passive activity or MAPRRA, include such dividends described in IRC § 469(e)(1)(A)(i) (portfolio income).

The program automatically includes the amount entered here in total long-term capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(19)   Private Activity Bond Interest

Interest attributable to the activity on "specified private activity bonds." See IRC § 57(a)(5)(C). For a passive/MAPRRA activity, include private activity bond interest described in IRC § 469(e)(1)(A)(i) (portfolio income). Such interest is exempt from the regular tax but is subject to the alternative minimum tax. It is used by the program in computing includible social security benefits. The program also automatically treats it as an item of tax preference in computing alternative minimum taxable income and as an adjustment to AMT investment income in computing the AMT investment interest deduction.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(20)   Other Exempt Interest

Interest attributable to the activity that is exempt from both the regular and alternative minimum tax. For a passive/MAPRRA activity, include other exempt interest described in IRC § 469(e)(1)(A)(i) (portfolio income). The amount entered here is used by the program in computing includible social security benefits but not for other purposes. See IRC § 86(b)(2)(B).

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(21)   2003 Post 5/5 Short-term Investment Capital Gain/Loss

The sum of all gains less the sum of all losses from transactions properly taken into account for the portion of the taxable year on or after 5/6/03 from the sale or exchange of capital assets which are investment assets under IRC § 163(d) and which are held one year or less. Include short-term gain or loss from the sale of stocks, bonds, etc., held for investment, as well as gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter.

See IRC § 1222. The program automatically includes the amount entered here in total short-term capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See, however, **NOTE 1** to the **Capital Gains and Losses** worksheet regarding carryovers.

For all years other than 2003, this row will be N/A.

(22) Other Short-Term Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity from the sale or exchange of capital assets that are investment assets under IRC Sec. 163(d) and that are held one year or less (six months if purchased after 6/22/84 and before 1/1/88). Include short-term gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains and losses from passive activities described in IRC Sec. 469(e)(1)(A) (portfolio income). For taxable years that include May 6, 2003, enter gains and losses properly taken into account for the portion of the year on or after 5/6/03 on the row above and not on this row.

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC Sec. 1222.

The program automatically includes the amount entered here in total short-term capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(23) 2003 >5/5 Short-term Non-Investment Capital Gain/Loss

The sum of all gains less the sum of all losses from transactions properly taken into account for the portion of the taxable year on or after 5/6/03 from the sale or exchange of capital assets which are not investment assets under IRC Sec. 163(d) and which are held one year or less.

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC Sec. 1222.

For all years other than 2003, this row will be N/A.

(24) Other Short-Term Non-Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity from the sale or exchange of capital assets held one year or less (six months if purchased after 6/22/84 and before 1/1/88) other than assets held for invest-ment, and passive activity or MAPRRA gain or loss. Enter gains and losses properly taken into account for the portion of the year on or after 5/6/03 on the row above and not on this row. If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC § 1222.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program does **not** take it into account in computing investment income on

the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(25) 28% Rate Investment Capital Gain/Loss

The sum of all 28% rate gains and losses attributable to the activity from the sale or exchange of capital assets that are investment assets under IRC § 163(d). 28% rate gains and losses arise from sales after 7/28/97 and before 1/1/98, of property held for more than one year but not more than 18 months, and 1997 sales before May 7 of property held for more than 12 months. Investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment, as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income). See IRC § 1(h).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "−" before pressing Enter.

The program automatically includes the amount entered here in total 28% rate capital gain or loss. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(26) 5-Year Investment Capital Gains Purchased Pre-2001

Gains attributable to the activity representing qualified 5-year investment gain from the sale or exchange of capital assets for which the holding period begins before 1/1/01.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(27) 2003 Post 5/5 Long-term Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity (other than unrecaptured section 1250 gain and 28% rate gains and losses) from the sale or exchange of capital assets properly taken into account for the portion of the taxable year on or after 5/6/03 held for more than one year, which are investment assets under IRC Sec. 163(d).

In general, long-term investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains

and losses from passive activities described in IRC Sec. 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC Sec. 1222.

The program automatically takes the amount entered here into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For all years other than 2003, this row will be N/A.

(28) Other Long-Term Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity (other than gains and losses entered on the rows above) from the sale or exchange of capital assets which are investment assets under IRC § 163(d). Include gains and losses on assets held more than one year (18 months if sold in 1997 after July 28) (six months if purchased after 6/22/84 and before 1/1/88). For taxable years that include May 6, 2003, enter gains and losses properly taken into account for the portion of the year on or after 5/6/03 on the row above and not on this row.

Note. Do not include 1997 transactions before 5/7/97, sales or exchanges after 7/28/97 and before 1/1/98 of assets held more than one year but not more than 18 months, collectibles gain or loss, or Section 1202 (small business stock) gain. Instead, enter such transactions on the "28% Rate Investment Capital Gain/Loss" row, above.

In general, long-term investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC § 1222.

The program automatically includes the amount entered here in total long-term capital gain or loss, and takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(29) 28% Rate Non-Investment Capital Gain/Loss

The sum of all 28% rate gains and losses attributable to the activity from the sale or exchange of capital assets which are **not** investment assets under

IRC § 163(d). 28% rate gains and losses arise from sales after 7/28/97 and before 1/1/98, of property held for more than one year but not more than 18 months, and 1997 sales before May 7 of property held for more than 12 months. If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC §§ 1(h) and 1222.

Do **not** include passive activity or MAPRRA 28% rate non-investment capital gain or loss. Instead, enter these gains and losses on the **Passive & MAPRRA Items** worksheet for the activity.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program does **not** take it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(30) 2003 Post 5/5 Long-term Non-Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity (other than unrecaptured section 1250 gain and 28% rate gains and losses) from the sale or exchange of capital assets properly taken into account for the portion of the taxable year on or after 5/6/03 held for more than one year, which are not investment assets under IRC § 163(d).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC § 1222.

For all years other than 2003, this row will be N/A.

(31) Other Long-Term Non-Investment Capital Gain/Loss

The sum of all gains less the sum of all losses attributable to the activity from the sale or exchange of capital assets (other than gains and losses entered on the rows above) that are not investment assets under IRC § 163(d). Include sales of assets held more than one year (18 months if sold in 1997 after July 28) (six months if purchased after 6/22/84 and before 1/1/88). For taxable years that include May 6, 2003, enter gains and losses properly taken into account for the portion of the year on or after 5/6/03 on the row above and not on this row. If losses exceed gains, enter the amount as a negative number by pressing the minus sign "–" before pressing Enter. See IRC § 1222.

Note. Do not include on this row 1997 transactions before 5/7/97, sales or exchanges after 7/28/97 and before 1/1/98 of assets held for more than one year but not more that 18 months, or collectibles gain or loss. Instead, enter such transactions on the 28% Rate Non-Investment Capital Gain/Loss row, above.

Do **not** include passive activity or MAPRRA long-term non-investment capital gains and losses. Instead, enter these gains and losses on the **Passive & MAPRRA Items** worksheet for the activity.

For years after 2000, if any of the gains included on this row constitute qualified 5-year gains, also include the amount of any such qualified 5-year gains as an adjustment on the "Adjustments to Pre-2001 5-Year Gain" or the "Adjustments to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet. For years after 2003, qualified 5-year gains do not apply.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program does **not** take it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(32) Short-Term Investment Casualty Loss

Casualty losses attributable to the activity from investment assets held for one year or less (six months if purchased after 6/22/84 and before 1/1/88). See Form 4684, Part II, line 32, and IRC §§ 1231 and 165.

For a passive activity or MAPRRA, include short-term investment casualty loss described in IRC § 469(e)(1)(A)(ii). Enter the amount as a positive number.

The program treats the amount entered here as a miscellaneous itemized deduction.

The program includes the amount as an itemized investment casualty loss on the **Net Investment Income** worksheet for purposes of the investment interest limitation and the **Medicare Investment Income Tax** worksheet for purposes of the Medicare Investment Income Tax for years after 2012.

(33) Unrecaptured Section 1250 Trade or Business Casualty Gains

Unrecaptured section 1250 gains attributable to the activity from casualties or theft of assets used in a trade or business and held for more than one year (18 months for casualties after 7/28/97 and before 1/1/98). Do not include gains from transactions before 5/7/97. See IRC §§ 1(h) and 1231, and Form 4684, line 33(c).

Do **not** include passive activity or MAPRRA unrecaptured section 1250 casualty gains. Instead, enter these gains on the **Passive & MAPRRA Items** worksheet for the activity.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(34) Other Trade or Business Casualty Gains

Gains (other than unrecaptured section 1250 gain) attributable to the activity from casualties or theft of assets used in a trade or business and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC §§ 1(h) and 1231, and Form 4684, line 33(c). Enter the adjustment for the 28% rate portion of these gains on the "Adjustments to 28% Rate Trade/Business" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

Do **not** include passive activity or MAPRRA casualty gains. Instead, enter these gains on the **Passive and MAPRRA Items** worksheet for the activity.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(35) Unrecaptured Section 1250 Investment Casualty Gains

Unrecaptured section 1250 gains attributable to the activity from casualties or theft of assets held for the production of income and held for more than one year (18 months for casualties after 7/28/97 and before 1/1/98). Do not include gains from transactions before 5/7/97. See IRC §§ 1(h) and 1231, and Form 4684, line 33(c).

For a passive activity or MAPRRA, include unrecaptured section 1250 casualty gains described in IRC § 469(e)(1)(A)(ii).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(36) Other Investment Casualty Gains

Gains (other than unrecaptured section 1250 gain) attributable to the activity from casualties or theft of assets held for the production of income and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC §§ 1(h) and 1231, and Form 4684, line 33(c).

Enter the adjustment for the 28% rate portion of these gains on the "Adjustments to 28% Rate Investment" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

For a passive activity or MAPRRA, include casualty gains described in IRC § 469(e)(1)(A)(ii).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the

Net Investment Income worksheet for purposes of the investment interest limitation.

(37) Trade or Business Casualty Losses

Losses attributable to the activity from casualties or theft of assets used in a trade or business or rental or royalty property and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC § 1231 and Form 4684, line 34(b)(i). Enter the amount as a negative number. Enter the adjustment for the 28% rate portion of these losses on the "Adjustments to 28% Rate Trade/Business" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

Do not include passive activity or MAPRRA casualty losses. Instead, enter these losses on the **Passive and MAPRRA Items** worksheet for the activity.

Also, do not include employee business casualty losses. Instead, enter these losses on the "Employee Business Casualty Loss" row of the **Casualty Gains and Losses** worksheet.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(38) Investment Casualty Losses

Losses attributable to the activity from casualties or theft of assets held for the production of income and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC § 1231 and Form 4684, lines 34 and 38.

Enter the adjustment for the 28% rate portion of these losses on the "Adjustment to 28% Rate Investment" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

For a passive activity or MAPRRA, include casualty losses described in IRC § 469(e)(1)(A)(ii). Enter the amount as a negative number.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(39) Section 1231 Trade or Business Condemnation Gains

All Section 1231 gains (other than unrecaptured section 1250 gains and 28% rate gains) attributable to the activity from involuntary conversions (other than casualty and theft) of assets used in a trade or business and held for more than

one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC § 1231 and Form 4797, Part I.

Do not include passive activity or MAPRRA items. Instead, enter such gains on the **Passive and MAPRRA Items** worksheet for the activity. **Also, do not include gains from property used in activities described in IRC § 163(d)(5)(A)(ii).** See the row below for such gains.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(40) Section 1231 Investment Condemnation Gains

All Section 1231 gains (other than unrecaptured section 1250 gains and 28% rate gains) attributable to the activity from involuntary conversions (other than casualty and theft) of assets held for more than one year (six months if purchased after 6/22/84 and before 1/1/88) in a transaction entered into for profit, but not a trade or business. See IRC § 1231 and Form 4797, Part I. Also include condemnation gains from property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

For a passive activity or MAPRRA, include Section 1231 investment condemnation gain described in IRC § 469(e)(1)(A)(ii).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(41) Section 1231 Unrecaptured Section 1250 Trade or Business Gain

Nonpassive Section 1231 unrecaptured section 1250 gain attributable to the activity from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98).

Do not include gain from transactions before 5/7/97. See IRC §§ 1231 and 1(h) and Form 4797, Part I.

Do not include passive activity items. Instead, enter such items on the **Passive & MAPRRA Items** worksheet for the activity. **Also, do not include gains from property used in activities described in IRC § 163(d)(5)(A)(ii).** Instead, see the investment rows below for such gains.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(42) Section 1231 28% Rate Trade or Business Gain/Loss

Nonpassive Section 1231 28% rate gains and losses attributable to the activity from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business. 28% rate gains and losses arise from sales and conversions after 7/28/97 and before 1/1/98, of property held for more than one year but not more than 18 months, and 1997 sales and conversions before May 7 of property held for more than 12 months. See IRC §§ 1231 and 1(h) and Form 4797, Part I.

Do not include passive activity items. Instead, press Esc to enter such items on the **Passive & MAPRRA Items** worksheet for the activity. **Also, do not include gains from property used in activities described in IRC § 163(d)(5)(A)(ii).** Instead, see the investment rows below for such gains.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(43) Other Section 1231 Trade or Business Gain/Loss

Section 1231 nonpassive gains and losses (other than unrecaptured section 1250 gain and 28% rate gains and losses) from sales and nonpassive losses from involuntary conversions (other than casualty and theft) of assets used in a trade or business and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

For years after 2000, if any of the gains included on this row constitute qualified 5-year gains, you may need to include the amount of any such qualified 5-year gains as an adjustment on the Adjustment to Pre-2001 5-Year Gain or the Adjustment to Post-2000 5-Year Gain row (whichever applies) of the **Capital Gains and Losses** worksheet, depending on whether the gain is treated as a capital gain after Section 1231 is applied. For years after 2003, qualified 5-year gains do not apply.

Do not include passive activity items. Instead, enter such items on the **Passive and MAPRRA Items** worksheet for the activity. Also do not include gains and losses from property used in activities described in IRC § 163(d)(5)(A)(ii). Instead, see the investment rows below for such gains and losses.

The program does **not** include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(44)   Section 1231 Unrecaptured Section 1250 Investment Gain

Section 1231 unrecaptured section 1250 gain attributable to the activity from involuntary conversion (other than casualty or theft) of assets used in transactions entered into for profit and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98). Do not include gain from transactions before 5/7/97. See IRC §§ 1231 and 1(h), and Form 4797, Part I.

Also include unrecaptured section 1250 gains from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98).

For a passive activity, include any unrecaptured section 1250/1231 investment gain described in IRC § 469(e)(1)(A)(ii).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(45)   Section 1231 28% Rate Investment Gain/Loss

Section 1231 28% rate gain or loss attributable to the activity from the sale or involuntary conversion (other than casualty or theft) of assets used in transactions entered into for profit. 28% rate gains and losses arise from sales and conversions after 7/28/97 and before 1/1/98, of property held for more than one year but not more than 18 months, and 1997 sales and conversions before May 7 of property held for more than 12 months. See IRC §§ 1231 and 1(h), and Form 4797, Part I.

Also include 28% rate gain or loss from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year.

For a passive activity, include any 28% rate section 1231 investment gain or loss described in IRC § 469(e)(1)(A)(ii).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(46) Other Section 1231 Investment Gain/Loss

Section 1231 gains and losses (other than unrecaptured section 1250 gain and 28% rate gain or loss) attributable to the activity from sales and losses from involuntary conversions (other than casualty or theft), of assets held for more than one year (six months if purchased after 6/22/84 and before 1/1/88) in a transaction entered into for profit, but not a trade or business. See IRC § 1231 and Form 4797, Part I.

Also include gains and losses from sale of property and losses from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

For a passive activity, include other investment gain or loss described in IRC § 469(e)(1)(A)(ii).

For years after 2000, if any of the gains included on this row constitute qualified 5-year gains, you may need to include the amount of any such qualified 5-year gains as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet, depending on whether the gain is treated as a capital gain after Section 1231 is applied. For years after 2003, qualified 5-year gains do not apply.

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(47) Other Unrecaptured Section 1250 Investment Gain

Unrecaptured section 1250 gain attributable to the activity which is not also Section 1231 gain, from the sale of assets held for investment and not as a trade or business and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98).

Do not include gain from transactions before 5/7/97. See IRC § 1(h).

The program includes the amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(48) Schedule E (Ordinary) Investment Interest Expense

Form 1040, Schedule E investment interest expense attributable to the activity paid or accrued during the current year. See IRC § 163(d). Include interest relating to production of royalty income. Enter the amount as a positive number.

For a passive activity or MAPRRA, include Schedule E interest expense described in IRC § 469(e)(1)(A)(i)(III).

If otherwise allowed, the program includes the amount on the "Investment Interest Expense: Ordinary" row of the **Medicare Investment Income Tax** worksheet **for years after 2012**.

(49) Schedule A (Itemized) Investment Interest Expense

Form 1040, Schedule A investment interest expense attributable to the activity paid or accrued during the current year. See IRC § 163(d). Enter the amount as a positive number.

For a passive activity or MAPRRA, include Schedule A interest expense described in IRC § 469(e)(1)(A)(i)(III).

If otherwise allowed, the program includes the amount on the "Investment Interest Expense: Itemized" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(50) Ordinary Property Disposition Gain or Loss — Investment

Depreciation recapture ordinary income and other ordinary gain or loss attributable to the activity from the disposition of "property held for investment." See IRC § 163(d). Also include any ordinary income or loss (other than income or loss included on the "Section 1231 & Casualty" rows above) from the disposition of property used in activities described in IRC § 163(d)(5)(A)(ii). Include also, as a negative, the ordinary loss on Section 1244 stock. **For years before 2013**, include also the ordinary loss on IRC § 1244 stock. **For years after 2012**, enter the amount of the loss from the sale of IRC § 1244 stock includible as Medicare Investment Income, and enter the remaining loss on row 55 below and the adjustments to disposition gain loss row of the **Net Investment Income** worksheet.

For a passive activity or MAPRRA, include ordinary sale investment income described in IRC § 469(e)(1)(A)(ii).

This item is included by the program in ordinary income and in the computation of Net Gain From Dispositions on the **Net Investment Income** worksheet for purposes of the investment interest limitation. It is also included in the computation of Other Ordinary Nonbusiness Gain/Loss on the **Medicare Investment Income Tax** worksheet for years after 2012.

(51) Section 1033 Ordinary Gain – Investment

Depreciation recapture income and other recognized ordinary income attributable to the activity from the disposition of investment property due to casualty or condemnation (except income or loss included on the **Section 1231 & Casualty Gain/Loss** worksheet).

For a passive activity or MAPRRA, include § 1033 ordinary investment gain described in IRC § 469(e)(1)(A)(ii).

The program includes this item in ordinary income and also in the computation of Net Investment Income for investment interest limitation purposes. It is also included in the computation of Other Ordinary Nonbusiness Gain/Loss on the **Medicare Investment Income Tax** worksheet for years after 2012.

(52) Other Ordinary Investment Income

Ordinary income attributable to the activity from assets held for investment other than interest, dividends, and disposition of assets. Include such income from property described in IRC § 163(d)(5)(A)(ii) (other than income includible as self-employment income).

For a passive activity or MAPRRA, include other ordinary investment income described in IRC § 469(e)(1)(A)(i).

The program includes this item in ordinary income and also in gross income on the **Net Investment Income** worksheet used for the investment interest limitation. It is also included in the computation of Other Investment Income on the **Medicare Investment Income Tax** worksheet for years after 2012.

(53) AGI Investment Expenses

Expenses attributable to the activity deductible in computing AGI directly connected with the production of investment income. See IRC § 163(d). Include expenses of producing royalty income, as well as expenses of producing income from activities described in IRC § 163(d)(5)(A)(ii) (other than self-employment expenses).

Do not include interest. Instead, see the Investment Interest rows above.

For a passive activity or MAPRRA, include AGI investment expenses described in IRC § 469(e)(1)(A)(i)(II).

The program deducts this item in computing ordinary income and also includes it on the **Net Investment Income** worksheet.

For years after 2012, the program includes the amount on the "Investment Expenses: Ordinary" row of the **Medicare Investment Income Tax** worksheet.

Enter the amount as a negative number.

(54) Itemized Investment Expenses

Itemized investment expenses attributable to the activity that are subject to the 2% of AGI floor of IRC § 67. Include investment advisory fees, investment publications, etc. See IRC § 212.

Do not include investment casualty losses.

For a passive activity or MAPRRA, include itemized investment expenses described in IRC § 469(e)(1)(A)(i)(II).

For years after 2012, the program includes the amount on the "Investment Expenses: Itemized" row of the **Medicare Investment Income Tax** worksheet.

Enter the amount as a positive number.

(55) Ordinary Property Disposition Gain or Loss – Noninvestment

Ordinary Gain or Loss attributable to the activity from the disposition of property other than investment property. Include trade or business non-passive depreciation recapture gain and recognized IRC § 1033 ordinary income not covered by IRC § 1231 and which is not attributable to investment or passive activity property. Include short-term trade or business IRC § 1033 gain, and all gain from the conversion of personal assets due to casualty or condemnation.

Include trade or business non-passive depreciation recapture due to IRC § 1033 conversions, short-term trade or business IRC § 1033 gain, and all gain from the conversion of personal assets due to casualty or condemnation.

For years after 2012, enter the amount of the loss from the sale of IRC § 1244 stock not includible as Medicare Investment Income here and on the "Adjustments to Disposition Gains and Losses" row of the **Net Investment Income** worksheet. Enter the amount of the IRC § 1244 loss includible in Medicare Investment Income on row 48 above.

The program does **not** include the amount as either Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or as investment income on the **Net Investment Income** worksheet.

(56) General Business Credit

The credit provided by IRC § 38, attributable to the activity which includes the:

- Investment credit (IRC § 46(a))
- Work Opportunity credit ("targeted jobs" for years before 1995) (IRC § 51(a)) for years 2006 or earlier
- Alcohol Fuels credit (IRC § 40(a))
- Research credit (IRC § 41(a))
- Low-Income Housing credit (IRC § 42(a))

- Enhanced Oil Recovery credit (IRC § 43(a))
- Disabled Access credit (IRC § 44(a))
- Renewable Electricity Production credit
- Credit for Contributions to Certain Community Development Corporations (Sec. 13311 of the Revenue Reconciliation Act of 1993)
- Employer Social Security credit (IRC § 45B)
- Indian Employment Credit (IRC § 45A(a))
- New Markets credit (IRC § 45D(a))
- Orphan Drug credit (IRC § 45C)
- Employer Provided Child Care credit provided by IRC § 45F
- New Market credit provided by section 45D(a)
- Small Employer Pension Plan Startup Costs credit provided by IRC § 45E
- Welfare-to-Work credit provided IRC § 51A(a)
- The railroad track maintenance credit determined under IRC § 45G(a)
- The biodiesel fuels credit determined under IRC § 40A(a)
- The low sulfur diesel fuel production credit determined under IRC § 45H(a)
- The marginal oil and gas well production credit determined under IRC § 451(a)
- The distilled spirits credit determined under section 5011(a)
- The advanced nuclear power facility production credit determined under IRC § 45J(a)
- **For years after 2005**, the non-conventional source production credit determined under IRC § 45K(a)
- The new energy efficient home credit determined under IRC § 45L(a)
- The energy efficient appliance credit determined under IRC § 45M(a)
- The business portion of the alternative motor vehicle credit determined under IRC § 30B. See IRC § 30B(g)(1).
- The business portion of the Alternative Fuel Vehicle Refueling Property Credit under IRC § 30C. See IRC § 30C(d)(1).
- The business portion of the New Qualified Plug-In Electric Drive Motor Vehicle Credit determined under IRC § 30D. See IRC § 30D(c)(1) for years before 2010 and IRC § 30D(d)(1) for years after 2009.
- The business portion of the Certain Plug-In Electric Vehicles Credit under IRC § 30. See IRC § 30(c)(1).

- The Hurricane Katrina housing credit determined under IRC § 1400P(b). See IRC § 1400P(b).

- The employee retention credit for employers affected by Hurricanes Katrina, Rita or Wilma. See IRC § 1400R.

- The Hurricane Rita employee retention credit determined under IRC § 1400R(b)

- The Hurricane Wilma employee retention credit determined under IRC § 1400R(c)

- The mine rescue team training credit determined under IRC § 46N(a)

- In the case of an eligible agricultural business (as defined in IRC § 45O(e)) the agricultural chemicals security credit determined under IRC § 45O(a)

- The differential wage payment credit determined under IRC § 45P(a)

- The carbon dioxide sequestration credit determined under IRC § 45Q(a)

- The portion of the new qualified plug-in electric drive motor vehicle credit to which IRC § 30D(c)(1) applies

- The small employer health insurance credit determined under IRC § 45R

Note. To properly reflect the tax on the return as it should be originally filed, do not include suspended research credits. See the Tax Relief Extension Act of 1999, Section 502(d).

Be certain to adjust the total of any such credits on the **Credits** worksheet so that it does not exceed the applicable limitations (except the IRC § 38(c)(2) limitation, which the program applies automatically).

The Empowerment Zone Employment credit, the New York Liberty Zone Employee credit and the credits specified in IRC § 38(c)(4)(B) should be entered directly on the **Credits** worksheet and not here, so that the program can apply the special limits of IRC § 38(c) to these credits.

(57) Foreign Tax Credit

The credit attributable to the activity for taxes imposed by foreign countries and U.S. possessions as provided by IRC § 27 for purposes of the regular tax. Be certain to adjust the total of any such credit on the **Credits** worksheet so that it does not exceed the applicable limitations.

(58) Alternative Minimum Tax Foreign Tax Credit

The foreign tax credit attributable to the activity as limited under IRC § 55(c) or 59(a) for purposes of the alternative minimum tax. Be certain to adjust the total of any such credit on the **Credits** worksheet so that it does not exceed the

applicable limitations, (except the IRC § 59(a)(2) limitation applicable to years before 2005, which the program applies automatically.)

(59) Exclusion Preferences

Exclusion preferences attributable to the activity other than those included automatically by the program. See the **Alternative Minimum Tax** worksheet on page 429. Include the depletion allowance. See IRC § 53(d)(1)(B)(ii)(I).

Generally, enter the appreciation in charitable contribution property on the **AMT Charitable Contributions Adjustment** worksheet and not on this row, in order to have the program compute the IRC § 170 charitable contribution limitations for AMT purposes. See IRC §§ 57(a)(7) and 53(d)(1)(b)(ii)(II).

Do not include exclusion preferences relating to passive activity or MAPRRA items. Instead, enter such preferences on the **Passive & MAPRRA Income/Loss** worksheet for the activity. Then see the discussion of the **Minimum Tax Credit** worksheet on page 583 for possible required adjustment of this item for purposes of the minimum tax credit.

(60) Exclusion Adjustments

Exclusion adjustments attributable to the activity other than those included automatically by the program. Do not include exclusion adjustments relating to passive activity or MAPRRA items. Instead, enter such adjustments on the **Passive and MAPRRA Items** worksheet for the activity. Then see the discussion of the **Minimum Tax Credit** worksheet on page 583 for possible required adjustment of this item for purposes of the Minimum Tax Credit.

(61) Deferral Preferences

Alternative minimum tax preferences attributable to the activity other than the preferences for the depletion allowance, appreciated charitable contribution property, and tax exempt interest. Include certain accelerated depreciation and ACRS deductions and excess intangible drilling costs. See IRC §§ 53 and 57.

Do not include deferral preferences relating to passive activity items. Instead, enter such preferences on the **Passive Activities Items** worksheet for the activity.

(62) Deferral Adjustments

AMT adjustments attributable to the activity other than those computed by the program and other than those considered as exclusion adjustments under IRC § 53. Include the adjustments for depreciation, circulation and research and experimental expenditures, and the treatment of incentive stock options. See IRC §§ 56(a)(1), 56(b)(2), and 56(b)(3).

For post-1990 years, include also, as a negative, the special energy deduction. See IRC § 56(h). (See the discussion of the "Other Deferral Adjustments" row on the **Alternative Minimum Tax** worksheet on page 429 if there is both a special energy deduction and an AMT NOL.) An adjustment on this row may be either positive or negative.

Do not include deferral adjustments relating to passive activity or MAPRRA items. Instead, enter such adjustments on the **Passive and MAPRRA Items** worksheet for the activity. Enter deferral adjustments relating to Section 1231 and casualty gain and loss, and capital gain and loss on the AMT worksheets for those categories and not here. See the **Alternative Minimum Tax** worksheet on page 429 and subworksheets.

QUALIFIED INCOME AMOUNT – PASSIVE ACTIVITY

Qualified Income Amount – Passive Activity
(1) Service Business
(2) **Taxable Income Without Deduction**
(3) **Taxpayer's Self-employment Qualified Income or Loss**
(4) **Spouse's Self-employment Qualified Income or Loss**
(5) **Other Qualified Income or Loss**
(6) **Less Allocated Taxpayer's Self-employment Tax**
(7) **Less Allocated Spouse's Self-employment Tax**
(8) **Less Allocated Taxpayer's Qualified Plan**
(9) **Less Allocated Spouse's Qualified Plan**
(10) Adjustment to Qualified Income or Loss
(11) **Adjusted Qualified Income or Loss**
(12) **Qualified Income Loss Offset**
(13) **Net Qualified Business Income**
(14) **Reduced Amount Service Business**
(15) **Qualified Income Offset**
(16) **Service Business Net QBI**
(17) W-2 Wages
(18) **x 50%**
(19) Unadjusted Basis of Prop
(20) **x 2.5%**
(21) **25% of Wages**
(22) **Total of Property and Wages**
(23) **Greater of above or 50% of Wages**
(24) **Reduced Amount - Service Business**
(25) **20% of Income**
(26) **Lesser-Income or Wages & Property**
(27) Alternative Method
(28) **Excess of 20% over Wages & Property**
(29) **Reduction Phased In**
(30) **20% of Income Less Reduction**
(31) **Total Before Patron Reduction**
(32) Patron Reduction
(33) **Total Qualified Amount**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

---

(1) Service Business

Is the trade or business represented by this activity a specified service business within the meaning of IRC § 199A(d)(3)?

(2) Taxable Income Without Deduction (Calculated)

Taxable Income from the **Main Worksheet** computed without the deduction for qualified business income. See IRC § 199A(e)(1).

(3) Taxpayer's Self-employment Qualified Income or Loss (Calculated)

The Taxpayer's Domestic Production/Qualified Self-employment Income from the Passive and MAPRRA Items - Options.

(4) Spouse's Self-employment Qualified Income or Loss (Calculated)

The Spouse's Domestic Production/Qualified Business Self-employment Income from the Passive and MAPRRA Items - Options.

(5) Other Qualified Income or Loss (Calculated)

Other Domestic Production/Qualified Business Income or Loss from the Passive and MAPRRA Items - Options.

(6) Less Allocated Taxpayer's Self-employment Tax (Calculated)

The allocated portion of the Taxpayer's deduction for Self-employment tax, equal to the Taxpayer's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(7) Less Allocated Spouse's Self-employment Tax (Calculated)

The allocated portion of the Spouse's deduction for Self-employment tax, equal to the Spouse's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(8) Less Allocated Taxpayer's Qualified Plan (Calculated)

The allocated portion of the Taxpayer's Keogh deduction, equal to the Taxpayer's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(9) Less Allocated Spouse's Qualified Plan (Calculated)

The allocated portion of the Spouse's Keogh deduction, equal to the Spouse's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(10) Adjustment to Qualified Income or Loss

Enter any adjustment to the qualified income or loss for the trade or business.

Per final Treasury Regulation § 1.199A, use this row to allocate to the qualified trade or business:

- IRC § 1231 losses
- Deductions for self-employed health insurance

(11) Adjusted Qualified Income or Loss (Calculated)

The sum of rows 3 and 10 above.

(12) Qualified Income Loss Offset

If row 11 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 11 is negative, then row 12 will offset row 11 by

an equal positive amount. Any entries on the this worksheet, the **Qualified Income Amount – Nonpassive** worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Spouse's Self-Employment** worksheet, or the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a service business this row will be N/A.

(13) Net Qualified Business Income

The sum of rows 11 and 12.

If this is a loss, see **NOTE 1** on page 63.

(14) Reduced Amount Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of qualified income or loss on row 13 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

If this is a loss, see **NOTE 1** on page 63.

(15) Qualified Income Offset (Calculated)

If row 14 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 14 is negative, then row 15 will offset row 14 by an equal positive amount. Any entries on this worksheet, the Qualified Income Amount – Nonpassive worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Spouse's Self-Employment** worksheet, or the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a non-service business this row will be N/A.

(16) Service Business Net QBI (Calculated)

The sum of rows 14 and 15.

(17) W-2 Wages

Enter the amount of W-2 wages paid by the taxpayer allocable to the qualified income of this trade or business. See IRC § 199A(b)(4).

(18) x 50% (Calculated)

Row 17, above, multiplied by 50%.

(19) Unadjusted Basis of Prop

Enter the unadjusted basis of qualified property with respect to this trade or business. See IRC § 199A(b)(6).

(20) x 2.5% (Calculated)

Row 19 multiplied by 2.5%.

(21) 25% of Wages (Calculated)

25% of the amount on row 17, above.

(22) Total of Property and Wages (Calculated)

The sum of rows 20 and 21, above.

(23) Greater of above or 50% of Wages (Calculated)

The greater of rows 18 and 22, above.

(24) Reduced Amount – Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of row 23 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

(25) 20% of Income (Calculated)

If row 1, above, is yes then this is 20% of row 16. Otherwise this is 20% of row 13.

(26) Lesser – Income or Wages & Property (Calculated)

If row 1 above is yes, then this is the lesser of rows 25 and 24. Otherwise, this is the lesser of rows 25 and 23. The Qualified Income Amount based on the "regular" method. See IRC § 199A(b)(2).

(27) Alternative Method

Title for rows 28 through 30. See IRC § 199A(b)(3).

(28) Excess of 20% over Wages & Property (Calculated)

The excess of 20% of Qualified Business Income over the wage and property amounts. See IRC § 199A(B)(3)(b)(iii) and **NOTE 2** on page 64.

(29) Phase out (Calculated)

The amount of the reduction in the Qualified Amount under the alternative method based on the taxable income an the excess computed on the row above. See IRC § 199A(b)(3)(b)(ii) and **NOTE 2** on page 64.

(30) 20% of Income Less Reduction (Calculated)

The total Qualified Amount for the activity computed under the alternative method. See IRC § 199A(b)(3)(b)(i) and **NOTE 2** on page 64.

(31) Total Before Patron Reduction (Calculated)

The greater of rows 30 or 26.

(32) Patron Reduction

Any reduction of the qualified income amount due to patronage dividends received by a specified agricultural or horticultural cooperative. See IRC § 199A(b)(7).

(33) Total Qualified Amount (Calculated)

The sum of rows 31 and 32.

NOTE 1

If row 13 is a loss, then the following rows will be N/A:

- row 18
- row 20
- row 21
- row 22
- row 23
- row 24
- row 28
- row 29
- row 30

If row 1 is Yes, then row 25 will be 20% of row 14. Otherwise, row 25 will be 20% of row 13.

If the year is after 2025, the deduction no longer applies and the above listed rows will be N/A, as well as rows 25 and 26. Rows 31 and 33 will be N/A.

NOTE 2

If taxable income is below the threshold amount ($315,000 for married filing jointly, $157,500 for others), then:

- row 28 will be N/A,
- row 29 will be 0, and
- row 30 will be the amount on row 25.

If taxable income is greater than the threshold amount plus $100,000 ($50,000 if not joint) then the alternative method does not apply, then:

- rows 28, 29, and 30 will be N/A.

Otherwise if the taxpayer is in a service business, then:

- row 28 is the excess of row 25 over row 24.

And if the taxpayer is not in the service business, then:

- row 28 is the excess of row 25 over row 23.

If there is no excess of row 25 over row 24 (for service business) or row 25 over row 23 (for non-service businesses), then rows 28, 29, and 30 will be N/A.

Finally, if the taxpayer is in the phase out range ($315,000 to $415,000 for joint) and the conditions above do not apply, then:

- row 29 is row 28 multiplied by the phase out percentage, and
- row 30 is row 25 less row 29.

See IRC § 199A(b)(3).

QUALIFIED INCOME AMOUNT – NONPASSIVE ACTIVITY

Qualified Income Amount – Nonpassive Activity
(1) Service Business
(2) **Taxable Income Without Deduction**
(3) **Taxpayer's Self-employment Qualified Income or Loss**
(4) **Spouse's Self-employment Qualified Income or Loss**
(5) **Other Qualified Income or Loss**
(6) **Less Allocated Taxpayer's Self-employment Tax**
(7) **Less Allocated Spouse's Self-employment Tax**
(8) **Less Allocated Taxpayer's Qualified Plan**
(9) **Less Allocated Spouse's Qualified Plan**
(10) Adjustment to Qualified Income or Loss
(11) **Adjusted Qualified Income or Loss**
(12) **Qualified Income Loss Offset**
(13) **Net Qualified Income**
(14) **Reduced Amount Service Business**
(15) **Qualified Income Offset**
(16) **Service Business Net QBI**
(17) W-2 Wages
(18) **x 50%**
(19) Unadjusted Basis of Property
(20) **x 2.5%**
(21) **25% of Wages**
(22) **Total of Property and Wages**
(23) **Greater of above or 50% of Wages**
(24) **Reduced Amount - Service Business**
(25) **20% of Income**
(26) **Lesser-Income or Wages & Property**
(27) Alternative Method
(28) **Excess of 20% over Wages & Property**
(29) **Reduction Phased In**
(30) **20% of Income Less Reduction**
(31) Total Before Patron Reduction
(32) **Patron Reduction**
(33) **Total Qualified Amount**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Service Business

Is the trade or business represented by this activity a specified service business within the meaning of IRC § 199A(d)(3)?

(2) Taxable Income Without Deduction (Calculated)

Taxable Income from the **Main Worksheet** computed without the deduction for qualified business income. See IRC § 199A(e)(1).

(3) Taxpayer's Self-employment Qualified Income or Loss (Calculated)

The Taxpayer's Domestic Production/Qualified Self-employment Income from the **Nonpassive Items** worksheet.

(4) Spouse's Self-employment Qualified Income or Loss (Calculated)

The Spouse's Domestic Production/Qualified Business Self-employment Income from the **Nonpassive Items** worksheet.

(5) Other Qualified Income or Loss (Calculated)

Other Domestic Production/Qualified Business Income or Loss from the **Nonpassive Items** worksheet.

(6) Less Allocated Taxpayer's Self-employment Tax (Calculated)

The allocated portion of the Taxpayer's deduction for Self-employment tax, equal to the Taxpayer's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(7) Less Allocated Spouse's Self-employment Tax (Calculated)

The allocated portion of the Spouse's deduction for Self-employment tax, equal to the Spouse's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(8) Less Allocated Taxpayer's Qualified Plan (Calculated)

The allocated portion of the Taxpayer's Keogh deduction, equal to the Taxpayer's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(9) Less Allocated Spouse's Qualified Plan (Calculated)

The allocated portion of the Spouse's Keogh deduction, equal to the Spouse's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(10) Adjustment to Qualified Income or Loss

Enter any adjustment to the qualified income or loss for the trade or business.

Per final Treasury Regulation § 1.199A, use this row to allocate to the qualified trade or business:

- IRC § 1231 losses
- Deductions for self-employed health insurance

(11) Adjusted Qualified Income or Loss (Calculated)

The sum of rows 3 and 10 above.

(12) Qualified Income Loss Offset (Calculated)

If row 11 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 11 is negative, then row 12 will offset row 11 by an equal positive amount. Any entries on the this worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Passive** worksheet, the **Qualified Income Amount – Spouse's Self-Employment** worksheet, and the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a service business this row will be N/A.

(13) Net Qualified Income (Calculated)

The sum of rows 11 and 12.

If this is a loss, see **NOTE 1** on page 70.

(14) Reduced Amount Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of qualified income or loss on row 13 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500

amount is indexed for inflation for years after 2018. If row 1 is No, this row will be N/A.

If this is a loss, see **NOTE 1** on page 70.

(15) Qualified Income Offset (Calculated)

If row 14 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 14 is negative, then row 15 will offset row 14 by an equal positive amount. Any entries on the this worksheet, the Qualified Income Amount – Other Income worksheet, the Qualified Income Amount – Passive worksheet, the Qualified Income Amount – Spouse's Self-Employment worksheet, and the Qualified Income Amount – Taxpayer's Self- Employment worksheet are treated as separate trade or businesses for purposes of Treasury Regulation § 1.199A-1. For a non-service business this row will be N/A.

(16) Service Business Net QBI (Calculated)

The sum of rows 14 and 15.

(17) W-2 Wages

Enter the amount of W-2 wages paid by the taxpayer allocable to the qualified income of this trade or business. See IRC § 199A(b)(4).

(18) x 50% (Calculated)

Row 17, above, multiplied by 50%.

(19) Unadjusted Basis of Prop

Enter the unadjusted basis of qualified property with respect to this trade or business. See IRC § 199A(b)(6).

(20) x 2.5% (Calculated)

Row 19 multiplied by 2.5%.

(21) 25% of Wages (Calculated)

25% of the amount on row 17, above.

(22) Total of Prop and Wages (Calculated)

The sum of rows 20 and 21, above.

(23) Greater of above or 50% of Wages (Calculated)

The greater of rows 18 and 22, above.

(24) Reduced Amount – Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of row 23 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No, this row will be N/A.

(25) 20% of Income (Calculated)

If row 1 is yes, then this is 20% of row 14. Otherwise, this is 20% of row 13.

(26) Lesser – Income or Wages & Prop (Calculated)

If row 1 is yes, then this is the lesser of rows 25 and 24. Otherwise, this is the lesser of rows 25 and 23. The Qualified Income Amount based on the "regular" method. See IRC § 199A(b)(2).

(27) Alternative Method

Title for rows 28 through 30. See IRC § 199A(b)(3).

(28) Excess of 20% over Wages & Property (Calculated)

The excess of 20% of Qualified Business Income over the wage and property amounts. See IRC § 199A(B)(3)(b)(iii) and **NOTE 2** on page 70.

(29) Reduction Phased In (Calculated)

The amount of the reduction in the Qualified Amount under the alternative method based on the taxable income an the excess computed on the row above. See IRC § 199A(b)(3)(b)(ii) and **NOTE 2** on page 70.

(30) 20% of Income Less Reduction (Calculated)

The total Qualified Amount for the activity computed under the alternative method. See IRC § 199A(b)(3)(b)(i) and **NOTE 2** on page 70.

(31) Total Before Patron Reduction (Calculated)

The greater of rows 30 or 26.

(32) Patron Reduction

Any reduction of the qualified income amount due to patronage dividends received by a specified agricultural or horticultural cooperative. See IRC § 199A(b)(7).

(33) Total Qualified Amount (Calculated)

The sum of rows 31 and 32.

NOTE 1

If row 13 is a loss, then the following rows will be N/A:

- Row 18
- Row 20
- Row 21
- Row 22
- Row 23
- Row 24
- Row 28
- Row 29
- Row 30

If row 1 is Yes, then row 25 will be 20% of row 14. Otherwise, row 25 will be 20% of row 13.

If the year is after 2025, the deduction no longer applies and the above listed rows will be N/A, as well as rows 25 and 26. Rows 31 and 33 will be N/A.

NOTE 2

If taxable income is below the threshold amount ($315,000 for married filing jointly, $157,500 for others), then:

- Row 28 will be N/A,
- Row 29 will be 0, and
- Row 30 will be the amount on row 25.

If taxable income is greater than the threshold amount plus $100,000 ($50,000 if not joint), then the alternative method does not apply, then:

- Rows 28, 29, and 30 will be N/A.

Otherwise, if the taxpayer is in a service business, then:

- Row 28 is the excess of row 25 over row 24,

And if the taxpayer is not in the service business, then:

▪ Row 28 is the excess of row 25 over row 23.

If there is no excess of row 25 over row 24 (for service business) or row 25 over row 23 (for non-service businesses), then rows 28, 29, and 30 will be N/A.

Finally, if the taxpayer is in the phase out range ($315,000 to $415,000 for joint) and the conditions above do not apply, then

▪ Row 29 is row 28 multiplied by the phase out percentage, and

▪ Row 30 is row 25 less row 29.

See IRC § 199A(b)(3).

SECURITY TRANSACTION ANALYZER

The **Security Transaction Analyzer** worksheet is accessed from the "Security Transaction Analyzer" rows on the **Capital Gains and Losses** worksheet and the **28% Rate Capital Gains and Losses** worksheet. It may also be accessed from the Worksheets menu or from Worksheet List pane. The worksheet looks like this:

The **Security Transaction Analyzer** worksheet generally follows the format of Schedule D of Form 1040. Columns are provided for entering a description of the property, include in case, the owner of the property (taxpayer, spouse, or joint for Taxpayer & Spouse analyses), the date acquired, the date sold, the sales price, and the cost or other basis. Once you enter this information, the program automatically computes the gain or loss and distributes it among the following categories of gain or loss as required under the Taxpayer Relief Act of 1997 as amended by the Internal Revenue Service Restructuring and Reform Act of 1998, and as further amended by the Jobs and Growth Tax Relief Reconciliation Act of 2003:

▪ 2003 post 5/5 short-term

▪ Other short-term

▪ 2003 post 5/5 long-term

- 28% rate long-term
- 5-year gain purchased before 2001
- Other long-term

The **Security Transaction Analyzer** worksheet also lets you override the holding period computation for a transaction by using the Security Information dialog (see **Security Information Dialog** on page 73 for details).

The **Security Transaction Analyzer** worksheet automatically posts its results back to the **Capital Gains and Losses** worksheet or the **28% Rate Capital Gains and Losses** worksheet, as appropriate. The program assumes that all transactions entered on the **Analyzer** worksheet are capital asset investment transactions (as opposed to trade or business, personal, or ordinary income and loss transactions). The **Security Transaction Analyzer** worksheet should not be used for Section 1231 transactions or sale of personal assets (such as a residence). Nor should it be used for transactions of security dealers. It also should not be used for unrecaptured section 1250 gain, for sales of Section 1202 (small business) stock, or losses on Section 1244 stock. It may be used for investment collectibles gain or loss, provided the holding period override is used to select 28% Rate for these gains and losses.

Note. The **Security Transaction Analyzer** worksheet posts its results into all cases in the analysis unless you specify the case to which the transaction belongs. Using the "Include in Case" option, you can test hypothetical sales in multi-case scenarios.

The **Security Transaction Analyzer** worksheet also works with Annualization for estimated tax purposes when Annualization analysis is selected. In this case, the **Analyzer** worksheet automatically sorts the transactions into the proper quarters and applies the annualization factor to the totals.

Notice that, like the **Individual Activities** worksheet, the **Security Transaction Analyzer** worksheet has its own menu bar from which you access commands to insert or delete security transactions; enter and edit transaction information; print the worksheet (see details on page 74); change the **Security Transaction Analyzer**'s page setup; close the **Security Transaction Analyzer** worksheet; and receive detailed Help.

NOTE 1

For assets purchased on the last day of a month, the program follows the rule of Rev. Rul. 66-7, 1996-1 C.B. 188, to the effect that, to qualify for the favorable holding period, the asset must be held until the first day of the next month at the end of the holding period. For example, an asset purchased on February 28, 1999, must be held until March 1, 2000, to qualify as being held more than

one year. If it is sold on February 29, 2000, the holding period is not more than one year and the gain or loss is short-term.

NOTE 2

The program includes the gain or loss in the year indicated in the "Date Sold" column or the "Date Purchased" column for sales that occur before purchases (short-sales). There is no provision in the program for computing the holding period and the year of inclusion in inconsistent ways. See Rev. Rul. 93-84, 1993-2 C.B. 225.

SECURITY INFORMATION DIALOG

The **Security Transaction Analyzer** lets you override the holding period computation for a transaction by using the dialog shown below:

This dialog, which is important for transactions such as puts and calls, short sales, collectibles gains or losses, and other special transactions, is accessed by double-clicking in the **Security #** column for a particular security or by selecting View from the **Security Transaction Analyzer's** Edit menu. (The dialog automatically appears whenever the program detects an acquisition date that comes after the sales date for a transaction, since this usually indicates a short sale.) For any transaction for which you have overridden the holding period, a blue active worksheet icon replaces the white inactive worksheet icon next to the security number.

In addition to letting you override the holding period computation, the **Security Information** dialog also provides an alternate way for you to enter the original transaction data or correct the other information related to the sale.

CHANGING SECURITY TRANSACTION DETAILS

You can edit the cells directly on the **Security Transaction Analyzer** worksheet, using the F2 edit key to change dates and numbers. You can also use the commands on the **Security Transaction Analyzer's** Edit menu to:

- insert a transaction above the active transaction row (where the cursor rests),
- delete the selected transaction, or
- view transaction details.

The View command opens the **Security Information** dialog which you can also use to enter, change, or override transaction details. If you select the **Holding Period Override** check box on this dialog, you can then specify short-term, 28% rate long-term, or other long-term.

PRINTING SECURITY TRANSACTIONS

The **Security Transaction Analyzer** worksheet has its own print feature that allows you to print and preview the transactions organized as you see them on the screen. The transactions can also be printed in other ways:

- printing each year on a new page,
- separating short- and long-term transactions, and
- suppressing zero or "other" columns.

Selecting these options produces a report similar in layout to Form 1040, Schedule D. The **Security Transaction Analyzer** worksheet will also print as part of the general printing of the program's worksheets (if you select Print from the File menu).

You can use the **Security Transaction Analyzer's Print** button to print transactions. Once the **Print** dialog is open, the **Analyzer Setup** button allows you to access the **Transaction Analyzer Page Setup** dialog (shown below) and change how the report is printed.
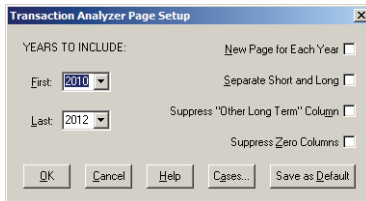
This dialog allows you to choose from several print options, as shown in the illustration above. You can also save the selected analyzer page setup options as the default for other analyses.

Rather than printing the **Security Transaction Analyzer** worksheet by itself, you can choose to print it along with the program's worksheets by clicking the Select Worksheets button on the regular Print dialog (accessed from the File menu) and then selecting it from the Select Worksheets to Print scroll list.

For more information, see Chapter 2 of the **Operations Guide**.

PRESENT VALUE

Present Value
(1) Discount Rate (%)
(2) Payments at Beginning or End of Year
(3) Reduce Federal Taxes by Nonrefundable Credits
(4) Reduce Taxes by Estimated & Withholding
(5) Cash Flow Amounts (if any)
(6)
(7) **Net Present Value of Cash Flows**
(8) **Net Present Value of Federal Taxes**
(9) **Net Present Value of Resident State Taxes**
(10) **Net Present Value of New York Nonresident State Taxes**
(11) **Net Present Value of Other Nonresident State Taxes**
(12) **Total Net Present Value**

(1) Discount Rate (%)

The discount rate to be used for the tax payments made and the cash flows received this year. Enter the rate as a percentage (i.e., 10 for 10%). The rate will be used to discount the payments made in the column in which the rate is entered. The discounted payments will appear cumulatively in the current year and all prior years on the NPV rows below. The number of years each column's payments are discounted depends on the answer on the next row.

(2) Payments at Beginning or End of Year

Indicate whether you want the program to assume that payments for the current year are made at the beginning or at the end of the year. Enter B for Beginning or E for End.

In either case, the payments are discounted to the beginning of the current and all prior years. Therefore, if you enter B for Beginning, the current year's payments will not be discounted at all when included in the current year's NPV amounts below, and will be discounted by one year in the immediate prior year, two years in the second prior year, etc.

On the other hand, if you enter E for End, the current year's payments will be discounted by one year in the current year's NPV amounts below, two years in the immediate prior year, three years in the second prior year, etc.

(3) Reduce Federal Taxes by Nonrefundable Credits

Indicate whether you want federal taxes to be reduced by nonrefundable credits for purposes of the computations on this worksheet.

If you answer No, discounted federal taxes on the "NPV of Federal Taxes" row below will be the sum of the federal regular tax, the net alternative minimum tax and other taxes including the underpayment penalty if any. The amount will be reduced by estimated and withholding, depending on the answer on the row below. The state amount will be the State Tax amount on the **Main Worksheet**.

If you answer Yes, this total will be reduced by the amount on the "Nonrefundable Credits" row of the **Main Worksheet**.

(4) Reduce Taxes by Estimated & Withholding

Indicate whether you want federal and state taxes to be reduced by withholding and estimated payments (including refundable credits) for purposes of the computations on this worksheet.

If you answer No, discounted federal taxes on row 8 "**Net Present Value of Federal Taxes**" below will be the sum of the federal regular tax, the net alternative minimum tax and other taxes including the underpayment penalty if any. The amount will be reduced by nonrefundable credits allowed, depending on the answer on the row above. The state amount will be the State Tax amount on the **Main Worksheet**.

If you answer Yes, this total will be reduced by all federal payments.

The state amount is the State Tax amount on the **Main Worksheet**. If you answer Yes on this row, the state amount will be reduced by State Estimated and Withholding on the **Main Worksheet**.

(5) Cash Flow Amounts (if any)

The amount of any cash flows you want to have discounted and included in the computations on the "Net Present Value of Cash Flows" row below. The rate and method of discounting the cash flows will be the same as that applied to the tax payments, as specified on the rows above. The amount entered here does not affect any of the tax computations on the other worksheets in the program.

Use this row to enter any non-tax effects of the transactions you are analyzing, so that a more complete picture of the financial plan can be obtained.

For example, if you are looking at the question of whether to sell stock in 2020 or 2021, then, in addition to entering the capital gain from the sale on the **Capital Gains and Losses** worksheet in the appropriate year of each case, you would enter, on this row, the full proceeds of the sale in the appropriate year of each case. Thus, the "Total Net Present Value" on row 12 below would

include not only the present cost of the taxes on the sale, but the present value of the proceeds as well.

(6)   (Blank)

(7)   Net Present Value of Cash Flows (Calculated)

The net present value of the cash flows entered on row 5 above. For the method the program uses to compute net present value, see **NOTE 1** on page 78.

(8)   Net Present Value of Federal Taxes (Calculated)

The net present value of total federal taxes. For this purpose, federal taxes include the federal regular tax, net alternative minimum tax, and the "Total Self-Employment and Other Taxes" row, including any underpayment penalty (from the **Self-employment and Other Taxes** worksheet).

If row 3 "Reduce Federal Taxes by Nonrefundable Credits" above has been answered Yes for any year, then the federal taxes amount for that year will be reduced, for purposes of this row, by the total on the "Nonrefundable Credits" row of the **Main Worksheet**.

If row 4 "Reduce Taxes by Estimated & Withholding" above has been answered Yes for any year, then the federal taxes amount for that year will be reduced, for purposes of this row, by the total on the "Federal W/H and Est Paid" row of the **Main Worksheet**.

The amount on this row will usually be negative, indicating a cash flow out, unless row 4 "Reduce Taxes by Estimated & Withholding" has been answered Yes and Estimated and Withholding exceed the federal tax. For the method used by the program to compute net present value, see **NOTE 1** on page 78.

(9)   Net Present Value of Resident State Taxes (Calculated)

The net present value of the state taxes from the "Resident State Tax" row of the **Main Worksheet**. If row 4 "Reduce Taxes by Estimated & Withholding" above has been answered Yes for any year, then the state taxes amount for that year will be reduced, for purposes of this row, by the total on the "Resident State Estimated & Withholding" row of the **Main Worksheet**.

The amount on this row will usually be negative, indicating a cash flow out, unless row 4 "Reduce Taxes by Estimated & Withholding" has been answered Yes and Resident State Estimated and Withholding exceed the federal tax. For the method used by the program to compute net present value, see **NOTE 1** on page 78.

(10) Net Present Value of New York Nonresident State Taxes (Calculated)

The net present value of the state taxes from the "New York Nonresident State Tax" row of the **Main Worksheet**. If row 4 "Reduce Taxes by Estimated & Withholding" above has been answered "Yes" for any year, then the state taxes amount for that year will be reduced, for purposes of this row, by the total on the "New York Nonresident State Estimated & W/H" row of the **Main Worksheet**.

The amount on this row will usually be negative, indicating a cash flow out, unless row 4 "Reduce Taxes by Estimated & Withholding" has been answered "Yes" and New York Nonresident State Estimated and Withholding exceed the federal tax. See NOTE 1 below for the method used by the program to compute net present value.

(11) Net Present Value of Other Nonresident State Taxes (Calculated)

The net present value of the state taxes from the "Other Nonresident State Tax" row of the **Main Worksheet**. If row 4 "Reduce Taxes by Estimated & Withholding" above has been answered "Yes" for any year, then the state taxes amount for that year will be reduced, for purposes of this row, by the total on the "Other Nonresident State Estimated & W/H" row of the **Main Worksheet**.

The amount on this row will usually be negative, indicating a cash flow out, unless row 4 "Reduce Taxes by Estimated & Withholding" has been answered "Yes" and Other Nonresident State Estimated and Withholding exceed the federal tax. See NOTE 1 below for the method used by the program to compute net present value.

(12) Total Net Present Value: (Calculated)

The sum of row 7 "**Net Present Value of Cash Flows**", row 8 "**Net Present Value of Federal Taxes**", row 9 "**Net Present Value of Resident State Taxes**", row 10 "Net Present Value of New York Nonresident State Taxes", and row 11 "Net Present Value of Other Nonresident State Taxes", above.

NOTE 1

The program computes present value for each year in a multiple-year situation as the sum of the present values of payments for that year plus the present values of all future years' payments.

Thus, in a 3-year situation, the amount in the first year will be the sum of the present values (as of the beginning of the first year) of the payments in the first, second, and third years. The amount in the second year will be the sum of the present values (as of the beginning of the second year) of the payments in the

second and third years. The amount in the third year will be the present value (as of the beginning of the third year) of the payment in the third year. The purpose is to allow you to enter historical years but then ignore them in the present value analysis and concentrate on the first year for which planning is being done.

Thus, if you are planning for 2020 and subsequent years, but have included 2019 for purposes of including carryovers therefrom, you would ignore the present value numbers appearing in 2019 and concentrate on the present value numbers in 2020 which will contain only future payments (i.e., payments to be made in 2020, 2021, and subsequent years included in the analysis).

The number of years each payment is discounted depends on the answer to row 2 "Payments at Beginning or End of Year". If the payments for any particular year are considered to be made at the end of the year, then each payment will be discounted by one year for inclusion in that year's net present value amount, two years for inclusion in the immediately prior year's present value amount, and so on.

If the payments are considered to be made at the beginning of the year, then any payment made in that year will not be discounted when it is included in that year's present value amount. For inclusion in the immediate prior year's amount, the payment will be discounted by one year; and for inclusion in the second prior year's amount, it will be discounted by two years.

For example, suppose you are running three years, starting with 2020. In 2020, federal taxes are $10,000. In 2021 and 2022, they are $12,000 and $11,000 respectively. Payments for all years are assumed to be made at the end of the year (the answer to row 2 is End in all years). Assume that 5% is the discount rate entered for all years. Row 8 "**Net Present Value of Federal Taxes**" will be computed as follows:

2020: $10,000 \div 1.05 + 12,000 \div 1.05^2 + 11,000 \div 1.05^3 = 29,910$
2021: $12,000 \div 1.05 + 11,000 \div 1.05^2 = 21,406$
2022: $11,000 \div 1.05 = 10,476$

If, on the other hand, the answer to row 2 were "Beginning in all years", then the computations would be:

2020: $10,000 + 12,000 \div 1.05 + 11,000 \div 1.05^2 = 31,406$
2021: $12,000 + 11,000 \div 1.05 = 22,476$
2022: $11,000$

W-4 WORKSHEET

W-4 Worksheet

(1)	Date of Calculation
(2)	
(3)	TAXPAYER
(4)	Withholding to Date
(5)	Pay Periods Per Year
(6)	**Pay Periods to Date**
(7)	Adjustment to Pay Periods to Date
(8)	**Remaining Pay Periods**
(9)	Future Wages Per Pay Period
(10)	
(11)	SPOUSE (OR SECOND JOB)
(12)	Withholding to Date
(13)	Pay Periods Per Year
(14)	**Pay Periods to Date**
(15)	Adjustment to Pay Periods to Date
(16)	**Remaining Pay Periods**
(17)	Future Wages Per Pay Period
(18)	
(19)	**Total Net Federal Taxes**
(20)	Estimated Payments from Withholding Worksheet
(21)	**Net Withholding Needed**
(22)	**Total Withholding To Date**
(23)	**Additional Withholding Needed**
(24)	
(25)	TAXPAYER
(26)	**Share of Additional Withholding Needed**
(27)	Adjustment to Taxpayer's Share of Withholding
(28)	**Total Withholding Needed**
(29)	**Withholding Needed Each Remaining Period**
(30)	**Line 4b - Extra Deductions**
(31)	Adjustment to Line 4b
(32)	**Employer's Tentative Withholding Per Publication 15-T**
(33)	**Line 4c - Extra Withholing**
(34)	Adjustment to Line 4c
(35)	**Computed Withholding Each Remaining Period**
(36)	**Total Computed Remaining Withholding**
(37)	
(38)	SPOUSE (OR SECOND JOB)
(39)	**Share of Additional Withholding Needed**
(40)	Adjustment to Spouse's or Second Job's Share of Withholding
(41)	**Total Withholding Needed**
(42)	**Withholding Needed Each Remaining Period**
(43)	**Line 4b - Extra Deductions**
(44)	Adjustment to Line 4b
(45)	**Employer's Tentative Withholding Per Publication 15-T**
(46)	**Line 4c - Extra Withholding**
(47)	Adjustment to Line 4c
(48)	**Computed Withholding Each Remaining Period**
(49)	**Total Computed Remaining Withholding**
(50)	
(51)	**Total Estimated and Withholding For the Year**
(52)	**Net Payment Due or Refund**

> **Caution!** The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. As of the date of publication of the program we expect further guidance from the Internal Revenue Service. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Date of Calculation

The date for the paycheck. If the current year, to enter today's date type a zero.

(2) (Blank)

(3) TAXPAYER

Heading for rows 4 through 9 below.

(4) Withholding to Date

The amount of income tax withholding on behalf of the taxpayer prior to the date of the calculation on row 1. Include amounts attributable to non-periodic withholding such as bonuses. Do not include amounts entered as other withholding on the **Withholding, Estimated & Penalty** worksheet as such amounts are already included on row 20. Withholding amounts entered here only affect the computations on this worksheet.

(5) Pay Periods Per Year

The number of pay periods per year for the taxpayer. Permitted pay periods are 0, 1, 2, 4,12, 24, 26, 27, 52, and 53.

(6) Pay Periods to Date (Calculated)

The number of pay periods for taxpayer that have already occurred based on the date of row 1.

(7) Adjustment to Pay Periods to Date

The number of pay periods by which to increase or reduce row 6 above. The number of pay periods may not be increased above the total pay periods on row 5.

(8) Remaining Pay Periods (Calculated)

The number of pay periods remaining for taxpayer after the Date of Calculation, row 1, after taking into account row 7 above.

(9) Future Wages Per Pay Period

The amount of wages for taxpayer for each remaining pay period after the date on row 1. Wages entered here only affect the computations on this worksheet.

(10) (Blank)

(11) SPOUSE (OR SECOND JOB)

Heading for rows 12 through 17 below.

(12) Withholding to Date

The amount of income tax withholding on behalf of the spouse or taxpayer's second job prior to the date on row 1. Include amounts attributable to non-periodic withholding such as bonuses. Do not include amounts entered as other withholding on the **Withholding, Estimated & Penalty** worksheet as such amounts are already included on row 20. Withholding amounts entered here only affect the computations on this worksheet.

(13) Pay Periods Per Year

The number of pay periods per year for the spouse or the taxpayer's second job. Permitted pay periods are 0, 1, 2, 4, 12, 24, 26, 27, 52, and 53.

(14) Pay Periods to Date (Calculated)

The number of pay periods for the spouse or taxpayer's second job that have already occurred based on the date of row 1.

(15) Adjustment to Pay Periods to Date

Number of pay periods by which to increase row 14 above. The number of pay periods may not be increased above the total pay periods on row 13.

(16) Remaining Pay Periods (Calculated)

The number of pay periods remaining for spouse or taxpayer's second job after the date on row 1, after taking into account row 15 above.

(17) Future Wages Per Pay Period

The amount of wages for spouse or taxpayer's second job for each remaining pay period after the date on row 1. Wages entered here only affect the computations on this worksheet.

(18) (Blank)

(19) Total Net Federal Taxes (Calculated)

The amount of any federal taxes, less any refundable credits, form the **Summary Report**.

(20) Estimated Payments From Withholding Worksheet

The sum of the total estimated tax payments from the **Withholding, Estimated & Penalty** worksheet and the payments with extension row of the Credits worksheet. Any amount entered as other withholding on the **Withholding, Estimated & Penalty** worksheet will be treated as an estimated tax payment. If the **Withholding, Estimated & Penalty** worksheet is not active, the amount equals the sum of the withholding and estimated tax payments and the payment with extension rows of the **Credits** worksheet.

(21) Net Withholding Needed (Calculated)

Row 19 less row 20 above, but not less than zero.

(22) Total Withholding To Date (Calculated)

The total withholding to date, the sum of rows 4 and 12 above.

(23) Additional Withholding Needed (Calculated)

The additional withholding needed for the rest of the year, row 21 less row 22.

(24) (Blank)

(25) TAXPAYER

Heading for rows 26 through 36 below.

(26) Share of Additional Withholding Needed (Calculated)

The taxpayer's portion of the additional withholding needed, an amount equal to row 23 times a fraction, the numerator of which is the amount on row 9 and the denominator of which is the sum of rows 9 and 17. If the sum of rows 9 and 17 equal zero this row will equal 1/2 of row 23.

(27) Adjustment to Taxpayer's Share of Withholding:

Any increase or decrease to row 26 above. Include on this row any additional withholding attributable to bonuses or other non-periodic compensation anticipated after the date of the calculation.

(28) Total Withholding Needed (Calculated)

The sum of rows 26 and 27.

(29) Withholding Needed Each Remaining Period (Calculated)

If row 8 "Remaining Pay Periods" and row 9 "Future Wages Per Pay Period" are each greater than zero, then the amount will be row 28 divided by row 8 above. If row 8 or row 9 equals zero, the amount will be N/A. The amount may not exceed row 9.

(30) Line 4b - Extra Deductions (Calculated)

The amount computed by the program so that the withholding collected by the employer will equal the total withholding needed on row 28 above.

(31) Adjustment to Line 4b

Any adjustments to line 4b. This will automatically adjust the employer's tentative publication 15-T tentative withholding below so that the withholding collected by the employer will equal the total withholding needed on row 28 above.

(32) Employer's Tentative Withholding Per Publication 15-T (Calculated)

The amount the employer is allowed to withhold based on the percentage method is IRS Publication 15-T. The program assumes that no entries have been made on step 3 or 4a of the W-4.

(33) Line 4c - Extra Withholding (Calculated)

The extra periodic withholding computed by the program so that the withholding collected by the employer will equal the total withholding needed on row 28 above.

(34) Adjustment to Line 4c

Any adjustments to line 4c.

(35) Computed Withholding Each Remaining Period (Calculated)

The total periodic amount withheld based on rows 30 through 34 above. The row may not exceed row 9. Without any adjustment on row 31 or 34 the amount should equal the amount of withholding needed each remaining period on row 29. If row 8 or 9 equals zero the amount will be N/A. See **NOTE 2** below about rounding.

(36) Total Computed Remaining Withholding (Calculated)

The amount on row 35 times the total remaining periods for the taxpayer, row 8. If row 8 or 9 equals zero the amount will be N/A.

(37) (Blank)

(38) SPOUSE (OR SECOND JOB)

The heading for rows 39 through 49 below.

(39) Share of Additional Withholding Needed (Calculated)

The spouse's or taxpayer's second job's portion of the additional withholding needed, an amount equal to row 23 times a fraction, the numerator of which is the amount on row 17 and the denominator of which is the sum of rows 9 and 17. If the sum of rows 9 and 17 equal zero this row will equal 1/2 of row 23.

(40) Adjustment to Spouse's or Second Job's Share of Withholding

Any increase or decrease to row 39 above. Include on this row any additional withholding attributable to bonuses or other non-periodic compensation anticipated after the date of the calculation.

(41) Total Withholding Needed (Calculated)

The sum of rows 39 and 40.

(42) Withholding Needed Each Remaining Period (Calculated)

If row 16 "Remaining Pay Periods" and row 17 "Future Wages Per Pay Period" are each greater than zero, then the amount will be row 41 divided by row 16 above. If row 16 or row 17 equals zero, the amount will be N/A. The amount may not exceed row 17.

(43) Line 4b - Extra Deductions (Calculated)

The amount computed by the program so that the withholding collected by the employer will equal the total withholding needed on row 41 above.

(44) Adjustment to Line 4b

Any adjustments to line 4b.

(45) Employer's Tentative Withholding Per Publication 15-T (Calculated)

The amount the employer is allowed to withhold based on the percentage method is IRS Publication 15-T. The program assumes that no entries have been made on step 3 or 4a of the W-4.

(46) Line 4c - Extra Withholding (Calculated)

The extra periodic withholding computed by the program so that the withholding collected by the employer will equal the total withholding needed on row 41 above.

(47) Adjustment to Line 4c

Any adjustments to line 4c.

(48) Computed Withholding Each Remaining Period (Calculated)

The total periodic amount withheld based on rows 43 through 47 above. The row may not exceed row 17. Without any adjustment on row 44 or 47 the amount should equal the amount of Withholding Needed Each Remaining Period on row 42. If row 16 or 17 equals zero the amount will be N/A. See **NOTE 2** below about rounding.

(49) Total Computed Remaining Withholding (Calculated)

The amount on row 48 times the total remaining periods for the taxpayer, row 16. If row 16 or 17 equals zero the amount will be N/A.

(50) (Blank)

(51) Total Estimated and Withholding For the Year

The sum of rows 4, 12, 20, 36, and 49.

(52) Net Payment Due or Refund

Row 19 less row 51. See **NOTE 3** below regarding underpayment penalties.

NOTE 1

The program will not compute a number of allowances that would allow the withholding to exceed the wages for the period.

NOTE 2

Because the program determines the amount of the periodic withholding amount through annualizing the periodic withholding and wages, the program may compute a withholding amount slightly different from the withholding amount computed by percentage method of IRS Publication 15-T, which divides the annual tax table according to the number of periods and rounds the resulting amounts. The program does not compute non-periodic withholding amounts such as bonuses.

NOTE 3

Adjustments to withholding or allowances on the W-4 worksheet have no effect on the withholding amounts in other parts of the program. Users should make corresponding adjustments on the **Wages** or the **Withholding, Estimated & Penalty** worksheets to compute any underpayment penalty if there is a payment due on row 52.

MAIN WORKSHEET

Main Worksheet
(1) Filing Status
(2) Personal Exemptions
(3) Ordinary Income
(4) Net Short-term Gain or Loss
(5) Net Long-term Gain or Loss
(6) **Adjusted Gross Income**
(7) Itemized Deductions
(8) Standard Deduction
(9) Qualified Income Deduction
(10) **Taxable Income**
(11) AMTI Net of Exemption
(12) Minor Child Tax
(13) **Schedule or Table Tax**
(14) Alternative Capital Gains Tax
(15) Farm Income Averaging Tax
(16) Foreign Earned Income Tax
(17) Tentative Minimum Tax
(18) Nonrefundable Credits
(19) Self-Employment and Other Taxes
(20) Federal Withholding & Estimated
(21) **Net Federal Tax**
(22) Resdent State Tax
(23) Resident State Estimated & Withholding
(24) New York Nonresident State Tax
(25) New York Nonresident Estimated & Withholding
(26) Other Nonresident State Taxes
(27) Other Nonresident Estimated & Withholding
(28) **Total Net Tax Liability**

(1) Filing Status

The seven filing statuses are:

Single	1 or S
Married Filing Jointly and Surviving Spouse	2 or J
Married Filing Separately	3 or M
Head of Household	4 or H
Trust	5 or T
Estate	6 or E
Qualifying Widow(er)	7 or Q

Except for Trust, Estate, and Qualifying Widow(er), the numbers correspond to items 1 through 4 on Form 1040. If no filing status is specified, the program automatically assumes a filing status of Joint.

The subworksheet for this row permits you to specify in the case of married taxpayers filing separately that the taxpayer lived with his spouse for part of the year, which is relevant to Social Security, IRA limits, and passive activity real estate allowance limitations. The subworksheet also contains calculation options and entries for:

- additional standard deductions for taxpayers who are aged or blind
- taxpayers who must itemize

(2) Personal Exemptions

The total number of exemptions claimed for the taxpayer, spouse and dependents. See IRC §§ 151 and 152. Do not multiply by the exemption amount. For fiduciaries, enter the **amount** of the deduction for personal exemptions: 600 for an estate or 300 or 100 for a trust. See IRC § 642(b). Specify any additional amounts for the blind and aged on the **Filing Status** worksheet; do **not include them** here.

For a description of how the program handles the personal exemption phase-out in 1991 and subsequent years and inflation for future years, see the discussion of personal exemptions on the **Summary Report** worksheet.

For years after 2017 and before 2026 the personal exemption amount for individuals will equal zero, but an equivalent amount will still be used to determine whether other deductions are allowed or allowable. See IRC § 151(d)(5). See IRC § 6012(f) and Section 11041(f) of the Tax Cuts and Jobs Act regarding the effective date. Continue to enter personal exemption amounts in order to compute the itemized deduction for state sales taxes on the **State and Local Sales Taxes** worksheet.

For years after 2017 and before 2026, enter the personal exemption amounts in order to calculate both the credit for an additional dependent under IRC § 24(h)(4) and the Affordable Care credit under IRC § 36B. Some states also use this number.

The program will then calculate the credit for additional dependents on the **Child Tax Credit** worksheet based on the personal exemption amounts and the number of qualifying children entered on said worksheet.

Note. The program does not compute the phaseout of the personal exemption for Qualified Disability Trusts. See IRC § 642(b).

(3) Ordinary Income

All items of income and deduction that are used in the computation of adjusted gross income except capital gains and losses. See IRC §§ 61 and 62. Since deductions can exceed income, the amount entered can be negative (press the minus sign "–" before pressing Enter to make a number negative).

Note. Do not reduce ordinary income by the deductible portion of capital losses since the program does this computation automatically. Also do not include in ordinary income the includible portion of capital gains. Ordinary income does not include accumulation distributions from trusts subject to the throwback rules of IRC § 667. It also does not include lump sum distributions from qualified plans which are subject to the special 5- or 10-year averaging provisions of IRC § 402(e). Instead, see the **Lump Sum Distribution** worksheet on page 351.

Use the subworksheet to enter the details of ordinary income. This subworksheet also computes the self-employment tax automatically and allows access to:

- the **Wages** worksheet, which computes income from wages used in the computation of wage income, self-employment tax, and earned income of Minor children, taxpayers who must itemize, IRA computations, and taxpayers who are entitled to the earned income credit;

- the **Interest and Dividends** worksheet, which computes dividends and interest for gross income purposes and for investment interest limitation purposes, and allows access to the computation of the Series EE educational bond interest exclusion in post–1989 years (on the Educational Interest Income and Expense subworksheet);

- the **Self-employment Income & Loss** worksheet, which computes self-employment income for purposes of the self-employment tax, income tax, and earned income calculations, and automatically computes the deductions under §§ 164(f) and 1402(a)(12);

- the **Section 1231 & Casualty Gain/Loss** worksheet, which computes and determines the character of casualty and § 1231 asset sale gain or loss;

- the **Passive & MAPRRA Income and Loss** worksheet, which computes the limitations on losses from passive/MAPRRA activities, including carryovers and allocations of disallowed losses;

- the **Publicly Traded Partnerships** worksheet, which computes income or loss from publicly traded partnerships;

- the **Investment Interest Expense** and **Net Investment Income** subworksheets, which compute investment interest limitations;

- the **Other Ordinary Income** worksheet, which handles state tax refunds, alimony, net operating loss deductions, royalties, and other investment ordinary income and expense needed for the computation of net investment income, as well as automatically computing the exclusion for social security benefits;

- the **Excess Business Loss Limitation** worksheet, which limits excess business losses under IRC § 461(l) and the Net Operating Losses after 2017;

- the **IRA Deductions** subworksheet, which computes the limitations on deductible IRA contributions and the Roth IRA limits;

- the **Educational Interest Income & Expense** worksheet, which computes the educational loan interest deduction;

- the **Education Expenses** worksheet, which computes the deduction or credit for education expenses;

- the **Domestic Production Activities Deduction** worksheet, which computes the deduction for domestic production income.

(4) Net Short-Term Capital Gain or Loss

The sum of all gains less the sum of all losses from the sale or exchange of capital assets held one year or less (six months if purchased after 6/22/84 and before 1/1/88). See IRC § 1222. If this item is a loss, enter it as a negative (press the minus sign "–" before pressing Enter to make a number negative). Include capital loss carryovers, but do not apply the $3,000 capital loss limitation, since the program handles that calculation automatically. The amount should correspond to the sum of the amounts described in IRC Subsections 1222(5) and 1222(6).

Use the subworksheet in multiple-year situations where there are capital loss carryovers. Using the subworksheet also allows you to enter investment capital gain and loss needed in the computation of net investment income for investment interest limitation purposes. For years after 1996, the subworksheets also handle 28% rate gains and losses and unrecaptured section 1250 gains.

The subworksheet also allows access to the **Passive & MAPRRA Income and Loss** worksheet and the **Publicly Traded Partnerships** worksheet, which compute the allowable losses from passive/MAPRRA activities.

(5) Net Long-Term Capital Gain or Loss

The sum of all gains less the sum of all losses from the sale or exchange of capital assets held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). See IRC § 1222.

If this item is a loss, enter it as a negative (press the minus sign "–" before pressing Enter to make a number negative). Include capital loss carryovers, but do not apply the $3,000 capital loss limitation, since the program handles that calculation automatically. The entered amount should correspond to the sum of the amounts described in IRC Subsections 1222(7) and 1222(8).

Use the subworksheet in multiple-year situations where there are capital loss carryovers. Using the subworksheet also allows you to enter investment capital gain and loss needed in the computation of net investment income for investment interest limitation purposes. The subworksheets also handle 28% rate gains and losses, unrecaptured section 1250 gains, and qualified 5-year gains. For years after 1996, the program assumes any long-term gains entered directly on the **Main Worksheet** are 20% gains. Therefore, if there are 28% rate gains and losses, unrecaptured section 1250 gain, or qualified 5-year gains, you must use the subworksheets to get accurate capital gain tax results.

The subworksheet also allows access to the **Passive & MAPRRA Income and Loss** worksheet and the **Publicly Traded Partnerships** worksheet, which compute the allowable losses from passive/MAPRRA activities.

(6) Adjusted Gross Income (Calculated)

The total of Ordinary Income and Net Long and Short-Term Gains and Losses (rows 3, 4, and 5) above, after:

- application of capital loss limitations;
- application of limitations on exclusion of adoption assistance payments;
- reduction by the social security income exclusion;
- inclusion of the capital gain from a lump sum distribution entered on the **Lump Sum Distribution** worksheet;
- application of limitations for contributions to an IRA;
- application of passive/MAPRRA activity and publicly traded partnership loss limitations;
- exclusions of Series EE bond educational interest;
- application of limitations on the deduction for interest on educational loans.

See IRC § 62. For details, access the Summary Report after completing the **Main Worksheet**. The **Summary Report** computation will show the deductions and exclusions with capital losses appropriately limited.

(7) Itemized Deductions

All deductions from adjusted gross income other than the deduction for personal exemptions. Included are:

- medical expenses,
- taxes,
- charitable contributions,
- interest (except trade or business, or rental interest),
- casualty losses,
- expenses for the production or collection of income, and
- employee business and other miscellaneous expenses not deducted in computing adjusted gross income.

Enter these items after all limitations, but do not reduce the total by the standard deduction since the program handles this computation automatically.

Use the subworksheet for this item if you want to enter the details separately and have the program do the following automatically:

- compute the 3% floor limitation to itemized deductions required for post–1990 years.
- compute adjusted gross income limitations on medical expense deductions and casualty loss deductions.
- compute the adjusted gross income limitation on miscellaneous itemized deductions.
- compute the AMT adjustments for medical expense, miscellaneous itemized, taxes, interest, and the 3% itemized deductions floor.

In addition, use of the subworksheet results in automatic adjustment of the above items whenever adjusted gross income changes.

If you do not use the subworksheet, you must take the adjusted gross income limitations into account when you include deductions for medical, casualty, employee business expenses, and other miscellaneous items here. In addition, the alternative minimum tax computation will not automatically take into account adjustments for medical, miscellaneous itemized, taxes, interest, and the 3% floor.

The subworksheet also allows access to the **Investment Interest Expense** and **Net Investment Income** subworksheets, which compute the investment

interest limitation, to the **Charitable Contributions** subworksheet, which computes charitable contribution limitations (and allows for automatic adjustment of the charitable contribution adjustment for AMT purposes), and to the **State Estimated and Withholding Payments** worksheet which computes the deduction for state and local income taxes.

If "Optimize Standard Deduction vs. Itemized" on the **Filing Status** worksheet is Yes, and the program has determined that electing the standard deduction produces a lower total tax, then this row will be N/A, even though total itemized deductions are greater than the standard deduction.

(8) Standard Deduction

The standard deduction for the filing status selected.

For the years 2000 through 2020, the program uses the amount published by the Treasury.

For 2020, the program will use the amounts set forth in IRC § 63(c)(7).

For 2021 and later years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4) as described under Inflation Adjustments.

For 2003 and later years, for married filing jointly and qualifying widower filing statuses, the program uses 200% of the standard deduction for single taxpayers. See IRC § 63(c)(2)A).

If row 7 "Optimize Standard Deduction vs. Itemized"" on the **Filing Status** worksheet is Yes, and the program has determined that electing to itemize produces a lower total tax, then this row will be N/A even though the standard deduction is greater than total itemized.

No entry may be made on this row. To enter amounts for the property tax portion of the standard deduction, press W for the **Standard Deduction** worksheet. The worksheet must remain active and cannot be killed.

(9) Qualified Income Deduction

The qualified income deduction under IRC § 199A. For years before 2018 and after 2026, this row will equal zero.

(10) Taxable Income (Calculated)

Adjusted gross income less personal exemptions and the greater of the standard deduction or itemized deductions. See IRC § 63(b).

(11) Alternative Minimum Taxable Income (AMTI) Net of Exemption

The excess of alternative minimum taxable income over the exemption. The exemption varies by filing status and year, as shown below:

Years	Single, Head of Household	Married Filing Jointly	Married Filing Separately
2000	$33,750	$45,000	$22,500
2001–2002	$35,750	$49,000	$24,500
2003–2005	$40,250	$58,000	$29,000
2006	$42,500	$62,550	$31,275
2007	$44,350	$66,250	$33,125
2008	$46,200	$69,950	$34,975
2009	$46,700	$70,950	$35,475
2010	$47,450	$72,450	$36,225
2011	$48,450	$74,450	$35,225
2012	$50,600	$78,750	$39,375
2013	$51,900	$80,800	$40,400
2014	$52,800	$82,100	$41,050
2015	$53,600	$83,400	$41,700
2016	$53,900	$83,800	$41,900
2017	$54,300	$84,500	$42,250
2018	$70,300	$109,400	$54,700
2019	$71,700	$111,700	$55,850
2020	$72,900	$113,400	$56,700

For years prior to 2013, these exemption amounts are reduced by 25% of the excess of alternative minimum taxable income over $150,000 ($112,500 for single filing status and $75,000 for married filing separately or an estate or trust). See IRC § 55.

For years after 2012, these exemption amounts are reduced by 25% of the excess of alternative minimum taxable income over the amounts in the following table. See IRC § 55.

Years	Joint or Surviving Spouse	Single or Head of Household	Married Filing Separately or Fiduciaries
2013	$153,900	$115,400	$76,950
2014	$156,500	$117,300	$78,250

Year			
2015	$158,900	$119,200	$79,450
2016	$159,700	$119,700	$79,850
2017	$160,900	$120,700	$80,450
2018	$1,000,000	$500,000	$500,000
2019	$1,020,000	$510,300	$510,300
2020	$1,036,000	$518,400	$518,400

For years after 2020, the program adjusts the amounts above for inflation in accordance with IRC § 55(d)(4). For years before 2018 after 2025, the program uses IRC § 55(d)(3) as the basis of the uninflated amounts. **For years after 2017 and before 2026**, the program uses IRC § 55(d)(7) as the basis of the uninflated amounts.

An addition to AMTI is computed for married filing separately. See the "Exemption" row of the **Alternative Minimum Tax** worksheet.

No entry may be made on this row. To enter alternative minimum tax items, use the subworksheet. The subworksheet must remain active and cannot be killed.

(12) Minor Child Tax

The tax on a minor child under age 18 prescribed by IRC § 1(j).

This row provides access to a subworksheet which calculates the special tax on the unearned income of minor children. The subworksheet is automatically activated when "Minor Child" has been selected on the **Assumptions** dialog. No entries are allowed here; use the subworksheet.

The tax calculated on the subworksheet is the child's regular tax, i.e., the higher of the child's own regular tax or the child's tax on earned income plus the child's share of the allocable parental tax computed in part with reference to the parent's income. The subworksheet also computes the limit on the child's AMT in post-1988 years. See also IRC §§ 1(i) and 59(j) and the subworksheet for the details of this and other calculations affecting minor children.

For years after 2017 and before 2026, this row will equal zero.

(13) Schedule or Table Tax (Calculated)

The tax from the federal rate schedules or from the tax tables (for income less than $100,000 (less than $50,000 for 1991 and prior years)).

For 2000 through 2020, the program uses the statutory rate schedules and tax tables as produced by the Treasury. For subsequent years, the program uses only the statutory schedules and not the tax tables. See IRC § 1.

For 2021 and subsequent years, the program adjusts the schedules for inflation in accordance with IRC § 1(f). See "Inflation Adjustments" in Help.

For 2001, the program does **not** apply the 10% bracket. See IRC § 1(i)(1)(d). However, for taxpayers with respect to whom a deduction is allowable to another taxpayer (as indicated on the "Must Itemize Supported" row of the **Filing Status** worksheet), the program reduces the tax in accordance with the worksheet in the Form 1040 instructions for 2001. The tax is not reduced, however, if the taxpayer received an advance payment of 2001 taxes as indicated on the "2001 Advance Payment Received" row of the **Filing Status** worksheet or the "Refund Check" and "Adjustment to Refund Check" rows of the **2001 10% Bracket Credit** worksheet. See IRC § 6428.

(14) Alternative Capital Gains Tax

The alternative capital gains tax as defined by IRC § 1(h). No entries are allowed here or in the underlying subworksheet. To view the alternative capital gains tax calculation, press W (or double click) to access the **Alternative Capital Gains Tax** worksheet. The worksheet must remain active and cannot be killed.

(15) Farm Income Averaging Tax

The farm income averaging tax as computed in accordance with IRC § 1301. No entry may be made on this row. To enter farm income averaging items, press W for the **Farm Income Averaging Tax** worksheet.

(16) Foreign Earned Income Tax

The foreign earned income tax computed in accordance with IRC § 911(f). No entry may be made on this row. To enter foreign earned income items, press W for the **Foreign Income Exclusion Taxes** worksheet, from which you may access the **Taxpayer's Foreign Income Exclusion** worksheet and the **Spouse's Foreign Earned Income Exclusion** worksheet.

For years before 2006, this row will be zero.

(17) Tentative Minimum Tax

The tentative minimum tax as defined by IRC § 55(b).

This row provides access to the **Alternative Minimum Tax** worksheet, which allows entry of alternative minimum tax items and calculates the tentative minimum tax and the alternative minimum tax. No entry may be made on this row. To enter alternative minimum tax items, use the subworksheet. The subworksheet must remain active and cannot be killed.

For 2000 and subsequent years, the tentative minimum tax rate is 26% on the first $175,000 ($87,500 for married filing separately) of AMTI in excess of the exemption and 28% on the balance.

For 2014 and subsequent years, the amount defined by IRC § 55(b) is reduced by the recapture of the premium credit for health insurance under IRC § 36B(f)(2) so that users can more easily determine the point at which the taxpayers are subject to the alternative minimum tax.

See the **Summary Report** worksheet on page 690.

(18) Nonrefundable Credits

Total nonrefundable credits that may be allowed against the lower of the schedule or table tax or the alternative capital gains tax (1987 and 1991 and subsequent years) or the Minor Child tax. The amount is shown as a negative to indicate it is being subtracted. Included are:

- Dependent Care Credit
- Adoption Credit
- Child Tax Credit
- Hope Scholarship Credit & Lifetime Learning Credit
- Credit for Elective Deferrals
- D.C. Homebuyer Credit
- Credit for the Elderly and Mortgage Interest Credit
- Foreign Tax Credit
- General Business Credit
- Minimum Tax Credit

No entry may be made on this row. To enter nonrefundable credits and refundable credits, use the subworksheet. You can use the subworksheet to access the following subworksheets:

- **Dependent Care Exclusion and Credit** worksheet
- **Adoption Exclusion and Credit** worksheet
- **Child Tax Credit** worksheet
- **Education Expenses** worksheet
- **Credit for Elective Deferrals** worksheet
- **D.C. Homebuyer Credit** worksheet
- **Minimum Tax Credit** worksheet
- **Withholding, Estimated, and Penalty** worksheet
- **Earned Income Credit** worksheet
- **2001 10% Bracket Credit** worksheet

The **Credits** subworksheet must remain active and cannot be killed.

See also the **Summary Report** worksheet on page 690.

(19) Self-Employment and Other Taxes

The total self-employment taxes of taxpayer and spouse plus investment credit recapture, penalty taxes on IRAs and other distributions, domestic employment taxes, the averaging tax on lump sum distributions, and the penalty for under-payment of estimated taxes.

No entry may be made on this row. To enter or compute these items, use the subworksheet. Self-employment income is entered on the **Self-employment** worksheet accessed from **Ordinary Income**. The worksheet accessed from this row must remain active and cannot be killed.

(20) Federal Withholding and Estimated Taxes Paid

Total refundable credits from the **Credits** worksheet. No entry may be made on this row. To enter nonrefundable credits and refundable credits, call up the **Credits** worksheet. The worksheet must remain active and cannot be killed.

(21) Net Federal Tax (Calculated)

The lowest of the schedule or table tax, the alternative capital gains tax (1987 and 1991 and subsequent years) and the farm income averaging tax (1998 and subsequent years) or, where applicable, the Minor Child tax, less allowable nonrefundable credits plus the alternative minimum tax, investment credit recapture, the self-employment tax, and the tax on a lump sum distribution. See the **Summary Report** worksheet on page 690.

(22) Resident State Tax

Total resident state income tax after application of all state nonrefundable credits. If you have **Income Tax Planner with Fifty States**, use the subwork-sheet to make any necessary adjustments.

Note. If you have **Income Tax Planner with Fifty States**, the subworksheet is activated automatically and computes the state tax. If you do not have **Income Tax Planner with Fifty States**, enter the state tax here.

Whether the state tax is entered here or computed by the program, it may automatically be used as a federal itemized deduction when the **State Estimated and Withholding** worksheet (accessed from the next row) is activated. That worksheet contains a number of options for the automatic computation of state estimated tax payments for state and federal purposes.

(23) Resident State Estimated Tax and Withholding

Total resident state estimated and withholding taxes paid for the year. The program will convert any positive entry on the row into a negative. To enter the details of the resident state estimated and withholding payments, press W to use the **State Estimated and Withholding** worksheet. The results produced by the subworksheet are automatically integrated into the federal computations. The subworksheet also contains a number of options for automatic computation of state estimated tax payments for state and federal purposes.

(24) New York Nonresident State Tax

Total New York State and New York City nonresident taxes before applying withholding and estimated taxes. No entry may be made here; use the subworksheet. No New York nonresident taxes will be computed until New York income is designated on the **New York Nonresident Tax** subworksheet. To access this subworksheet, you must select the **New York Nonresident** check box on the **Choose Nonresident State** dialog (accessed from the **Assumptions** dialog, **Nonresident State** button).

For New York State residents who are not residents of New York City, this row and the subworksheet are used for the New York City nonresident tax only.

To enter the New York nonresident estimated and withholding state payments, use the **New York Nonresident** worksheet. Press W to use the **New York Nonresident Tax** worksheet.

This row will be hidden if New York has not been selected as a nonresident state.

(25) New York Nonresident Estimated and Withholding

Total New York nonresident state credit for estimated and withholding taxes paid. No entry may be made on this row.

To enter New York nonresident state estimated and withholding payments and have the program compute the New York state credit, the federal deduction, and the refund for overpayments, press W for the **New York Nonresident State Estimated & Withholding Payments** worksheet.

This row will be hidden if New York has not been selected as a nonresident state.

(26) Other Nonresident State Taxes

Total nonresident taxes, of a state other than New York, before application of withholding and estimated taxes. Press W to use the **Nonresident State Tax - Main Worksheet**. To access this subworksheet, you must select a nonresident

state on the **Choose Nonresident State** dialog (accessed from the **Assumptions** dialog, **Nonresident State** button).

Note. Nonresident taxes will not be computed until nonresident source income is designated on the **Nonresident State Tax – Main Worksheet**.

Use the **Other Nonresident State** worksheet to enter the other nonresident estimated and withholding state payments. Use the **Other Nonresident State Estimated & Withholding Payments** worksheet accessed from the federal **Main Worksheet** to enter all estimated and withholding state payments, including state nonresident payments.

This row will be hidden if a nonresident state has not been selected.

(27) Other Nonresident Estimated and Withholding

Total nonresident state (other than New York) credit for estimated and withholding taxes paid. No entry may be made on this row.

To enter nonresident state estimated and withholding payments and have the program compute the nonresident state credit, the federal deduction, and the refund for overpayments, press W for the **Other Nonresident State Estimated & Withholding Payments** worksheet.

This row will be hidden if a nonresident state has not been selected.

(28) Total Net Tax Liability: (Calculated)

The sum of row 21 "**Net Federal Tax**", row 22 "Resdent State Tax", row 23 "Resident State Estimated & Withholding", row 24 "New York Nonresident State Tax", row 25 "New York Nonresident Estimated & Withholding", row 26 "Other Nonresident State Taxes", and row 27 "Other Nonresident Estimated & Withholding", above.

NOTES

ITEMS NOT COMPUTED OR CONSIDERED IN THE CALCULATION:

- the exclusions and exemptions provided by IRC §§ 912, 931, and 933 for possessions income and allowances.

- the special tax for accumulation distributions from trusts. See IRC §§ 665–668 and Form 4970.

- the deferred minimum tax resulting from net operating loss carryovers from pre-1983 years. See IRC § 56 prior to TEFRA amendments.

- net operating loss carryovers and carrybacks (these items may be entered, but are not computed). For losses generated in years after 2017, the program computes the regular tax NOL, subject to user adjustments.

  In addition, the program does not recompute adjusted gross income without regard to net operating loss carrybacks for purposes of charitable contribution limitations. However, you may enter the NOL carryback as an adjustment to the contribution base on the **Charitable Contributions** worksheet. The amount may be adjusted for AMT purposes on the **AMT Charitable Contributions Adjustment** worksheet. The program does not automatically handle the reduction in charitable contribution carryovers on account of the increase in NOL carryovers. See IRC § 170(d)(1)(B).

- penalty taxes (see item 3 under "Special Cases" on page 102).

- the additional tax (if any) under IRC § 197(f)(9)(B)(ii) on the gain on the disposition of intangibles.

- the credit for holders of qualified zone academy bonds.

- special computations for fiscal year taxpayers.

- the increase or decrease in tax for shareholders in a qualified electing fund.

- the special rules applicable to electing small business trusts under IRC § 641.

- the suspension of the research credit for 2000 and 2001. See the Tax Relief Extension Act of 1999, Section 502(d).

- any foreign earned income exclusion of the child when doing the Minor Child analysis. The parents exclusion is taken into account.

SPECIAL CASES

1. **Fiduciaries** — The program operates the same way for fiduciaries as for other filing statuses, with the following exceptions:

   - Some items cannot apply for fiduciaries. For example, a fiduciary cannot have medical expenses and no entry should be made on the **Itemized Deductions** subworksheet for medical expense items. Similarly, fiduciaries' charitable contributions are not limited by IRC § 170 and the **Charitable Contributions** subworksheet should not be used.

   - For a fiduciary you must enter the **amount** of the personal exemption ($600 for an estate and $300 or $100 for a trust). See the **Personal Exemptions** row (row 2) of the **Main Worksheet** on page 88.

- A fiduciary has special items to be included in alternative minimum tax deductions on the "Fiduciary Adjustments" row on the **Alternative Minimum Tax** subworksheet.

- Allocate the distribution deduction allowable to an estate or trust under §§ 651 and 661 to the proper categories of income. Thereafter, the program will calculate the tax based on the fiduciary's taxable income. For example, if the trust recognizes a $10,000 investment capital gain, of which $3,000 is allocated to the beneficiaries as part of the distribution deduction, enter $7,000 as long-term investment gain on the **Capital Gains and Losses** worksheet. After any such allocations, the program will compute the alternative capital gains tax, the alternative minimum tax, the AMT alternative capital gains tax, § 163 investment income, and § 1411 Medicare investment income based on the fiduciary's income. See, e.g., Form 1041 Schedule D for 2012 and See Prop. Treas. Reg. § 1.1411–3(e)(3) and subsequent examples.

- Fiscal year fiduciary computations may not be handled in years where there are different rates (such as on capital gains) for parts of the year.

- The program does not handle the special rules applicable to electing small business trusts under IRC § 641.

2. **Taxpayers who must itemize** — The program can handle the special calculations for taxpayers who must itemize. See the **Filing Status** worksheet on page 103.

3. **Penalty taxes** — The program does not automatically compute the penalty tax for early distributions from an IRA or other deferred compensation plan. See IRC § 4980A.

   You may include these taxes if you wish on the "Tax on IRA & Other Taxes" and "SS Tip & Excess Plan Taxes" rows of the **Self-Employment and Other Taxes** subworksheet.

   The program also does not handle the penalty tax applicable to non-qualified deferred compensation plans that fail to meet the requirements of IRC § 409A. See IRC§ 409A(a)(1)(B).

SUBWORKSHEETS

FILING STATUS

Filing Status
(1)   Filing Status

(1)   Filing Status
(2)   Married Separate Lived Together
(3)   Must Itemize Supported
(4)   2001 Advance Payment Received
(5)   Must Itemize Other
(6)   Aged/Blind- # of Additional Amounts
(7)   Optimize Standard Deduction vs. Itemized
(8)   Displaced Individuals
(9)   Child Tased at Fiduciary Rates

(1) Filing Status

The seven filing statuses are:

Single	1 or S
Married Filing Jointly and Surviving Spouse	2 or J
Married Filing Separately	3 or M
Head of Household	4 or H
Trust	5 or T
Estate	6 or E
Qualifying Widow(er)	7 or Q

Except for Trust, Estate, and Qualifying Widow(er), the numbers correspond to items 1 through 4 on Form 1040. If no filing status is specified, the program automatically assumes a **Joint** filing status.

(2) Married Separate Lived Together

If the taxpayer is married at the end of the taxable year, does not file a joint return, and did not live apart from his spouse at all times during the year, enter "1" or "Y" (Yes) (all three conditions must be satisfied). Otherwise, enter "0" or "N" (No).

This item relates to the computation of includible social security benefits, the IRA and Roth phaseouts, and the computation of the $25,000 exemption for active real estate passive activity losses. See IRC § 86(c)(3)(B) and the description for the "Real Estate Exemption" row on the **Passive Activity Income/Loss** worksheet. It also affects the limit on the New Jersey real estate tax deduction in **Income Tax Planner with Fifty States**. A "No" answer here causes the program to use a floor of the applicable dollar amount for a single

taxpayer for the IRA limitation for married filing separately. If this question is answered "Yes," the program uses zero. See IRC § 219.

(3) Must Itemize Supported

If the taxpayer must itemize deductions and cannot fully utilize the standard deduction because he is supported by and may be claimed as a dependent on another taxpayer's return, enter "1" or "Y" (Yes). Otherwise, enter "0" or "N" (No). See IRC § 63(c)(5).

(4) 2001 Advance Payment Received

The taxpayer, who is supported and may be claimed as a dependent on another taxpayer's return, received an advance payment in 2001 pursuant to IRC § 6428. Such a payment might have been made if the taxpayer was not supported in 2000. This entry is relevant only for year 2001, but if the taxpayer qualifies for farm income averaging and received such a payment in 2001, this row should be answered "Yes" in years 2002 through 2004 so that the farm income averaging tax in those years is properly computed. A "Yes" answer on this row is inconsistent with a "No" answer on the row above and the program will not allow the conflict.

(5) Must Itemize Other

If the taxpayer must itemize deductions and cannot fully utilize the standard deduction for reasons other than being supported by parents, enter "1" or "Y" (Yes). Such reasons include being a non-resident alien, or being the spouse of a taxpayer who files separately and who itemizes. Otherwise, enter "0" or "N" (No). See IRC § 63(c)(6).

This row may also be used to elect to itemize in situations in which total itemized are less than the standard deduction.

A Yes here is inconsistent with a Yes on the "Must Itemize Supported" row above. It is also inconsistent with a Yes on the "Optimize Standard Deduction vs. Itemized" row below. The program will not allow either conflict.

(6) Aged or Blind– # of Additional Amounts

The number of additional standard deduction amounts for the taxpayer and his spouse as a result of being blind or 65. The additional amounts are:

Years	Single, Head of Household	All Other Taxpayers
2000	$1100	$850
2001	$1100	$900
2002	$1150	$900

Years	Single, Head of Household	All Other Taxpayers
2003	$1150	$950
2004	$1200	$950
2005–2006	$1250	$1000
2007	$1300	$1050
2008	$1350	$1050
2009–2010	$1400	$1100
2011–2012	$1450	$1150
2013	$1500	$1200
2014	$1550	$1200
2015–2017	$1550	$1250
2018	$1,600	$1,300
2019–2020	$1,650	$1,300

For 2021 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4). See "Calculations" in the help system.

Enter the number of such additional amounts, e.g., 1, 2, 3, 4, etc. Do not multiply by the additional amount. The program will compute the total additional amount allowed. The calculated standard deduction appears on the Summary Report. See the **Summary Report** worksheet on page 690.

(7) Optimize Standard Deduction vs. Itemized

Elect to itemize or use the standard deduction whichever will produce the lower total federal and state tax liability in the current year. A Yes answer on this row causes the program to try the computations both ways and select the method that produces the lower total tax. Otherwise, the program selects the higher of the standard deduction or total itemized in computing the regular tax and the AMT adjustments. This option is most useful in cases in which the taxpayer has a net alternative minimum tax liability and the standard deduction would otherwise apply because it is greater than total itemized. In such cases, a lower total tax may be produced by electing to itemize, because not all itemized deductions are AMT adjustments, while the standard deduction is an AMT adjustment in full. This option is also useful in some states, such as Utah, where use of the standard deduction depends on such use for federal purposes. When total itemized exceed the standard deduction by some small amount and not all itemized are allowed for state purposes, the state tax may be reduced by electing the federal standard deduction in an amount that exceeds the increase in federal tax.

The calculation is done on a column by column basis, without taking into account the election's effect on other items such as carryovers, and without

taking into consideration other years. However, if the election results in the use of the lower of the standard deduction or itemized, the program tests to see if the minimum tax credit carryover is less as a result or if credits subject to carryover are used to a greater extent, and produces a warning message if either is the case. When running an Annualization Analysis, this test is only performed in the last (full year) column.

Note. The program does not test to see if electing to itemize in 2007 produces a larger recovery rebate check in 2008. You can run this test by using the "Must Itemize Other" row above.

If the program selects itemized instead of the standard deduction in a situation in which the standard deduction is greater, "N/A" will appear on the "Standard Deduction" row of the **Summary Report** worksheet. Similarly if the program selects the standard deduction when it is less than total itemized, "N/A" will appear on the "Total Itemized" row of the **Summary Report** worksheet.

Caution! For taxpayers who are married filing separately, the election may not apply. If the spouse of the taxpayer is itemizing then the taxpayer must itemize also. See IRC § 63(c)(6) and row 5 above.

A yes answer on this row is inconsistent with a Yes answer on the "Must Itemize Other" row above and the program will not allow the conflict. A Yes answer on the "Must Itemize Other" row above overrides the answer on this row and causes the program to itemize regardless of the effect on the tax. Other than the entry on this row, there is no way to force the program to select the standard deduction except by reducing the amounts entered on the **Itemized Deductions** worksheet.

(8) Displaced Individuals

The number of Hurricane Katrina (in 2005) or Midwestern disaster area (in 2008) displaced individuals of the taxpayer for the taxable year. A displaced individual with respect to the taxpayer is a natural person who was, as of August 28, 2005, a resident of any Hurricane Katrina disaster area, or in 2008 was a resident of a Midwestern Disaster area, is displaced from his or her residence located in the disaster area, and is provided housing free of charge by the taxpayer in his or her principal residence for a period of 60 consecutive days which ends in such taxable year. No such person may be taken into account if such person was taken into account in the prior year.

Each such person entitles the taxpayer to a reduction in taxable income of $500, limited to $2000 ($1000 for married filing separately) minus the amount of the reduction in prior years. The amount of the reduction is added by the program to the deduction for personal exemptions and appears on the "Personal Exemptions" row of the **Summary Report** worksheet.

The reduction applies only to 2005 and 2006 or (for midwestern disaster area displaced persons, 2008 and 2009). If you are running multiple years that include 2005 and 2006, or 2008 and 2009, the program will determine the balance of the $2000 (or $1000) limit in 2006, or 2009, respectively. Otherwise you must be sure not to enter more displaced individuals to which the taxpayer is entitled, taking into consideration the prior year's number of such individuals.

See § 302 of the Katrina Emergency Relief Act of 2005, and T.D. 9301 and see Sec. 701 of the Heartland Disaster Tax Relief Act of 2008, Title VII of H.R. 1424.

(9) Child Taxed at Fiduciary Rates

For years after 2017 and before 2020, a child with unearned income as defined by IRC § 1(j)(4) of the Tax Cut and Jobs Act. Set to Yes to limit the child's tax brackets and alternative minimum tax exemption to the amounts set forth in the statute. **For all other years**, this row will be No.

ORDINARY INCOME

Ordinary Income
(1) Wages
(2) Interest and Dividends
(3) Self-employment Income
(4) § 1231 Ordinary & Casualty Gain/Loss
(5) Passive Activity Income or Loss
(6) Trade or Business MAPRRA Income and Loss
(7) Publicly Traded Partnerships
(8) Investment Interest Expense
(9) Taxpayer's Foreign Income Exclusion
(10) Spouse's Foreign Income Exclusion
(11) Other Ordinary Income
(12) Excess Business Loss Limitation
(13) **Total Ordinary Income**
(14) Adjustments:
(15) Taxpayer's IRA
(16) Spouse's IRA
(17) Taxpayer's Keogh & SEP
(18) Spouse's Keogh & SEP
(19) **Taxpayer's Self-employment Tax Deduction**
(20) **Spouse's Self-employment Tax Deduction**
(21) Educational Loan Interest
(22) Education Expense Deduction
(23) Domestic Production Deduction
(24) Taxpayer's Foreign Housing Deduction
(25) Spouse's Foreign Housing Deduction
(26) Post 2013 Self Employment Deduction
(27) Other Adjustments
(28) **Total Adjustments**
(29) **Net Ordinary Income**

(1) Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the taxpayer.

Wages entered here are assumed by the program to be the taxpayer's and not the spouse's and are assumed to be FICA wages for purposes of the self-employment tax. If the subworksheet is used, total wages of both taxpayer and spouse are posted here.

For non-FICA wages and wages paid by taxpayer to spouse or vice versa, use the subworksheet. Use the subworksheet also for taxpayers whose FICA wages include 401(k)/SIMPLE or other salary reduction amounts, for wages subject only to the Medicare element of the FICA tax, and for entering taxpayer's and spouse's wages separately.

(2) Interest and Dividends

The total of all taxable interest and dividends received by the taxpayer and the spouse. Use the **Educational Interest Income and Expense** subworksheet (accessed from the first row of the **Interest and Dividends** subworksheet) to have the program automatically compute the exclusion for Series EE bond interest used for educational purposes (see IRC § 135). Use the **Interest and Dividends** subworksheet when running the "Minor Child" analysis to enter interest and dividends that the parent may elect to include on his or her return.

The **Interest and Dividends** subworksheet also handles U.S. Government bond interest, which is excluded from income by most states. Use of the subworksheet results in the automatic handling of this exclusion by the program if you have **Income Tax Planner with Fifty States**. The subworksheet also handles capital gain dividends and tax exempt interest, including private activity bond interest.

(3) Self-employment Income

Total of taxpayer's net earnings from self-employment, including sole proprietorships and partnerships in which the taxpayer or the spouse materially participates. See IRC § 1402. Include meal and entertainment expenses, as a negative, after application of the 80% limit of IRC § 274(n) (50% for years after 1993). Do not reduce the amount by the IRC § 164(f) deduction or the deduction under IRC § 1402(a)(12) since the program computes these deductions automatically.

Enter the total here or use the subworksheet to enter taxpayer's and spouse's self-employment income separately. Self-employment income entered here is assumed by the program to be the taxpayer's and not the spouse's. If the subworksheet is used, total self-employment of both the taxpayer and the spouse is posted here.

(4) Section 1231 and Casualty Ordinary Gain or Loss

Total ordinary gain or loss (–) from IRC § 1231 assets, and ordinary casualty gains and losses.

Use the subworksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, capital gain and loss, and itemized casualty loss. Use the subworksheet also to have casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 1231.

(5) Passive Activity Income and Loss

Total includible ordinary income or loss from passive activities except publicly traded partnerships.

All entries for passive activity items must be made through the **Individual Activity** worksheets, accessed through the **Passive & MAPRRA Income/Loss** worksheet for this row.

No entry may be made directly here; use the subworksheet.

(6) Trade or Business MAPRRA Income and Loss

Total includible ordinary income or loss from passive activities except publicly traded partnerships.

For years after 2000, the amount on this row includes income and loss from material participation rental real estate of real estate professionals.

All entries for MAPRRA activity items must be made through the **Individual Activity** worksheets, accessed through the **Passive & MAPRRA Income/Loss** worksheet for this row.

No entry may be made directly here; use the subworksheet.

(7) Publicly Traded Partnerships

Total includible ordinary income or loss from publicly traded partnerships.

For years after 1993, the amount on this row includes income and loss from material participation rental real estate of real estate professionals.

All entries for such partnerships must be made through the **Individual Activity** worksheets, accessed through the subworksheet for this row.

No entry may be made directly here; use the subworksheet.

(8) Investment Interest Expense

Total of all Form 1040 Schedule E investment interest expenses after applicable limitations. Enter as a negative number (press the minus sign "–" before Enter).

Use the subworksheet to enter the details and have the program compute the limitations. See IRC § 163(d).

(9) Taxpayer's Foreign Income Exclusion

The taxpayer's foreign income and housing exclusion for the year. All entries for such income must be made through the **Taxpayer's Foreign Income Exclusion** worksheet accessed from this row.

No entry may be made directly here; use the subworksheet.

(10) Spouse's Foreign Income Exclusion

The spouse's foreign income and housing exclusion for the year. All entries for such income must be made through the **Spouse's Foreign Income Exclusion** worksheet accessed from this row.

No entry may be made directly here; use the subworksheet.

(11) Other Ordinary Income

The total of all items of ordinary income not included above. This category includes the following:

- includible social security benefits
- refunds of state and local taxes
- alimony received
- unemployment compensation
- recapture gain or other ordinary disposition gain or loss
- royalties
- investment expenses
- S corporation nonpassive income and loss
- taxable IRA and pensions and annuities distributions
- nonpassive activity income from estates, trusts, partnerships, etc., not included in self-employment income

Do not include self-employment income or loss. Also, do not include passive activity or PTP income or loss.

Use the subworksheet to enter the above items separately. The subworksheet automatically computes the includible portion of social security benefits. Social security income, state tax refunds, and unemployment compensation on the subworksheet are used in the state tax computation by **Income Tax Planner with Fifty States**.

The federal alternative minimum tax computation uses state tax refunds and the NOL deduction from the subworksheet. Alimony entered on the subworksheet is used by the IRA limitation computation. Using the subworksheet also results in investment income and expense items includible in AGI automatically being taken into account in investment income on the **Net Investment Income** worksheet for purposes of the limitation on investment interest.

The subworksheet also allows access to the **State Estimated and Withholding** worksheet, which computes state tax refunds automatically in multiple-year situations and takes into account the tax benefit rule as it relates to such refunds.

(12) Excess Business Loss Limitation

The Limitation on Excess Business Losses Under IRC § 461(1). Press W or double-click on the row to access the subworksheet.

(13) Total Ordinary Income (Calculated)

The sum of rows 1 through 11, above.

(14) Adjustments

Heading for rows 15 through 28, below.

(15) Taxpayer's IRA Deductions

The amount of the deductible contribution for the taxpayer to an individual retirement account. To have the program compute the appropriate limitations, use the subworksheet.

(16) Spouse's IRA Deductions

The amount of the deductible contribution for the spouse to an individual retirement account. When running a taxpayer and spouse analysis, enter the spouse's IRA deduction on this row in the Spouse column and the taxpayer's IRA deduction on the "Taxpayer's IRA" row above in the Taxpayer column. To have the program compute the appropriate limitations, use the subworksheet.

(17) Taxpayer's Keogh and SEP Deductions

The total of deductible contributions to the taxpayer's Keogh (H.R. 10) or simplified employee pension plan. Enter as a positive amount or press W to

use the **Taxpayer's Keogh and SEP Deductions** worksheet to compute the deduction for the taxpayer's self-employer plan.

(18) Spouse's Keogh and SEP Deductions

The total of deductible contributions to the spouse's Keogh (H.R. 10) or simplified employee pension plan. Enter as a positive amount or press W to use the **Spouse's Keogh and SEP Deductions** worksheet to compute the spouse's self-employer plan.

(19) Taxpayer's Self-employment Tax Deduction (Calculated)

The deduction allowed for post-1989 years for half of the self-employment tax imposed for the taxable year for the taxpayer. For 2011 and 2012 the computation is 0.596 times the OASDI tax plus half of the Medicare Tax. See IRC § 164(f).

(20) Spouse's Self-employment Tax Deduction (Calculated)

The deduction allowed for half of the self-employment tax imposed for the taxable year for the spouse. For 2011 and 2012 the computation is 0.596 times the OASDI tax plus half of the Medicare Tax. See IRC § 164(f).

(21) Educational Loan Interest

The amount of the deductible educational loan interest for years after 1997, as defined by IRC § 221. No entry may be made on this row. To enter the details and have the program compute the appropriate limitations, use the **Educational Interest Income & Expense** subworksheet.

(22) Education Expense Deduction

The deductible higher education expenses for years after 2001 and before 2008. Enter the amount after application of the IRC § 222 limits and phaseout or press W to use the **Education Expenses** worksheet, which computes the deduction and the Hope and Lifetime Learning credits and allows you to choose between the deduction or the credits for higher education expenses. See IRC §§ 222 and 25A.

(23) Domestic Production Deduction

The amount of the deduction for qualified production activities income of the taxpayer for the taxable year as provided by IRC § 199. No entry may be made on this row.

To enter the details and have the program compute the deduction use the **Domestic Production Activities Deduction** worksheet.

(24) Taxpayer's Foreign Housing Deduction

The taxpayer's foreign housing deduction for the year. All entries for such expenses must be made through the **Taxpayer's Foreign Income Exclusion** worksheet accessed from this row.

No entry may be made directly here; use the subworksheet.

(25) Spouse's Foreign Housing Deduction

The spouse's foreign housing deduction for the year. All entries for such expenses must be made through the **Spouse's Foreign Income Exclusion** worksheet accessed from this row.

No entry may be made directly here; use the subworksheet.

(26) Post 2013 Self Employment Deduction

The deduction for health insurance under IRC § 162(l) when the **Affordable Care Credit and Shared Responsibility Payment** worksheet has been activated.

The interplay between the IRC § 162(l) deduction and the IRC § 36B credit can create a circular computation. The amount of the IRC § 36B credit depends upon the amount of the adjusted gross income, but the taxpayer cannot claim a IRC § 162(l) deduction for any premiums paid for by the IRC § 36B credit. The amount of any additional tax due to overpaid advance health care credits is also determined by the amount of adjusted gross income, but the taxpayer cannot claim a IRC § 162(l) deduction for any advance credits that do not need to be repaid due to the limitation under IRC § 36B(2)(f)(2)(B), creating an additional circular computation.

If there is positive self employment income (taking into account the deductions for any Keogh, SEP or self employment taxes) and an entry has been made on row 45 "Advance Credit Payments" of the **Affordable Care Credit and Shared Responsibility Payment** worksheet, the program will compute the limitation for the repayment of the credit under IRC § 36B(2)(f)(2)(B) according to Temp. Treas. Reg. § 1.36B-4T(a)(3)(iii) (2014) and Prop. Treas. Reg. § 1.36B-4T(a)(3)(iii). Otherwise the program will use the normal method set out in IRC § 36B(2)(f)(2)(B). The program will then seek to calculate the optimum IRC § 36B credit and IRC § 162(l) deduction amounts. If the program cannot find a solution to the interrelated computation, it will compute a solution based upon the alternate method provided in Rev. Proc. 2014-41.

Per IRC § 162(l)(2)(A) the program will limit the IRC § 162(l) deduction to the amount of the taxpayer's earned income. For this purpose earned income is defined as net earnings from self-employment income. See IRC § 401(c)(2). In the event that both the taxpayer and the spouse have earned income, the

program assumes that the taxpayer or the spouse with the highest amount of earned income has purchased the insurance. The program does not handle situations in which either the taxpayer or the spouse have separate businesses with separate earned income. The program will instead assume the earned income is all from a single business of the taxpayer or the spouse, in which case an adjustment may need to be entered on row 27 "Other Adjustments".

(27) Other Adjustments

All other adjustments used in computing adjusted gross income not entered above. Enter as a positive amount. Included are:

- alimony paid.

- interest penalty on early withdrawal of savings.

- the deduction for premiums paid by a self-employed individual for his or her family's health insurance allowed by IRC § 162(I) after application of the appropriate percentage.

  > **Note.** For 2010, self-employment income should be reduced directly by this deduction and no adjustment should be entered here. See the **Self-employment Income and Loss** worksheet.

  Do not enter amounts for months in which the taxpayer was eligible for the health insurance credit under IRC § 36B; the program will compute such an IRC § 162(I) deduction based on the entries made in the **Affordable Care Credit and Shared Responsibility Payment** on row 26 "Post 2013 Self Employment Deduction", above.

- moving expenses. See IRC § 62(a)(15).

- the deduction for Archer Medical Savings Accounts, after application of the limitations of IRC § 220.

- for years after 2003, the deduction for Health Savings Accounts after application of the limitations of IRC § 220.

- for years 2002 through 2013, certain expenses of elementary and secondary school teachers. See IRC § 62(a)(2)(D).

- certain expenses of members of reserve components of the Armed Forces of the United States. See IRC § 62(a)(2)(E).

- the deduction for clean-fuel vehicles and clean-fuel refueling property. See IRC § 62(a)(14)

- contributions to a SIMPLE IRA for a self-employed taxpayer. See the **Taxpayer's Keogh and SEP Deductions** and the **Spouse's Keogh and SEP Deductions** worksheets for other qualified plan and SEP deductions.

- costs and fees involving discrimination suits, etc., paid after the date of enactment of the American Jobs Creation Act of 2004. See IRC § 62(a)(20).

- for 2020 certain cash charitable contributions up to $300 under the CARES Act (Pub. L. No. 116-136), Sec. 2204.

If the taxpayer is eligible for both an Affordable Care Act credit under IRC § 36B and a deduction for Self Employed Health Insurance under IRC §162(l), but the taxpayer's business is not open for the entire year, enter as a negative adjustment an amount equal to the portion of the credit that was attributable to the period during which the business was not open. See Rev. Proc. 2014-41 example 4.

(28) Total Adjustments (Calculated)

The total of rows 14 through 27, above.

(29) Net Ordinary Income (Calculated)

Total ordinary income (row 13) less total adjustments (row 28). This amount is posted automatically to the "Ordinary Income" row on the **Main Worksheet**.

WAGES

Wages
(1) Taxpayer's FICA Wages
(2)   Less: Taxpayer's 401(k)/SIMPLE
(3) Taxpayer's HI Only Wages
(4) Taxpayer's Non-FICA Wages
(5) Taxpayer's Dependent Care Inclusion
(6) Taxpayer's Adoption Assistance Exclusion
(7) Spouse's FICA Wages
(8)   Less: Spouse's 401(k)/SIMPLE
(9) Spouse's HI Only Wages
(10) Spouse's Non-FICA Wages
(11) Spouse's Dependent Care Inclusion
(12) Spouse's Adoption Assistance Exclusion
(13) Total Wages
(14)
(15) Withholding:
(16) Taxpayer's Federal Withholding
(17) Taxpayer's Social Security Withholding
(18) Taxpayer's Medicare Withholding
(19) Taxpayer's Excess FICA
(20) Taxpayer's Total W/H & Excess FICA
(21) Adjustment to Taxpayer's Total Withholding
(22) Taxpayer's Total Adjusted Withholding
(23) Taxpayer Resident State Withholding
(24) Taxpayer's NY Nonresident Withholding
(25) Taxpayer's Other Nonresident State Withholding
(26)
(27) Spouse's Federal Withholding
(28) Spouse's Social Sec Withholding
(29) Spouse's Medicare Withholding
(30) Spouse's Excess FICA
(31) Spouse's Total Withholding & Excess FICA
(32) Adjustment to Spouse's Total Withholding
(33) Spouse's Total Adjusted Withholding
(34) Spouse Resident State Withholding
(35) Spouse's NY Nonresident Withholding
(36) Spouse's Other Nonresident State Withholding
(37)
(38) Total Federal Withholding
(39) Total Resident State Withholding
(40) Total NY Nonresident Withholding
(41) Total Other Nonresident State Withholding

(1) Taxpayer's FICA Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the taxpayer which are subject to FICA taxes. Do not limit the amount to the contribution and benefit base. Instead, enter all wages that would have been subject to FICA taxes were there no limit. Include amounts paid by an employer under an adoption assistance program. For computation of the adoption exclusion, see the **Adoption Exclusion & Credit** worksheet, accessed from row 6 "Taxpayer's Adoption Assistance Exclusion".

Do not enter here wages that are subject only to the HI (Medicare) element of the tax. Enter such wages on row 3 "Taxpayer's HI Only Wages". Wages

entered here are those subject to both elements of the withholding tax. Under no circumstances should the same wages be entered both as FICA wages on this row and HI only wages on row 3, below.

For taxpayers whose FICA wages include 401(k)/SIMPLE or other salary reduction amounts, include the salary reduction amount in the wages entered here in addition to entering it separately on row 2 "Less: Taxpayer's 401(k)/SIMPLE". The program automatically reduces FICA wages entered here by the salary reduction amount.

When running a taxpayer and spouse analysis, enter the taxpayer's FICA wages on this row in the Taxpayer column and the spouse's FICA wages on row 7 "Spouse's FICA Wages", below, in the Spouse column.

(2) Less: Taxpayer's 401(k)/SIMPLE

Amounts withheld from the taxpayer's wages and contributed to a deferred compensation plan under IRC § 401(k) or a SIMPLE retirement plan which are subject to FICA taxes but are not includible for income tax purposes. Such amounts should be included in row 1 "Taxpayer's FICA Wages", above, and then subtracted out for income tax purposes on this row. The program uses the amount on row 1 above to compute the taxpayer's self-employment tax.

When running a taxpayer and spouse analysis, enter the taxpayer's 401(k) wages on this row in the Taxpayer column and the spouse's 401(k) wages on the "Spouse's FICA Wages" row, below, in the Spouse column.

(3) Taxpayer's HI Only Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the taxpayer which are subject **only** to the Medicare element of the FICA withholding tax. **Do not limit the amount to the contribution and benefit base for this part of the tax.** Instead, enter all wages that would have been subject to the HI tax were there no limit. Typically, the wages entered on this row are wages paid by governmental bodies which are not subject to the OASDI (social security) element of the withholding tax.

Caution! Enter wages that are subject to both the HI part of the tax and the OASDI part as FICA wages, above. Under no circumstances should the same wages be entered as both FICA wages and HI only wages.

When running a taxpayer and spouse analysis, enter the taxpayer's HI only wages on this row in the Taxpayer column and the spouse's HI only wages on the "Spouse's FICA Wages" row, below, in the Spouse column.

(4) Taxpayer's Non-FICA Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the taxpayer which are not subject to FICA taxes. Include wages paid by spouse to taxpayer for domestic services. The amount entered here will be included in the taxpayer's earned income for purposes of the earned income credit, the IRA limitations, and the adjustment for taxpayers who must itemize because they are supported by their parents. It does not enter into the self-employment tax computation.

When running a taxpayer and spouse analysis, enter the taxpayer's non-FICA wages on this row in the Taxpayer column and the spouse's non-FICA wages on the "Spouse's FICA Wages" row, below, in the Spouse column.

(5) Taxpayer's Dependent Care Inclusion

Taxpayer's employer-provided dependent care benefits less any amount excluded from income pursuant to IRC § 129. The amount of the benefits should be shown in box 10 of the taxpayer's Form(s) W-2.

When running a taxpayer and spouse analysis, enter the taxpayer's dependent care inclusion on this row in the Taxpayer column and the spouse's dependent care inclusion on the "Spouse's FICA Wages" row, below, in the Spouse column.

Enter the total after deducting the exclusion or use the **Dependent Care Exclusion & Credit** subworksheet to enter the details and have the program compute the exclusion and inclusion amounts. The amount on this row will be included in the taxpayer's earned income for purposes of the earned income credit, the IRA limitations, and the adjustment for taxpayers who must itemize because they are supported by their parents. It does not enter into the self-employment tax computation.

(6) Taxpayer's Adoption Assistance Exclusion

Taxpayer's employer-provided adoption assistance benefits to the extent excluded from income pursuant to IRC § 137. When running a taxpayer and spouse analysis, enter the taxpayer's adoption assistance exclusion on this row in the Taxpayer column and the spouse's adoption assistance exclusion on the "Spouse's FICA Wages" row, below, in the Spouse column.

Enter the exclusion amount or press W (or double click) for the **Adoption Exclusion & Credit** worksheet to enter the details and have the program compute the inclusion and exclusion amounts. Be sure to also include the full amount of the employer-provided adoption assistance benefits on the "Taxpayer's FICA Wages" row, above.

(7) Spouse's FICA Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the spouse which are subject to FICA taxes. Do not limit the amount to the contribution and benefit base. Instead, enter all wages that would have been subject to FICA taxes were there no limit. Include amounts paid by an employer under an adoption assistance program. See the **Adoption Exclusion & Credit** worksheet accessed from the "Spouse's Adoption Assistance Exclusion" row, below, for computation of the adoption exclusion.

Do not enter here wages that are subject only to the HI (Medicare) element of the tax. Enter such wages on row 9 "Spouse's HI Only Wages", below. Wages entered here are those subject to both elements of the withholding tax.

Under no circumstances should the same wages be entered both as FICA wages on this row and HI only wages on row 9 below.

For spouses whose FICA wages include 401(k)/SIMPLE or other salary reduction amounts, include the salary reduction amount in the wages entered here in addition to entering it separately on row 8 "Less: Spouse's 401(k)/SIMPLE" below. The program automatically reduces FICA wages entered here by the salary reduction amount.

When running a taxpayer and spouse analysis, enter the spouse's FICA wages on this row in the Spouse column and the taxpayer's FICA wages on the "Taxpayer's FICA Wages" row, above, in the Taxpayer column.

(8) Less: Spouse's 401(k)/SIMPLE

Amounts withheld from the spouse's wages and contributed to a deferred compensation plan under IRC § 401(k) or a SIMPLE retirement plan which are subject to FICA taxes but are not includible for income tax purposes. Such amounts should be included on row 7 "Spouse's FICA Wages", above, and then subtracted out for income tax purposes on this row. The program uses the amount on row 7 above to compute the spouse's self-employment tax.

When running a taxpayer and spouse analysis, enter the spouse's 401(k) wages on this row in the Spouse column and the taxpayer's 401(k) wages on the "Taxpayer's 401(k)/SIMPLE Wages" row, above, in the Taxpayer column.

(9) Spouse's HI Only Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the spouse which are subject **only** to the Medicare element of the FICA withholding tax.

Do not limit the amount to the contribution and benefit base for this part of the tax. Instead, enter all wages that would have been subject to the HI tax were there no limit. Typically, the wages entered on this row are wages paid by

governmental bodies which are not subject to the OASDI (social security) element of the withholding tax.

Caution! Enter wages subject to both the HI part of the tax and the OASDI part as FICA wages, above. Under no circumstances should the same wages be entered as both FICA wages and HI only wages.

When running a taxpayer and spouse analysis, enter the spouse's HI only wages on this row in the Spouse column and the taxpayer's HI only wages on the "Taxpayer's HI Only Wages" row, above, in the Taxpayer column.

(10) Spouse's Non-FICA Wages

The total of all wages, salaries, tips, fees, commissions, bonuses, etc., received by the spouse which are not subject to FICA taxes. Include wages paid by taxpayer to spouse for domestic services. The amount entered here will be included in the spouse's earned income for purposes of the earned income credit, the IRA limitations, and the standard deduction computation for taxpayers who must itemize because they are supported by their parents. It does not enter into the computation of self-employment tax.

When running a taxpayer and spouse analysis, enter the spouse's non-FICA wages on this row in the Spouse column and the taxpayer's non-FICA wages on the "Taxpayer's non-FICA Wages" row, above, in the Taxpayer column.

(11) Spouse's Dependent Care Inclusion

Taxpayer's spouse's employer-provided dependent care benefits less any amount excluded from income pursuant to IRC § 129. The amount of the benefits should be shown in box 10 of the spouse's Form(s) W-2.

When running a taxpayer and spouse analysis, enter the spouse's dependent care inclusion on this row in the Spouse column and the taxpayer's dependent care inclusion on the "Taxpayer's Dependent Care Inclusion" row, above, in the Taxpayer column.

Enter the total after deducting the exclusion or use the **Dependent Care Exclusion & Credit** subworksheet to enter the details and have the program compute the exclusion and inclusion amounts. The amount on this row will be included in the spouse's earned income for purposes of the earned income credit, the IRA limitations, and the adjustment for taxpayers who must itemize because they are supported by their parents. It does not enter into the self-employment tax computation.

(12) Spouse's Adoption Assistance Exclusion

Taxpayer's spouse's employer-provided adoption assistance benefits to the extent excluded from income pursuant to IRC § 137.

When running a taxpayer and spouse analysis, enter the spouse's adoption assistance exclusion on this row in the Spouse column and the taxpayer's adoption assistance exclusion on the "Taxpayer's Adoption Assistance Exclusion" row, above, in the Taxpayer column.

Enter the exclusion amount or press W (or double click) for the **Adoption Exclusion & Credit** worksheet to enter the details and have the program compute the inclusion and exclusion amounts. Be sure to also include the full amount of the employer-provided adoption assistance benefits on the "Spouse's FICA Wages" row, above.

(13) Total Wages (Calculated)

The sum of rows 1 through 12, above.

(14) (Blank)

(15) Withholding

Heading for rows 16 through 41 below.

(16) Taxpayer's Federal Withholding

The total of all federal income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5 above.

Enter the taxpayer's federal withholding on this row and the spouse's federal withholding on the "Spouse's Federal Withholding" row, below. When running a taxpayer and spouse analysis, enter the taxpayer's federal withholding on this row in the Taxpayer column and the spouse's federal withholding on the "Spouse's Federal Withholding" row, below, in the Spouse column.

For analyses other than annualization, the program treats withholding as being paid in four even payments on the due dates for estimated taxes, i.e., April 15, June 15, September 15, and January 15 of the following year. See **NOTE 15** to the **Withholding, Estimated and Penalty** Worksheet. With regard to annualization, see **NOTE 14 — Annualization (For years after 1993)** to the **Withholding, Estimated and Penalty** worksheet. See **NOTE 3** to the **Withholding, Estimated and Penalty** worksheet regarding underwithholding due to the revision of the withholding tables in 1992.

For years after 2012, it may be appropriate to enter the withholding for the Additional Medicare Tax on this row. For annualization purposes, as of the date of publication, there was no authority whether an equal part of such withholding would be deemed as paid on each due date. See IRC § 6654(g)(1).

When running an annualization analysis enter withholding spread by quarters instead of in proportion to the months in each cumulative period.

Therefore, if the taxpayer paid $100,000 in withholding for the year and you wish to apply the statutory presumption of even quarterly withholding, you should enter $25,000 in the first cumulative period, $50,000 in the second, $75,000 in the third, and $100,000 in the fourth (when you switch from a full year to annualization, the program allocates the annual amount this way automatically).

The amount applied by the program to the first installment will be the withholding entered in the first period. The amount applied to each subsequent installment will be the difference between the withholding entered in the column for that installment and the withholding entered in the preceding installment's column.

If you wish to overcome the statutory presumption, you may enter the cumulative withholding paid prior to each required payment date. In this way, you can group the withholding for each period and have it applied to the payment for that period. The program, however, does not support taking into account the actual date of payment of each of the withholding amounts. See IRC § 6654(g).

See Annualization Overview for further information.

(17) Taxpayer's Social Security Withholding

The total of all social security tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5 above. The amount should be shown in box 4 of the taxpayer's Form(s) W-2. Include also any social security tax withheld on the taxpayer's statutory employee wages entered on the **Self-employment Income & Loss** worksheet.

Caution! Do not include Medicare tax withholding.

Enter the taxpayer's social security tax withholding on this row and the spouse's social security tax withholding on the Spouse's Social Security Withholding row, below. When running a taxpayer and spouse analysis, enter the taxpayer's social security withholding on this row in the Taxpayer column and the spouse's social security tax withholding on the "Spouse's Social Security Tax Withholding" row, below, in the Spouse column.

When running an annualization analysis all columns except the full year will be n/a. Enter the full year amount in the last column. The program will then spread any excess FICA evenly among the quarters in accordance with the presumption of IRC § 6654(g).

(18) Taxpayer's Medicare Withholding

The total of all Medicare tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5, above.

Enter the taxpayer's Medicare tax withholding on this row and the spouse's Medicare tax withholding on the Spouse's Medicare Withholding row, below. When running a taxpayer and spouse analysis, enter the taxpayer's Medicare withholding on this row in the Taxpayer column and the spouse's Medicare tax withholding on the Spouse's Medicare Tax Withholding row, below, in the Spouse column.

For years through 2012, this row will be N/A. **For years through 2012**, Medicare withholding does not enter into the calculation of excess FICA because for such years there is no limit on the amount of wages subject to the Medicare tax.

For years 2013 and later, enter the employee's share of the Medicare withholding, e.g. 2013 W-2 Box 6.

For years 2013 and later, when running an annualization analysis all columns except the full year will be N/A. Enter the full year amount in the last column. The program will then spread any High Income Health Insurance Tax withholding evenly among the quarters in accordance with the presumption of IRC § 6654(g).

(19) Taxpayer's Excess FICA and Additional Medicare Withholding (Calculated)

Before 2013, the amount on row 17 in excess of the maximum amount of social security tax payable on the FICA wages entered on row 1 above. Also, included in FICA wages for purposes of this computation is the amount of the taxpayer's statutory employee wages entered on the **Self-employment Income & Loss** worksheet. The program includes the amount computed on this row in the total on the Taxpayer's Total W/H, Excess FICA & Additional Medicare, row below. The amount is then included in the amount posted to the **Withholding, Estimated & Penalty** worksheet.

The computation on this row applies only if the taxpayer has more than one employer. If the taxpayer has only one employer, the amount computed on this row may not be taken as a credit on the taxpayer's return and must be recovered from the taxpayer's employer. In such case, you should enter the amount computed on this row as a negative adjustment on row 21, below.

For years before 2013, Medicare withholding does not enter into the computation because for such years there is no limit on the amount of wages subject to the Medicare tax.

For years after 2013, this row also includes any Additional Medicare Tax withholding under IRC § 3102(f). The program computes the Additional Medicare Tax withholding by subtracting from row 18 the sum of rows 1 and 3, multiplied by 1.45%. See IRS Form 8959.

When running an annualization analysis, the full year amount will be spread evenly among the quarters in accordance with the presumption of IRC § 6654(g). See row 17 and 18, above.

(20) Taxpayer's Total Withholding, Excess FICA & Additional Medicare (Calculated)

The sum of rows 16 and 19, above.

(21) Adjustment to Taxpayer's Total Withholding

Any adjustment required to the amount of taxpayer's total withholding, excess FICA and Additional Medicare withholding as computed on the row above. If the taxpayer does not have more than one employer, an adjustment on this row may be required. See row 19 above.

(22) Taxpayer's Total Adjusted Withholding (Calculated)

The sum of rows 20 and 21 above.

(23) Taxpayer's Resident State Withholding

The total of all resident state income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5 above.

Enter the taxpayer's resident state withholding on this row and the spouse's resident state withholding on the "Spouse's Resident state Withholding" row, below. When running a taxpayer and spouse analysis, enter the taxpayer's resident state withholding on this row in the Taxpayer column and the spouse's resident state withholding on the "Spouse's Resident State Withholding" row, below, in the Spouse column.

If you do not have **Income Tax Planner with Fifty States**, or have not selected a resident state (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(24) Taxpayer's New York Nonresident Withholding

The total of all New York nonresident state income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5 above.

Enter the taxpayer's New York nonresident state withholding on this row and the spouse's New York nonresident state withholding on the "Spouse's New York Nonresident State Withholding" row, below. When running a taxpayer and spouse analysis, enter the taxpayer's New York nonresident state withholding on this row in the Taxpayer column and the spouse's New York nonresident state withholding on the "Spouse's New York Nonresident State Withholding" row, below, in the Spouse column.

In a Multi Nonresident analysis this row will be N/A, and the New York nonresident withholding will have to be entered on the **New York Nonresident State Estimated and Withholding Payments** worksheet.

If you do not have **Income Tax Planner with Fifty States**, or have not selected New York nonresident state computations (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(25) Taxpayer's Other Nonresident State Withholding

The total of all nonresident state income tax withheld (other than New York nonresident income tax) on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the taxpayer as entered on rows 1 through 5 above.

Enter the taxpayer's other nonresident state withholding on this row and the spouse's other nonresident state withholding on the Spouse's Other Nonresident state Withholding row, below. When running a taxpayer and spouse analysis, enter the taxpayer's other nonresident state withholding on this row in the Taxpayer column and the spouse's other nonresident state withholding on the "Spouse's Other Nonresident State Withholding" row, below, in the Spouse column.

In a Multi Nonresident analysis this row will be N/A, and the other nonresident withholding will have to be entered on the **Other Nonresident State Estimated and Withholding Payments** worksheet.

If you do not have **Income Tax Planner with Fifty States**, or have not selected a nonresident state (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(26) (Blank)

(27) Spouse's Federal Withholding

The total of all federal income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11 above.

Enter the spouse's federal withholding on this row and the taxpayer's federal withholding on the Taxpayer's Federal Withholding row, above. When running a taxpayer and spouse analysis, enter the spouse's federal withholding on this

row in the Spouse column and the taxpayer's federal withholding on the "Taxpayer's Federal Withholding" row, below, in the Taxpayer column.

For analyses other than annualization, the program treats withholding as being paid in four even payments on the due dates for estimated taxes, i.e., April 15, June 15, September 15, and January 15 of the following year. See **NOTE 15** to the **Withholding, Estimated and Penalty** worksheet. With regard to annualization, see **NOTE 14 – Annualization (For years after 1993)** to the **Withholding, Estimated and Penalty** worksheet. See **NOTE 3** to the **Withholding, Estimated and Penalty** worksheet regarding underwithholding due to the revision of the withholding tables in 1992.

For years after 2012, it may be appropriate to enter the withholding for the Additional Medicare Tax on this row. For annualization purposes, as of the date of publication, there was no authority whether an equal part of such withholding would be deemed as paid on each due date. See IRC § 6654(g)(1).

When running an annualization analysis enter withholding spread by quarters instead of in proportion to the months in each cumulative period.

Therefore, if the spouse paid $100,000 in withholding for the year and you wish to apply the statutory presumption of even quarterly withholding, you should enter $25,000 in the first cumulative period, $50,000 in the second, $75,000 in the third, and $100,000 in the fourth (when you switch from a full year to annualization, the program allocates the annual amount this way automatically).

The amount applied by the program to the first installment will be the withholding entered in the first period. The amount applied to each subsequent installment will be the difference between the withholding entered in the column for that installment and the withholding entered in the preceding installment's column.

If you wish to overcome the statutory presumption, you may enter the cumulative withholding paid prior to each required payment date. In this way, you can group the withholding for each period and have it applied to the payment for that period. The program, however, does not support taking into account the actual date of payment of each of the withholding amounts. See IRC § 6654(g).

See Annualization Overview for further information.

(28) Spouse's Social Security Withholding

The total of all social security tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11 above. The amount should be shown in box 4 of the spouse's Form(s) W-2. Include also any social security tax withheld on the spouse's statutory employee wages entered on the **Self-employment Income & Loss** worksheet.

Caution! Do not include Medicare tax withholding.

Enter the spouse's social security tax withholding on this row and the taxpayer's social security tax withholding on the "Taxpayer's Social Security Withholding" row, above. When running a taxpayer and spouse analysis, enter the spouse's social security withholding on this row in the Spouse column and the taxpayer's social security tax withholding on the "Taxpayer's Social Security Tax Withholding" row, above, in the Taxpayer column.

When running an annualization analysis all columns except the full year will be n/a. Enter the full year amount in the last column. The program will then spread any excess FICA evenly among the quarters in accordance with the presumption of IRC § 6654(g).

(29) Spouse's Medicare Withholding

The total of all Medicare tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11 above.

Enter the spouse's Medicare tax withholding on this row and the taxpayer's Medicare tax withholding on the "Taxpayer's Medicare Withholding" row, above. When running a taxpayer and spouse analysis, enter the spouse's Medicare withholding on this row in the Spouse column and the taxpayer's Medicare tax withholding on the "Taxpayer's Medicare Tax Withholding" row, above, in the Taxpayer column.

For years through 2012, this row will be N/A. **For years through 2012**, Medicare withholding does not enter into the calculation of excess FICA because for such years there is no limit on the amount of wages subject to the Medicare tax.

For years 2013 and later, enter the employee's share of the Medicare withholding, e.g., 2013 W–2 Box 6.

For years 2013 and later, when running an annualization analysis all columns except the full year will be n/a. Enter the full year amount in the last column. The program will then spread any High Income Health Insurance Tax withholding evenly among the quarters in accordance with the presumption of IRC § 6654(g).

(30) Spouse's Excess FICA & Additional Medicare Withholding (Calculated)

Before 2013, the amount on row 28 in excess of the maximum amount of social security tax payable on the FICA wages entered on row 7 above. Also, included in FICA wages for purposes of this computation is the amount of the spouse's statutory employee wages entered on the **Self-employment Income**

& Loss worksheet. The program includes the amount computed on this row in the total on the "Spouse's Total W/H & Excess FICA" row, below. The amount is then included in the amount posted to the **Withholding, Estimated & Penalty** worksheet.

The computation on this row applies only if the spouse has more than one employer. If the spouse has only one employer, the amount computed on this row may not be taken as a credit on the spouse's return and must be recovered from the spouse's employer. In such case, you should enter the amount computed on this row as a negative adjustment on row 32, below.

For years before 2013, Medicare withholding does not enter into the computation because for such years there is no limit on the amount of wages subject to the Medicare tax.

When running an annualization analysis, the full year amount will be spread evenly among the quarters in accordance with the presumption of IRC § 6654(g). See rows 28 and 29 above.

For years after 2013, this row also includes any Additional Medicare Tax withholding under IRC § 3102(f). The program computes the Additional Medicare Tax withholding by subtracting from row 29 the sum of rows 7 and 9 multiplied by 1.45%. See IRS Form 8959.

(31) Spouse's Total Withholding, Excess FICA & Additional Medicare Withholding (Calculated)

The sum of rows 27 and 30, above.

(32) Adjustment to Spouse's Total Withholding

Any adjustment required to the amount of spouse's total withholding, excess FICA and Additional Medicare withholding as computed on the row above. If the spouse does not have more than one employer, an adjustment on this row may be required. See row 30, above.

(33) Spouse's Total Adjusted Withholding (Calculated)

The sum of rows 31 and 32 above.

(34) Spouse's Resident State Withholding

The total of all resident state income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11, above.

Enter the spouse's resident state withholding on this row and the taxpayer's resident state withholding on the "Taxpayer's Resident State Withholding" row, above. When running a taxpayer and spouse analysis, enter the spouse's

resident state withholding on this row in the Spouse column and the taxpayer's resident state withholding on the "Taxpayer's Resident State Withholding" row, above, in the Taxpayer column.

If you do not have **Income Tax Planner with Fifty States**, or no resident state has been selected (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(35) Spouse's New York Nonresident Withholding

The total of all New York nonresident state income tax withheld on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11, above.

Enter the spouse's New York nonresident state withholding on this row and the taxpayer's New York nonresident state withholding on the "Taxpayer's New York Nonresident state Withholding" row, above. When running a taxpayer and spouse analysis, enter the spouse's New York nonresident state withholding on this row in the Spouse column and the taxpayer's New York nonresident state withholding on the "Taxpayer's New York Nonresident State Withholding" row, above, in the Taxpayer column.

In a Multi Nonresident analysis this row will be N/A, and the New York nonresident withholding will have to be entered on the **New York Nonresident State Estimated and Withholding Payments** worksheet.

If you do not have **Income Tax Planner with Fifty States**, or New York nonresident state computations have not been selected (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(36) Spouse's Other Nonresident State Withholding

The total of all nonresident state income tax withheld (other than New York nonresident income tax) on the wages, salaries, tips, fees, commissions, bonuses, etc., paid to the spouse as entered on rows 7 through 11 above.

Enter the spouse's other nonresident state withholding on this row and the taxpayer's other nonresident state withholding on the "Taxpayer's Other Nonresident state Withholding" row, above. When running a taxpayer and spouse analysis, enter the spouse's other nonresident state withholding on this row in the Spouse column and the taxpayer's other nonresident state withholding on the "Taxpayer's Other Nonresident State Withholding" row, above, in the Taxpayer column.

In a Multi Nonresident analysis this row will be N/A, and the other nonresident withholding will have to be entered on the **Other Nonresident State Estimated and Withholding Payments** worksheet.

If you do not have **Income Tax Planner with Fifty States**, or have not selected a nonresident state (see the **Assumptions** dialog), no entry may be made here and this row will be N/A.

(37) (Blank)

(38) Total Federal Withholding (Calculated)

The sum of rows 22 and 33 above. The amount on this row is posted to the federal **Withholding, Estimated and Penalty** worksheet.

(39) Total Resident State Withholding (Calculated)

The sum of rows 23 and 34 above. The amount on this row is posted to the **Resident State Estimated & W/H Payments** worksheet.

(40) Total New York Nonresident Withholding (Calculated)

The sum of rows 24 and 35 above. The amount on this row is posted to the **New York Nonresident State Estimated & W/H Payments** worksheet.

(41) Total Other Nonresident State Withholding (Calculated)

The sum of rows 25 and 36 above. The amount on this row is posted to the **Other Nonresident State Estimated & W/H Payments** worksheet.

INTEREST AND DIVIDENDS

Interest and Dividends
(1)   Net Qualified EE Bond Interest
(2)   U.S. Government Interest
(3)   Individual Activities
(4)   Other Interest
(5)   Individual Activities
(6)   Qualified Dividends
(7)   Individual Activities
(8)   Nonqualified Dividends
(9)   Individual Activities
(10) REIT Dividends
(11)   Individual Activities
(12) **Total Interest & Dividends**
(13) **Qualified Dividends Included on Parent's Return**
(14) **Other Interest & Dividends Included on Parent's Return**
(15)
(16) Unrecap § 1250 Capital Gain Dividends (25%)
(17)   Individual Activities
(18) 28% Rate Capital Gain Dividends
(19)   Individual Activities
(20) 5-Year CG Dividends Purchased Pre-2001
(21)   Individual Activities
(22) 2003 Post 5/5 Capital Gain Dividends
(23)   Individual Activities
(24) Other Long-term Capital Gain Dividends
(25)   Individual Activities
(26)
(27) Tax Exempt Interest:
(28)   Private Activity Bond Interest
(29)   Individual Activities
(30)   Other Exempt Interest
(31)   Individual Activities

Note. Use of this worksheet automatically causes the **Capital Gains and Losses** worksheet to become active.

(1) Net Qualified EE Bond Interest

Total qualified Series EE U.S. Savings bond interest after application of the IRC § 135 exclusion for educational expenses. No entry may be made on this row. Instead, use the **Educational Interest Income & Expense** subworksheet to enter the qualified educational expenses and have the program automatically compute the exclusion.

(2) U.S. Government Interest

Interest on U.S. government obligations, which is usually exempt from state income taxes. This item is included in the total in row 12 "**Total Interest & Dividends**", below. It is also included in the "Interest and Dividends" row of the **Net Investment Income** worksheet, used for the investment interest limitation. If you have **Income Tax Planner with Fifty States**, the amount entered here may also be taken into account in the computation of state tax liability.

As an alternative, you may enter the interest described on this row on the **Individual Activity** worksheets accessed from the row below.

(3) U.S. Government Interest – Individual Activities

Interest on U.S. government obligations from individual activities. See the description for the previous row. No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(4) Other Interest

Taxable interest on obligations other than U.S. governmental. Include interest on saving accounts, corporate bonds, etc. The program includes this item in the total in row 12 "**Total Interest & Dividends**", below, and in ordinary income. It is also included in the "Interest and Dividends" row of the **Net Investment Income** worksheet, used for the investment interest limitation. If you have **Income Tax Planner with Fifty States**, the amount entered here may also be taken into account in the computation of state tax liability.

As an alternative, you may enter the interest described on this row on the **Individual Activity** worksheets accessed from the next row.

(5) Other Interest – Individual Activities

Taxable interest (other than U.S. governmental) from individual activities. See the description for the previous row. No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(6) Qualified Dividends

Ordinary Income corporate dividends that qualify for capital gain treatment in years after 2002. See IRC § 1(h)(11). For years before 2003 enter all ordinary income dividends received on corporate stock.

The program includes this item in the total in row 12 "**Total Interest & Dividends**", below, and in ordinary income. It is also included in the "Interest and Dividends" row of the **Net Investment Income** worksheet, used for the investment interest limitation. For years 2003 and later the program treats these dividends as subject to long-term capital gain rates.

If you have **Income Tax Planner with Fifty States**, the amount entered here may also be taken into account in the computation of state tax liability.

As an alternative, you may enter the dividends described on this row on the **Individual Activity** worksheets accessed from the row below.

(7) Qualified Dividends – Individual Activities

Qualified dividends received on corporate stock from individual activities. See the description for the previous row. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(8) Nonqualified Dividends

Ordinary income dividends that do not qualify for capital gain treatment in years after 2002. See IRC § 1(h)(11). For years before 2003 this row will be N/A.

The program includes this item in the total on row 12 "**Total Interest & Dividends**", below, and in ordinary income. It is also included on the **Net Investment Income** worksheet, used for the investment interest limitation.

If you have **Income Tax Planner with Fifty States**, the amount entered here may also be taken into account in the computation of state tax liability.

As an alternative, you may enter the dividends described on this row on the **Individual Activity** worksheets accessed from the row below.

(9) Nonqualified Dividends – Individual Activities

Ordinary income dividends that do not qualify for capital gain treatment from individual activities. See the message for the row above. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets. For years before 2003, this row will be N/A.

(10) Reit Dividends

"Qualified Real Estate Investment Trust Dividends" taxed as ordinary income. See IRC § 199A(e)(3).

For fiduciaries, include only the amount allocated to the fiduciary. Do not include any amounts allocated to the beneficiaries. See Proposed Treasury Regulation §1.199A-6.

(11) Reit Dividends - Individual Activities

"Qualified Real Estate Investment Trust Dividends" taxed as ordinary income. See IRC § 199A(e)(3).

(12) Total Interest and Dividends (Calculated)

The sum of rows 1 through 9 above. This amount is posted to the "Interest and Dividends" row of the **Ordinary Income** worksheet.

(13) Qualified Dividends Included on Parent's Return (Calculated)

For "Minor Child" computations, if you answered "Yes" on the "Elect Income on Parent's Return" row, the amount of qualified dividends included on the parent's return and excluded from the child's return. See the description for the row below.

(14) Other Interest and Dividends Included on Parent's Return (Calculated)

For "Minor Child" computations, if you answered "Yes" on the "Elect Income on Parent's Return" row of the **Minor Child Tax** worksheet, in the child's column, the program shows the child's interest and dividends (except Capital Gain Dividends) taxed to the parent in the parent's column and the amount of the child's interest and dividends as negative amounts in the child's column. Qualified dividends are shown on the row above this row and other ordinary income interest and dividends are shown on this row. The amount taxed to the parent is less than the amount excluded from the child's income because only the excess over $1,000 is taxed to the parent. The program also increases the parent's tax by 15% (10% for the years after 2000) of the first $500 taxed to the parent. See IRC § 1(g)(7). These amounts ($1,000 and $500) are indexed for inflation in years after 1995.

- For 2000, they are $1,400 and $700, respectively.
- For 2001, 2002, and 2003, they are $1,500 and $750, respectively.
- For 2004 and 2005, they are $1600 and $800, respectively.
- For 2006 and 2007, they are $1700 and $850, respectively.
- For 2008, they are $1800 and $900, respectively.
- For 2009 through 2012, they are $1900 and $950, respectively.
- For 2013 through 2014, they are $2000 and $1000, respectively.
- For 2015 through 2018, they are $2100 and $1050, respectively.
- For 2019 through 2020, they are $2200 and $1100, respectively.
- For 2021 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4) and IRC § 1(g)(7)(A)(ii), as described under "Inflation Adjustments" in the help system.

The election to have the child's income taxed to the parent is available starting in 1989. To qualify for the election, the child's income must consist only of interest and dividends for years before 1996 and must be between $500 and $5000. For years after 1995, these amounts are the minimum standard deduction of a dependent taxpayer and ten times such amount respectively. See IRC § 1(g)(7)(A)(ii). Therefore:

- For 2000, these amounts are $700 and $7,000, respectively.
- For 2001, 2002, and 2003, they are $750 and $7,500, respectively.
- For 2004 and 2005, they are $800 and $8,000, respectively.
- For 2006 and 2007, they are $850 and $8500, respectively.
- For 2008, they are $900 and $9000, respectively.
- For 2009 through 2012, they are $950 and $9500, respectively.
- For 2013 through 2014, they are $1000 and $10000, respectively.
- For 2015 through 2018, they are $1050 and $10500, respectively.
- For 2019 through 2020, they are $1100 and $11000, respectively.
- For 2021 and subsequent years, the program adjusts the amount for inflation in accordance with IRC § 63(c)(4) as described under "Inflation Adjustments" in the help system.

In addition, no estimated or withholding may have been paid for the child. The program allocates the exclusion proportionately among qualified dividends, other interest and dividends, and the various categories of capital gain. You may need to use the "Capital Gain Dividends" row, below, which is posted to the **Capital Gains and Losses** worksheet, if the child has capital gain distributions.

If the program detects net positive adjusted gross income other than interest and dividends, or interest and dividends equal to or less than the minimum or equal to or greater than the maximum, the program does not tax the income to the parent, and produces an error message.

Note. The program does not test for the presence of withholding or estimated tax payments in the child's column. Also, when making this election, include any private activity bond interest of the child in the parent's column on the **Interest and Dividends** worksheet.

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(15) (Blank)

(16) Unrecaptured Section 1250 Capital Gain Dividends (25%)

Dividends representing unrecaptured section 1250 gain in years after 1996. See IRC § 1(h). The program does not include the amount entered here in ordinary income but instead automatically carries it to the **Capital Gains and Losses** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation. As an alternative, you may enter the dividends described on this row on the **Individual Activity** worksheets accessed from the row below.

(17) Unrecaptured Section 1250 Capital Gain Dividends – Individual Activities

Dividends representing unrecaptured section 1250 gain in years after 1996, from individual activities. See the help message for the row above. Make no entry on this row; instead use the **Individual Activity** worksheets.

(18) 28% Rate Capital Gain Dividends

Dividends representing 28% rate capital gain. 28% rate capital gains and losses arise from the sale or exchange after 7/28/97 and before 1/1/98, of capital assets held more than one year but not more than 18 months, and 1997 sales before May 7 of assets held more than one year. 28% rate gains and losses also include collectibles gains and losses. See IRC § 1(h).

Do not include Section 1202 (small business stock) dividends. Instead, see the "Qualified Small Business Stock Gain" row on the **28% Rate Capital Gains and Losses** worksheet.

The amount entered here is not included by the program in ordinary income but is instead automatically carried to the **28% Rate Capital Gains and Losses** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation. As an alternative, you may enter the dividends described on this row on the **Individual Activity** worksheets accessed from the row below.

(19) 28% Rate Capital Gain Dividends – Individual Activities

Dividends representing 28% rate capital gain from individual activities. See the help message for the row above. No entry may be made on this row; instead use the **Individual Activity** worksheets.

(20) 5-Year Capital Gain Dividends Purchased Pre-2001

Dividends representing qualified 5-year gain from the sale of capital assets for which the holding period begins before 1/1/01. See IRC § 1(h)(2). This row does not apply to years before 2001 or after 2003 and any amount entered on this row for such years will be treated by the program the same way as amounts entered on row 24 "Other Long-term Capital Gain Dividends", below. For 2003, qualified 5-year gain dividends include only such dividends representing gain properly taken into account for the portion of the year before May 6, 2003. See the Jobs and Growth Tax Relief Reconciliation Act of 2003, Section 301(c).

The American Taxpayer Relief Act of 2012 eliminated the category of 5 year gains, so for any years other than 2001 through 2003 this amount will be treated as Other Long-term Capital Gain Dividends (row 24).

(21) 5-Year Capital Gain Dividends Purchased Pre-2001 – Individual Activities

Dividends from individual activities representing qualified 5-year gain from the sale of capital assets for which the holding period begins before 1/1/01. See the help message for the row above. **For years before 2001 or after 2003**, this row will be N/A.

The American Taxpayer Relief Act of 2012 eliminated the category of 5 year gains, so for any years other than 2001 through 2003 this amount will be treated as Other Long-term Capital Gain dividends (row 23).

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(22) 2003 Post 5/5 Capital Gain Dividends

2003 dividends representing capital gain properly taken into account for the portion of the taxable year on or after May 6, 2003, other than 28% rate, unrecaptured section 1250, or 5-year gain. Such capital gain is subject to special transition rules. See the Jobs and Growth Tax Relief Reconciliation Act of 2003, Section 301(c). For all years other than 2003, this row will be N/A.

(23) 2003 Post 5/5 Capital Gain Dividends from Individual Activities

2003 dividends from individual activities representing capital gain properly taken into account for the portion of the taxable year on or after May 6, 2003, other than 28% rate, unrecaptured section 1250, or 5-year gain. **For all years other than 2003**, this row will be N/A.

(24) Other Long-Term Capital Gain Dividends

Dividends treated as long-term capital gain other than those described on the rows above.

Note. For 2003, enter capital gain dividends from sales properly taken into account for the portion of the taxable year on or after 5/6/03 on the row above. Do not include such dividends on this row.

Do not include Section 1202 (small business stock) dividends. Instead, see the "Qualified Small Business Stock Gain" row on the **28% Rate Capital Gains and Losses** worksheet.

The program does not include the amount entered here in ordinary income but instead automatically carries it to the **Capital Gains and Losses** worksheet. The program also takes it into account in computing investment income on the

Net Investment Income worksheet for purposes of the investment interest limitation.

As an alternative, you may enter the dividends described on this row on the **Individual Activity** worksheets accessed from the row below.

(25) Other Long-Term Capital Gain Dividends – Individual Activities

Dividends from individual activities treated as long-term capital gain other than those described on the rows above. See the description for the preceding row. No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(26) (Blank)

(27) Tax Exempt Interest:

Heading for the next two rows.

(28) Private Activity Bond Interest

Interest from "specified private activity bonds." See IRC § 57(a)(5)(C). Such interest is exempt from the regular tax but is subject to the alternative minimum tax. The amount entered here is used by the program in computing includible social security benefits. The program automatically treats it as an item of tax preference in computing alternative minimum taxable income, and as an adjustment to AMT investment income in computing the AMT investment interest deduction.

As an alternative, you may enter the interest described on this row on the **Individual Activity** worksheets accessed from the row below.

When you enter private activity bond interest here or on the next row, be certain to exclude it from the "Other Exclusion Preferences" row of the **Alternative Minimum Tax** worksheet and from the "Othr AMT Adjs to Invst Inc" row on the **Investment Interest – Alt Min** worksheet, to avoid double counting. Be especially careful in this regard with respect to files created with versions of the program prior to 91.2.

(29) Private Activity Bond Interest – Individual Activities

Private activity bond interest from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(30) Other Exempt Interest

Interest received by the taxpayer and spouse that is exempt from both regular and alternative minimum tax. The program uses the amount entered here in computing includible social security benefits but not for other purposes. See IRC § 86(b)(2)(B).

As an alternative, you may enter the interest described on this row on the **Individual Activity** worksheets accessed from the row below.

(31) Other Exempt Interest – Individual Activities

Other exempt interest from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

SELF-EMPLOYMENT INCOME AND LOSS

Self-employment Income & Loss
(1) Taxpayer's Self-employment Income or Loss:
(2)   Domestic Production/Qualified Income Self-employment Income or Loss
(3)   Qualified Income Amount
(4)   Individual Activities
(5)   Other Self-employment Income
(6)   Individual Activities
(7)   Passive Activities
(8)   Statutory Employee Wages
(9)   Statutory Employee Expenses
(10) Taxpayer's Total Self-empl Income or Loss
(11) Spouse's Self-employment Income or Loss:
(12)   Domestic Production Income or Loss
(13)   Qualified Income Amount
(14)   Individual Activities
(15)   Other Self-employment Income
(16)   Individual Activities
(17)   Passive Activities
(18)   Statutory Employee Wages
(19)   Statutory Employee Expenses
(20) Spouse's Total Self-empl Income or Loss
(21) Total Self-employment Income
(22)
(23) Taxpayer's Self-employment Tax Income Adjustment
(24) Spouse's Self-empl Tax Income Adjustment

(1) Taxpayer's Self-employment Income or Loss

Heading for rows 2 through 10 below.

(2) Taxpayer's Domestic Production/Qualified Income Self-employment Income or Loss

For years after 2017 and before 2026, self-employment qualified income or loss of the taxpayer for the taxable year. See IRC § 199A. For years before

2018, self-employment qualified production activities income or loss of the taxpayer for the taxable year. See IRC § 199. Include domestic production/qualified self-employment income of sole proprietorships and partnerships in which the taxpayer or the spouse materially participates. For 2010, self-employment income is reduced by the taxpayer's health insurance deduction under IRC § 162(l)(4). If the taxpayer has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Taxpayer's Keogh and SEP Deductions** worksheet. For purposes of IRC § 199A the program will consider qualified income entered on this row to be from a separate trade or business from the qualified income entered on the "Spouse's Domestic Production Self-employment Income or Loss" row below.

DO NOT ENTER INCOME FROM MORE THAN ONE BUSINESS. INSTEAD USE THE INDIVIDUAL ACTIVITIES WORKSHEETS FOR SUCH INCOME.

For domestic production/qualified self-employment income from passive and MAPRRA activities use the **Individual Activity** worksheets accessed from row 7, below.

For domestic production qualified nonpassive self-employment income from individual activities you either may use the **Individual Activity** worksheets accessed from row 4 below or enter the amount on this row.

When running a taxpayer and spouse analysis, enter the taxpayer's domestic production/qualified self-employment income on this row in the Taxpayer column and the spouse's domestic production self-employment income on the "Spouse's Domestic Production Self-employment Income" row below in the Spouse column.

For years before 2005, this row will be N/A.

(3) Qualified Income Amount

For years after 2017 and before 2026, the qualified income amount, computed on the subworksheet, for the self-employment income or loss entered on the row above. Press W or double click on the row to access the subworksheet. See IRC §199A. The amount on this row is not included in the "Taxpayer's Total Self-Employment Income Row", below. Instead it is posted to the **Qualified Income Deduction** worksheet.

(4) Taxpayer's Domestic Production/Qualified Self-employment Income or Loss – Individual Activities

Self-employment domestic production or qualified activities income or loss of the taxpayer for the taxable year from individual activities. See the description for the row above.

No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

For years before 2005, this row will be N/A.

(5) Taxpayer's Other Self-employment Income

Total of the taxpayer's net earnings from self-employment, including sole proprietorships and partnerships in which the taxpayer or the spouse materially participates, other than domestic production/qualified income or loss entered on rows 2 and 4 above. See IRC § 1402. Include meal and entertainment expenses, as a negative, after application of the 50% limit of IRC § 274(n). For 2010, self-employment income is reduced by the taxpayer's health insurance deduction under IRC § 162(l)(4). If the taxpayer has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Taxpayer's Keogh and SEP Deductions** worksheet.

Do not reduce the amount by the § 164(f) deduction or the deduction under § 1402(a)(12) since the program computes these deductions automatically.

For self-employment income from passive and MAPRRA activities use the **Individual Activity** worksheets accessed from the next row.

For nonpassive self-employment income from individual activities you either may use the **Individual Activity** worksheets accessed from the "Other Individual Activities" row below or enter the amount on this row.

When running a taxpayer and spouse analysis, enter the taxpayer's self-employment income on this row in the Taxpayer column and the spouse's self-employment income on the "Spouse's Self-employment Income" row below in the Spouse column.

(6) Taxpayer's Other Self-employment Income from Individual Activities

Total includible nonpassive self-employment income or loss of the taxpayer from individual activities other than domestic production/qualified income or loss.

No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(7) Taxpayer's Self-employment Income from Passive Activities

Total includible passive activity & MAPRRA self-employment income or loss of the taxpayer. No entry may be made on this row. To enter passive activity items, use the subworksheets.

(8) Taxpayer's Statutory Employee Wages

Total statutory employee wages of the taxpayer. Statutory employee wages are payments for services to certain persons who are treated as employees for self-employment tax and FICA withholding requirements but are treated as independent contractors for income tax purposes. See IRC §§ 1402(b) and 3121(d)(3). Enter such wages here and not on the **Wages** worksheet.

Such wages are reported along with the expenses related thereto on Schedule C of Form 1040. The gross amount of such wages are subject to FICA withholding and are treated as wages on Form 1040, Schedule SE and by the program in computing the self-employment tax.

Note. For taxpayers who are statutory employees and are subject to the New York City nonresident tax, see the section for New York City nonresident taxpayers in the program's online help.

When running a taxpayer and spouse analysis, enter the taxpayer's statutory employee wages on this row in the Taxpayer column and the spouse's statutory employee wages on the "Spouse's Statutory Employee Wages" row, below, in the Spouse column.

(9) Taxpayer's Statutory Employee Expenses

Total deductible expenses of the taxpayer's related to statutory employee wages entered on the row above. Such expenses are deductible on Form 1040, Schedule C. See the description for the row above. Any positive amount entered on this row is automatically made negative by the program.

When running a taxpayer and spouse analysis, enter the taxpayer's statutory employee expenses on this row in the Taxpayer column and the spouse's statutory employee expenses on the "Spouse's Statutory Employee Expenses" row, below, in the Spouse column.

(10) Taxpayer's Total Self-employment Income or Loss (Calculated)

The sum of rows 2 through 9, above, except row 3 "Qualified Income Amount".

(11) Spouse's Self-employment Income or Loss

Heading for rows 12 through 21 below.

(12) Spouse's Domestic Production Self-employment Income or Loss

For years after 2017 and before 2026, self-employment qualified income or loss of the spouse for the taxable year. See IRC § 199A. For years before

2018, self-employment qualified production activities income or loss of the spouse for the taxable year. See IRC § 199. Include domestic production/qualified self-employment income of sole proprietorships and partnerships in which the spouse or the taxpayer materially participates. For 2010, self-employment income is reduced by the spouse's health insurance deduction under IRC § 162(l)(4). If the spouse has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Spouse's Keogh and SEP Deductions** worksheet. For purposes of IRC § 199A the program will consider qualified income entered on this row to be from a separate trade or business from the qualified income entered on the "Taxpayer's Domestic Production Self-employment Income or Loss" row above.

DO NOT ENTER INCOME FROM MORE THAN ONE BUSINESS. INSTEAD USE THE INDIVIDUAL ACTIVITIES WORKSHEETS FOR SUCH INCOME.

For domestic production self-employment income from passive and MAPRRA activities use the **Individual Activity** worksheets accessed from row 17, below.

For domestic production/qualified nonpassive self-employment income from individual activities you either may use the **Individual Activity** worksheets accessed from row 14, below, or enter the amount on this row.

When running a taxpayer and spouse analysis, enter the Taxpayer's domestic production/qualified self-employment income on row 2 above in the Taxpayer column and the spouse's domestic production self-employment income on row 12 "Spouse's Domestic Production Self-employment Income" in the Spouse column.

For years before 2005, this row will be N/A.

(13) Qualified Income Amount

For years after 2017 and before 2026, the qualified income amount, computed on the subworksheet, for the self-employment income or loss entered on the row above, Press W or double-click on the row to access the subworksheet. See IRC §199A. The amount on this row is not included in the "Spouse's Total Self-Employment Income" row below. Instead, it is posted to the **Qualified Income Deduction** worksheet.

(14) Taxpayer's Domestic Production Self-employment Income or Loss – Individual Activities

Self-employment domestic production/qualified activities income or loss of the spouse for the taxable year from individual activities. See the description for the row above.

No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

For years before 2005, this row will be N/A.

(15) Spouse's Other Self-employment Income

The total of the spouse's net earnings from self-employment, including sole proprietorships and partnerships in which the spouse or the taxpayer materially participates, other than domestic production/qualified income or loss entered on rows 12 and 14, above. See IRC § 1402. Include meal and entertainment expenses, as a negative, after application of the 50% limit of IRC § 274(n). For 2010, self-employment income is reduced by the spouse's health insurance deduction under IRC § 162(I)(4). If the spouse has a Keogh plan, the amount of the health insurance deduction needs to be added back for Keogh purposes on one of the adjustment rows of the **Spouse's Keogh and SEP Deductions** worksheet.

Do not reduce the amount by the § 164(f) deduction or the deduction under § 1402(a)(12) since the program computes these deductions automatically.

For self-employment income from passive and MAPRRA activities use the **Individual Activity** worksheets accessed from the next row.

For nonpassive self-employment income from individual activities you either may use the **Individual Activity** worksheets accessed from the "Other Individual Activities" row below or enter the amount on this row.

When running a taxpayer and spouse analysis, enter the spouse's self-employment income on this row in the Spouse column and the taxpayer's self-employment income on the "Taxpayer's Self-Employment Income" row, above, in the Taxpayer column.

(16) Spouse's Self-employment Income from Other Individual Activities

Total includible nonpassive self-employment income or loss of the spouse from individual activities, other than domestic production income or loss.

No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(17) Spouse's Self-employment Income from Passive Activities

Total includible passive activity & MAPRRA self-employment income or loss of the spouse. No entry may be made on this row. To enter passive activity items, use the subworksheets.

(18) Spouse's Statutory Employee Wages

Total statutory employee wages of the spouse. Statutory employee wages are payments for services to certain persons who are treated as employees for self-employment tax and FICA withholding requirements but are treated as independent contractors for income tax purposes. See IRC §§ 1402(b) and 3121(d)(3). Enter such wages here and not on the **Wages** worksheet.

Such wages are reported along with the expenses related thereto on Schedule C of Form 1040. The gross amount of such wages is subject to FICA withholding and are treated as wages on Form 1040, Schedule SE and by the program in computing the self-employment tax.

Note. For taxpayers who are statutory employees and are subject to the New York City nonresident tax, see the section for New York City nonresident taxpayers in the program's help.

When running a taxpayer and spouse analysis, enter the spouse's statutory employee wages on this row in the Spouse column and the taxpayer's statutory employee wages on the "Taxpayer's Statutory Employee Wages" row, above, in the Taxpayer column.

(19) Spouse's Statutory Employee Expenses

Total deductible expenses of the spouse related to statutory employee wages entered on the row above. Such expenses are deductible on Form 1040, Schedule C. See the description for the row above.

When running a taxpayer and spouse analysis, enter the spouse's statutory employee expenses on this row in the Spouse column and the taxpayer's statutory employee expenses on the "Taxpayer's Statutory Employee Expenses" row, above, in the Taxpayer column.

(20) Spouse's Total Self-employment Income or Loss (Calculated)

The sum of rows 12 through 19 above, except row 13 "Qualified Income Amount".

(21) Total Self-employment Income (Calculated)

The sum of rows 10 through 20, above.

(22) (Blank)

(23) Taxpayer's Self-employment Income Adjustment

The amount by which the taxpayer's self-employment income as entered above is to be adjusted for purposes of the self-employment tax computation.

The adjustment entered here is also included in self-employment income on the **Taxpayer's Keogh and SEP Deductions** worksheet. Enter a positive number to adjust self-employment income upward and a negative number to adjust it downward.

Use this row to adjust self-employment income for amounts included in other categories for income tax purposes. Such other categories may include passive activity or MAPRRA income and loss (unless such income and loss has been entered as passive activity or MAPRRA self-employment income on the **Individual Activity** worksheets) and investment income and loss. Also enter here the rental value of a parsonage exempt under IRC § 107.

With regard to passive and MAPRRA activities, see **NOTE 2** to the **Passive & MAPRRA Income/Loss** worksheet. The program does not use the amount entered here for any tax purpose other than the self-employment tax computation and the Keogh computation.

When running a taxpayer and spouse analysis, enter the taxpayer's self-employment income adjustment on this row in the Taxpayer column and the spouse's self-employment income adjustment on the row 24 "Spouse's Self-empl Tax Income Adjustment", below, in the Spouse column.

(24) Spouse's Self-employment Income Adjustment

The amount by which the spouse's self-employment income as entered above is to be adjusted for purposes of the self-employment tax computation. The adjustment entered here is also included in self-employment income on the **Spouse's Keogh and SEP Deductions** worksheet. Enter a positive number to adjust self-employment income upward and a negative number to adjust it downward.

Use this row to adjust self-employment income for amounts included in other categories for income tax purposes. Such other categories may include passive activity or MAPRRA income and loss (unless such income and loss has been entered as passive activity or MAPRRA self-employment income on the **Individual Activity** worksheets) and investment income and loss. Also enter here the rental value of a parsonage exempt under IRC § 107.

With regard to passive and MAPRRA activities, see **NOTE 2** to the **Passive & MAPRRA Income/Loss** worksheet. The program does not use the amount entered here for any tax purpose other than the self-employment tax computation and the Keogh computation.

When running a taxpayer and spouse analysis, enter the spouse's self-employment income adjustment on this row in the Spouse column and the taxpayer's self-employment income adjustment on row 23 "Taxpayer's Self-employment Tax Income Adjustment", above, in the Taxpayer column.

QUALIFIED INCOME AMOUNT – TAXPAYER'S SELF-EMPLOYMENT

Qualified Income Amount – Taxpayer's Self-Employment
(1) Service Business (Y/N)
(2) **Taxable Income w/o Deduction**
(3) **Taxpayer's Self-employment Qualified Income or Loss**
(4) **Spouse's Self-employment Qualified Income or Loss**
(5) **Other Qualified Income or Loss**
(6) **Less Allocated Taxpayer's Self-employment Tax**
(7) **Less Allocated Spouse's Self-employment Tax**
(8) **Less Allocated Taxpayer's Qualified Plan**
(9) **Less Allocated Spouse's Qualified Plan**
(10) Adjustment to Qualified Income or Loss
(11) **Adjusted Qualified Income or Loss**
(12) **Qualified Income Loss Offset**
(13) **Net Qualified Business Income**
(14) **Reduced Amt Service Business**
(15) **Qualified Income Offset**
(16) **Service Business Net QBI**
(17) W-2 Wages
(18) **x 50%**
(19) Unadjusted Basis of Property
(20) **x 2.5%**
(21) **25% of Wages**
(22) **Total of Property and Wages**
(23) **Greater of above or 50% of Wages**
(24) **Reduced Amt - Service Business**
(25) **20% of Income**
(26) **Lesser-Income or Wages & Property**
(27) Alternative Method
(28) **Excess of 20% over Wages & Property**
(29) **Reduction Phased in**
(30) **20% of Income Less Reduction**
(31) **Total Before Patron Reduction**
(32) Patron Reduction
(33) **Total Qualified Amount**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Service Business

Is the trade or business represented by this activity a specified service business within the meaning of IRC § 199A(d)(3)?

(2) Taxable Income Without Deduction (Calculated)

Taxable Income from the Main worksheet computed without the deduction for qualified business income. See IRC § 199A(e)(1).

(3) Taxpayer's Self-employment Qualified Income or Loss (Calculated)

The Taxpayer's Domestic Production/Qualified Business Self-employment Income from the **Self-employment Income and Loss** worksheet.

(4) Spouse's Self-employment Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(5) Other Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(6) Less Allocated Taxpayer's Self-employment Tax (Calculated)

The allocated portion of the Taxpayer's deduction for Self-employment tax, equal to the Taxpayer's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(7) Less Allocated Spouse's Self-employment Tax (Calculated)

Equals zero on this worksheet.

(8) Less Allocated Taxpayer's Qualified Plan (Calculated)

The allocated portion of the Taxpayer's Keogh deduction, equal to the Taxpayer's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Taxpayer's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Taxpayer's Self-employment Qualified Income for all qualified trades or businesses with positive Taxpayer's Self-employment Qualified Income.

(9) Less Allocated Spouse's Qualified Plan (Calculated)

Equals zero on this worksheet.

(10) Adjustment to Qualified Income or Loss

Enter any adjustment to the qualified income or loss for the trade or business.

Per final Treasury Regulation § 1.199A, use this row to allocate to the qualified trade or business:

- IRC § 1231 losses
- Deductions for self-employed health insurance

(11) Adjusted Qualified Income or Loss (Calculated)

The sum of rows 3 and 10 above.

(12) Qualified Income Loss Offset

If row 11 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 11 is negative, the row 12 will offset row 11 by an equal positive amount. Any entries on the this worksheet, the **Qualified Income Amount – Nonpassive** worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Passive** worksheet, or the **Qualified Income Amount – Spouse's Self Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a service business this row will be N/A.

(13) Net Qualified Business Income

The sum of rows 11 and 12.

If this is a loss, see **NOTE 1** on page 152.

(14) Reduced Amount Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of qualified income or loss on row 13 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

If this is a loss, see **NOTE 1** on page 152.

(15) Qualified Income Offset (Calculated)

If row 14 is positive, the amount of any losses allocated form qualified business activities (including statutory wages) with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of

each activity. See Treasury Regulation § 1.199A-1. If row 14 is negative then row 15 will offset row 14 by an equal positive amount. Any entries on this worksheet, the **Qualified Income Amount – Nonpassive** worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Passive** worksheet, or the **Qualified Income Amount – Spouse's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a non-service business this row will be N/A.

(16) Service Business Net QBI (Calculated)

The sum of rows 14 and 15.

(17) W-2 Wages

Enter the amount of W-2 wages paid by the taxpayer allocable to the qualified income of this trade or business. See IRC § 199A(b)(4).

(18) x 50% (Calculated)

Row 17, above, multiplied by 50%.

(19) Unadjusted Basis of Property

Enter the unadjusted basis of qualified property with respect to this trade or business. See IRC § 199A(b)(6).

(20) x 2.5% (Calculated)

Row 19 multiplied by 2.5%.

(21) 25% of Wages (Calculated)

25% of the amount on row 17, above.

(22) Total of Property and Wages (Calculated)

The sum of rows 20 and 21, above.

(23) Greater of above or 50% of Wages (Calculated)

The greater of rows 18 and 22, above.

(24) Reduced Amount - Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of row 23 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000

amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

(25) 20% of Income (Calculated)

If row 1, above, is yes then this is 20% of row 16. Otherwise this is 20% of row 13.

(26) Lesser-Income or Wages & Property (Calculated)

If row 1 above is yes, then this is the lesser of rows 25 and 24. Otherwise this is the lesser of rows 25 and 23. The Qualified Income Amount based on the "regular" method. See IRC § 199A(b)(2).

(27) Alternative Method

Title for rows 28 through 30. See IRC § 199A(b)(3).

(28) Excess of 20% over Wages & Prop (Calculated)

The excess of 20% of Qualified Business Income over the wage and property amounts. See IRC § 199A(B)(3)(b)(iii) and **NOTE 2** on page 152.

(29) Reduction Phased In (Calculated)

The amount of the reduction in the Qualified Amount under the alternative method based on the taxable income an the excess computed on the row above. See IRC § 199A(b)(3)(b)(ii) and **NOTE 1** on page 152.

(30) 20% of Income Less Reduction (Calculated)

The total Qualified Amount for the activity computed under the alternative method. See IRC § 199A(b)(3)(b)(i) and **NOTE 1** on page 152.

(31) Total Before Patron Reduction (Calculated)

The greater of rows 30 or 26.

(32) Patron Reduction

Any reduction of the qualified income amount due to patronage dividends received by a specified agricultural or horticultural cooperative. See IRC § 199A(b)(7).

(33) Total Qualified Amount (Calculated)

The sum of rows 31 and 32.

NOTE 1

If row 13 is a loss, then the following rows will be N/A:

- row 18
- row 20
- row 21
- row 22
- row 23
- row 24
- row 28
- row 29
- row 30

If row 1 is Yes (Service Business), then row 25 will be 20% of row 14. Otherwise 25 will be 20% of row 13.

If the year is after 2025, the deduction no longer applies and the above listed rows will be N/A as well as rows 25 and 26. Rows 31 and 33 will be zero.

NOTE 2

If taxable income is below the threshold amount ($315,000 for married filing jointly, $157,500 for others) then:

- row 28 will be N/A,
- row 29 will be 0, and
- row 30 will be the amount on row 25.

If taxable income is greater than the threshold amount plus $100,000 ($50,000 if not joint) then the alternative method does not apply, then:

- rows 28, 29, and 30 will be N/A.

Otherwise if the taxpayer is in a service business then:

- row 28 is the excess of row 25 over row 24,

And if the taxpayer is not in the service business then:

- row 28 is the excess of row 25 over row 23.

If there is no excess of row 25 over row 24 (for service business) or row 25 over row 23 (for non-service businesses), then rows 28, 29, and 30 will be N/A.

Finally, if the taxpayer is in the phase out range ($315,000 to $415,000 for joint) and the conditions above do not apply, then

- row 29 is row 28 multiplied by the phase out percentage, and
- row 30 is row 25 less row 29.

See IRC § 199A(b)(3).

QUALIFIED INCOME AMOUNT – SPOUSE'S SELF-EMPLOYMENT

Qualified Income Amount – Spouse's Self-Employment
(1) Service Business (Y/N)
(2) **Taxable Income w/o Deduction**
(3) **Taxpayer's Self-employment Qualified Income or Loss**
(4) **Spouse's Self-employment Qualified Income or Loss**
(5) **Other Qualified Income or Loss**
(6) **Less Allocated Taxpayer's Self-employment Tax**
(7) **Less Allocated Spouse's Self-employment Tax**
(8) **Less Allocated Taxpayer's Qualified Plan**
(9) **Less Allocated Spouse's Qualified Plan**
(10) Adjustment to Qualified Income or Loss
(11) **Adjusted Qualified Income or Loss**
(12) **Qualified Income Loss Offset**
(13) **Net Qualified Business Income**
(14) **Reduced Amt Service Business**
(15) **Qualified Income Offset**
(16) **Service Business Net QBI**
(17) **W-2 Wages**
(18) **x 50%**
(19) Unadjusted Basis of Property
(20) **x 2.5%**
(21) **25% of Wages**
(22) **Total of Property and Wages**
(23) **Greater of above or 50% of Wages**
(24) **Reduced Amt - Service Business**
(25) **20% of Income**
(26) **Lesser-Income or Wages & Property**
(27) Alternative Method
(28) **Excess of 20% over Wages & Property**
(29) **Reduction Phased in**
(30) **Total Before Patron Reduction**
(31) Patron Reduction
(32) **20% of Income Less Reduction**
(33) **Total Qualified Amount**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Service Business

Is the trade or business represented by this activity a specified service business within the meaning of IRC § 199A(d)(3)?

(2) Taxable Income Without Deduction (Calculated)

Taxable Income from the **Main Worksheet** computed without the deduction for qualified business income. See IRC § 199A(e)(1).

(3) Taxpayer's Self-employment Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(4) Spouse's Self-employment Qualified Income or Loss (Calculated)

The Spouse's Domestic Production/Qualified Business Self-employment Income from the **Self-employment Income and Loss** worksheet.

(5) Other Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(6) Less Allocated Taxpayer's Self-employment Tax (Calculated)

Equals zero on this worksheet.

(7) Less Allocated Spouse's Self-employment Tax (Calculated)

The allocated portion of the Spouse's deduction for Self-employment tax, equal to the Spouse's Self-employment Tax Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(8) Less Allocated Taxpayer's Qualified Plan (Calculated)

Equals zero on this worksheet.

(9) Less Allocated Spouse's Qualified Plan (Calculated)

The allocated portion of the Spouse's Keogh deduction, equal to the Spouse's Keogh Deduction row of the **Ordinary Income** worksheet, times a fraction with a numerator equal to any positive Spouse's Self-employment Qualified Income on this worksheet, and a denominator equal to the total Spouse's Self-employ-

ment Qualified Income for all qualified trades or businesses with positive Spouse's Self-employment Qualified Income.

(10) Adjustment to Qualified Income or Loss

Enter any adjustment to the qualified income or loss for the trade or business.

Per final Treasury Regulation § 1.199A, use this row to allocate to the qualified trade or business:

- IRC § 1231 losses
- Deductions for self-employed health insurance

(11) Adjusted Qualified Income or Loss (Calculated)

The sum of rows 3 and 10 above.

(12) Qualified Income Loss Offset (Calculated)

If row 11 is positive, the amount of any losses allocated form qualified business activities (including statutory wages) with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 11 is negative, then row 12 will offset row 11 by an equal negative amount. Any entries on the this worksheet, the **Qualified Income Amount - Nonpassive** worksheet, the **Qualified Income Amount - Other Income worksheet**, the **Qualified Income Amount - Passive** worksheet, and the **Qualified Income Amount Taxpayer's Self Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a service business this row will be N/A.

(13) Net Qualified Business Income (Calculated)

The sum of rows 11 and 12.

If this is a loss, see **NOTE 1** on page 158.

(14) Reduced Amount Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of qualified income or loss on row 13 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

If this is a loss, see **NOTE 1** on page 158.

(15) Qualified Income Offset (Calculated)

If row 14 is positive, the amount of any losses allocated form qualified business activities (including statutory wages) with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 14 is negative, then row 15 will offset row 14 by an equal positive amount. Any entries on this worksheet, the **Qualified Income Amount – Nonpassive** worksheet, the **Qualified Income Amount – Other Income** worksheet, the **Qualified Income Amount – Passive** worksheet, or the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a non-service business this row will be N/A.

(16) Service Business Net QBI (Calculated)

The sum of rows 14 and 15.

(17) W-2 Wages

Enter the amount of W-2 wages paid by the taxpayer allocable to the qualified income of this trade or business. See IRC § 199A(b)(4).

(18) x 50% (Calculated)

Row 17, above, multiplied by 50%.

(19) Unadjusted Basis of Property

Enter the unadjusted basis of qualified property with respect to this trade or business. See IRC § 199A(b)(6).

(20) x 2.5% (Calculated)

Row 19 multiplied by 2.5%.

(21) 25% of Wages (Calculated)

25% of the amount on row 17, above.

(22) Total of Property and Wages (Calculated)

The sum of rows 20 and 21, above.

(23) Greater of above or 50% of Wages (Calculated)

The greater of rows 18 and 22, above.

(24) Reduced Amount - Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of row 21 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No this row will be N/A.

(25) 20% of Income (Calculated)

If row 1, above, is yes then this is 20% of row 16. Otherwise this is 20% of row 13.

(26) Lesser-Income or Wages & Property (Calculated)

If row 1 above is yes, then this is the lesser of rows 25 and 24. Otherwise this is the lesser of rows 25 and 23. The Qualified Income Amount based on the "regular" method. See IRC § 199A(b)(2).

(27) Alternative Method

Title for rows 28 through 30. See IRC § 199A(b)(3).

(28) Excess of 20% over Wages & Prop (Calculated)

The excess of 20% of Qualified Business Income over the wage and property amounts. See IRC § 199A(B)(3)(b)(iii) and **NOTE 2** on page 158.

(29) Reduction Phased In (Calculated)

The amount of the reduction in the Qualified Amount under the alternative method based on the taxable income an the excess computed on the row above. See IRC § 199A(b)(3)(b)(ii) and **NOTE 2** on page 158.

(30) 20% of Income Less Reduction (Calculated)

The total Qualified Amount for the activity computed under the alternative method. See IRC § 199A(b)(3)(b)(i) and **NOTE 2** on page 158.

(31) Total Before Patron Reduction (Calculated)

The greater of rows 30 or 26.

(32) Patron Reduction

Any reduction of the qualified income amount due to patronage dividends received by a specified agricultural or horticultural cooperative. See IRC § 199A(b)(7).

(33) Total Qualified Amount (Calculated)

The greater of rows 31 or 32.

NOTE 1

If row 13 is a loss, then the following rows will be N/A:

- row 18
- row 20
- row 21
- row 22
- row 23
- row 24
- row 28
- row 29
- row 30

If row 1 is Yes (Service Business), then row 25 will be 20% of row 14. Otherwise, row 25 will be 20% of row 13.

If the year is after 2025, the deduction no longer applies and the above listed rows will be N/A as well as rows 25 and 26. Rows 31 and 33 will be N/A.

NOTE 2

If taxable income is below the threshold amount ($315,000 for married filing jointly, $157,500 for others), then:

- row 28 will be N/A,
- row 29 will be 0, and
- row 30 will be the amount on row 25.

If taxable income is greater than the threshold amount plus $100,000 ($50,000 if not joint) then the alternative method does not apply, then:

- rows 28, 29, and 30 will be N/A.

Otherwise, if the taxpayer is in a service business, then:

- row 28 is the excess of row 25 over row 24,

And if the taxpayer is not in the service business, then:

- row 28 is the excess of row 25 over row 23.

If there is no excess of row 25 over row 24 (for service business) or row 25 over row 23 (for non-service businesses), then rows 28, 29, and 30 will be N/A.

Finally, if the taxpayer is in the phase out range ($315,000 to $415,000 for joint) and the conditions above do not apply, then:

- row 29 is row 28 multiplied by the phase out percentage, and

- row 30 is row 25 less row 29.

See IRC § 199A(b)(3).

SECTION 1231 & CASUALTY GAIN AND LOSS

Section 1231 & Casualty Gain/Loss
(1) Total Casualty Gain or Loss
(2) Trade or Business Condemnation Gain
(3)   Individual Activities
(4) Investment Condemnation Gain
(5)   Individual Activities
(6) Section 1231 Sale Gain or Loss:
(7)   Passive Activities: § 1250 Gain (25%)
(8)   Trade or Business MAPRRA Activities: § 1250/1231 Gain
(9)   Passive Activities: 28% Rate Gain or Loss
(10)   Trade or Business MAPRRA Activities: 28% Rate Gain or Loss
(11)   Passive Activities: Other
(12)   Trade or Business MAPRRA Other
(13)   PTP Gain Activities: § 1250 Gain (25%)
(14)   PTP Gain Activities: 28% Rate Gain or Loss
(15)   PTP Gain Activities: Other
(16)   PTP Other Acts: § 1250 Gain (25%)
(17)   PTP Other Acts: 28% Rate Gain or Loss
(18)   PTP Other Activities: Other
(19)   Nonpassive § 1250 Trade or Business Gain (25%)
(20)   Individual Activities
(21)   Nonpassive 28% Rate Trade or Business Gain or Loss
(22)   Individual Activities
(23)   Nonpassive Other § 1231 Trade or Business Gain
(24)   Individual Activities
(25)   Nonpassive § 1250 Investment Gain (25%)
(26)   Individual Activities
(27)   Nonpassive 28% Rate Investment Gain or Loss
(28)   Individual Activities
(29)   Nonpassive Other Investment § 1231 Gain or Loss
(30)   Individual Activities
(31) Total Section 1231 Gain or Loss
(32) Total § 1231 Unrecaptured 1250 Investment
(33) Total § 1231 28% Rate Investment
(34) Adjustment to 28% Rate Investment
(35) Total Other § 1231 Investment
(36) Total § 1231 Unrecaptured § 1250 Passive
(37) Total § 1231 28% Rate Passive
(38) Adjustment to 28% Rate Passive
(39) Total Other § 1231 Passive
(40) Total § 1231 Unrecaptured § 1250 Trade or Business
(41) Total § 1231 28% Rate Trade or Business
(42) Adjustment to 28% Rate Trade or Business
(43) Total Other § 1231 Trade or Business
(44) Non-recaptured Previous Year Loss
(45)   Entered
(46)   **Computed**
(47)
Continued on next page

Section 1231 & Casualty Gain/Loss (continued)
(48) Ordinary Gain or Loss: Investment
(49) Ordinary Gain or Loss: Passive
(50) Ordinary Gain or Loss: Trade or Business
(51) Long-term Capital Gain or Loss: Investment:
(52)   Unrecaptured § 1250 Investment Gain (25%)
(53)   28% Rate Investment Gain or Loss
(54)   Other Long-term § 1231 Investment Gain or Loss
(55) Long-term Capital Gain or Loss: Passive:
(56)   Unrecaptured § 1250 Passive Gain (25%)
(57)   28% Rate Passive Gain or Loss
(58)   Other Long-term § 1231 Passive Gain or Loss
(59) Long-term Capital Gain or Loss: Trade or Business
(60)   Unrecaptured § 1250 Trade or Business Gain (25%)
(61)   28% Rate Trade or Business Gain or Loss
(62)   Other Long-term Trade or Business Gain or Loss
(63) Itemized Investment Casualty Loss
(64) Itemized Employee Business Casualty Loss

Caution! This worksheet computes casualty and IRC § 1231 gain and loss for purposes of classifying these items as Ordinary (above the AGI line), Capital (including unrecaptured section 1250 gain, 28% rate gain or loss and other capital gain or loss), and Itemized. It also contains categories and computations designed to carry through items entered here to the computation of Net Investment Income for investment interest limitation purposes.

With regard to many of these calculations, at date of publication of the program, little published guidance was available from the Treasury or the IRS. This part of the manual explains how the program treats items entered on this worksheet for all the above purposes. You are cautioned to carefully examine this manual, particularly the row descriptions and Notes for this worksheet, to determine how the program handles particular aspects of the law. Contact Bloomberg Tax Technology if you have any questions. You should rely upon our interpretations only to the extent you agree with them.

(1) Total Casualty Gain/Loss (Calculated)

Total Casualty Gain or Loss from property held for investment or for use in a trade or business. No entry may be made on this row. To enter the data and have the program compute the appropriate limitations, press W for the **Casualty Gains and Losses** worksheet.

(2) Trade or Business Condemnation Gain

All section 1231 gains (other than unrecaptured section 1250 gain and 28% rate gain) from involuntary conversions (other than casualty and theft) of assets used in a trade or business and held for more than one year.

Do not include passive activity or publicly traded partnership items. See IRC §§ 1231 and 1(h), and Form 4797, Part I. Also do not include gains from property used in activities described in IRC § 163(d)(5)(A)(ii).

The program includes the amount on this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does not include the gains on this row in the computation of investment income for investment interest limitation purposes.

As an alternative, you may enter the gain described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(3) Trade or Business Condemnation Gain – Individual Activities

Trade or business condemnation gain (other than unrecaptured section 1250 gain and 28% rate gain) from individual activities. See the description for the previous row. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(4) Investment Condemnation Gain

All Section 1231 gains (other than unrecaptured section 1250 gain and 28% rate gain) from involuntary conversions (other than casualty and theft) of assets held for more than one year (six months if purchased after 6/22/84 and before 1/1/88) in transactions entered into for profit, but not a trade or business. See IRC §§ 1231 and 1(h), and Form 4797 (1997), Part I. Include also condemnation gains from property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

The program includes the amount on this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes.

As an alternative, you may enter the gain described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(5) Investment Condemnation Gain – Individual Activities

Investment condemnation gain (other than unrecaptured section 1250 gain and 28% rate gain) from individual activities. See the description for the row

above. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(6) Section 1231 Sale Gain or Loss:

Heading for rows 7 through 30, below.

(7) Passive Activities – Unrecaptured Section 1250/1231 Gain

The total Section 1231 unrecaptured section 1250 gain from passive activities (other than PTPs) and non-Trade or Business MAPRRA activities allowed after application of passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter passive activity income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of this worksheet. As a result, the gains and losses on this row are not included in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(8) Trade or Business MAPRRA Activities – Unrecaptured Section 1250/1231 Gain

The total Section 1231 unrecaptured section 1250 gain from Trade or Business MAPRRA (Material Participation Rental Real Estate Activity) activities (other than PTPs).

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter MAPRRA activity income and loss items.

The program includes this row in the allocation to trade and business gains and losses on the last 17 rows of this worksheet. As a result, the gains and losses on this row are not included in the computation of investment income for investment interest limitation purposes.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(9) Passive Activities – 28% Rate Gain or Loss

The total Section 1231 28% rate gain or loss from passive activities (other than PTPs) and non-Trade or Business MAPRRA activities allowed after application of passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter passive activity income and loss items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(10) Trade or Business MAPRRA Activities – 28% Rate Gain or Loss

The total Section 1231 28% rate gain or loss from Trade or Business MAPRRA (Material Participation Rental Real Estate Activity) activities (other than PTPs).

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter passive activity income and loss items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does not include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(11) Passive Activities – Other Section 1231 Sale Gain or Loss

The total Section 1231 gain or loss (other than unrecaptured section 1250 gain and 28% rate gain or loss) from passive activities (other than PTPs) and non-Trade or Business MAPRRA activities allowed after application of passive activity limitations. This amount is posted from the "Allocated to: Other Section 1231 Gain/Loss" row of the **Passive & MAPRRA Income and Loss** worksheet.

No entry may be made on this row. Instead, access the subworksheet to enter passive activity income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(12) Trade or Business MAPRRA Activities – Other Section 1231 Sale Gain or Loss

The total Section 1231 gain or loss (other than unrecaptured section 1250 gain and 28% rate gain or loss) from trade or business MAPRRA activities (other than PTPs) allowed after application of passive activity limitations. This amount is posted from the "Allocated to: Other Sec. 1231 Gain/Loss" row of the **Passive & MAPRRA Income/Loss** worksheet.

No entry may be made on this row. Instead, access the subworksheet to enter passive activity income and loss items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does not include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(13) Publicly Traded Partnership Gain Activities – Unrecaptured Section 1250/1231 Gain (25%)

For each PTP that has a net gain and an unrecaptured section 1250 gain for the year, the program computes the Section 1231 unrecaptured section 1250 gain's proportionate part of the net gain. This row represents the sum of these computations. No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet to enter PTP income and loss items.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(14) Publicly Traded Partnership Gain Activities – 28% Rate Gain or Loss

For each PTP that has a net gain and a net 28% rate gain for the year, the program computes the 28% rate gain's proportionate part of the net gain. This row represents the sum of these computations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet to enter PTP income and loss items.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(15) Publicly Traded Partnership Gain Activities – Other Section 1231 Gain or Loss

For each PTP that has a net gain and a Section 1231 gain (other than unrecaptured section 1250 gain or 28% rate gain) for the year, the program computes the Section 1231 gain's proportionate part of the net gain. This row represents the sum of these computations. This amount is posted from the row 19 "Nonpassive § 1250 Trade or Business Gain (25%)" of the **Publicly Traded Partnerships** worksheet. See **NOTE 2** for that worksheet on page 216.

No entry may be made on this row. Instead, access the subworksheet to enter PTP income and loss items.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(16) Other Publicly Traded Partnership Activities – Unrecaptured Section 1250/1231 Gain

All Section 1231 unrecaptured section 1250 gains from publicly traded partnerships allowed after application of PTP limitations other than unrecaptured section 1250 gain from gain partnerships included on the row above.

No entry may be made here. Instead, press W to enter PTP income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(17) Other Publicly Traded Partnership Activities – 28% Rate Gain or Loss

All Section 1231 sale 28% rate gain or loss from publicly traded partnerships allowed after application of PTP limitations other than 28% rate gain included on the gain partnership rows above.

No entry may be made on this row. Instead, press W to enter PTP income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows (calculated) of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(18) Other Publicly Traded Partnership Activities – Other Section 1231 Gain or Loss

All Section 1231 sale gain or loss (other than unrecaptured section 1250 gain or 28% rate gain or loss) from publicly traded partnerships allowed after application of PTP limitations, other than the gains included on the row above. This amount is posted from the "Other Income and Loss: Other Section 1231 Gain/Loss" row of the **Publicly Traded Partnerships** worksheet.

No entry may be made on this row. Instead, access the subworksheet to enter PTP income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(19) Nonpassive Unrecaptured 1250/1231 Trade or Business Gain (25%)

Nonpassive Section 1231 unrecaptured section 1250 gain from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98).

Do not include gain from transactions before 5/7/97. See IRC §§ 1231 and 1(h), and Form 4797, Part I.

Gain from the sale of an interest in a partnership attributable to trade or business unrecaptured section 1250 gain should be included here also. See the instructions for line 5 of the worksheet for line 19 of Form 1040, Schedule D. **Do not include passive activity or publicly traded partnership items.**

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(20) Nonpassive Unrecaptured § 1250 Trade or Business Gain (25%)
– Individual Activities

Nonpassive Section 1231 unrecaptured section 1250 gains from individual activities. See the description for the row above. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(21) Nonpassive 28% Rate Trade or Business Gain or Loss

Nonpassive Section 1231 28% rate gains and losses from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business. 28% rate gains and losses arise from sales after 7/28/97 and before 1/1/98, of property held for more than one year but not more than 18 months, and 1997 sales before May 7 of property held for more than 12 months. See IRC §§ 1231 and 1(h) and Form 4797, Part I.

Do not include passive activity or publicly traded partnership items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(22) Nonpassive 28% Rate Trade or Business Gain or Loss – Individual Activities

Nonpassive Section 1231 28% rate gains and losses from individual activities. See the description for the row above. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(23) Nonpassive Other Sec 1231 Trade or Business Gain/Loss

Nonpassive Section 1231 gains and losses (other than unrecaptured section 1250 gain and 28% rate gain or loss) from sales and nonpassive losses from involuntary conversions (other than casualty and theft) of assets used in a trade or business and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

Do not include passive or MAPRRA activity or publicly traded partnership items. See IRC § 1231 and Form 4797, Part I. Also, do not include gains and losses from property used in activities described in IRC § 163(d)(5)(A)(ii).

For years after 2000, if any of the gains included on this row constitute qualified 5-year gains, you may need to include the amount of any such qualified 5-year gains as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet, depending on whether the gain is treated as a capital gain after Section 1231 is applied.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of this worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(24) Nonpassive Other Section 1231 Trade or Business Gain or Loss – Individual Activities

All nonpassive § 1231 gains and losses other than unrecaptured section 1250 gain and 28% rate gain or loss) from individual activities. See the description for the row above. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(25) Nonpassive Unrecaptured Section 1250/1231 Investment Gain

Nonpassive Section 1231 unrecaptured section 1250 gain from involuntary conversion (other than casualty or theft) of assets used in transactions entered into for profit and held for more than one year (18 months for transactions after 7/28/97 and before 1/1/98).

Do not include gain from transactions before 5/7/97. See IRC §§ 1231 and 1(h), and Form 4797, Part I.

Include also unrecaptured section 1250 gain from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year.

Gain from the sale of an interest in a partnership attributable to investment unrecaptured section 1250 gain should be included here also. See the instructions for line 19 of Form 1040, Schedule D.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the program includes the gains and losses entered on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(26) Nonpassive Unrecaptured Section 1250/1231 Investment Gain – Individual Activities

All Section 1231 unrecaptured section 1250 investment gain from individual activities. See the description for the row above. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(27) Nonpassive § 1231 28% Rate Investment Gain/Loss

Nonpassive Section 1231 28% rate gain or loss from the sale or involuntary conversion (other than casualty or theft) of assets used in transactions entered into for profit. See IRC §§ 1231 and 1(h), and Form 4797, Part I. Also include 28% rate gain or loss from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the gains and losses entered on this row are included in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(28) Nonpassive § 1231 28% Rate Investment Gain/Loss – Individual Activities

All Section 1231 28% rate gain or loss from individual activities. See the description for the row above.

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(29) Nonpassive Other Investment Section 1231 Gain or Loss

Section 1231 gains and losses (other than unrecaptured section 1250 gain and 28% rate gain or loss) from sales, and losses from involuntary conversions (other than casualty or theft), of assets held for more than one year in transactions entered into for profit, but not a trade or business. See IRC § 1231 and Form 4797, Part I.

Also include gains and losses from sale of property and losses from involuntary conversions (other than casualty and theft) of property used in activities described in IRC § 163(d)(5)(A)(ii) and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88).

For years after 2000, if any of the gains included on this row constitute qualified 5-year gains, you may need to include the amount of any such qualified 5-year gains as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet, depending on whether the gain is treated as a capital gain after Section 1231 is applied.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of this worksheet. As a result, the gains and losses entered on this row are included in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(30) Nonpassive Other Investment Section 1231 Gain or Loss – Individual Activities

Section 1231 investment gains and losses (other than unrecaptured section 1250 gain) from individual activities. See the description for row 29 "Nonpassive Other Investment § 1231 Gain or Loss", above.

No entry may be made on this row. Instead, press W for access to the **Individual Activity** worksheets.

(31) Total Section 1231 Gain or Loss (Calculated)

The sum of row 1 "Total Casualty Gain or Loss" above (if it is a gain), and rows 2 through 30, above. Except for the effects of non-recaptured previous year Section 1231 losses, if this is a gain, all Section 1231 gains and losses (including casualty gains and losses that netted to a gain) are treated as capital gains and losses. Otherwise, they are treated as ordinary gains or losses. See **NOTE 1** on page 179.

(32) Total § 1231 Unrecaptured 1250 Investment Gain/Loss (Calculated)

If row 31 above is a gain and row 1 above is a gain, this row is the sum of rows 6 and 18 on the **Casualty Gains and Losses** worksheet, and rows 13, 25, and 26 on this worksheet.

If row 31 is a gain and row 1 is a loss or zero, this row is the sum of rows 13, 25, and 26 on this worksheet. The amount on this row plus the amount on row 40 below is limited to the amount of gain on row 31, above.

If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(33) Total Section 1231 28% Rate Investment (Calculated)

If row 31 above is a gain, this row is the sum of rows 14, 27, and 28 on this worksheet. If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(34) Adjustment to 28% Rate Investment

Any adjustment required to the amount computed on row 33 "Total § 1231 28% Rate Investment" above. Include the 28% rate portion of investment casualty gains or losses, if there is a total net casualty gain (but not loss).

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(35) Total Other § 1231 Investment Gain/Loss (Calculated)

If row 31 is a gain and row 1 is a gain, this row is the sum of rows 5, 6, 7, 12, 13, 18, and 19 on the **Casualty Gains and Losses** worksheet and rows 4, 5, 13, 14, 15, 25, 26, 27, 28, 29, and 30 on this worksheet, less the amounts on rows 32, 33, and 34.

If row 31 is a gain and row 1 is zero or a loss, this row is the sum of rows 4, 5, 13, 14, 15, 25, 26, 27, 28, 29, and 30 less the amounts on rows 32, 33, and 34.

If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(36) Total Sec. 1231 Unrecaptured 1250 Passive Gain/Loss: (Calculated)

If row 31 above is a gain and row 1 above is a gain, this row is the sum of rows 14 and 20 on the **Casualty Gains and Losses** worksheet, and rows 7 and 16 on this worksheet.

If row 31 is a gain and row 1 is a loss or zero, this row is the sum of rows 7 and 16 on this worksheet. The amount on this row plus the amount on row 32 above and 40 below is limited to the amount of gain on row 31, above.

If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(37) Total Section 1231 28% Rate Passive (Calculated)

If row 31, above, is a gain, this row is the sum of rows 9 and 17 on this worksheet.

If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(38) Adjustment to 28% Rate Passive:

Any adjustment required to the amount computed on row 37 "Total § 1231 28% Rate Passive", above. Include the 28% rate portion of investment casualty gains or losses, if there is a total net casualty gain (but not loss).

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet,

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(39) Total Other Sec. 1231 Passive Gain/Loss: (Calculated)

If row 31 is a gain and row 1 is a gain, this row is the sum of rows 14, 16, 20 and 21 on the **Casualty Gains and Losses** worksheet and rows 7, 9, 11, 16, 17, and 18 on this worksheet, less the amounts on rows 36, 37, and 38.

If row 31 is a gain and row 1 is zero or a loss, this row is the sum of rows 7, 9, 11, 16, 17, and 18, less the amounts on rows 36, 37, and 38.

If row 31 is a loss, this row is 0. See **NOTE 1** on page 179.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(40) Total § 1231 Unrecaptured § 1250 Trade or Business (Calculated)

If row 31 is a gain and row 1 is a gain, this row is the sum of rows 3 and 15 on the **Casualty Gains and Losses** worksheet and rows 8 and 19 on this worksheet.

If row 31 is a gain and row 1 is 0 or a loss then this row is the sum of rows 8 and 19. The amount on this row plus the amount on rows 32 and 36 above is limited to the amount of gain.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(41) Total Section 1231 28% Rate Trade or Business (Calculated)

If row 31 is a gain, this row is the sum of rows 10, 21, and 22 on this worksheet.

If row 31 is 0 or a loss, this row is 0. See **NOTE 1** on page 179.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(42) Adjustment to 28% Rate Trade or Business

Any adjustment required to the amount computed on row 41 "Total § 1231 28% Rate Trade or Business". above. Include the 28% rate portion of trade or business casualty gains or losses, if there is a total net casualty gain (but not loss).

This row applies only to years after 1996, and represents the portion of the casualty gain attributable to transactions after 7/28/97 and before 1/1/98, with regard to trade or business assets held more than one year but less than 18 months, and 1997 casualty gains and losses before May 7, with regard to trade or business assets held for more than one year. See IRC § 1(h).

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(43) Total Other Section 1231 Trade or Business Gain/Loss (Calculated)

The amount on row 31 above less the amounts on rows 32 through 42. See **NOTE 1** on page 179.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(44) Nonrecaptured Previous Year Losses

Heading for rows 45 and 46.

(45) Nonrecaptured Previous Year Losses – Entered

Nonrecaptured Section 1231 losses deducted in the five preceding tax years. See IRC § 1231(c) and Form 4797, Part I, line 8.

In multiple-year situations, enter the amount in each year to which it can be carried. The program will keep track of how it is used up.

Do not enter such losses that are generated in the years being run since these are automatically computed on the next row. See **NOTE 2** of the **Charitable Contributions** worksheet on page 382 for examples of how carry-over rows such as this one are to be entered. Nonrecaptured Section 1231 losses for alternative minimum tax purposes must be separately entered.

Note. In multiple-year situations, the amount of this item entered in a subsequent year can never exceed the amount entered in a previous year. Entered nonrecaptured losses can only expire; they cannot be generated.

(46) Nonrecaptured Previous Year Losses – Computed (Calculated)

Nonrecaptured § 1231 losses as computed by the program in a multiple-year analysis. The amount appears in the column to which it applies.

In multiple-case and one-year situations, this row will contain zeros. See IRC § 1231(c) and Form 4797, Part I, line 8.

(47) (Blank)

(48) Ordinary Gain or Loss: Investment (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row plus the amounts on rows 49 "Ordinary Gain or Loss: Passive" and 50 "Ordinary Gain or Loss: Trade or Business" below are posted to the "Section 1231 Ordinary and Casualty Gain/Loss" row of the **Ordinary Income** worksheet. The amount on this row is also posted to the "Net Disposition Gain: Section 1231 Ordinary and Casualty Investment Gain/Loss" row of the **Net Investment Income** worksheet and included in the "Section 1231 Ordinary and Casualty Gain Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(49) Ordinary Gain or Loss: Passive: (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amounts on rows 48 "Ordinary Gain or Loss: Investment" and 50 "Ordinary Gain or Loss: Trade or Business" are posted to the "Section 1231 Ordinary and Casualty Gain/Loss" row of the **Ordinary Income** worksheet and included in the "Section 1231 Ordinary and Casualty Gain Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(50) Ordinary Gain or Loss: Trade or Business (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row, plus the amounts on rows 48 "Ordinary Gain or Loss: Investment" and 49 "Ordinary Gain or Loss: Passive" above are posted to the "Section 1231 Ordinary and Casualty Gain/Loss" row of the **Ordinary Income** worksheet.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(51) Long-term Capital Gain or Loss: Investment (Calculated)

Heading for rows 52 through 54, below.

(52) Unrecaptured Section 1250 Investment Gain (25%) (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "§ 1231 Unrecap 1250 Gain(25%):Invest" row of the **Capital Gains and Losses** worksheet. See that worksheet for possible inclusion of this amount in the computation of Net Investment Income. This amount

is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(53) 28% Rate Investment Gain/Loss (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "§ 1231 Gain/Loss: Investment" row of the **28% Rate Capital Gains and Losses** worksheet. See the **Capital Gains and Losses** worksheet for possible inclusion of this amount in the computation of Net Investment Income. This amount is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(54) Other Long-Term Section 1231 Investment Gain/Loss (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "Other § 1231 Gain or Loss: Investment" row of the **Capital Gains and Losses** worksheet. See that worksheet for possible inclusion of this amount in the computation of Net Investment Income. This amount is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(55) Long-term Capital Gain or Loss: Passive: (Calculated)

Heading for rows 56 through 58, below.

(56) Unrecaptured Section 1250 Passive Gain (25%): (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "Sec. 1231 Unrecaptured 1250 Gain(25%): Passive" row of the **Capital Gains and Losses** worksheet. This amount is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(57) 28% Rate Passive Gain/Loss: (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "Sec. 1231 Gain/Loss: Passive" row of the **28% Rate Capital Gains and Losses** worksheet. This amount is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(58) Other Long-term Section 1231 Passive Gain/Loss: (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "Other Section 1231 Gain/Loss: Passive" row of the **Capital Gains and Losses** worksheet. This amount is included in the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(59) Long-Term Capital Gain or Loss: Trade or Business

Heading for rows 60 through 62.

(60) Unrecaptured Section 1250 Trade or Business Gain (25%) (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "§ 1231 Unrecaptured 1250 Gain (25%): Trade or Business" row of the **Capital Gains and Losses** worksheet.

The program does not include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(61) 28% Rate Trade or Business Gain/Loss (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "§ 1231 Trade/Business Gain/Loss" row of the **28% Rate Capital Gains and Losses** worksheet.

The program does not include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(62) Other Long-Term Section 1231 Trade or Business Gain/Loss (Calculated)

See **NOTE 1** on page 179 for how this amount is computed. The amount on this row is posted to the "Other § 1231 Trade/Business Gain/Loss" row of the **Capital Gains and Losses** worksheet.

The program does not include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(63) Itemized Investment Casualty Loss (Calculated)

See **NOTE 1**, below, for how this amount is computed. The amount on this row is posted to the "Investment Casualty Loss" row of the **Itemized Deductions** worksheet. It is also included in the "Net Disposition Gain: Itemized Investment Casualty Loss" row of the **Net Investment Income** worksheet. This amount is included in the "Itemized Investment Casualty/Loss" row of the **Medicare Investment Income Tax** worksheet for years after 2012.

(64) Itemized Employee Business Casualty Loss (Calculated)

See **NOTE 1**, below, for details on how this amount is computed. The amount on this row is posted to the "Employee Business Casualty Loss" row of the **Itemized Deductions** worksheet.

The program does not include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

NOTE 1

The computations on this worksheet are performed as follows:

1. First, the program determines whether row 1 "Total Casualty Gain or Loss" is a gain or a loss. If it is a loss, then all casualty gains and losses are treated as ordinary. Investment gains on the Casualty Gains from Investment rows and Casualty Gain from PTP Gain Activities on the **Casualty Gains and Losses** worksheet are included in ordinary investment gain or loss on row 48 "Ordinary Gain or Loss: Investment" of this worksheet.

   Investment losses on rows 12 and 13 of the **Casualty Gains and Losses** worksheet are posted to row 63 "Itemized Investment Casualty Loss" of this worksheet.

   The amount from row 11 "Employee Business Casualty Loss" of the **Casualty Gains and Losses** worksheet is posted to row 64 "Itemized Employee Business Casualty Loss" of this worksheet.

   Passive gains and losses from the **Casualty Gains and Losses** worksheet are included in row 49 "Ordinary Gain or Loss: Passive" of this worksheet.

   Other Trade or Business gains and losses from the **Casualty Gains and Losses** worksheet (including Trade or Business MAPRRA activities) are included in row 50 "Ordinary Gain or Loss: Trade or Business" of this worksheet.

2. If Total Casualty Gain/Loss is a gain, then casualty gains and losses are included with all other Section 1231 gains and losses. If the total of such Section 1231 gains and losses on row 31 "Total Section 1231 Gain or Loss" is a gain (including casualty gains and losses if row 1 is a gain), then it is treated as capital. However, the portion of the gain equal to nonrecaptured prior year losses is treated as ordinary.

3. If row 31 "Total Section 1231 Gain or Loss" is a gain, the program computes the unrecaptured section 1250 gain portion of the gain, the 28% rate portion of the gain and the portion of the gain unrelated to the unrecaptured section 1250 gain or 28% rate gain. It also computes the investment, passive, and trade or business portions of each element, so that the investment interest deduction and the Medicare Investment Income Tax may be computed. The computations are performed as follows:

   a. First, the unrecaptured section 1250 investment gain portion is computed as the sum of rows 13, 25, and 26. If row 1 is a gain, rows 6 and 18 of the **Casualty Gains and Losses** worksheet are included. This total appears on row 32.

   Second, the program computes the sum of the section 1250 passive rows, the sum of rows 7 and 16. If row 1 is a gain, rows 14 and 20 of the **Casualty Gains and Losses** worksheet are included. This total appears on row 36.

   Third, the program computes the sum of the section 1250 trade or business rows, i.e., rows 8, 19, and 20. If row 1 is a gain, rows 3 and 15 of the **Casualty Gains and Losses** worksheet are included. This total appears on row 40.

   b. If the sum of rows 32, 36 and 40 (total unrecaptured section 1250 gain) is greater than the gain on row 31, the program reduces the total 1250 gain to the amount on row 31. The program allocates this reduction proportionately between unrecaptured section 1250 investment, unrecaptured section 1250 passive, and unrecaptured section 1250 trade or business. This reduction as so allocated is reflected in the amounts finally shown on rows 32, 36 and 40.

   c. Next the program computes the 28% rate investment portion of the section 1231 gain as the sum of rows 14, 27, and 28. This total appears on row 33.

   Second, the program computes the sum of the 28% rate passive portion of the section 1231 gain as the sum of rows 9 and 17. This total appears on row 37.

   Third, the program computes the sum of the 28% rate trade or business rows, i.e., rows 10 and 21. This total appears on row 41.

d. The program also computes the total amount of other section 1231 investment gain or loss. This is the sum of the amounts on all the investment rows. If the amount on row 1 is a gain, the amounts from the **Casualty Gains and Losses** worksheet are included. From this total is subtracted the unrecaptured section 1250 investment gain on row 32, and the adjusted 28% rate investment gain (or loss) computed as the sum of rows 33 and 34, with the result shown on row 35.

Second, the program computes the total amount of other section 1231 passive gain or loss. This is the sum of the amounts on all the passive rows. If the amount on row 1 is a gain, the amounts from the **Casualty Gains and Losses** worksheet are included. From this total is subtracted the unrecaptured section 1250 passive gain on row 36, and the adjusted 28% rate passive gain (or loss) computed as the sum of rows 37 and 38, with the result shown on row 39.

Third, the program computes the total amount of other section 1231 trade or business gain or loss. This is computed as the amount on row 31 minus the sum of the investment rows and passive rows. From this amount is subtracted the unrecaptured section 1250 trade or business gain on row 40 and the adjusted 28% rate trade or business gain (or loss) computed as the sum of rows 41 and 42. The result is shown on row 43.

e. Next, the program reduces the various categories of capital gain by the amount of such gain converted to ordinary income by virtue of a non-recaptured previous year loss. This conversion is applied first to any 28% rate gain, next to any unrecaptured section 1250 trade or business gain, and finally to the rest of the gain. See the instructions for Form 1040 Schedule D.

The converted amount is allocated between investment, passive, and trade or business proportionately based on the makeup of the category being converted. The final ordinary income amounts, including the casualty amounts, if row 1 is a loss, are shown on rows 48, 49 and 50. The amounts remaining in each category (28% rate, unrecaptured section 1250 gain and other gain) are shown on rows 51 through 62.

Note: If the amount of nonrecaptured previous year loss equals or exceeds the total gain on row 31, the program treats all of the gains and losses on this worksheet as ordinary and no amounts will appear in the capital gain or loss categories on rows 51 through 62.

4. If row 31 "Total Section 1231 Gain or Loss" is a loss, then:

a. Row 48 "Ordinary Gain or Loss: Investment" is the sum of the following rows:

- rows 5, 6, 7, 18, and 19 on the **Casualty Gains and Losses** worksheet
- rows 4 and 5 (Investment Condemnation Gain)
- rows 13, 14, and 15 (Sec. 1231 Gains from PTP Gain Activities)
- rows 25 through 30 (Sec. 1231 Investment Gain or Loss)

b. Row 49 "Ordinary Gain or Loss: Passive" is the sum of the following rows:
- rows 14, 16, 20, and 21 on the **Casualty Gains and Losses** worksheet
- rows 16 through 18 (Other PTP Section 1231 Gain or Loss)
- rows 7, 9, and 11 (Section 1231 Passive Gain or Loss)

c. Row 50 "Ordinary Gain or Loss: Trade or Business" is the sum of the following rows:
- rows 2, 3, 4, 9, 10, 15, and 17 on the **Casualty Gains and Losses** worksheet
- rows 2 and 3 (Trade or Business Condemnation Gain)
- rows 8, 10, and 12 (Section 1231 Trade or Business MAPRRA Activity Gain or Loss)
- rows 19 through 24 (Nonpassive Trade or Business Gain or Loss)

d. Row 63 "Itemized Investment Casualty Loss" is the amount on rows 12 and 13 of the **Casualty Gains and Losses** worksheet.

e. Row 64 "Itemized Employee Business Casualty Loss" is the amount on row 11 of the **Casualty Gains and Losses** worksheet.

See, generally, the caution message after the **Net Investment Income** worksheet on page 223.

NOTE 2

Depreciation recapture should be included on one of the following rows on the **Other Ordinary Income** worksheet.

- Ordinary Property Disposition Gain or Loss: Investment
  - Individual Activities
  - Section 1033 Gain
  - Section 1033 – Individual Activities
- Ordinary Prop Disposition Gain/Loss: Noninvestment
  - Individual Activities

- Nonpassive Nonbusiness Noninvestment Property Disposition Gain or Loss

Do not include such income on this worksheet. See the description for these rows on the **Other Ordinary Income** worksheet on page 245.

NOTE 3

For years after 2000, if any of the gains included on this worksheet constitute qualified 5-year gains, the amount of any such gain should be included as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Casualty Gains and Losses** worksheet.

CASUALTY GAINS AND LOSSES

Casualty Gains and Losses
(1)   Casualty Gains:
(2)   From Trade or Business
(3)   Individual Acts: Unrecaptured § 1250 (25%)
(4)   Individual Activities: Other
(5)   From Investment
(6)   Individual Activities: Unrecaptured § 1250 (25%)
(7)   Individual Activities: Other
(8)   Casualty Losses
(9)   From Trade or Business
(10)   Individual Activities
(11)   Employee Business Casualty Loss
(12)   From Investment
(13)   Individual Activities
(14)   Passive Activities: Casualty: § 1250 Gain (25%)
(15)   Trade or Business MAPRRA Casualty Gain or Loss: § 1250 (25%)
(16)   Passive Activities: Casualty Gain or Loss: Other
(17)   Trade or Business MAPRRA: Casualty Gain or Loss: Other
(18)   PTP Gain Activities: Casualty Gain: § 1250 Gain (25%)
(19)   PTP Gain Activities: Casualty Gain: Other
(20)   Other PTP Activities: Casualty Gain: § 1250 (25%)
(21)   Other PTP Activities: Casualty Gain or Loss: Other
(22)   Total Casualty Gain or Loss

(1) Casualty Gains:

Heading for rows 2 through 7, below.

(2) Casualty Gains from Trade or Business

Gains (other than unrecaptured section 1250 gain) from casualties or theft of assets used in a trade or business and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88). Enter adjustments for the 28% rate portion of these gains on the "Adj to 28% Rate Trd/Bus" row of the **Section 1231 & Casualty Gain/Loss** worksheet. See IRC §§ 1231 and 1(h), and Form 4684, line 33(c).

Do not include casualty gains from passive activities and PTPs. Instead, enter these gains as passive activity or PTP items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program does **not** include the gains entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** on page 179.

As an alternative, you may enter the gains described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(3) Casualty Gains from Trade or Business – Individual Activities – Unrecaptured Section 1250 Gain

Unrecaptured section 1250 gains from individual activities from casualties or the theft of assets used in a trade or business. See IRC §§ 1(h) and 1231, and Form 4684. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(4) Casualty Gains from Trade or Business – Individual Activities – Other

Trade or business casualty gains (other than unrecaptured section 1250 gain) from individual activities from casualties or the theft of assets used in a trade or business. See the description for the "Casualty Gains from Trade or Business" row above. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(5) Casualty Gains from Investment

Gains (other than unrecaptured section 1250 gain) from casualties or theft of assets held for the production of income and held for more than one year. See IRC §§ 1(h) and 1231, and Form 4684, line 33(c).

Enter adjustments for the 28% rate portion of these gains on the "Adjustment to 28% Rate Trd/Bus" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

As an alternative, you may enter the gains described on this row on the **Individual Activity** worksheets accessed from the row below.

(6) Casualty Gains from Investment – Individual Activities – Unrecaptured Section 1250 Gain

Unrecaptured section 1250 gains from individual activities from casualties or theft of assets held for the production of income. See IRC §§ 1(h) and 1231, and Form 4684.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(7) Casualty Gains from Investment – Individual Activities – Other

Casualty gains from investment from individual activities (other than unrecaptured section 1250 gain) from casualties or the theft of assets held for the production of income. See the description for the Casualty Gains from Investment row above. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(8) Casualty Losses:

Heading for rows 9 through 13, below.

(9) Casualty Losses from Trade or Business

Losses from casualties or theft of assets used in a trade or business or rental or royalty property held for more than one year. See IRC § 1231 and Form 4684, line 34(b)(i).

Enter adjustments for the 28% rate portion of these losses on the "Adjustment to 28% Rate Trd/Bus" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

Do **not** include casualty losses from passive activities and PTPs. Instead, enter these losses as passive activity or PTP items. Also do **not** include employee business casualty losses. Instead, enter these losses on the "Employee Business Casualty Loss" row, below.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program does **not** include the losses entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

As an alternative, you may enter the losses described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(10) Casualty Losses from Trade or Business – Individual Activities

Trade or business casualty losses from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(11) Employee Business Casualty Loss

Losses from casualties or theft of assets used in performing services as an employee and held for more than one year. See IRC § 1231 and Form 4684, lines 34 and 38.

Enter adjustments for the 28% rate portion of these losses on the "Adjustment to 28% Rate Trd/Bus" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program does **not** include the losses entered on

this row in the computation of investment income for investment interest limitation purposes.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(12) Casualty Losses from Investment

Losses from casualties or theft of assets held for the production of income and held for more than one year. Enter adjustments for the 28% rate portion of these losses on the "Adjustment to 28% Rate Trd/Bus" row of the **Section 1231 & Casualty Gain/Loss worksheet**. See IRC §§ 1231 and 1(h), and Form 4684, lines 34 and 38.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program includes the losses entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss worksheet on** page 179.

As an alternative, you may enter the losses described on this row on the **Individual Activity** worksheets accessed from the row below.

The program potentially includes this amount on the "Itemized Investment Casualty Loss" row of the **Medicare Investment Income Tax** worksheet.

(13) Casualty Losses from Investment – Individual Activities

Investment casualty losses from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(14) Passive Activities – Unrecaptured Section 1250 Casualty Gain (25%)

Unrecaptured section 1250 casualty gain from all passive (other than PTPs) and non-Trade or Business MAPRRA activities allowed after application of passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter passive activity income and loss items. The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program does **not** include the gains on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(15) Trade or Business MAPRRA Activities – Unrecaptured Section 1250 Casualty Gain (25%)

Unrecaptured section 1250 casualty gain from all Trade or Business MAPRRA **activities.**

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Inc/Loss** worksheet to enter passive activity income and loss items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program does not include the gains on this row in the computation of investment income for investment interest limitation purposes.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(16) Passive Activities – Other Casualty Gain or Loss

The net casualty gain or loss (other than unrecaptured section 1250 gain) from all passive activities (other than PTPs) or non-Trade or Business MAPRRA activities allowed after application of passive activity limitations.

Enter adjustments for the 28% rate portion of these gains and losses on the "Adjustment to 28% Rate Passive" row of the **Section 1231 & Casualty Gain/Loss worksheet**.

The amount on this row is posted from the "Allocated to: Other Casualty Gain/Loss" row of the **Passive & MAPRRA Income and Loss** worksheet.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet to enter passive activity income and loss items.

Under Notice 90–21, IRB 1990–12, Page 9, most casualty losses associated with passive activities are not passive activity deductions and, therefore, should not be entered on the **Passive Activity** worksheets.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program does not include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(17) Trade or Business MAPRRA Activities – Casualty Gain

The net casualty gain or loss (other than unrecaptured section 1250 gain) from all Trade or Business MAPRRA activities.

Enter adjustments for the 28% rate portion of these gains and losses on the "Adjustment to 28% Rate Trade or Business" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

The amount on this row is posted from the "Allocated to: Other Casualty Gain/Loss" row of the **Passive & MAPRRA Income and Loss** worksheet.

No entry may be made on this row. Instead, press W to access the Passive & MAPRRA Income/Loss worksheet to enter passive activity income and loss items.

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss** worksheet. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(18) Publicly Traded Partnership Gain Activities – Unrecaptured § 1250 Casualty Gains (25%)

For each PTP that has a net gain and an unrecaptured section 1250 casualty gain for the year, the program computes the unrecaptured section 1250 casualty gain's proportionate part of the net gain. This row represents the sum of these computations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet to enter PTP income and loss items.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(19) Publicly Traded Partnership Gain Activities – Other Casualty Gains

For each PTP that has a net gain and a casualty gain (other than unrecaptured section 1250 gain) for the year, the program computes the casualty gain's proportionate part of the net gain. This row represents the sum of these computations.

Enter adjustments for the 28% rate portion of these gains on the "Adjustment to 28% Rate Investment" row of the **Section 1231 & Casualty Gain/Loss worksheet**.

This amount is posted from row 18 "Other Casualty Gain" of the **Publicly Traded Partnerships** worksheet. See **NOTE 2** for that worksheet on page 216.

No entry may be made on this row. Instead, access the subworksheet to enter PTP income and loss items.

The program includes this row in the allocation to investment gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program includes the gains entered on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

For years after 2012, the program potentially includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(20) Other Publicly Traded Partnerships – Unrecaptured § 1250 Casualty Gain (25%)

All unrecaptured section 1250 casualty gains from publicly traded partnerships allowed after application of PTP limitations other than the gains included on the row above.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet to enter PTP income and loss items.

The program includes this row in the allocation to passive gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes.

The program uses this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(21) Other Publicly Traded Partnerships – Other Casualty Gain or Loss

All casualty gains and losses from publicly traded partnerships allowed after application of PTP limitations other than the gains included on the rows above.

Enter adjustments for the 28% rate portion of these gains and losses on the "Adjustment to 28% Rate Passive" row of the **Section 1231 & Casualty Gain/Loss worksheet**. This amount is posted from the "Other Income and Loss: Other Casualty Gain/Loss" row of the **Publicly Traded Partnerships** worksheet.

No entry may be made on this row. Instead, access the subworksheet to enter PTP income and loss items.

Under Notice 90–21, IRB 1990–12, Page 9, most casualty losses associated with passive activities are not passive activity deductions and, therefore, should not be entered on the **Passive Activity** worksheets (nor presumably on the **Publicly Traded Partnership** worksheets).

The program includes this row in the allocation to trade or business gains and losses on the last 17 rows of the **Section 1231 & Casualty Gain/Loss worksheet**. As a result, the program does **not** include the gains and losses on this row in the computation of investment income for investment interest limitation purposes. See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

The program uses this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(22) Total Casualty Gain or Loss (Calculated)

The sum of rows 2 through 7 and 9 through 21, above.

If this is a gain, it is included with the Section 1231 sale items on the **Section 1231 & Casualty Gain/Loss worksheet** for purposes of determining whether these items should be characterized as capital or ordinary.

If this row is a loss, all casualty gains and losses are considered as ordinary. See IRC § 1231; Form 4684, lines 33 through 39; and Form 4797, Parts I and II.

In such case, amounts from this worksheet are posted to the **Section 1231 & Casualty Gain/Loss worksheet** as follows: the sum of rows 12 and 13, above, is posted to row 63 "Itemized Investment Casualty Loss"; row 11 "Employee Business Casualty Loss" is posted to row 64 "Itemized Employee Business Casualty Loss"; the sum of rows 5, 6, 7, 18, and 19, above, is included in row 48 "Ordinary Gain or Loss: Investment"; the sum of rows 14, 16, 20, and 21 above is included in row 49 "Ordinary Gain or Loss: Passive";

and the sum of rows 2, 3, 4, 9, 10, 15, and 17, above, is included in row 50 "Ordinary Gain or Loss: Trade or Business". See **NOTE 1** for the **Section 1231 & Casualty Gain/Loss** worksheet on page 179.

PASSIVE & MAPRRA INCOME AND LOSS

Passive & MAPRRA Income/Loss
(1) Individual Activities
(2) **Active Real Estate**
(3) **Other Passive**
(4) **Total Passive Income or Loss**
(5) Real Estate Exemption
(6) **Exemption Used**
(7) **Balance After Exemption**
(8) **Net Income or Loss Before**
(9) **Year of Sale Items**
(10) **Year of Sale Loss Allowed**
(11) **MAPRRA Income or Loss Allowed**
(12) **Total Income or Loss Allowed**
(13) **Allocated to:**
(14) Taxpayer's Domestic Production/Qualified Business Income Self-employment Income or Loss
(15) Taxpayer's Other Self-Employment Income
(16) Spouse's Domestic Production/Qualified Business Income Self-employment Income or Loss
(17) Spouse's Other Self-employment Income
(18) Other Domestic Production Income or Loss
(19) Other Ordinary Income or Loss
(20) § 1231 Unrecaptured § 1250 Gain (25%)
(21) § 1231 28% Rate Gain or Loss
(22) Other Section 1231 Gain or Loss
(23) Recapture Income or Loss
(24) Short-term Capital Gain or Loss
(25) 28% Rate Capital Gain or Loss
(26) Other Long-term Capital Gain or Loss
(27) Unrecaptured § 1250 Casualty Gain
(28) Other Casualty Gain or Loss
(29) **Losses Carried to Next Year**
(30) **Qualified Income Amount**

Note. This worksheet applies only to activities that are not held by publicly traded partnerships.

Caution! The 1986 Tax Reform Act, the Technical and Miscellaneous Revenue Act of 1988, the Revenue Reconciliation Act of 1993, and the Taxpayer Relief Act of 1997 raised numerous questions of interpretation, especially with regard to passive & MAPRRA (material participation rental real estate) loss limitations and carryovers. At date of publication, complete guidance from Treasury and the IRS was not available with regard to many of these issues. This manual

explains how many of these questions have been resolved. You are cautioned to examine it carefully, particularly the row descriptions and notes for each worksheet, to determine how the program handles particular aspects of the law. Contact Bloomberg Tax Technology if you have questions. You should rely on our interpretations only to the extent you agree with them.

Note. Entering passive or MAPRRA activities automatically causes the worksheets for Ordinary Income, Self-employment income, Capital Gains and Losses, 28% Rate Capital Gains and Losses, Section 1231 & Casualty Gains and Losses, Casualty Gains and Losses, and Itemized Deductions to become active.

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(1) Individual Activities

Use the worksheets to enter items for individual activities. These worksheets allow entry of regular and alternative minimum items for 1000 individual passive or MAPRRA activity items. (The maximum of 1000 is for both passive/MAPRRA activity and PTP items.) They compute carryovers and allowances on a per item basis for regular and AMT purposes. These **Individual Activity** worksheets are the only method for entering passive activity income and loss items.

For a detailed discussion of these worksheets, including worksheet illustrations and row descriptions, see **Individual Activities** on page 25.

(2) Active Real Estate (Calculated)

The sum of all items of passive activity income and loss for activities that are active participation rental real estate (see IRC § 469(i)). (All items of passive income and loss are entered through the Individual Activities worksheet accessed from row 1 (Individual Activities), above.) Included are all prior year unallowed losses carried to the current year.

For activities sold during the year, this row includes passive activity income and loss items for activities that have a net passive gain in the year of sale, but not activities that have a net passive loss in the year of sale. See IRC § 469(g)(1)(A). For this purpose, the program includes prior year unallowed losses carried to the current year in the computation of net gain or loss.

(3) Other Passive (Calculated)

The sum of all items of passive activity income and loss for activities that are not active participation rental real estate (see IRC § 469(i)). (All items of passive income and loss are entered through the Individual Activities worksheet accessed from row 1 "Individual Activities", above.) Included are all prior year unallowed losses carried to the current year.

For activities sold during the year, this row includes passive activity income and loss items for activities that have a net passive gain in the year of sale, but not activities that have a net passive loss in the year of sale. See IRC § 469(g)(1)(A). For this purpose, the program includes prior year unallowed losses carried to the current year in the computation of net gain or loss.

(4) Total Passive Income or Loss (Calculated)

The sum of rows 2 through 3, above.

(5) Real Estate Exemption

The allowable exemption for active participation rental real estate activities computed after the phaseout based on modified AGI. No entry may be made on this row. Instead, press W (or double click) to use the **Passive Real Estate Exemption** worksheet to make adjustments to the maximum allowable exemption or to modified AGI.

(6) Exemption Used (Calculated)

The amount of the exemption used by Active participation rental real estate losses. The lesser of:

- row 5 "Real Estate Exemption", or
- the sum of row 2 "**Active Real Estate**".

See Form 8582 and also **NOTE 2** on page 199.

(7) Balance After Exemption (Calculated)

Total Passive Income or Loss (row 4) minus Exemption Used (row 6).

(8–9) Net Income or Loss Before Year-of-Sale Items (Calculated)

If Total Passive Income or Loss (row 4) is a loss, the total of Exemption Used and Phase-in Allowance (rows 6 and 10) is shown here as a negative number.

If row 4 is income, the amount from row 4 will be shown here.

(10) Year-of-Sale Loss Allowed (Calculated)

The sum of all items of passive activity income and loss for activities sold during the year that have a net passive loss in the year of sale. See IRC § 469(g)(1)(A). For this purpose the program includes prior year unallowed losses carried to the current year in the computation of net income or loss.

(11) MAPRRA Income or Loss Allowed (Calculated)

This row will contain the sum of all items of MAPRRA (material participation rental real estate) income and loss that are allowed to real estate professionals. See **NOTE 9** on page 202 for how the program computes the amount on this row.

(12) Total Income or Loss Allowed (Calculated)

The sum of rows 8–9 "Net Income or Loss Before Year-of-Sale Items (Calculated)", row 10 "**Year of Sale Loss Allowed**" and row 11 "**MAPRRA Income or Loss Allowed**", above.

(13) Allocated to

Heading for rows 14 through 29, below. No entry may be made on these rows. If you've entered information for one (or more) of these rows through the **Individual Activities** worksheets (accessed from row 1 above), you can view the summary worksheet for the row (showing the amount of the item allowed for each activity) by pressing W (or double-clicking on the amount).

To access the **Individual Activities** screen, press W (or double click) on the summary worksheet row for a particular activity. To access the worksheet for the activity, press W (or double click) on the activity's row on the **Individual Activities** screen.

(14) Taxpayer's Domestic Production/Qualified Business Income Self-employment Income or Loss (Calculated)

For years before 2018 and after 2025, the total allowed taxpayer's domestic production self-employment income from passive and MAPRRA activities. For years after 2017 and before 2026, the total allowed taxpayer's qualified business income. This amount is posted to the **Self-employment Income & Loss** worksheet. See NOTE 2 for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(15) Taxpayer's Other Self-Employment Income or Loss (Calculated)

Total allowed taxpayer's self-employment income from passive and MAPRRA activities, other than domestic production income or loss. This amount is

posted to the **Self-employment Income & Loss** worksheet. See **NOTE 2** for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(16) Spouse's Domestic Production/Qualified Business Income Self-employment Income or Loss (Calculated)

For years before 2018 and after 2025, the total allowed spouse's domestic production self-employment income from passive and MAPRRA activities. For years after 2017 and before 2026, the total allowed spouse's qualified business income. This amount is posted to the **Self-employment Income & Loss** worksheet. See **NOTE 2** for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(17) Spouse's Other Self-Employment Income or Loss (Calculated)

Total allowed spouse's self-employment income from passive and MAPRRA activities, other than domestic production income or loss. This amount is posted to the **Self-employment Income & Loss** worksheet. See **NOTE 2** for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(18) Other Domestic Production Income or Loss (Calculated)

For years before 2018 and after 2025, the total allowed ordinary domestic production income or loss from passive and MAPRRA activities, other than self-employment income or loss. For years after 2017 and before 2026, the total allowed qualified business income or loss from passive and MAPRRA activities, other than self -employment income or loss. This amount plus the amounts on the "Other Ordinary Income" and "Ordinary Property Disposition

Gain/Loss" rows below is posted to the **Ordinary Income** worksheet. It also is posted to the **Domestic Production Activities Deduction** worksheet. See **NOTE 2** for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(19) Other Ordinary Income/Loss (Calculated)

Total allowed other ordinary income from passive and MAPRRA activities, other than self-employment income or loss. This amount plus the amount on the "Other Domestic Production Income or Loss" row above and the "Ordinary Property Disposition Gain/Loss" row below is posted to the **Ordinary Income** worksheet. See **NOTE 2** for how the program computes the allowed amount for each activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of this item allowed for each activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(20) Section 1231 Unrecaptured Section 1250 Gain (25%) (Calculated)

Total allowed Section 1231 unrecaptured section 1250 gain from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business from passive activities and MAPRRA. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above. See also **NOTE 13** on page 204.

(21) Section 1231 28% Rate Gain or Loss (Calculated)

Total allowed Section 1231 28% rate gain or loss from the sale or involuntary conversion (other than casualty and theft) of assets used in a trade or business from passive activities and MAPRRA. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also **NOTE 11** on page 203.

(22) Other Section 1231 Gain/Loss (Calculated)

Total allowed Section 1231 gain/loss (other than unrecaptured section 1250 gain or 28% rate gain or loss) from passive activities and MAPRRA. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above.

(23) Ordinary Property Disposition Gain/Loss (Calculated)

Total allowed depreciation recapture and other ordinary gain or loss from dispositions of property from passive activities and MAPRRA. This amount plus the amount on row 19 (Other Ordinary Income/Loss) above is posted to the **Ordinary Income** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above.

(24) Short-term Capital Gain/Loss (Calculated)

Total allowed short-term capital gain or loss from passive activities and MAPRRA. This amount is posted to the **Capital Gains and Losses** worksheet where it may be further limited if it is a loss. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above.

(25) 28% Rate Capital Gain/Loss (Calculated)

Total allowed 28% rate capital gain or loss from passive activities and MAPRRA. This amount is posted to the **28% Rate Capital Gains and Losses** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above, and **NOTE 11** on page 203.

(26) Other Long-term Capital Gain/Loss (Calculated)

Total allowed long-term capital gain or loss from passive activities and MAPRRA (other than 28% rate gain or loss). This amount is posted to the **Capital Gains and Losses** worksheet where it may be further limited if it is a loss. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above. See also **NOTE 12** on page 204.

(27) Unrecaptured Section 1250 Casualty Gain (Calculated)

Total allowed unrecaptured section 1250 casualty gain from passive activities and MAPRRA. This amount is posted to the **Casualty Gains and Losses**

worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above.

(28) Other Casualty Gain or Loss (Calculated)

Total allowed casualty gain or loss from passive activities and MAPRRA (other than unrecaptured section 1250 gain). This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 199 for how the program computes the allowed amount for each activity. See also the description for row 13, above.

(29) Losses Carried to Next Year (Calculated)

The passive activity loss carryover. See **NOTE 2** on page 199 for how the program allocates the carryover among activities and among items within each activity.

(30) Qualified Income Amount

The amount of the qualified business income amount generated by passive activities. See IRC § 199A.

NOTE 1

This version of the program does not handle passive activity credits.

NOTE 2

The computations on this and the individual passive activity worksheets are performed as follows:

1. The amounts from the individual passive activity worksheets are accumulated on this worksheet as described on rows 2 and 3 (active real estate and other passive activity items) above. However, internally, the program continues to segregate the current year and suspended losses.

2. The real estate exemption is computed in accordance with Form 8582. For this purpose, current year real estate income and losses and prior year unallowed real estate losses are combined. The program thus considers all suspended real estate losses to be available for deduction within the limits of the real estate exemption.

    Note. The program has no provision for activities that are active participation real estate in one year and not the next, or vice versa.

3. The real estate exemption and the phase-in allowance are added and the result appears on rows 8–9 "Net Income or Loss Before Year-of-Sale Items (Calculated)", above. This amount should agree with line 17 of Form 8582 for 1987–90, and line 10 of the current form.

4. The carryover loss is allocated to individual activities in accordance with the instructions to Form 8582, as follows:

   a. First, the real estate exemption is allocated to the loss of each real estate net loss activity. This is done on a proportionate basis, with the denominator being total real estate net passive losses and the numerator for each activity being the net passive loss from that activity.

      Note: If you answered "Yes" to the "Allocate Real Estate Income to Real Estate Activities" row, the program adds any real estate net passive income to the real estate exemption and allocates the total among the real estate loss activities. Otherwise, the program allocates only the real estate allowance. See that row description above.

   b. The resulting passive activity real estate losses and any other activity net passive losses are totaled to form the denominator of a second fraction, the numerator of which is each activity's net passive loss. This fraction is applied to the amount on row 29 "**Losses Carried to Next Year**", above, to allocate it to each activity.

   Note that for purposes of the allocation of suspended losses, the program computes a net passive loss for each activity by combining any prior year's suspended losses with current year income or loss. See Form 8582 (1988 and subsequent years) and the accompanying instructions.

5. The program allocates the carryover for the activity among passive activity loss items of the activity on a proportionate basis. The total of all loss items is the denominator of the fraction and each loss item is the numerator. For this purpose, prior year unallowed loss carried to the current year for each item is added to current year income or loss for the item.

6. The portion of each passive activity loss item that is not carried over to the next year is considered as allowed. In addition, all items of activities sold during the year are allowed, as well as all gain items. The allocations appearing on the "Allocated to:" rows are actually accumulations of the allowed amounts in each category.

Finally, please note that under the method for allocating the loss carryover among activities prescribed by Form 8582 and followed by the program, no attempt is made to allocate the pre-1991 phase-in allowance among the activities that created it, i.e., pre-enactment interests. The result is that these activities may have suspended losses that do not equal the amount of the loss generated in excess of the amount allowed. Correspondingly, other activities may have smaller suspended losses than might be expected.

NOTE 3

The program does not handle significant participation activities. See Instructions for Form 8582 (2000 and subsequent years).

NOTE 4

Income that is re-characterized as nonpassive under Treas. Reg. § 1.469-2T(f)(3)-(7), for example, income from investments or assets, should not be entered as passive income or loss. However, any income or loss from such activities, that is characterized as passive under the Regulation, should be entered as passive. The exact allocation of income and loss items between passive and nonpassive for these activities remains unclear at date of publication.

NOTE 5

The program has no provision for activities that are active participation rental real estate in one year and not the next, or vice versa. The program assumes that an activity's character in this regard remains the same from year to year.

NOTE 6

Do not use this subworksheet in multiple-year situations unless you have the same taxpayer in all columns, since carryovers generated by one taxpayer cannot be used by another.

When running a taxpayer and spouse analysis, carryovers generated in the spouse's column will be carried to the following years in the spouse's column; those generated in the taxpayer's column will be carried to subsequent years' taxpayer's columns, and those generated in the combined column will be carried to subsequent years' combined columns. Similar rules are applied when running other types of analyses such as adjustment and difference.

NOTE 7

This version of the program does not handle the special treatment of passive activities and farm losses that occurs for AMT purposes when the taxpayer is insolvent. See IRC § 58.

NOTE 8

Activities that are grouped one way in a prior year may be required to be regrouped in the current year. See Treas. Reg. § 1.469-4(e)(2). In addition, taxpayers who qualify under IRC § 469(c)(7) as real estate professionals may elect to group their rental real estate activities for years beginning after 12/31/93. See Prop. Treas. Reg. § 1.469-9, P.S. 80-93, 1/1/95.

In order to combine or separate activities, in a multiple-year situation, break the analysis into two parts. The first part of the analysis should cover all years up to and including the year of the division or combination. Enter all items of income and loss for the activity(ies) as they were originally reported. You may wish to save and/or print this first part of the analysis. The year of the division or combination, however, will not be accurate in this part of the analysis.

Next, from the **Assumptions** dialog, start the analysis over with the year of the division or combination. For that year, on the **Passive Activity** worksheets, set up the activities that are required to be divided or combined. Allocate prior year unallowed losses among the new activity designations in accordance with the regulations.

The two parts of the analysis now represent the entire analysis for all years you wish to see.

NOTE 9

For activities that are designated as material participation rental real estate (MAPRRAs) the program performs the following computations:

If the activity has net income for the current year that equals or exceeds prior year suspended losses, all items of income and loss are allowed. The amounts are included on row 11 "**MAPRRA Income or Loss Allowed**" and in the "Allocated to:" rows.

If the activity has net income for the current year that is less than prior year suspended losses, all income and losses are treated as passive. The amounts are **not** included in the computation of modified AGI for purposes of the APRRA real estate allowance. The activity is still treated as active participation rental real estate if it has been so designated on the Individual Activities screen. In such case, suspended losses, net of current year income, are allowed as part of the $25,000 real estate exemption. For carryover purposes, the net loss, after taking into account current year income, is the basis for allocating the "Losses Carried to Next Year" to this activity. Each item's net loss (after offsetting current year income for that item), if any, is the basis for allocating the activity's carryover to that item.

If the activity has a net loss for the current year, all current year items of income and loss are allowed. The amounts are included on row 11 "**MAPRRA Income or Loss Allowed**" and on the "Allocated to:" rows. The amounts are **not** included in the computation of modified AGI for purposes of the APRRA real estate allowance. See IRC § 469(i)(3)(E)(iv). Prior year suspended losses are treated as passive. The activity is still treated as active participation rental real estate if it has been so designated on the **Individual Activities** screen. In such case, suspended losses are allowed as part of the $25,000 real estate exemption. For carryover purposes, the total prior year suspended loss for the activity

is the basis for allocating the "Losses Carried to Next Year" to this activity. Each item's prior year suspended loss, if any, is the basis for allocating the activity's carryover to that item.

In the year of sale of a MAPRRA, if the activity is sold at a loss, after including current year income or loss, the loss is included in the "Year of Sale Loss Allowed" row. If the activity is sold at a gain, after including current year income, the gain is considered a MAPRRA gain and appears on row 11 "**MAPRRA Income or Loss Allowed**".

With regard to the computation of modified AGI for purposes of the APRRA real estate allowance, if the total on the "MAPRRA Income/Loss Allowed" row is 0 or a positive number, all items included therein, as described above, are included in modified AGI. If the total on row 11 "**MAPRRA Income or Loss Allowed**" is negative, none of the items included therein are included in modified AGI. See IRC § 469(i)(3)(E)(iv).

Note. At date of publication of the program little guidance was available from the Internal Revenue Service or the Treasury as to how the computations affecting MAPRRAs are to be done. Please rely on our interpretations only to the extent you agree with them. Contact Bloomberg Tax Technology if you have questions.

Finally, this version of the program has no provision for activities that are material participation rental real estate in one year and not in the next, or vice versa. The program assumes that an activity's character in this regard remains the same from year to year.

NOTE 10

The program treats 28% rate gain or loss and other categories of gain or loss introduced by the Taxpayer Relief Act of 1997 as separate items of gain or loss within each activity and not as separate activities. The treatment adopted by the program appears mandated by Treas. Reg. § 1.469-1T(f)(2)(ii)(A) in spite of ambiguous suggestions in the instructions to the Form 8582 for 1997 to the contrary. The IRS has issued a correction to these instructions, which despite containing a mathematical error appears consistent with the treatment of these items used by the program. Announcement 98-12, 1998-8 IRB 43 (2/23/98).

NOTE 11

The program continues to treat 28% rate passive activity suspended losses that arose in 1997 as being subject to the 28% rate. This treatment applies to 28% rate capital losses as well as 28% rate section 1231 losses. See Form 4797 for 1997 for the effects of such treatment with regard to 28% rate section 1231 losses.

If you do not agree with this treatment you may change any such suspended loss to its corresponding 20% type by entering a gain in the 28% type item equal to the suspended loss, and entering an equal current year loss in the corresponding 20% type item. For example, if there is a suspended loss for a Section 1231 28% rate gain or loss item, you can change its type by entering a current year gain in that item equal to the loss and setting up a new item with a current year loss equal to the suspended loss in question and designating as its type "Other Sec 1231 G/L." Alternatively, you can start your analysis with the current year and simply change the item type from "Sec 1231 28% G/L" to "Other Sec 1231 G/L."

NOTE 12

For years after 2000, if any of the gains included on this worksheet constitute qualified 5-year gains, the amount of any such gain should be included as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet.

NOTE 13

For passive activity Section 1250 unrecaptured gain not covered by the categories above, see the "Adjustment to Unrecaptured Section 1250 Gain" row of the **Capital Gains and Losses** worksheet. See Prop. Treas. Reg. § 1.1(h)-1(b)(3), REG-106527-98, Aug 9, 1999, dealing with sales of interests in partnerships, S corporations, and trusts.

PASSIVE REAL ESTATE EXEMPTION

Passive Real Estate Exemption
(1) **Modified AGI for Limit**
(2) Adjustment to Modified AGI
(3) **Maximum Real Estate Exemption**
(4) Reduction: Maximum Real Estate Exemption
(5) **Real Estate Exemption**

Note. This worksheet is activated automatically when the **Passive & MAPRRA Income/Loss** worksheet is activated.

(1) Modified AGI for Limit (Calculated)

Modified AGI as computed by the program for purposes of the real estate exemption. See **NOTE 1** on page 206 for how the program computes the amount on this row.

(2) Adjustment to Modified AGI

Any adjustment applicable to modified AGI, as computed on row 1 "**Modified AGI for Limit**", above, to be used for purposes of the IRC § 469(i)(3) phaseout of the passive activity real estate exemption. See **NOTE 1** on page 206 for how the program computes modified AGI for this purpose.

The amount on row 1, above. Any amount entered on this row is carried automatically to the AMT passive activity real estate exemption computation. See the **Real Estate Exemption – Alt Min** worksheet, accessed from the **Alternative Minimum Tax** worksheet on page 429.

(3) Maximum Real Estate Exemption (Calculated)

The maximum exemption from the passive activity limitations for active participation rental real estate activities allowable to the taxpayer before any reduction entered on row 4 "Reduction: Maximum Real Estate Exemption", below, and before application of any phaseout.

The exemption is $25,000 except for taxpayers married filing separately and trusts.

A married taxpayer filing separately is allowed $12,500 unless he lived with his spouse for part of the year, in which case the exemption is 0. (This item of information is entered on the **Filing Status** worksheet. The default assumption is that the taxpayer and spouse lived apart at all times.) The exemption is also zero for trusts. See IRC § 469(i).

The exemption is automatically phased out in accordance with the formula in IRC § 469(i)(3), which reduces the $25,000 exemption by 50% of the amount by which the taxpayer's modified adjusted gross income exceeds $100,000. (Different limits apply for married filing separately.)

(4) Reduction: Maximum Real Estate Exemption

The amount by which the maximum real estate exemption is reduced for the taxpayer. This row is used for estates.

For taxable years ending less than two years after the date of death of the decedent, enter the amount of the exemption allowable (before phaseout) to the surviving spouse of the decedent.

For taxable years thereafter, enter $25,000, since the estate is no longer entitled to any exemption. See IRC § 469(i)(4).

(5) Real Estate Exemption (Calculated)

The passive activity exemption for active participation real estate after application of the reduction on row 4 "Reduction: Maximum Real Estate Exemption", above, and application of the phaseout. See **NOTE 2** on page 207. The amount

on this row is posted to the "Real Estate Exemption" row of the **Passive & MAPRRA Income/Loss** worksheet.

NOTE 1

In its computation of modified adjusted gross income on row 1 (Modified AGI Limit) of this worksheet, the program recomputes AGI including therein all items otherwise included except:

- Taxable social security benefits
- IRA deductions
- Any "passive activity loss"
- The IRC § 164(f) deduction for self-employment taxes ("Self Employment Tax Deduction" row of the **Ordinary Income** worksheet)
- The deduction for interest on education loans
- The Series EE bond interest exclusion for educational expenses
- The exclusion for employer-provided adoption assistance
- Any "MAPRRA loss"

Note that the "passive activity loss" item listed above is the net of passive activity income and losses. Where there is a passive activity loss, therefore, the program excludes all passive activity income and losses in its computation of modified AGI. Similarly the "MAPRRA loss" item listed above is the net of MAPRRA income and losses. Where there is a MAPRRA loss, therefore, the program excludes all MAPRRA income and losses in its computation of modified AGI. See **NOTE 9** on page 202 for the **Passive & MAPRRA Income/Loss** worksheet for further explanation of how MAPRRAs are treated for row 1 "**Modified AGI for Limit**" of this worksheet.

For passive activities sold during the year, modified AGI as computed by the program includes all items of income and loss for activities having a net passive loss for the year. In computing the net gain or loss, both current year income and loss, and prior year unallowed losses carried to the current year are counted. Modified AGI as computed by the program also includes the net passive gain for publicly traded partnerships that have a net passive gain for the year (see the "Gain Partnership" rows, rows 7–18 of the **Publicly Traded Partnerships** worksheet starting on page 208); and for all publicly traded partnerships sold during the year at a loss, modified AGI as computed by the program also includes all items of income and loss for those activities in the partnership.

NOTE 2

The program does not handle the computation of the real estate exemption for the portion of the passive activity loss for any taxable year which is attributable to the commercial revitalization deduction under IRC Section 1400I. Nor does it take into account the exemption applicable to such portion when allocating the exemption among passive real estate activities. See IRC Section 469(I)(3)(C).

PUBLICLY TRADED PARTNERSHIPS

Publicly Traded Partnerships
(1)   Individual Activities
(2)   **Total Gain Partnerships**
(3)   **Total Loss Partnerships**
(4)   **Year of Sale Loss Allowed**
(5)   **Total Income/Loss Allowed**
(6)   **Allocated to:**
(7)   **Gain Partnerships:**
(8)   Domestic Production Income
(9)   Other Ordinary Income
(10)   § 1231 Unrecaptured § 1250 Gain(25%)
(11)   § 1231 28% Rate Gain
(12)   Other Section 1231 Gain
(13)   Ordinary Property Disposition Gain
(14)   Short-term Capital Gain
(15)   28% Rate Capital Gain
(16)   Other Long-term Capital Gain
(17)   Unrecaptured § 1250 Casualty Gain
(18)   Other Casualty Gain
(19)   **Other Income and Loss:**
(20)   Domestic Production Income or Loss
(21)   Other Ordinary Income or Loss
(22)   § 1231 Unrecaptured § 1250 Gain (25%)
(23)   § 1231 28% Rate Gain or Loss
(24)   Other Section 1231 Gain or Loss
(25)   Ordinary Property Disposition Gain
(26)   Short-term Capital Gain or Loss
(27)   28% Rate Capital Gain or Loss
(28)   Other Long-term Capital Gain or Loss
(29)   Unrecaptured § 1250 Casualty Gain
(30)   Other Casualty Gain or Loss
(31)   **Losses Carried to Next Year**

Caution! At the date of publication of the program, complete published guidance with respect to the treatment of publicly traded partnerships was not available from the Treasury or the IRS. This manual explains how the program treats the income and loss from these activities. You should carefully examine this manual, particularly the row descriptions and notes for this worksheet, to determine how the program handles particular aspects of the law. Contact Bloomberg Tax Technology if you have any questions. You should rely upon our interpretations only to the extent you agree with them.

(1) Individual Activities

Access the worksheets to enter individual activities. Publicly traded partnerships can be entered only as individual activities. For a detailed discussion of these worksheets, including worksheet illustrations and row descriptions, see **Individual Activities** worksheet, beginning on page 25.

(2) Total Gain Partnerships (Calculated)

The sum of all net passive gains from publicly traded partnerships that have a net passive gain. The program computes the net passive gain or loss for each partnership by combining the total net passive income or loss for the year for all activities in the partnership. This computation includes prior year unallowed losses. If the net is a gain, it will be included in this row. If it is a loss, it will be included on row 3 (Total Loss Partnerships), below.

(3) Total Loss Partnerships (Calculated)

The sum of all net passive losses from publicly traded partnerships that have a net passive loss. The program computes the net passive gain or loss for each partnership by combining the total net passive income or loss for the year for all activities in the partnership. This computation includes prior year unallowed losses.

If the net is a loss, it will be included in this row.

If it is a gain, it will be included on row 2 (Total Gain Partnerships), above.

(4) Year of Sale Loss Allowed (Calculated)

The sum of all passive activity income and loss including prior year unallowed losses for all publicly traded partnership loss activities sold during the year in excess of any net passive gain from other activities held by the same partnership. See **NOTE 2** and **NOTE 3** on page 216.

(5) Total Income or Loss Allowed (Calculated)

The sum of rows 2 "**Total Gain Partnerships**" and 3 "**Total Loss Partnerships**", above.

(6) Allocated to

Heading for rows 8 through 30, below.

(7) Gain Partnerships

Heading for rows 8 through 18, below.

No entry may be made on these rows. If you've entered information for one (or more) of these rows through the **Individual Activities** worksheets (accessed

from row 1 above), you can view the summary worksheet for the row (showing the amount of the item allowed for each PTP activity) by pressing W (or double-clicking the amount). To access the Individual Activities screen, press W (or double click) on the summary worksheet row. To access the worksheet for the activity, press W (or double click) on the activity's row on the **Individual Activities** screen.

(8) Domestic Production Income – Gain PTPs (Calculated)

The amount of net passive domestic production ordinary income from PTPs that have a net passive gain for the year. This amount plus the amount on the ordinary property disposition and other ordinary income rows, below, is posted to the **Ordinary Income** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total ordinary income/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3** on page 217.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary income/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(9) Other Ordinary Income – Gain PTPs (Calculated)

The amount of net passive ordinary income, other than domestic production income, from PTPs that have a net passive gain for the year. This amount plus the amount on the ordinary property disposition and ordinary income rows below is posted to the **Ordinary Income** worksheet. See **NOTE 2** for how the program computes the amount on this row and the total ordinary income/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3**.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary income/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(10) Section 1231 Unrecaptured Section 1250 Gain (25%) – Gain PTPs (Calculated)

The amount of net passive Section 1231 unrecaptured section 1250 gain from PTPs that have a net passive gain for the year. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total Section 1231

unrecaptured section 1250 gain allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of Section 1231 unrecaptured Section 1250 gain allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(11) Section 1231 28% Rate Gain – Gain PTPs (Calculated)

The amount of net passive 28% rate gain from PTPs that have a net passive gain for the year. This amount is posted to the **Sec 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total Section 1231 28% rate gain allowed for each PTP activity. See also the description for row **Gain Partnerships** on page 208.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of Section 1231 28% rate gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(12) Other Section 1231 Gain – Gain PTPs (Calculated)

The amount of net passive Section 1231 gain (other than unrecaptured section 1250 gain and 28% rate Section 1231 gain) from PTPs that have a net passive gain for the year. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total Section 1231 gain/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3** on page 217.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of other Section 1231 gain/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(13) Ordinary Property Disposition Gain – Gain PTPs (Calculated)

Total allowed depreciation recapture and other ordinary gain or loss from dispositions of property from PTPs that have a net passive gain for the year. This amount plus the amounts on the ordinary income rows above and below is posted to the **Ordinary Income** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total ordinary

property disposition gain or loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3** on page 217.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary property gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the Individual Activities screen and then again to access the worksheet for the activity.

(14) Short-term Capital Gain – Gain PTPs (Calculated)

The amount of short-term capital gain from PTPs that have a net passive gain for the year. This amount is posted to the **Capital Gains and Losses** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total short-term gain/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3** on page 217.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of short-term capital gain/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(15) 28% Rate Capital Gain – Gain PTPs (Calculated)

The amount of 28% rate capital gain from PTPs that have a net passive gain for the year. This amount is posted to the **28% Rate Capital Gains and Losses** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total 28% rate capital gain/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of 28% rate capital gain/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(16) Other Long-Term Capital Gain – Gain PTPs (Calculated)

The amount of long-term capital gain (other than 28% rate capital gain) from PTPs that have a net passive gain for the year. This amount is posted to the **Capital Gains and Losses** worksheet. See **NOTE 2** on page 216 for how the program computes the amount on this row and the total other long-term gain/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 5** on page 201.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of long-term capital gain/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(17) Unrecaptured Section 1250 Casualty Gain – Gain PTPs (Calculated)

The amount of unrecaptured section 1250 casualty gain from PTPs that have a net passive gain for the year. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 1** on page 216 for how the program computes the amount on this row and the total unrecaptured section 1250 casualty gain allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of unrecaptured Section 1250 casualty gain allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(18) Other Casualty Gain – Gain PTPs (Calculated)

The amount of casualty gain (other than unrecaptured section 1250 casualty gain) from PTPs that have a net passive gain for the year. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 2** below for how the program computes the amount on this row and the total other casualty gain/loss allowed for each PTP activity. See also the description for row 7 "Gain Partnerships", above, and **NOTE 3** on page 217.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of other casualty gain/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(19) Other Income and Loss

Heading for rows 20 through 30, below.

No entry may be made on these rows. If you've entered information for one (or more) of these rows through the **Individual Activities** worksheets (accessed from row 1 above), you can view the summary worksheet for the row (showing the amount of the item allowed for each PTP activity) by pressing W (or double-clicking the amount). To access the **Individual Activities** screen, press W (or double click) on the summary worksheet row. To access the worksheet for the

activity, press W (or double click) on the activity's row on the I**ndividual Activities** screen.

(20) Domestic Production Income or Loss (Calculated)

Total passive domestic production ordinary income or loss allowed for the year from PTPs except for the amount of such income included for gain PTPs above. This amount, plus the amount on the ordinary property disposition and ordinary income rows above and below, is posted to the **Ordinary Income** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total ordinary income/loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary income/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(21) Other Ordinary Income or Loss (Calculated)

Total passive ordinary income or loss, other than domestic production income, allowed for the year from PTPs except for the amount of such income included for gain PTPs above. This amount, plus the amount on the ordinary property disposition gain/loss and ordinary income rows above and below, is posted to the **Ordinary Income** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total ordinary income/loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary income/loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(22) Section 1231 Unrecaptured Section 1250 Gain (25%) (Calculated)

Total passive Section 1231 unrecaptured section 1250 gain from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total Section 1231 unrecaptured section 1250 gain allowed for each PTP activity. See also the description for row 19 "Other Income and Loss" and **NOTE 6** on page 201.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of Section 1231 unrecaptured Section 1250 gain allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(23) Section 1231 28% Rate Gain/Loss (Calculated)

Total passive Section 1231 28% rate gain or loss from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. **NOTE 4** on page 218 for how the program computes the amount on this row and total 28% rate Section 1231 gain or loss allowed for each PTP activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of Section 1231 28% rate gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(24) Other Section 1231 Gain or Loss (Calculated)

Total passive Section 1231 gain or loss (other than unrecaptured section 1250 gain and 28% rate gain or loss) allowed for the year from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total other Section 1231 gain or loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of other Section 1231 gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(25) Ordinary Property Disposition Gain or Loss (Calculated)

Total allowed depreciation recapture and other ordinary gain or loss from dispositions of property from PTPs except for the amount of such income included for gain PTPs above. This amount plus the amounts on the ordinary income rows above is posted to the **Ordinary Income** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total recapture income or loss allowed for each PTP activity.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of ordinary property disposition

gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the Individual Activities screen and then again to access the worksheet for the activity.

(26) Short-Term Capital Gain or Loss (Calculated)

Total passive short-term capital gain or loss allowed for the year from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Capital Gains and Losses** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total short-term capital gain or loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of short-term capital gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the Individual Activities screen and then again to access the worksheet for the activity.

(27) 28% Rate Capital Gain or Loss (Calculated)

The amount of 28% rate capital gain or loss from PTPs that have a net passive gain for the year except for the amount of such gain included for gain PTPs above. This amount is posted to the **28% Rate Capital Gains and Losses** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total 28% rate capital gain or loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of 28% rate capital gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(28) Other Long-Term Capital Gain or Loss (Calculated)

Total passive long-term capital gain or loss (other than 28% rate gain or loss) allowed for the year from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Capital Gains and Losses** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total other long-term capital gain or loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss" and **NOTE 5** on page 218.

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of other long-term capital gain or loss allowed for each PTP activity. Press W (or double click) again on the row

for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(29) Unrecaptured Section 1250 Casualty Gain (Calculated)

Total unrecaptured section 1250 casualty gain from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total unrecaptured section 1250 casualty gain allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of unrecaptured section 1250 casualty gain allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(30) Other Casualty Gain or Loss (Calculated)

Total casualty gain or loss allowed for the year (other than unrecaptured section 1250 casualty gain) from PTPs except for the amount of such gain included for gain PTPs above. This amount is posted to the **Section 1231 & Casualty Gain/Loss** worksheet. See **NOTE 4** on page 218 for how the program computes the amount on this row and the total other casualty gain or loss allowed for each PTP activity. See also the description for row 19 "Other Income and Loss".

No entry may be made on this row. Instead, press W (or double click) to access a summary worksheet showing the amount of other casualty gain or loss allowed for each PTP activity. Press W (or double click) again on the row for a particular activity to access the **Individual Activities** screen and then again to access the worksheet for the activity.

(31) Losses Carried to Next Year (Calculated)

The amount on row 3 "**Total Loss Partnerships**".

NOTE 1

This version of the program does not handle passive activity or PTP credits.

NOTE 2

The amounts on rows 8 through 18 ("Gain Partnership" rows) represent the amounts of income and gain from PTP gain partnerships that constitute investment income. These amounts are also included in modified AGI for purposes

of the passive activity real estate allowance. The computation of these amounts is performed as follows:

1. For each PTP gain partnership, each type of passive activity income and loss is accumulated. Included in this computation are prior year unallowed losses carried to the current year.

2. All the types of passive activity income and loss that show net income for the year are accumulated to form a denominator.

3. Using each passive activity income and loss type that has net income as a numerator, the fraction thus derived is multiplied by the net passive income of the PTP. The result is the amount of the income of each type equal to a proportionate part of the net income of the PTP.

4. These amounts are combined for all such PTPs and posted to rows 8 through 18.

5. The rest of the net passive income and loss of each gain PTP that is allowed for the year is shown on rows 20 through 30 ("Other Income and Loss" rows). Also on these rows is the passive activity income and loss of each loss PTP that is allowed under the phase-in rule.

The purpose of the computation on rows 8 through 18 ("Gain Partnerships" rows) is to attempt to isolate the portion of the income from gain PTPs that is investment income.

The authority for this characterization and computation is in IRS Notice 88–75, Internal Revenue Bulletin 1988–27, page 29, which states at page 33, "Forthcoming regulations will treat the net passive income from a PTP as investment income for purposes of Section 163(d) of the Code. Until such regulations are issued, an amount equal to the taxpayer's gross income for a taxable year from any PTP equal to the taxpayer's net passive income from such PTP for the year shall be treated as investment income for purposes of Section 163(d)." At date of publication of the program, there was no authority on how to perform this computation.

NOTE 3

Under IRC § 469(k)(3), all activities in a PTP must be considered as sold or none of them can be considered as sold. When you make an entry for an activity on the "SOLD THIS YEAR (Y/N)" row of the **Individual Activity** worksheet, the program will change this row for the same column for all other activities with the same PTP Identifier to be consistent with your entry.

For partnerships that net to a passive activity gain in the year of sale, the program includes the net passive gain on row 2 "**Total Gain Partnerships**". To the extent of the net passive gain, each such partnership is deemed to have

generated investment income and modified AGI, to the same extent as if the partnership had not been sold.

For partnerships that net to a passive activity loss in the year of sale, the loss is included on row 4 **"Year of Sale Loss Allowed"**. Nothing is included for such loss partnerships on row 2 **"Total Gain Partnerships"** or row 3 **"Total Loss Partnerships"**. All the income and loss items from such partnerships are included in modified AGI. These partnerships are not deemed to have generated investment income.

NOTE 4

The amounts on rows 20 through 30 ("Other Income and Loss" rows) are computed for each PTP using the same methods applied to non-PTP passive activities (see **NOTE 2** to the **Passive Activities** worksheet on page 199). Each PTP is treated individually, as if its passive activities were the only passive activities held by the taxpayer. In addition, the following exceptions apply:

- There are no active participation rental real estate activities. Therefore, no real estate exemption is computed and real estate income is not allocated to real estate net loss activities.

- For gain PTPs, the item types that have a net gain are allocated to investment income and modified AGI as described in **NOTE 2** on page 216.

- The balance of net income or loss for each item type from gain PTPs is included on rows 20 through 30. These rows also contain the net income or loss for each item type for loss partnerships to the extent allowed under application of the passive activity rules applied to PTPs as described above.

See, generally, the Instructions for Form 8582 for 1988 and subsequent years. The program does not limit to two places the fractions used to allocate carryover losses among activities, as does the example in the Supplemental Instructions to Form 8582 for 1987, since the limitation produces distortions, is inconsistent with other computations on Form 8582, and does not appear to reflect a conscious policy decision of the Service.

NOTE 5

For years after 2000, if any of the gains included on this worksheet constitute qualified 5-year gains, the amount of any such gain should be included as an adjustment on the "Adjustment to Pre-2001 5-Year Gain" or the "Adjustment to Post-2000 5-Year Gain" row (whichever applies) of the **Capital Gains and Losses** worksheet.

NOTE 6

For passive activity section 1250 unrecaptured gain not covered by the categories above, see the "Adjustment to Unrecaptured Prop. Treas. Reg. § 1250 Gain" row of the **Capital Gains and Losses** worksheet. See Prop. Treas. Reg. § 1.1(h)-1(b)(3), REG-106527-98, Aug 9, 1999, dealing with sales of interests in partnerships, S corporations, and trusts.

INVESTMENT INTEREST EXPENSE

Investment Interest Expense
(1)   Current Year Investment Interest:
(2)   Schedule E Interest (Ordinary)
(3)   Individual Activities
(4)   Schedule A Interest (Itemized)
(5)   Individual Activities
(6)   **Total Current Investment Interest**
(7)   Net Investment Income
(8)   **Passive Activity Adjustment**
(9)   **Total Net Investment Income**
(10)   **Disallowance Before Transition Rule**
(11)   **Total Allowed Before Carryovers**
(12)   Schedule E Carryover (Ordinary)
(13)   Schedule A Carryover (Itemized)
(14)   **Investment Income Over Current Int**
(15)   **Total Deduction Allowed**
(16)   **Schedule E Deduction (Ordinary)**
(17)   **Schedule A Deduction (Itemized)**

Caution! The Tax Reform Act of 1986, the Technical and Miscellaneous Revenue Act of 1988, and the Revenue Reconciliation Act of 1993 raised numerous questions of interpretation, especially with regard to investment interest limitations and carryovers. At the date of this publication, complete guidance from Treasury and the IRS was not available with regard to several of these issues. This portion of the manual explains how these questions have been resolved and how the program does the investment interest calculations. You are cautioned to carefully examine the row descriptions for each worksheet and the Notes that follow these descriptions. You should rely on our interpretations only to the extent you agree with them.

Note. Use of this worksheet automatically activates the **Ordinary Income**, **Itemized Deductions**, and **Net Investment Expense** worksheets.

(1) Current Year Investment Interest:

Heading for rows 2 through 17.

(2) Investment Interest – Schedule E (Ordinary)

Investment interest expense paid or accrued during the current year and reported on Form 1040, Schedule E. See IRC § 163(d). Do not include interest taken into account in computing income or loss from a passive activity or a PTP of the taxpayer. Generally, this item and the row below will consist of royalty related interest. In addition to being used here, the sum of this row and the next row is automatically carried to the "Schedule E Investment Interest" row of the **Investment Interest – Alt Min** worksheet.

As an alternative, you may enter the investment interest described on this row on the **Individual Activity** worksheets accessed from the row below.

(3) Investment Interest – Schedule E (Ordinary) – Individual Activities

Schedule E investment interest expense from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(4) Investment Interest – Schedule A (Itemized)

Investment interest expense paid or accrued during the current year and reported on Form 1040, Schedule A. See IRC § 163(d).

Do not include interest taken into account in computing income or loss from a passive activity of the taxpayer.

In addition to being used here, the sum of this row and row 5 "Investment Interest – Schedule A (Itemized) – Individual Activities" is automatically carried to the "Schedule A Investment Interest" row of the **Investment Interest – Alt Min** worksheet.

As an alternative, you may enter the investment interest described on this row on the **Individual Activity** worksheets accessed from the row below.

(5) Investment Interest – Schedule A (Itemized) – Individual Activities

Schedule A investment interest expense from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(6) Total Current Investment Interest (Calculated)

The total of rows 2 through 5 (Schedule E and Schedule A interests) above.

(7) Net Investment Income

Net investment income as defined by IRC § 163(d)(4). The subworksheet for this row automatically collects investment income and expense from other worksheets including these worksheets:

- Dividends and Interest
- Publicly Traded Partnerships
- Capital Gains and Losses
- Section 1231 & Casualty Gain/Loss
- Other Ordinary Income
- Itemized Deductions

To compute net investment income, so you should complete these other worksheets first. Use the subworksheet to make adjustments to these automatic computations.

(8) Passive Activity Adjustment (Calculated)

This adjustment is not applicable to years after 1999.

(9) Total Net Investment Income (Calculated)

The total of rows 7 "Net Investment Income" and 8 "**Passive Activity Adjustment**", above.

(10) Disallowance Before Transition Rule (Calculated)

Row 6 "**Total Current Investment Interest**" minus row 9 "**Total Net Investment Income**" above, but not less than zero.

(11) Total Allowed Before Carryovers (Calculated)

For years after 1999, this row is row 6 "**Total Current Investment Interest**" minus row 10 "**Disallowance Before Transition Rule**".

(12) Schedule E Carryover (Ordinary)

Investment interest expense carried over to the current year from prior years and reported on Form 1040, Schedule E. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns.

Note. Investment interest carryover for alternative minimum purposes must be separately entered. See the **Investment Interest – Alternative Minimum Tax** worksheet. See **NOTE 1** on page 223.

(13) Schedule A Carryover (Itemized)

Investment interest expense carried over to the current year from prior years and reported on Form 1040, Schedule A. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns.

Note. Investment interest carryovers for alternative minimum purposes must be separately entered. See the **Investment Interest – Alternative Minimum Tax** worksheet. See **NOTE 1** on page 223.

(14) Investment Income Over Current Interest (Calculated)

Row 9 "**Total Net Investment Income**" minus row 6 "**Total Current Investment Interest**", above.

(15) Total Deduction Allowed (Calculated)

Row 11 "**Total Allowed Before Carryovers**" plus the lesser of the sum of row 12 "Schedule E Carryover (Ordinary)" and row 13 "Schedule A Carryover (Itemized)", or row 14 "**Investment Income Over Current Int**", above. The result of this calculation is to allow carryovers only to the extent that investment income exceeds current year investment interest.

(16) Schedule E Deduction (Ordinary) (Calculated)

The portion of row 15 "**Total Deduction Allowed**" above that is allocable to Schedule E interest. This amount is posted as a negative amount to the "Investment Interest Expense" row of the **Ordinary Income** worksheet. The program allocates the deduction for current year interest in proportion to the amounts of Schedule E and Schedule A investment interest on rows 2 through 5 above. It allocates the deduction for carryovers in proportion to the amounts on rows 12 and 13. These calculations effectively allocate investment income proportionately. See Rev. Rul. 2008–38, I.R.B. 2008–31.

(17) Schedule A Deduction (Itemized) (Calculated)

The portion of row 15 "**Total Deduction Allowed**" above that is allocable to Schedule A interest. This amount is posted as a positive amount to the "Investment Interest Expense" row of the **Itemized Deductions** worksheet. The program allocates the deduction for current year interest in proportion to the amounts of Schedule E and Schedule A investment interest on rows 2 through 5 above. It allocates the deduction for carryovers in proportion to the amounts on rows 12 and 13. These calculations effectively allocate investment income proportionately. See Rev. Rul. 2008–38, I.R.B. 2008–31, and see **NOTE 2**, below.

NOTE 1

The investment income computed by the **Net Investment Income** worksheet and posted to row 7 "Net Investment Income" above is carried automatically to the **Investment Interest – Alt Min** worksheet. It should be adjusted on that worksheet for applicable AMT adjustments.

NOTE 2

The program allocates the carryovers between Schedule E interest and Schedule A interest for current year interest separately from the allocation for carryover interest. The amount on row 11 "**Total Allowed Before Carryovers**" is the amount considered by the program to be from current year interest entered on rows 2 and 3 "Investment Interest – Schedule E (Ordinary)", and 4 and 5 "Investment Interest – Schedule A (Itemized)". The amount on row 14 "**Investment Income Over Current Int**", is the amount considered by the program to be from carryovers. As of the date of publication of the program, there was no authority on these allocations.

NET INVESTMENT INCOME

Net Investment Income
(1) Auto Elect to Add Dividends and Capital Gain?
(2) **Qualifying Dividends**
(3) **Amount Elected as Investment Income**
(4) Adjustment to Elect Dividend Addition
(5) **Other Interest and Dividends**
(6) **Ordinary Income: PTP Gain Activities**
(7) **Other Investment Income**
(8) Adjustments to Investment Income
(9) Net Disposition Gain:
(10) **Net Investment Capital Gain/Loss**
(11) **Section 1231 Ordinary & Casualty Investment Gain/Loss**
(12) **Ordinary Property Disposition Gain/Loss: PTP Gain Activities**
(13) **Other Ordinary Investment Gain/Loss**
(14) **Itemized Investment Casualty Loss**
(15) **2% of AGI Floor Applicable**
(16) **Net Investment Casualty Loss**
(17) Adjustments to Disposition Gain/Loss
(18) **Net Gain From Dispositions**
(19) **Investment Net Capital Gain Reduction**
(20) **Auto Elected Net Capital Gain Addition**
(21) Adjustment to Elected Net Capital Gain Addition
(22) **Total Disposition Gain**
(23) **Total Income & Gains**
(24) **Investment Expenses: Ordinary**
(25) **Investment Expenses: Itemized**
(26) **2% of AGI Floor Applicable**
(27) **Net Itemized Expenses**
(28) **Property Taxes: Investment**
(29) **Total Investment Expenses**
(30) Adjustments to Expenses
(31) **Total Expenses Adjusted**
(32) **Net Investment Income**

Caution! The Tax Reform Act of 1986, the Technical and Miscellaneous Revenue Act of 1988, the Revenue Reconciliation Act of 1993, the Taxpayer Relief Act of 1997, and the Jobs and Growth Tax Relief Reconciliation Act of 2003 raised numerous questions of interpretation, especially with regard to investment interest limitations and the computation of net investment income. At the date of publication, complete guidance from the Treasury or the IRS was not available with regard to many of these issues. This portion of the manual explains how these questions have been resolved insofar as they relate to net investment income, and how the program does the net investment income calculation. You are cautioned to carefully examine the row descriptions for this worksheet and the Notes following those descriptions. Contact Bloomberg Tax Technology if you have any questions. You should rely on our interpretations only if you agree with them.

This worksheet is activated automatically when the **Investment Interest Expense** worksheet is activated and amounts are carried here automatically from the following worksheets:

- Interest and Dividends

- Ordinary Income

- Publicly Traded Partnerships

- Section 1231 & Casualty Gain/Loss

- Casualty Gains and Losses

- Other Ordinary Income

- Capital Gains and Losses

- 28% Rate Capital Gains and Losses

- Itemized Deductions

In order for the program to properly compute net investment income, you should first complete these other worksheets. Then enter any adjustments to the amounts carried to this worksheet on rows 8 "Adjustments to Investment Income", 17 "Adjustments to Disposition Gain/Loss", and 30 "Adjustments to Expenses" of this worksheet.

Finally, the program does not allow you to use the K (Kill) command directly on this worksheet. In order to kill the worksheet, you must first kill any custom worksheets associated with this worksheet and the **Investment Interest Expense** worksheet. Then kill the **Investment Interest Expense** worksheet from either the **Ordinary Income** worksheet or the **Itemized Deductions** worksheet.

(1) Auto Elect to Add Dividends and Capital Gain?

Answer "Y" for Yes or "N" for No. A Yes answer will cause the program to automatically generate, as an IRC § 163(d)(4)(B)(iii) election, an amount of investment net capital gain necessary to fully allow (to the extent possible) any unused investment interest expense deduction after taking into account other net investment income and expenses. For years after 2002 and before 2013 the program also applies this automatic election to qualified dividend income. The election is treated as applying first to investment net capital gain from sales and then to qualified dividend income.

Any amount of sale net capital gain so generated appears on row 20 "Auto Elected Net Capital Gain Addition" and any amount of qualified dividend income so generated appears on row 3 "Amount Elected as Investment Income", below. The amount of the qualified dividend income automatically so generated together with any adjustment to this amount entered on row 4 "Adjustment to Elect Dividend Addition", below, automatically reduces the amount of qualified dividend income subject to the rate normally applicable to qualified dividend income. The amount of sale net capital gain automatically so generated together with any adjustments entered on row 21 "Adjustment to Elected Net Capital Gain Addition", below, automatically reduces the amount of investment sale net capital gain subject to the reduced rate normally applicable to net capital gain. See IRC Sec. 1 (h)(3).

Note. If investment expenses exceed investment income computed without regard to this election, then this election will not operate, since any amount elected will first be absorbed by the excess expenses and will, therefore, **not** be used to generate an additional investment interest expense deduction. In such cases, this question should be answered No. Then the amount of any investment net capital gain you wish to elect should be entered on row 21 "Adjustment to Elected Net Capital Gain Addition", below, and the amount of any qualified dividend income you wish to elect should be entered on row 4 "Adjustment to Elect Dividend Addition", below.

(2) Qualifying Dividends (Calculated)

The amount from the qualifying dividend rows of the **Interest and Dividends** worksheet.

(3) Amount Elected as Investment Income (Calculated)

If the answer on row 1 "Auto Elect to Add Dividends and Capital Gain?" above is Yes, then for years after 2002 this row will be the amount of qualified dividend income necessary to fully allow (to the extent possible) any unused investment interest expense deduction after taking into account other net

investment income and expenses including the income from sale net capital gain so elected. See the Note for row 1 above.

This amount together with any adjustment entered on row 4 "Adjustment to Elect Dividend Addition", below, automatically reduces the amount of qualified dividend income subject to the reduced rate normally applicable to such income. See IRC Sec. 1(h).

If the answer on row 1 is No, this row is zero.

(4) Adjustment to Elected Dividend Addition

Any adjustment to the amount of qualified dividend income automatically generated by the program as an IRC Sec. 163(d)(4)(B) election in years after 2002.

If you answered Yes on row 1 "Auto Elect to Add Dividends and Capital Gain?", above, you may use this row to adjust the amount of any qualified dividend income automatically generated by the program on the row above this one.

If you answered No on row 1 "Auto Elect to Add Dividends and Capital Gain?", use this row to select the amount of qualified dividend income you wish to elect.

The amount entered on this row together with the amount generated by the program on row 3 "Amount Elected as Investment Income", above, automatically reduces, in years after 2002, the amount of qualified dividend income subject to the reduced rate normally applicable to qualified dividend income. See IRC Sec. 1(h).

For years before 2003, this row will be N/A.

(5) Other Interest and Dividends (Calculated)

The amount from the "Interest and Dividends" row of the **Ordinary Income** worksheet, minus the amount on row 2, above. See the note at the beginning of this worksheet.

(6) Ordinary Income: PTP Gain Activities (Calculated)

Ordinary Income from Publicly Traded Partnership Gain Activities. For each PTP that has a net gain and has net ordinary income for the year, the program computes the net ordinary income's proportionate part of the net gain. This row represents the sum of these computations for all such PTPs. Ordinary Income for this purpose does not include ordinary gain from disposition of property which appears on row 12 "Ordinary Property Disposition Gain/Loss: PTP Gain Activities", below. See **NOTE 2** to the **Publicly Traded Partnerships** worksheet for how the program computes this amount and the authority for this computation.

(7) Other Investment Income (Calculated)

The sum of the "Royalties" and the "Other Investment Income" rows of the **Other Ordinary Income** worksheet. See the note at the beginning of this worksheet.

(8) Adjustments to Investment Income

Adjustments to investment gross income as computed by the program on the rows above. Use this row to adjust for the classification of items as "self-employment," "trade or business," or "investment" for other computations that do not apply for investment income purposes. For example, income from property described in IRC § 163(d)(5)(A)(ii) may be entered as self-employment income in certain cases. If so, use this row to add such income to investment income. See also the description for row 17 "Adjustments to Disposition Gain/Loss", below.

(9) Net Disposition Gain:

Heading for rows 10 through 22, below.

(10) Net Investment Capital Gain or Loss (Calculated)

Net short-term gain or loss from investment plus net long-term gain or loss from investment from the **Capital Gains and Losses** worksheet, the **2003 Post 5/5 Capital Gains and Losses** worksheet, and the **28% Rate Capital Gains and Losses** worksheet. Short-term gain or loss is the sum of the following rows on the **Capital Gains and Losses** worksheet:

- Short-term Investment Gain or Loss
- Short-term Gain: PTP Gain Activities
- Sale of Pass Through Short-term Gain or Loss Investment
- Short-term Loss Carryover: § 1411
- Short-term Loss Carryover: Adjustment for § 163

less the amount of any short-term loss carryover attributable to investment.

For 2003, short-term gain or loss also includes the following rows on the **2003 Post 5/5 Capital Gains and Losses** worksheet:

- Short-term Investment Gain or Loss
- Security Transaction Analyzer

Long-term gain or loss is the sum of the following rows on the **Capital Gains and Losses** worksheet:

- Section 1231 Unrecaptured section 1250 Gain: Investment

- Other Section 1231 Gain or Loss: Investment
- Other Unrecaptured section 1250 Investment Gain
- Unrecaptured section 1250 Capital Gain Dividends (25%)
- 5-Year Capital Gain Dividends Purchased Pre-2001
- Other Capital Gain Dividends
- 5-Year Investment Gain Purchased Pre-2001
- 5-Year Investment Gain Purchased Post-2000
- Other Long-term Investment Gain/Loss
- Security Transaction Analyzer
- Child's Capital Gain Dividends on Parent's Return
- Sale of Pass Through Long-term Gain or Loss Investment
- Long-term Gain: PTP Gain Activities
- Long-term Loss Carryover: Investment

For years after 1996, long-term gain or loss also includes the following rows on the **28% Rate Capital Gains and Losses** worksheet:

- Section 1231 Gain or Loss: Investment
- Collectibles Gain or Loss: Investment
- Qualified Small Business Stock Gain
- 2003 Post 5/5 Qualified Stock Gain
- Capital Gain Dividends
- Other 28% Rate Investment Gain or Loss
- Security Transaction Analyzer
- Child's Capital Gain Dividends on Parent's Return
- PTP Gain Activities
- Long-term Loss Carryover: § 1411
- Long-term Loss Carryover: Adjustment for § 163

From this total is subtracted the amount of any long-term loss carryover attributable to investment.

For 2003, long-term gain or loss also includes the following rows on the **Post-5/5 Capital Gains and Losses** worksheet:

- Post 5/5/03 Capital Gain Dividends
- Other Long-term Investment Gain or Loss

- Security Transaction Analyzer
- Child's Capital Gain Dividends: Parent's Return

The portion of any short-term loss carryover and any long-term loss carryover that is considered by the program to be attributable to investment is computed on a proportionate basis. Total short-term investment loss (if any) is divided by total short-term loss and the result is multiplied by the short-term carryover. A similar computation is made for long-term losses. See **NOTE 2** on page 234.

For purposes of the computation on this row, the program computes the long-term and short-term carryovers to post-1987 years without regard to the taxable income limitation of IRC § 1212(b)(2) as amended by the Technical and Miscellaneous Revenue Act of 1988. See the **Capital Gains and Losses** worksheet for further details.

(11) Section 1231 Ordinary and Casualty Investment Gain or Loss (Calculated)

The amount from the "Ordinary Gain/Loss: Investment" row of the **Section 1231 & Casualty Gain/Loss** worksheet.

(12) Ordinary Property Disposition Gain/Loss: PTP Gain Activities (Calculated)

Recapture and other ordinary gain from dispositions property from publicly traded partnership gain activities. For each PTP that has a net gain and net property disposition gain for the year, the program computes the net disposition gain's proportionate part of the net gain. This row is the sum of these computations for all such PTPs. See **NOTE 2** to the **Publicly Traded Partnerships** worksheet for how the program computes this amount and the authority for this computation.

(13) Other Ordinary Investment Gain or Loss (Calculated)

The amount from the "Ordinary Property Disposition Gain/Loss: Investment Income – Individual Activities" and "Ordinary Investment IRC § 1033 Gain" rows on the **Ordinary Income** worksheet and their respective Individual Activities rows.

(14) Itemized Investment Casualty Loss (Calculated)

The sum of the "Investment Casualty Loss" and the "Short-term Investment Casualty Loss" rows of the **Itemized Deductions** worksheet, shown here as a negative. For purposes of computing investment income, the program considers casualty gain or loss to be "disposition" gain or loss.

(15) 2% of AGI Floor Applicable (Calculated)

A proportionate part of the 2% of AGI floor applicable to miscellaneous itemized deductions. The program first allocates the floor against non-investment items. Then, if the "Apply 1998 Technical Correction Casualty Rule" row of the **Itemized Deductions** worksheet is answered No, it apportions any remaining floor proportionately between this row and row 26 below using the amounts on row 14 "Itemized Investment Casualty Loss" and row 25 "Investment Expenses: Itemized" to establish the ratio. See the Instructions for Form 4952 with respect to the allocation of the 2% disallowance first to non-investment items. At date of publication there was no authority dealing with how to apportion the remaining disallowance between investment expenses and investment casualty losses.

Note. This row will be zero, since, under the technical corrections contained in the Tax and Trade Relief Extension Act of 1998, itemized investment casualty losses are no longer subject to the 2% floor. When this technical correction is applied, the entire 2% floor, reduced by the non-investment items, is reflected by the program on row 26.

(16) Net Investment Casualty Loss (Calculated)

Row 14 "Itemized Investment Casualty Loss" plus row 15 "2% of AGI Floor Applicable", above, but not less than zero.

(17) Adjustments to Disposition Gains and Losses

Adjustments to disposition gains and losses of property held for investment as computed by the program. Use this row to adjust for the classification of items as "self-employment," "trade or business," or "investment" for other computations that do not apply for investment income purposes. For example, the program treats all casualty gains and losses entered on the **Casualty Gains and Losses** worksheet on the "trade or business" rows as non-investment. If gains and losses are from royalty producing property or property described in IRC § 163(d)(5)(A)(ii), an adjustment may be necessary here.

For years after 2012, include any adjustment required for the loss on the disposition of Section 1244 stock. See the help messages for the "Ordinary Property Disposition Gain/Loss: Investment" and "Ordinary Property Disposition Gain/Loss: Noninvestment" rows on the **Other Ordinary Income** worksheet.

(18) Net Gain from Dispositions (Calculated)

The sum of these rows, above:

- row 10 "Net Investment Capital Gain/Loss"

- row 11 "Section 1231 Ordinary & Casualty Investment Gain/Loss"
- row 12 "Ordinary Property Disposition Gain/Loss: PTP Gain Activities"
- row 13 "Other Ordinary Investment Gain/Loss"
- row 16 "Net Investment Casualty Loss"
- row 17 "Adjustments to Disposition Gain/Loss"

(19) Investment Net Capital Gain Reduction (Calculated)

Net capital gain determined by only taking into account gains and losses from dispositions of property held for investment. The computation is performed as described on row 10, above, except for purposes of this row, the amount is the excess of net long-term capital gain over net short-term capital loss. See IRC § 1222 (11). The program limits the amount to the amount on row 18, above. See IRC § 163(d)(4)(B)(ii)(II).

(20) Auto Elected Net Capital Gain Addition (Calculated)

If the answer on row 1 above is Yes, then this row will be the amount of investment net capital gain necessary to fully allow (to the extent possible) any unused investment interest expense deduction after taking into account other net investment income and expenses (except qualified dividend income). See the Note for row 1 above.

This amount together with any adjustment entered on the "Adjustment to Elected Net Capital Gain Addition" row below, automatically reduces the amount of investment net capital gain subject to the reduced rate normally applicable to net capital gain. See IRC § 1(h).

If the answer on row 1 is No, this row is zero.

(21) Adjustment to Elected Net Capital Gain Addition

Any adjustment to the amount of net capital gain from investment automatically generated by the program as an IRC § 163(d)(4)(B) election.

If you answered Yes on row 20 "Auto Elected Net Capital Gain Addition" above, you may use this row to adjust the amount automatically generated by the program on row 20 above. If you answered No on row 20, use this row to select the amount of investment net capital gain you wish to elect.

The amount entered on this row together with the amount generated by the program on row 20 automatically reduces, in post-1992 years, the amount of investment net capital gain subject to the reduced rate normally applicable to net capital gain. See IRC § 1(h).

(22) Total Disposition Gain (Calculated)

The sum of the following rows, above:

- row 18 "Net Gain From Dispositions"
- row 19 "Investment Net Capital Gain Reduction"
- row 20 "Auto Elected Net Capital Gain Addition"
- row 21 "Adjustment to Elected Net Capital Gain Addition"

(23) Total Income and Gains (Calculated)

The sum of the following rows, above:

- row 2 "Qualifying Dividends" for years before 2003
- row 3 "Amount Elected as Investment Income" for years after 2002
- row 4 "Adjustment to Elect Dividend Addition" for years after 2002
- row 5 "Other Interest and Dividends"
- row 6 "Ordinary Income: PTP Gain Activities"
- row 7 "Other Investment Income"
- row 8 "Adjustments to Investment Income"
- row 22 "Total Disposition Gain"

(24) Investment Expenses: Ordinary (Calculated)

The amount on the "Investment Expenses" rows of the **Other Ordinary Income** worksheet.

(25) Investment Expenses: Itemized (Calculated)

The amount on the "Miscellaneous Investment Expenses" rows of the **Itemized Deductions** worksheet.

(26) 2% of AGI Floor Applicable (Calculated)

A proportionate part of the 2% of AGI floor applicable to miscellaneous itemized deductions. The program first allocates the floor against non-investment items. Then, if the "Apply 1998 Technical Correction Casualty Rule" row of the **Itemized Deductions** worksheet is answered No, it allocates any remaining floor proportionately between this row and row 15 "2% of AGI Floor Applicable", above, using the amounts on rows 14 "Itemized Investment Casualty Loss" and 25 "Investment Expenses: Itemized" to establish the ratio. Otherwise, the program computes this row as the entire 2% floor less the non-investment items. See the Instructions for Form 4952 with respect to the allocation of the 2% disallowance first to non-investment items.

At date of publication there was no authority dealing with how to apportion the remaining disallowance between investment expenses and investment casualty losses.

Note. This row will contain the entire 2% floor, reduced by the non-investment items. This is because, under the technical corrections contained in the Tax and Trade Relief Extension Act of 1998, itemized investment casualty losses are no longer subject to the 2% floor.

(27) Net Itemized Expenses (Calculated)

Row 25 "Investment Expenses: Itemized" plus row 26 "2% of AGI Floor Applicable", above, but not less than zero.

(28) Property Taxes: Investment (Calculated)

The amount on the "Property Taxes: Investment" row of the **Itemized Deductions** worksheet.

(29) Total Investment Expenses (Calculated)

Row 24 "Investment Expenses: Ordinary" plus row 27 "Net Itemized Expenses" and row 28 "Property Taxes: Investment", above.

(30) Adjustments to Expenses

Adjustments to investment expenses as computed by the program on row 29 "Total Investment Expenses", above. See the description for row 17 "Adjustments to Disposition Gain/Loss", above.

(31) Total Expenses Adjusted (Calculated)

The sum of row 29 "Total Investment Expenses" and row 30 "Adjustments to Expenses", above.

(32) Net Investment Income (Calculated)

Row 23 "Total Income & Gains" minus row 31 "Total Expenses Adjusted", above, but not less than zero.

NOTE 1

The program assumes that investment income does not include any income or loss from a passive activity. See IRC §§ 163(d)(4)(D) and 163(d)(5). This exclusion from investment income extends to gain or loss upon the sale of the activity on the reasoning that the activity is still passive, even though only the gain on the disposition is treated as passive under IRC § 469(g). See also Temp. Treas. Reg. § 1.469–2T(e)(3)(ii)(A).

The only exception to the concept that passive activity income is not investment income is the treatment of a gain from a Publicly Traded Partnership that has a gain for the year. See row 6 "Ordinary Income: PTP Gain Activities" and row 12 "Ordinary Property Disposition Gain/Loss: PTP Gain Activities", above, and the following rows on other worksheets:

- Casualty Gains and Losses:
  - PTP Gain Acts: Cas Gn:Sec.1250 Gain(25%)
  - PTP Gain Acts: Casualty Gain: Other
- Sec 1231 & Casualty Gain/Loss:
  - PTP Gain Activities: § 1250 Gain(25%)
  - PTP Gain Activities: 28% Rate G/L
  - PTP Gain Activities: Other
- Capital Gains and Losses:
  - Short-term Gain: PTP Gain Activities
  - Long-term Gain: PTP Gain Activities
- 28% Rate Capital Gains and Losses:
  - PTP Gain Activities

NOTE 2

In computing net investment capital gain or loss, the program takes capital loss carryovers attributable to investment assets into account in the year in which they enter into taxable income. See the description for row 10 "Net Investment Capital Gain/Loss", above, and the **Capital Gains and Losses** worksheet.

This treatment is suggested by the general principle of matching of income and expenses. It is also suggested by the history of IRC § 163(d)(4)(B), which includes in investment income the "net gain" from the disposition of property held for investment. The predecessor statute read "net short-term capital gain". This prior phraseology clearly included short-term capital loss carryovers in the year to which they were carried. See IRC § 1222.

The change to "net gain" appears to be occasioned only by the 1986 Act's lack of distinction between long-term and short-term capital gains, as well as between capital and other gains, rather than by an intention to modify the computation insofar as carryovers are concerned.

For further information on how the program computes the items that appear on the worksheet, see the **Section 1231 & Casualty Gain and Loss**, **Publicly Traded Partnerships**, and **Capital Gains and Losses** worksheets and their accompanying notes.

NOTE 3

When running a Minor Child analysis, if the child's dividend and interest income is included on the parent's return pursuant to the election specified on the "Elect Income on Parent's Return" row of the **Minor Child Tax** worksheet, the program also includes the child's income in the parent's investment income on rows 2 "Qualifying Dividends" and 5 "Other Interest and Dividends" of this worksheet. See IRC § 1(g)(7).

TAXPAYER'S FOREIGN EARNED INCOME EXCLUSION

Taxpayer's Foreign Earned Income Exclusion
(1)   Net Foreign Earned Income
(2)   Number of Days in Qualifying Period
(3)   911(b) Amount for the Year
(4)   Maximum Amount Adjusted for Days
(5)
(6)   Housing Exclusion:
(7)   Qualified Housing Expenses
(8)   30% Limit
(9)   Geographic Adjustment Percentage
(10) Limit Adjusted for Days & Geography
(11) Lesser of Housing Expense or Limit
(12) Floor
(13) Floor Adjusted for Days
(14) Excess Over Floor
(15) Employer Provided Amounts
(16) Percentage of Net Foreign Income
(17) Housing Exclusion
(18)
(19) Foreign Earned Income Exclusion:
(20) Maximum Exclusion
(21) Foreign Income Less Housing Exclusion
(22) Foreign Earned Income Exclusion
(23)
(24) Total Housing and Income Exclusion
(25) Related AGI Expenses
(26) Total Exclusion After Expenses
(27)
(28) Housing Deduction:
(29) Housing Net of Exclusion
(30) Foreign Income Net of Exclusion
(31) Lesser of Housing or Income
(32) Carryover From Prior Year
(33) Limited Carryover
(34) Total Housing Deduction

(1) Net Foreign Earned Income

The taxpayer's foreign earned income including noncash income, allowances paid on behalf of the taxpayer and after reduction for excluded meals and lodging. The amount should coincide with the amount on line 26 of Form 2555. See IRC § 911(b)(1).

(2) Number of Days in Qualifying Period

The number of days during the taxable year that the taxpayer was a bona fide resident of a foreign country or countries. The default number provided by the program is 365, or 366 if the year is a leap year. The number should coincide with Form 2555, line 31.

(3) 911(b) Amount for the Year

The annual section 911(b)(2)(D) limit. The amounts by year are:

Year	Amount
2000	$76,000
2001	$78,000
2002–2005	$80,000
2006	$82,400
2007	$85,700
2008	$87,600
2009	$91,400
2010	$91,500
2011	$92,900
2012	$95,100
2013	$97,600
2014	$99,200
2015	$100,800
2016	$101,300
2017	$102,100
2018	$103,900
2019	$105,900
2020	$107,600

For 2021 and subsequent years, the program adjusts the amount for inflation. See Inflation Adjustments.

(4) Maximum Amount Adjusted for Days: (Calculated)

Row 3, above, times the days on row 2, divided by the number of days in the year.

(5) (Blank)

(6) Housing Exclusion

Heading for rows 7 through 17 below.

(7) Qualified Housing Expenses

Qualified housing expenses of the taxpayer for the tax year. See IRC § 911(c)(3).

Note. For married couples, special rules apply. See the instructions to form 2555.

(8) 30% Limit: (Calculated)

30% of the amount on row 3, above. See IRC § 911(c)(2). For years before 2006 this row will be N/A.

(9) Geographic Adjustment Percentage

The percentage adjustment to be applied on the basis of geographic differences in housing costs relative to housing costs in the U.S. This adjustment is issued by the Treasury department. See IRC § 911(c)(2)(B). The percentage defaults to 100.

For years before 2006 this row will be N/A.

(10) Limit Adjusted for Days & Geography: (Calculated)

The amount on row 8 times the percentage on row 9 times the number of days on row 2 divided by the number of days in the year.

For years before 2006, this row will be N/A.

(11) Lesser of Housing Expense or Limit: (Calculated)

The lesser of row 7 or row 10.

For years before 2006, this row will be N/A.

(12) Floor: (Calculated)

The annual floor for purposes of the housing exclusion. For years after 2005, this amount is 16% of the amount on row 3 above. For years before 2006 the amount is 16 percent of the salary of an employee of the United States who is compensated at a rate equal to the annual rate paid for step 1 of grade GS–14. See IRC § 911(c)(1)(B)(i).

(13) Floor Adjusted for Days: (Calculated)

The number of days on row 2 divided by the number of days in the year multiplied by the amount on row 12. If the number of days on row 2 equals the number of days in the year, then this row will be the full amount on row 12.

(14) Excess Over Floor: (Calculated)

The amount on row 11 minus the amount on row 13 (but not less than 0).

(15) Employer Provided Amounts

The amount the employer paid or incurred on taxpayer's behalf that is foreign earned income included in the taxpayer's gross income for the year (without regard to the exclusion computed on this worksheet).

(16) Percentage of Net Foreign Income: (Calculated)

The amount on row 15 divided by the amount on row 1, expressed as a percentage but not greater than 100%.

(17) Housing Exclusion: (Calculated)

The amount on row 14 multiplied by the percentage on row 16, but not more than the amount on row 15.

(18) (Blank)

(19) Foreign Earned Income Exclusion

Heading for rows 20 through 22 below.

(20) Maximum Exclusion: (Calculated)

The amount from row 4, above.

(21) Foreign Income Less Housing Exclusion: (Calculated)

Row 1 minus row 17.

(22) Foreign Earned Income Exclusion: (Calculated)

The lesser of row 20 or row 21.

(23) (Blank)

(24) Total Housing and Income Exclusion: (Calculated)

The sum of rows 17 and 22.

(25) Related AGI Expenses

Amounts deducted in figuring adjusted gross income allocable and definitely related to excluded earned income. Included, for example, would be the deduction for moving expenses and the deduction for half of the self employment tax. See the instructions to form 2555. The program automatically expresses the amount entered on this row as a negative amount.

(26) Total Exclusion After Expenses: (Calculated)

The amount on row 24 plus the negative amount on row 25, but not less than 0.

(27) (Blank)

(28) Housing Deduction

Heading for rows 29 through 34 below.

(29) Housing Net of Exclusion: (Calculated)

Row 14 minus row 17.

(30) Foreign Income Net of Exclusion: (Calculated)

Row 1 minus row 24.

(31) Lesser of Housing or Income: (Calculated)

The lesser of rows 29 or 30.

(32) Carryover From Prior Year

The housing deduction carryover from the prior year. In multiple year situations enter the amount in the first column only. The program will compute the amount in subsequent columns as the amount on row 29 in the prior year minus the amount on row 31 in that year. See IRC § 911(c)(4).

(33) Limited Carryover: (Calculated)

The lesser of row 32 or row 30 minus row 31.

(34) Total Housing Deduction

The sum of rows 31 and 33.

SPOUSE'S FOREIGN EARNED INCOME EXCLUSION

Spouse's Foreign Earned Income Exclusion
(1) Net Foreign Earned Income
(2) Number of Days in Qualifying Period
(3) **911(b) Amount for the Year**
(4) **Maximum Amount Adjusted for Days**
(5)
(6) Housing Exclusion:
(7) Qualified Housing Expenses
(8) **30% Limit**
(9) Geographic Adjustment Percentage
(10) **Limit Adjusted for Days & Geography**
(11) **Lesser of Housing Expense or Limit**
(12) **Floor**
(13) **Floor Adjusted for Days**
(14) **Excess Over Floor**
(15) Employer Provided Amounts
(16) **Percentage of Net Foreign Income**
(17) **Housing Exclusion**
(18)
(19) Foreign Earned Income Exclusion:
(20) **Maximum Exclusion**
(21) **Foreign Income Less Housing Exclusion**
(22) **Foreign Earned Income Exclusion**
(23)
(24) **Total Housing and Income Exclusion**
(25) Related AGI Expenses
(26) **Total Exclusion After Expenses**
(27)
(28) Housing Deduction:
(29) **Housing Net of Exclusion**
(30) **Foreign Income Net of Exclusion**
(31) **Lesser of Housing or Income**
(32) Carryover From Prior Year
(33) **Limited Carryover**
(34) **Total Housing Deduction**

(1) Net Foreign Earned Income

The spouse's foreign earned income including noncash income, allowances paid on behalf of the taxpayer and after reduction for excluded meals and lodging. The amount should coincide with the amount on line 26 of Form 2555. See IRC § 911(b)(1).

(2) Number of Days in Qualifying Period

The number of days during the taxable year that the spouse was a bona fide resident of a foreign country or countries. The default number provided by the program is 365, or 366 if the year is a leap year. The number should coincide with Form 2555, line 31.

(3) 911(b) Amount for the Year

The annual section 911(b)(2)(D) limit. The amounts by year are:

2000	$76,000
2001	$78,000
2002–2005	$80,000
2006	$82,400
2007	$85,700
2008	$87,600
2009	$91,400
2010	$91,500
2011	$92,900
2012	$95,100
2013	$97,600
2014	$99,200
2015	$100,800
2016	$101,300
2017	$102,100
2018	$103,900
2019	$105,900
2020	$107,600

For 2021 and subsequent years, the program adjusts the amount for inflation. See Inflation Adjustments.

(4) Maximum Amount Adjusted for Days: (Calculated)

Row 3, above, times the days on row 2, divided by the number of days in the year.

(5) (Blank)

(6) Housing Exclusion

Heading for rows 7 through 17 below.

(7) Qualified Housing Expenses

Qualified housing expenses of the spouse for the tax year. See IRC § 911(c)(3).

Note. For married couples, special rules apply. See the instructions to form 2555.

(8) 30% Limit: (Calculated)

30% of the amount on row 3, above. See IRC § 911(c)(2). For years before 2006 this row will be N/A.

(9) Geographic Adjustment Percentage

The percentage adjustment to be applied on the basis of geographic differences in housing costs relative to housing costs in the U.S. This adjustment is issued by the Treasury department. See IRC § 911(c)(2)(B). The percentage defaults to 100.

For years before 2006 this row will be N/A.

(10) Limit Adjusted for Days & Geography: (Calculated)

The amount on row 8 times the percentage on row 9 times the number of days on row 2 divided by the number of days in the year.

For years before 2006, this row will be N/A.

(11) Lesser of Housing Expense or Limit: (Calculated)

The lesser of row 7 or row 10.

For years before 2006, this row will be N/A.

(12) Floor: (Calculated)

The annual floor for purposes of the housing exclusion. For years after 2005, this amount is 16% of the amount on row 3 above. For years before 2006 the amount is 16 percent of the salary of an employee of the United States who is compensated at a rate equal to the annual rate paid for step 1 of grade GS–14. See IRC § 911(c)(1)(B)(i).

(13) Floor Adjusted for Days: (Calculated)

The number of days on row 2 divided by the number of days in the year multiplied by the amount on row 12. If the number of days on row 2 equals the number of days in the year, then this row will be the full amount on row 12.

(14) Excess Over Floor: (Calculated)

The amount on row 11 minus the amount on row 13 (but not less than 0).

(15) Employer Provided Amounts

The amount the employer paid or incurred on spouse's behalf that is foreign earned income included in the spouse's gross income for the year (without regard to the exclusion computed on this worksheet).

(16) Percentage of Net Foreign Income: (Calculated)

The amount on row 15 divided by the amount on row 1, expressed as a percentage but not greater than 100%.

(17) Housing Exclusion: (Calculated)

The amount on row 14 multiplied by the percentage on row 16, but not more than the amount on row 15.

(18) (Blank)

(19) Foreign Earned Income Exclusion

Heading for rows 20 through 22 below.

(20) Maximum Exclusion: (Calculated)

The amount from row 4, above.

(21) Foreign Income Less Housing Exclusion: (Calculated)

Row 1 minus row 17.

(22) Foreign Earned Income Exclusion: (Calculated)

The lesser of row 20 or row 21.

(23) (Blank)

(24) Total Housing and Income Exclusion: (Calculated)

The sum of rows 17 and 22.

(25) Related AGI Expenses

Amounts deducted in figuring adjusted gross income allocable and definitely related to excluded earned income. Included, for example, would be the deduction for moving expenses and the deduction for half of the self employment tax. See the instructions to form 2555. The program automatically expresses the amount entered on this row as a negative amount.

(26) Total Exclusion After Expenses: (Calculated)

The amount on row 24 plus the negative amount on row 25, but not less than 0.

(27) (Blank)

(28) Housing Deduction

Heading for rows 29 through 34 below.

(29) Housing Net of Exclusion: (Calculated)

Row 14 minus row 17.

(30) Foreign Income Net of Exclusion: (Calculated)

Row 1 minus row 24.

(31) Lesser of Housing or Income: (Calculated)

The lesser of rows 29 or 30.

(32) Carryover From Prior Year

The housing deduction carryover from the prior year. In multiple year situations enter the amount in the first column only. The program will compute the amount in subsequent columns as the amount on row 29 in the prior year minus the amount on row 31 in that year. See IRC § 911(c)(4).

(33) Limited Carryover: (Calculated)

The lesser of row 32 or row 30 minus row 31.

(34) Total Housing Deduction

The sum of rows 31 and 33.

OTHER ORDINARY INCOME

Other Ordinary Income
(1)   Social Security Benefits
(2)   **Less: Exclusion**
(3)   **Includible Social Security Benefits**
(4)   Tax Refunds
(5)   Adjustment to Tax Refunds
(6)   Taxpayer's Alimony Received
(7)   Spouse's Alimony Received
(8)   Unemployment Compensation
(9)   Investment Income or Loss:
(10)   Ordinary Property Disposition Gain/Loss:
(11)   Individual Activities
(12)   IRC § 1033 Gain
(13)   IRC § 1033 - Individual Activities
(14)   Royalties
(15)   Other Investment Income
(16)   Individual Activities
(17)   Investment Expenses
(18)   Individual Activities
(19)   Other Ordinary Income & Loss:
(20)   Nonpassive Domestic Production/Qualified Income or Loss
(21)   Qualified Income Amount
(22)   Individual Activities
(23)   Ordinary Nonpassive Income and Loss
(24)   Individual Activities
(25)   Ordinary Property Disposition Gain/Loss: Noninvestment
(26)   Individual Activities
(27)   Nonpassive Nonbusiness Rental Income/Loss
(28)   Other Property Ordinary Disposition Gain/Loss
(29)   State Exempt Pensions
(30)   Post '99 Lump Sum Distribution
(31)   IRA to Roth Rollover Inclusion
(32)   Required IRA & Pension Distributions
(33)   State Exempt Required IRA & Pension Distributions
(34)   State Nonexempt Required IRA & Pension Distributions
(35)   Other Pension & IRA Distributions
(36)   Other Ordinary Income
(37)   **Total Other Ordinary Income**

(1) Social Security Benefits

The total amount received by the taxpayer and his spouse as a monthly benefit under title II of the Social Security Act or as a tier 1 railroad retirement benefit. Enter the total amount received by both spouses (for Married Filing Separate filing status, enter only the taxpayer's portion). The program will compute the includible portion. See IRC § 86(d). Be sure to enter on the **Interest and Dividends** worksheet any tax exempt interest received by the taxpayer so the program will properly compute modified AGI for purposes of the social security exclusion. See **NOTE 2** on page 283 following the **IRA Deductions** worksheet for how the program handles the computation of AGI when there is both an IRA limitation and a Social Security exclusion.

(2) Less: Exclusion (Calculated)

The portion of social security benefits entered on row 1 above that is excludible from gross income. The difference between the amount entered there and the amount shown here is the includible portion under IRC § 86.

(3) Includible Social Security Benefits (Calculated)

Row 1 "Social Security Benefits" less row 2 "**Less: Exclusion**", above.

(4) Tax Refunds

Includible refunds of state and local taxes paid and deducted for federal purposes in prior years. Call up the **State Estimated and Withholding** worksheet to have the program compute the refunds. The subworksheet also contains a number of options for automatic computation of state estimated tax payments for state and federal purposes. This item and the amount on the next row are included by the program in ordinary income. They also may be used by the state tax computation if you have **Income Tax Planner with Fifty States**. The two items are also used as adjustments to taxable income for alternative minimum tax purposes.

(5) Adjustments to Tax Refunds

Adjustment to includible refunds of state and local taxes as computed by the program on the **State Estimated and Withholding** worksheet or entered on the "Tax Refunds" row, above.

This item and the amount on the "Tax Refunds" row are included by the program in federal ordinary income. They also may be used by the state tax computation if you have **Income Tax Planner with Fifty States**. The two items are also used as an adjustment to taxable income for federal alternative minimum tax purposes.

(6) Taxpayer's Alimony Received

Taxable alimony received by the taxpayer. The program includes this item in ordinary income and uses it to compute the allowable IRA deduction for the taxpayer on the **IRA** worksheet. For taxpayers filing jointly, the program considers alimony entered to be the taxpayer's for IRA purposes and not the spouse's. When running a taxpayer and spouse analysis, enter the taxpayer's alimony received on this row in the Taxpayer column and the spouse's alimony received on the next row in the Spouse column.

(7) Spouse's Alimony Received

Taxable alimony received by the taxpayer's spouse. The program includes this item in ordinary income and uses it to compute the allowable IRA deduction for

the spouse on the **IRA** worksheet. For taxpayers filing jointly, the program considers alimony entered here to be the spouse's for IRA purposes and not the taxpayer's. When running a taxpayer and spouse analysis, enter the spouse's alimony received on this row in the Spouse column and the taxpayer's alimony received on the row, above, in the Taxpayer column.

(8) Unemployment Compensation

Total unemployment compensation received by the taxpayer and spouse under state or U.S. law. Enter the total amount received by both spouses. For 2009, reduce the amount by the first $2400 received by the individual. See IRC § 85.

If you have **Income Tax Planner with Fifty States**, this item may be an automatic adjustment for state tax purposes.

(9) Investment Income or Loss

Heading for rows 10 through 18, below.

(10) Ordinary Property Disposition Gain/Loss: Investment

Depreciation recapture ordinary gain and other ordinary gain or loss from the disposition of "property held for investment." See IRC § 163(d). Also include any ordinary gain or loss (other than gain or loss included on the **Section 1231 & Casualty Gain/Loss** worksheet) from the disposition of property used in activities described in IRC § 163(d)(5)(A)(ii). For years before 2013, include also the ordinary loss on IRC § 1244 stock. For years after 2012, enter the amount of the loss from the sale of IRC § 1244 stock includible as Medicare Investment Income, and enter the remaining loss on row 24 below and as an adjustment to disposition gain loss row of the **Net Investment Income** worksheet.

As an alternative, you may enter the income described on this row on the **Individual Activity** worksheets accessed from the row below.

For the sale of a pass through entity, include the portion of the ordinary gain from the deemed sale of Section 1411 property includible as both Medicare Investment Income from and investment gain or loss under IRC § 163(d). See items 25 and 28, below, and NOTE 4 of the **Capital Gains and Losses** worksheet.

The program includes the amount on this row in ordinary income and in the computation of Net Gain From Dispositions on the **Net Investment Income** worksheet and in the computation of Other Ordinary Nonbusiness Gain or Loss of the **Medicare Investment Income Tax** worksheet for years after 2012.

(11) Ordinary Property Disposition Gain/Loss: Investment Income – Individual Activities

Depreciation recapture and other ordinary investment disposition gain from individual activities. See the description for the preceding row.

No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(12) Ordinary Investment IRC § 1033 Gain

Depreciation recapture gain and other recognized ordinary gain from the disposition of investment property due to casualty or condemnation (except income or loss included on the **Section 1231 & Casualty Gain/Loss** worksheet). The program includes this item in ordinary income and also in the computation of Net Investment Income for investment interest limitation purposes and for purposes of the Medicare Investment Income Tax.

As an alternative, you may enter the gain described on this row on the **Individual Activity** worksheets accessed from the row below.

The program includes the amount on this row in ordinary income and in the computation of Net Gain From Dispositions on the **Net Investment Income** worksheet and in the computation of Other Ordinary Nonbusiness Gain or Loss of the **Medicare Investment Income Tax** worksheet for years after 2012.

(13) Ordinary Investment IRC § 1033 Gain – Individual Activities

Ordinary investment IRC § 1033 gain from individual activities. See the description for row 17 "Investment Expenses", below. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(14) Royalties

Income from royalties other than income received in the ordinary course of a trade or business. The program includes this item in row 37 "**Total Other Ordinary Income**", below, as well as on the **Net Investment Income** worksheet, which is used for the investment interest limitation.

For years after 2012, the program includes the amount on row 4 "Other Investment Income" of the **Medicare Investment Income Tax** worksheet.

(15) Other Investment Income

Ordinary Income from assets held for investment other than interest, dividends, and disposition of assets. Include income from property described in IRC § 163(d)(5)(A)(ii) (other than income includible as self-employment income). The program includes the amount on this row in row 37 "**Total Other Ordinary**

Income", below, as well as in gross income on the **Net Investment Income** worksheet, which is used for the investment interest limitation.

As an alternative, you may enter the income described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program includes the amount on row 4 "Other Investment Income" of the **Medicare Investment Income Tax** worksheet.

(16) Other Investment Income – Individual Activities

Other investment income from individual activities. See the description for row 15 "Other Investment Income", above. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(17) Investment Expenses

Expenses deductible in computing AGI directly connected with the production of investment income. See IRC § 163(d). Include expenses of producing royalty income, as well as expenses of producing income from activities described in IRC § 163(d)(5)(A)(ii) (other than self-employment expenses). Do not include interest. Instead, see the **Investment Interest Expense** worksheet on page 219. The program deducts this item in computing the Total Other Ordinary Income row, below, and also includes it on the "Investment Expenses: Ordinary" row of the **Net Investment Income** worksheet, which is used for the investment interest limitation.

As an alternative, you may enter the expenses described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program includes the amount on the "Investment Expenses: Ordinary" row of the **Medicare Investment Income Tax** worksheet.

(18) Investment Expenses – Individual Activities

AGI investment expenses from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(19) Other Ordinary Income and Loss:

Heading for rows 20 through 35, below.

(20) Nonpassive Domestic Production/ Qualified Income or Loss

For years after 2017 and before 2026, Qualified Ordinary nonpassive activity income or loss. See IRC §199A. Do not include self-employment qualified or loss, which should be entered instead on the **Self-Employment Income & Loss** worksheet. See IRC § 199.

249

DO NOT ENTER INCOME FROM MORE THAN ONE BUSINESS. INSTEAD USE THE INDIVIDUAL ACTIVITIES WORKSHEETS FOR SUCH INCOME.

For years before 2005, this row will be N/A. For years before 2018, use this row for qualified production activity income. See IRC § 199 prior to amendment by the Tax Cuts Act of 2017.

The program does not include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(21) Qualified Income Amount

The qualified income amount, computed on the subworksheet, for the business income or loss entered on the row above. Press W or double click on the row to access the subworksheet. See IRC §199A.

(22) Nonpassive Domestic Production/Qualified Income or Loss – Individual Activities

Ordinary nonpassive activity income or loss from qualified production activities (pre 2018) or qualified income or loss (2018-2025) from individual activities. See the help message for the preceding row.

No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

For years before 2005, this row will be N/A.

(23) Other Ordinary Nonpassive Income and Loss

Ordinary income or loss other than passive or investment income or loss or qualified income under Section 199A. Include non-investment income or loss from Subchapter S corporations in which the taxpayer materially participates. See IRC § 469 and the regulations thereunder.

Do not include income properly includible on the **Sec 1231 & Casualty Gain/Loss** worksheet.

Income entered on this row includes depreciation recapture on trade or business assets, as well as gains and losses from sale of short-term trade or business assets. Include also IRC § 1033 recognized losses (but not gains) that are neither IRC § 1231 losses nor investment losses.

As an alternative, you may enter the income or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does not include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(24) Other Ordinary Nonpassive Income and Loss – Individual Activities

Other ordinary nonpassive, non-investment income or loss from individual activities. See the description for the preceding row.

No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(25) Ordinary Property Disposition Gain/Loss: Noninvestment

Ordinary Gain or Loss from the disposition of property other than investment property. Include trade or business non-passive depreciation recapture gain and recognized IRC § 1033 ordinary income not covered by IRC § 1231 and which is not attributable to investment or passive activity property. Include short-term trade or business IRC § 1033 gain, and all gain from the conversion of personal assets due to casualty or condemnation.

The program includes this item in the computation of net disposition gain for purposes of the Medicare Investment Income Tax.

As an alternative, you may enter the gain described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, enter the amount of the loss from the sale of IRC § 1244 stock not includible as Medicare Investment Income here and on the "Adjustments to Disposition Gain Loss" row of the **Net Investment Income** worksheet. Enter the amount of the IRC § 1244 loss includible in Medicare Investment Income on row 10 above.

For the sale of a pass through entity, enter the portion of ordinary gain or loss attributable to the deemed sale of IRC § 1411 property on row 10, above. If the ordinary gain or loss attributable to the deemed sale of Section 1411 property does not represent investment gain or loss under IRC § 163(d), instead enter the ordinary gain or loss attributable to the deemed sale of Section 1411 property on row 28, below. Enter the remainder of the ordinary gain or loss on the sale of the interest on this row 25. If the remainder of the ordinary gain or loss represents investment income under IRC § 163(d), also enter an adjustment for the proper amount on the "Adjustments to Disposition Gain Loss" row of the **Net Investment Income** worksheet. See the example in **NOTE 4** of the **Capital Gains and Losses** worksheet on page 344.

The program does not include this amount as investment income on either the **Net Investment Income** worksheet or the **Medicare Investment Income Tax** worksheet.

(26) Ordinary Property Disposition Gain/Loss: Non-investment – Individual Activities:

Ordinary non-investment 1033 gain from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(27) Nonpassive Nonbusiness Rental Income Or Loss

The amount of any nonpassive and nonbusiness rental income or loss. Such amount is included on the "Ordinary Nonpassive Income or Loss" row on the **Medicare Investment Income Tax** worksheet. The amount is **not** included as investment income on the **Net Investment Income** worksheet.

(28) Other Property Disposition Gain or Loss

The amount of any nonpassive, nonbusiness, noninvestment disposition gains or losses. Such amount is included on the "Other Ordinary Nonbusiness Gain or Loss" row on the **Medicare Investment Income Tax** worksheet. The amount is **not** included as investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For the sale of a pass through entity include the portion of the ordinary gain includible from the deemed sale of Section 1411 property as Medicare Investment Income but not included as investment gain or loss under IRC § 163(d). See item 25, above, and NOTE 4 of the **Capital Gains and Losses** worksheet.

(29) State Exempt Pensions

Pension proceeds exempt from state tax but includible for federal purposes (other than Social Security and Railroad Retirement benefits and other than required distributions). The amount entered here is included on the Total Other Ordinary Income row below. If you have **Income Tax Planner with Fifty States**, the amount will also be automatically subtracted in computing state adjusted gross income (but not adjusted gross income for New York nonresident purposes). Be sure to exclude the amount entered here from Other Subtractions used to compute state adjusted gross income, to prevent double-counting. Minimum distributions required because the employee has reached the age of 70½ years, or retired after that age, should be entered on row 36 below and not on this row.

(30) Post-1999 Lump Sum Distributions

The amount of income from lump sum distributions received after 1999 not subject to 10-year averaging or the 20% capital gains tax. Enter the amount here or access the **Lump Sum Distribution** worksheet, which computes the amount automatically. Generally, for distributions received after 1999, only

those made with respect to employees who were 59½ on January 1, 1986, and meet the other requirements of IRC § 402, as in effect before the Small Business Act of 1996, are eligible for the elections afforded by the **Lump Sum Distribution** worksheet. Enter other distributions directly on this row or on the "Other Pension & IRA Distributions" row, below. See the Notes following the **Lump Sum Distribution** worksheet description on page 351 for further information.

(31) IRA to Roth Rollover Inclusion

The amount included in gross income in 1998 and subsequent years as a result of a rollover of a regular IRA to a Roth IRA. This amount is included in "Total Other Ordinary Income", below. However, modified AGI for purposes of Roth contributions (including the rollover itself) is computed without regard to this item and is shown on the "Roth IRA Modified AGI" row of the **IRA Deductions** worksheet.

For rollovers made before January 1, 1999, the rollover inclusion should be entered ratably over the period 1998 through 2001, unless the taxpayer elects otherwise. Married individuals must file a joint return to qualify for the rollover, unless they lived apart for the entire taxable year. See IRC § 408A as amended by the Tax Technical Corrections Act of 1998, especially 408A(d)(3).

For rollovers made in 2010, the rollover inclusion should be entered ratably over the 2 year taxable period beginning with 2011, unless the taxpayer elects otherwise. See IRC § 408A as amended by the Pension Protection Act of 2006, especially § 408A(d)(3).

Note. If there is an entry on this row and Roth modified AGI exceeds the $100,000 limit, a warning message will appear on printing, saving, or loading a file, and when changes are made to Assumptions, but not otherwise.

(32) Required IRA & Pension Distributions

Heading for rows 33 and 34 below.

(33) State Exempt Required IRA & Pension Distributions

Distributions from IRA and qualified plans that are required by IRC § 401(a)(9)(A), i.e., minimum distributions that must begin in the calendar year in which the employee attains age 70½ years, or retires after that age. Use this row for such distributions that are exempt from the taxpayer's resident state tax and the next row for those that are not. The amount entered here is included on row 37 "Total Other Ordinary Income (Calculated)", below. If you have **Income Tax Planner with Fifty States**, the amount will also be automatically subtracted in computing state adjusted gross income (but not adjusted gross income for New York nonresident purposes). Be sure to exclude the amount

entered here from Other Subtractions used to compute state adjusted gross income, to prevent double-counting.

The program also uses this row to exclude such distributions from the computation of modified AGI for purposes of IRA to Roth IRA rollovers, in years after 2004. See IRC § 408A(c)(5)(A), and see row 31, above.

(34) State Nonexempt Required IRA and Pension Distributions

Distributions from IRA and qualified plans that are required by IRC Sec. 401(a)(9)(A), i.e., minimum distributions that must begin in the calendar year in which the employee attains age 70½, or retires after that age. Use this row for such distributions that are not exempt from the taxpayer's resident state tax and the previous row for those that are. The amount entered here is included on row 37 "Total Other Ordinary Income (Calculated)" below. The program also uses this row to exclude such distributions from the computation of modified AGI for purposes of IRA to Roth IRA rollovers, in years after 2004. See IRC § 408A(c)(5)(A), and see row 31, above.

(35) Other Pension and IRA Distributions

The portion of pension plan and IRA distributions that is taxable for both state and federal purposes. This item is included in the "Total Other Ordinary Income" row, below, and is also used for state tax purposes if you have **Income Tax Planner with Fifty States**.

(36) Other Ordinary Income

The total of all items of ordinary income not included above and not included elsewhere on the **Ordinary Income** worksheet.

(37) Total Other Ordinary Income (Calculated)

The sum of rows 3 through 36 above, except row 21. This amount is posted to the "Other Ordinary Income" row of the **Ordinary Income** worksheet.

QUALIFIED INCOME AMOUNT – OTHER INCOME

Qualified Income Amount – Other Income
(1) Service Business (Y/N)
(2) **Taxable Income w/o Deduction**
(3) **Taxpayer's Self-employment Qualified Income or Loss**
(4) **Spouse's Self-employment Qualified Income or Loss**
(5) **Other Qualified Income or Loss**
(6) **Less Allocated Taxpayer's Self-employment Tax**
(7) **Less Allocated Spouse's Self-employment Tax**
(8) **Less Allocated Taxpayer's Qualified Plan**
(9) **Less Allocated Spouse's Qualified Plan**
(10) Adjustment to Qualified Income or Loss
(11) **Adjusted Qualified Income or Loss**
(12) **Qualified Income Loss Offset**
(13) **Qualified Business Income**
(14) **Reduced Amt Service Business**
(15) **Qualified Income Offset**
(16) **Service Business Net QBI**
(17) W-2 Wages
(18) **x 50%**
(19) Unadjusted Basis of Property
(20) **x 2.5%**
(21) **25% of Wages**
(22) **Total of Property and Wages**
(23) **Greater of above or 50% of Wages**
(24) **Reduced Amt - Service Business**
(25) **20% of Income**
(26) **Lesser-Income or Wages & Property**
(27) Alternative Method
(28) **Excess of 20% over Wages & Property**
(29) **Reduction Phased in**
(30) **20% of Income Less Reduction**
(31) **Total Qualified Amount**
(32) Patron Reduction
(33) **Total Qualified Amount**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Service Business

Is the trade or business represented by this activity a specified service business within the meaning of IRC § 199A(d)(3)?

(2) Taxable Income Without Deduction (Calculated)

Taxable Income from the **Main Worksheet** computed without the deduction for qualified business income. See IRC § 199A(e)(1).

(3) Taxpayer's Self-employment Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(4) Spouse's Self-employment Qualified Income or Loss (Calculated)

Equals zero on this worksheet.

(5) Other Qualified Income or Loss (Calculated)

The Nonpassive Domestic Production/Qualified Business Income or Loss from the **Other Ordinary Income** worksheet.

(6) Less Allocated Taxpayer's Self-employment Tax (Calculated)

Equals zero on this worksheet.

(7) Less Allocated Spouse's Self-employment Tax (Calculated)

Equals zero on this worksheet.

(8) Less Allocated Taxpayer's Qualified Plan (Calculated)

Equals zero on this worksheet.

(9) Less Allocated Spouse's Qualified Plan (Calculated)

Equals zero on this worksheet.

(10) Adjustment to Qualified Income or Loss

Enter any adjustment to the qualified income or loss for the trade or business.

Per final Treasury Regulation § 1.199A, use this row to allocate to the qualified trade or business:

- IRC § 1231 losses
- Deductions for self-employed health insurance

(11) Adjusted Qualified Income or Loss (Calculated)

The sum of rows 3 and 10 above.

(12) Qualified Income Loss Offset (Calculated)

If row 11 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury

Regulation § 1.199A-1. If row 11 is negative row 12 will offset row 11 by an equal positive amount. Any entries on this worksheet, the **Qualified Income Amount - Nonpassive** worksheet, the **Qualified Income Amount - Passive** worksheet, the **Qualified Income Amount Spouse's Self Employment** worksheet, or the **Qualified Income Amount Taxpayer's Self Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a service business this row will be N/A.

(13) Qualified Business Income (Calculated)

The sum of rows 11 and 12.

If this is a loss, see **NOTE 1** on page 259.

(14) Reduced Amount Service Business (Calculated)

If row 1 above is Yes, this is the reduced amount of qualified income or loss on row 13 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No, this row will be N/A.

If this is a loss, see **NOTE 1** on page 259.

(15) Qualified Income Offset (Calculated)

If row 14 is positive, the amount of any losses allocated form qualified business activities with losses. Total qualified losses are allocated to activities with qualified income based on the qualified income of each activity. See Treasury Regulation § 1.199A-1. If row 14 is negative, then row 15 will offset row 14 by an equal positive amount. Any entries on this worksheet, the **Qualified Income Amount – Nonpassive** worksheet, the **Qualified Income Amount – Passive** worksheet, the **Qualified Income Amount – Spouse's Self-Employment** worksheet, or the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet are treated as separate trades or businesses for purposes of Treasury Regulation § 1.199A-1. For a non-service business this row will be N/A.

(16) Service Business Net QBI (Calculated)

The sum of rows 14 and 15.

(17) W-2 Wages

Enter the amount of W-2 wages paid by the taxpayer allocable to the qualified income of this trade or business. See IRC § 199A(b)(4).

(18) x 50% (Calculated)

Row 17, above, multiplied by 50%.

(19) Unadjusted Basis of Property

Enter the unadjusted basis of qualified property with respect to this trade or business. See IRC § 199A(b)(6).

(20) x 2.5% (Calculated)

Row 19 multiplied by 2.5%.

(21) 25% of Wages (Calculated)

25% of the amount on row 17, above.

(22) Total of Property and Wages (Calculated)

The sum of rows 20 and 21, above.

(23) Greater of above or 50% of Wages (Calculated)

The greater of rows 18 and 22, above.

(24) Reduced Amount - Service Business (Calculated)

If row 1 above is yes, this is the reduced amount of row 21 above, multiplied by one minus the fraction computed as taxable income on row 2, above, in excess of 157,500 divided by 50,000. For married filing jointly the 157,500 and 50,000 amounts are doubled. The 157,500 amount is indexed for inflation for years after 2018. If row 1 is No, this row will be N/A.

(25) 20% of Income (Calculated)

If row 1, above, is yes then this is 20% of row 16. Otherwise, this is 20% of row 13.

(26) Lesser-Income or Wages & Property (Calculated)

If row 1 above is yes, then this is the lesser of rows 25 and 24. Otherwise, this is the lesser of rows 25 and 23. The Qualified Income Amount based on the "regular" method. See IRC § 199A(b)(2).

(27) Alternative Method

Title for rows 28 through 30. See IRC § 199A(b)(3).

(28) Excess of 20% over Wages & Prop (Calculated)

The excess of 20% of Qualified Business Income over the wage and property amounts. See IRC § 199A(B)(3)(b)(iii) and **NOTE 2** on page 260.

(29) Reduction Phased In (Calculated)

The amount of the reduction in the Qualified Amount under the alternative method based on the taxable income an the excess computed on the row above. See IRC § 199A(b)(3)(b)(ii) and **NOTE 2** on page 260.

(30) 20% of Income Less Reduction (Calculated)

The total Qualified Amount for the activity computed under the alternative method. See IRC § 199A(b)(3)(b)(i) and **NOTE 2** on page 260.

(31) Total Qualified Amount (Calculated)

The greater of rows 30 or 26.

(32) Patron Reduction

Any reduction of the qualified income amount due to patronage dividends received by a specified agricultural or horticultural cooperative. See IRC § 199A(b)(7).

(33) Total Qualified Amount (Calculated)

The sum of rows 31 and 32.

NOTE 1

If row 13 is a loss, then the following rows will be N/A:

- row 18
- row 20
- row 21
- row 22
- row 23
- row 24
- row 28
- row 29
- row 30

If row 1 is Yes (Service Business), then row 25 will be 20% of row 14. Otherwise, row 25 will be 20% of row 13.

If the year is after 2025, the deduction no longer applies and the above listed rows will be N/A as well as rows 25 and 26. Rows 31 and 33 will be zero.

NOTE 2

If taxable income is below the threshold amount ($315,000 for married filing jointly, $157,500 for others), then:

- row 28 will be N/A,
- row 29 will be 0, and
- row 30 will be the amount on row 25.

If taxable income is greater than the threshold amount plus $100,000 ($50,000 if not joint) then the alternative method does not apply, then:

- rows 28, 29, and 30 will be N/A.

Otherwise, if the taxpayer is in a service business, then:

- row 28 is the excess of row 25 over row 24,

And if the taxpayer is not in the service business, then:

- row 28 is the excess of row 25 over row 23.

If there is no excess of row 25 over row 24 (for service business) or row 25 over row 23 (for non-service businesses), then rows 28, 29, and 30 will be N/A.

Finally, if the taxpayer is in the phase out range ($315,000 to $415,000 for joint) and the conditions above do not apply, then

- row 29 is row 28 multiplied by the phase out percentage, and
- row 30 is row 25 less row 29.

See IRC § 199A(b)(3).

EXCESS BUSINESS LOSS AND NOLS

Excess Business Loss and NOLs

(1)	**Self-Employment Income**
(2)	**Ordinary 1231/1250 Trade or Business Income**
(3)	**Ordinary Passive Activity**
(4)	**Ordinary Trade/Bus MAPRRA**
(5)	**Ordinary Publicly Traded Partnerships**
(6)	**Other Ordinary Trade or Business**
(7)	**Total Ordinary Trade or Business**
(8)	**Short Term Trade or Business Capital Gain or Loss**
(9)	**Short Term Trade or Business Capital Loss Carryover**
(10)	**Long Term Trade or Business Capital Gain or Loss**
(11)	**Long Term Trade or Business Capital Loss Carryover**
(12)	**Total Trade or Business Capital Gain or Loss**
(13)	**Total Trade or Business Capital Gain or Loss Limit**
(14)	**Total Trade or Business Capital Gain or Loss Limit After Limit**
(15)	**Total Trade or Business Income or Loss Before Adjustment**
(16)	Adjustment
(17)	**Total Trade or Business Income**
(18)	**Less Exemption Amount**
(19)	**Disallowed Loss**
(20)	Net Operating Losses
(21)	Pre 2018 NOLs
(22)	Pre 2018 NOLs-Entered
(23)	Pre 2018 NOLs-Absorbed in Prior Year
(24)	**Remaining Pre 2018 NOLs**
(25)	Post 2017 NOLS
(26)	Prior Year Excess Business Losses
(27)	Post 2017 Other NOL
(28)	Adjustment
(29)	**Total Post 2017 NOLs**
(30)	Post 2017 NOLs Absorbed in Prior Year
(31)	**Remaining Post 2017 NOLs**
(32)	**80% of Taxable Income**
(33)	**Lesser**
(34)	**Total NOL Deduction**
(35)	**Modified Taxable Income**
(36)	Adjustment to Modified TI
(37)	**Adjusted Modified TI**
(38)	**Pre 2018 NOL Absorbed in Current Year**
(39)	**Post 2017 NOL Absorbed in Current Year**
(40)	
(41)	Current Year NOL Generated
(42)	Elect to Waive NOL Carryback

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Self-Employment Income (Calculated)

The amount from the "Self Employment Income" row from the **Ordinary Income** worksheet. **For years before 2021 and after 2025**, this row will be N/A.

(2) Ordinary 1231/1250 Trade or Business Income (Calculated)

The sum of the ordinary passive and trade or business 1231/1250 rows from the **Section 1231 & Casualty Gain/Loss** worksheet. **For years before 2021 and after 2025**, this row will be N/A.

(3) Ordinary Passive Activity (Calculated)

The amount from the "Passive Income or Loss" row from the **Ordinary Income** worksheet. **For years before 2021 and after 2025**, this row will be N/A.

(4) Ordinary Trade/Bus MAPRRA (Calculated)

The amount from the "Trade or Business MAPRRA Income or Loss" row from the **Ordinary Income** worksheet. **For years before 2021 and after 2025**, this row will be N/A.

(5) Ordinary Publicly Traded Partnerships (Calculated)

The amount from the "Publicly Traded Partnerships" row from the **Ordinary Income** worksheet. **For years before 2021 and after 2025**, this row will be N/A.

(6) Other Ordinary Trade or Business (Calculated)

The sum of:

- The "Unemployment Compensation" row of the **Other Ordinary Income** worksheet
- The "Nonpassive Domestic Production or Qualified Income" rows from the **Other Ordinary Income** worksheet
- The "Other Nonpassive Income or Loss" rows from the **Other Ordinary Income** worksheet
- The "Ordinary Property Disposition Gain or Loss" rows from the **Other Ordinary Income** worksheet

For years before 2021 and after 2025, this row will be N/A.

(7) Total Ordinary Trade or Business (Calculated)

The total of rows 1 through 6 above.

For years before 2021 and after 2025, this row will be N/A.

(8) Short Term Trade or Business Capital Gain or Loss (Calculated)

The sum of:

- The Short Term Passive Activity Gain/ Loss row of the Capital Gains and Losses worksheet

- The Short Term Trade or Business MAPRRA Gain/ Loss row of the Capital Gains and Losses worksheet

- The Short Term Publicly Traded Partnerships Gain row of the Capital Gains and Losses worksheet

- The Other Publicly Trade Partnerships Short Term Gain or Loss row of the Capital Gains and Losses worksheet

- The Active Trade or Business Short-Term Gain or Loss row of the Capital Gains and Losses worksheet

For years before 2021 and after 2025, this row will be N/A.

(9) Short Term Trade or Business Capital Loss Carryover (Calculated)

The unused short term gain or loss allocable to trade or business activities considered for the excess business loss limitation. See **NOTE 1** on page 269. In multiple year situations, the program calculates this amount in years after the first and allocates total short-term loss carryover proportionately based on the total loss on row 8 above divided by total short-term loss on the **Capital Gains and Losses** worksheet.

For years before 2019 and after 2025, this row will be N/A.

(10) Long Term Trade or Business Capital Gain or Loss (Calculated)

The sum of:

- The 1231 Unrecaptured 1250 Trade or Business Gain or Losses row from the **Capital Gains or Losses** worksheet

- The 1231 Unrecaptured 1250 Passive Gain or Losses row from the **Capital Gains or Losses** worksheet

- The Other Passive 1231 Gain or Losses row from the **Capital Gains or Losses** worksheet

- The Long Term Passive Gain or Losses row from the **Capital Gains or Losses** worksheet

- The Long Term Trade or Business MAPRRA Gain or Losses row from the **Capital Gains or Losses** worksheet

- The Long Term Gain: PTP Gain Activities row from the **Capital Gains or Losses** worksheet

- The Other PTP Gain/Loss row from the **Capital Gains or Losses** worksheet

- The Active Trade/Business Long-term Gain/Loss row from the **Capital Gains or Losses** worksheet

- The Qualified Small Business Stock Gain row from the **28% Rate Capital Gains and Losses** worksheet

- The 1231 Trade/Business Gain or Loss row from the **28% Rate Capital Gains and Losses** worksheet

- The 1231 Passive Gain or Loss row from the **28% Rate Capital Gains and Losses** worksheet

- The Passive Gain or Loss row from the **28% Rate Capital Gains and Losses** worksheet

- The Trade or Business MAPRRA Gain or Loss row from the **28% Rate Capital Gains and Losses** worksheet

- The PTP Gain Activities row from the **28% Rate Capital Gains and Losses** worksheet

- The Other PTP Activities row from the **28% Rate Capital Gains and Losses** worksheet

For years before 2021 and after 2025, this row will be N/A.

(11) Long Term Trade or Business Capital Loss Carryover (Calculated)

The unused long term gain or loss carryover allocable to trade or business activities considered for the excess business loss limitation. See **NOTE 2** on page 269. In multiple year situations, the program calculates this amount in years after the first and allocates total short-term loss carryover proportionately based on the total loss on row 10 above divided by total short-term loss on the **Capital Gains and Losses** worksheet.

For years before 2021 and after 2025, this row will be N/A.

(12) Total Trade or Business Capital Gain or Loss (Calculated)

The sum of rows 8 through 10 above.

For years before 2021 and after 2025 this row will be N/A.

(13) Total Trade or Business Capital Gain or Loss Limit (Calculated)

If row 12 is less than zero, zero. Otherwise the lesser of the "Total Capital Gain or Loss" row on the **Capital Gains and Losses** worksheet or row 12 above.

For years before 2021 and after 2025 this row will be N/A.

(14) Total Trade or Business Capital Gain or Loss Limit After Limit (Calculated)

Row 13 above.

For years before 2021 and after 2025 this row will be N/A.

(15) Total Trade or Business Income or Loss Before Adjustment (Calculated)

The sum of rows 7 through 14.

For years before 2021 and after 2025, this row will be N/A.

(16) Adjustment

Any adjustments required for the calculation of business income.

For years before 2021 and after 2025, this row will be N/A.

(17) Total Trade or Business Income (Calculated)

The sum of rows 15 and 16.

For years before 2021 and after 2025, this row will be N/A.

(18) Less Exemption Amount (Calculated)

The exemption amount provided for under IRC § 461(l), adjusted for inflation. **For 2018** the amounts are $500,000 for joint filers, $250,000 for other filers.

For years before 2021 and after 2025, this row will be N/A.

(19) Disallowed Loss (Calculated)

The IRC § 461(l) loss limitation.

For years before 2021 and after 2025, this row will be N/A.

(20) Net Operating Losses

Heading for rows 21 through 41 below.

(21) Pre 2018 NOLs

Heading for rows 22 through 24 below.

(22) Pre 2018 NOLs-Entered

Net Operating Losses generated in years before 2018 and carried to the current year. In multiple year analyses enter the loss in all the years to which it can be carried.

(23) Pre 2018 NOLs-Absorbed in Prior Years

The amount on row 22 above, absorbed in prior years and therefore not available in the current year. In multiple year analyses, enter the amount in the first column. The program will calculate the other columns as the amount in the prior year column less the amount on row 38 "Pre 2018 NOL Absorbed in Current Year" in the prior year. The program will change any positive entry to a negative entry. See **NOTE 3** on page 270.

(24) Remaining Pre 2018 NOLs (Calculated)

Row 22 plus the amount on row 23, but not less than zero.

(25) Post 2017 NOLS

Heading for rows 28 through 33 below.

(26) Prior Year Excess Business Losses

The amount on row 19 in the prior year. In multiple year analyses, enter the amount in the first column only. The program will compute the amounts in the other columns. **For years before 2021**, this row will be N/A.

(27) Post 2017 Other NOL

NOLs generated **in years after 2017** other than prior year excess business losses on the row above.

In multiple year analyses **starting after 2018**, enter the amount in the first column only.

For years 2013 through 2015, the amount of the NOL generated on row 41 for any of the subsequent 5 years for which an NOL carryback has not been forgone.

For years after 2015, the amount on row 29 for the prior year, plus the amount on row 41 for the prior year if the NOL generated for the prior year has been forgone.

For years after 2021, the sum of row 29 and 41 for the prior year.

For years before 2013, this row will be N/A. See **NOTE 3** on page 270.

(28) Adjustment

Any adjustment necessary to the amounts computed by the program on the rows above. **For years before 2013**, this row will be N/A.

(29) Total Post 2017 NOLs (Calculated)

The total of rows 26 through 28, above. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(30) Post 2017 NOLs Absorbed in Prior Years

The amount on row 29 above, absorbed in prior years. In multiple year analyses starting after 2018, enter the amount in the first column only. The program will compute the amounts in the other columns as the amount on this row in the prior year minus the amount on row 39 "Post 2017 NOL Absorbed in Current Year" in the prior year. The program will change any positive entry to a negative entry. **For years before 2014**, this row will be N/A. See **NOTE 3** on page 270.

(31) Remaining Post 2017 NOLs (Calculated)

Row 29 plus the negative amount on row 30, above, but not less than zero. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(32) 80% of Taxable Income (Calculated)

80% of Taxable Income computed without the post 2017 NOL and the Qualified Income Deduction. See IRC § 172(a)(2)(B)(ii).

For years before 2021, this row will be N/A.

(33) Lesser (Calculated)

For years after 2020, the lesser of row 31 or row 32. **For years 2013-2020**, row 31. **For years before 2013**, this row will be N/A.

(34) Total NOL Deduction (Calculated)

Row 24 plus row 33 above, but not less than zero. **For years before 2013**, this is only the amount on row 22. See **NOTE 3** on page 270.

(35) Modified Taxable Income (Calculated)

Taxable Income computed without any NOL deduction, any personal exemption, any qualified income deduction and without any capital loss deduction. For this purpose the program recomputes all the limitations that depend on

Adjusted Gross Income. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(36) Adjustment to Modified TI

Any adjustment required to the amount computed by the program on row 35 above. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(37) Adjusted Modified TI (Calculated)

The sum of rows 35 and 36 above. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(38) Pre 2018 NOL Absorbed in Current Year (Calculated)

The lesser of rows 24 or 37, above. Note the program does not compute the reduction in charitable contribution carryovers to the extent that charitable contributions reduce taxable income (as computed for purposes of the second sentence of section 172(b)(2)) and increases the net operating loss deduction for a taxable year succeeding the contribution year. Any such adjustment must be entered on the Charitable Contributions worksheet. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(39) Post 2017 NOL Absorbed in Current Yr (Calculated)

The lesser of row 33 or row 37 minus row 38. Note the program does not compute the reduction in charitable contribution carryovers to the extent that charitable contributions reduce taxable income (as computed for purposes of the second sentence of section 172(b)(2)) and increases the net operating loss deduction for a taxable year succeeding the contribution year. Any such adjustment must be entered on the Charitable Contributions worksheet. **For years before 2013**, this row will be N/A. See **NOTE 3** on page 270.

(40) (Blank)

(41) Current Year NOL Generated

The current year's NOL generated. No entry may be made on this row. Instead use the subworksheet. **For years before 2018**, this row will be N/A. See **NOTE 3** on page 270.

(42) Elect to Waive NOL Carryback (Y/N)

Set to Yes to waive the carryback of the NOL generated on row 41 above. See IRC § 172(b)(3).

NOTE 1

The program treats as business losses the following rows on the Capital Gain and Loss Worksheet:

1. Short Term Passive Activity Gain or Loss
2. Short Term Trade/Business MAPRRA Gain or Loss
3. Short Term Gain: PTP Gain Activities
4. Other PTP Short Term Gain or Loss
5. Active Trade or Business Short Term Gain or Loss

NOTE 2

The program treats as business losses the following rows of the Capital Gain and Loss Worksheet:

1. §1231 Unrecap 1250 Gain(25%):Td/Bus
2. §1231 Unrecap 1250 Gain(25%):Passive
3. Other Passive §1231 Gain/Loss
4. Other §1231 Trade/Business Gain/L
5. Long-term Passive Gain/Loss
6. Long-term Trade/Bus MAPRRA Gain/Loss
7. Long-term Gain:PTP Gain Activities
8. Other PTP Long-term Gain/Loss
9. Active Trade/Business Long-term G/L

The program will also treat as business losses the following rows on the 28% rate Capital Gains and Loss Worksheet:

1. Qualified Small Bus Stock Gain
2. §1231 Trade/Business Gain/Loss
3. §1231 Passive Gain/Loss
4. Passive Activity Gain/Loss
5. Trade/Bus MAPRRA Gain/Loss
6. PTP Gain Activities
7. Other PTP Activities

NOTE 3

The program computes the NOL generated for years after 2017. For prior years, NOLs have to be entered on row 22, after applying carrybacks from years before 2018 and amounts absorbed in intervening years.

NOL GENERATED

NOL Generated
(1) **Taxable Income w/o PE,QID & NOL**
(2) **Nonbusiness Capital Gain/Loss**
(3) Nonbusiness Ordinary Income
(4) **Interest and Dividends**
(5) **Other Investment Income**
(6) **Retirement Income**
(7) **Other Nonbusiness Income**
(8) Adjustment to Nonbusiness Ordinary Income
(9) **Total Nonbusiness Ordinary Income**
(10) Nonbusiness Deductions
(11) **Itemized or Standard Deduction**
(12) **IRAs and Keoghs**
(13) **Education Expenses**
(14) **Other Nonbusiness Deductions**
(15) Adjustment to Nonbusiness Deductions
(16) **Total Nonbusiness Deductions**
(17) **Net Nonbusiness Ordinary Income/Loss**
(18) **Reduction for Nonbusiness Capital Gain**
(19) **Reduced Nonbusiness Ordinary Income/loss**
(20) **Business Capital Gain/Loss**
(21) **Reduction for Remaining Nonbusiness Income**
(22) **Reduced Business Capital Loss**
(23) **Total Business and Nonbusiness Capital Loss**
(24) **Total Current Year Capital Loss**
(25) **Capital Loss Deduction**
(26) **Capital Loss Carried Over**
(27) **Reduced Total Business and Nonbusiness Loss**
(28) Adjustment
(29) **Total NOL Generated (If Negative)**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Taxable Income w/o PE, QID & NOL (Calculated)

Taxable Income from the **Main Worksheet** after adding back any Personal Exemptions, Qualified Income Deduction and Net Operating Loss deduction.

(2) Nonbusiness Capital Gain/Loss (Calculated)

Total Capital Gain or Loss from the **Capital Gains and Losses** worksheet less the following rows on the **Excess Business Loss and NOL** worksheet:

- Short Term Trade or Business Capital Gain or Loss
- Long Term Trade or Business Capital Gain or Loss

(3) Nonbusiness Ordinary Income

Heading for rows 4 through 9 below.

(4) Interest and Dividends (Calculated)

The amount from the "Interest and Dividends" row of the **Ordinary Income** worksheet.

(5) Other Investment Income (Calculated)

The sum of the following:

- The "Ordinary Gain/Loss: Investment" row from the **Section 1231 and Casualty Gain/Loss** worksheet, and
- The following rows from the **Other Ordinary Income** worksheet:
    - Ordinary Property Disposition G/L: Investment
    - Individual Activities
    - Section 1033 Gain
    - Section 1033-Individual Activities
    - Royalties
    - Other Investment Income
    - Individual Activities
    - Investment Expenses
    - Individual Activities

(6) Retirement Income (Calculated)

The sum of the following rows on the **Other Ordinary Income** worksheet:

- Includible Social Security Benefits
- IRA to Roth Rollover Inclusion
- Post '99 Lump Sum Distribution
- State Exempt Required Distributions

- State Nonexempt Required Distributions
- Other Pension & IRA Distributions

(7) Other Nonbusiness Income (Calculated)

The amount on the "Total Other Ordinary Income" row of the **Other Ordinary Income** worksheet

plus

the "Ordinary Gain/Loss: Investment" row from the **Section 1231 and Casualty Gain/Loss** worksheet

minus

the "Other Ordinary Trade or Business" row of the **Excess Business Losses and NOLs** worksheet, and rows 5 and 6 above.

(8) Adjustment to Nonbusiness Ordinary Income

Any adjustment to Nonbusiness Ordinary Income as computed on the rows above.

(9) Total Nonbusiness Ordinary Income (Calculated)

The sum of rows 4 through 8 above.

(10) Nonbusiness Deductions

Heading for rows 11 through 15 below.

(11) Itemized or Standard Deduction (Calculated)

Total Itemized or the Standard Deduction, whichever applies.

(12) IRAs and Keoghs (Calculated)

The sum of the following rows on the **Ordinary Income** worksheet:

- Taxpayer's IRA
- Spouse's IRA
- Taxpayer's Keogh & SEP
- Spouse's Keogh & SEP

(13) Education Expenses (Calculated)

The sum of the following rows on the **Ordinary Income** worksheet:

- Educational Loan Interest

- Education Expense Deduction

(14) Other Nonbusiness Deductions (Calculated)

The Other Adjustments row of the Ordinary Income worksheet minus the negative amount on the Investment Interest Expense row of that worksheet.

(15) Adjustment to Nonbusiness Deductions

Any adjustment required to the amount computed by the program on the rows above.

(16) Total Nonbusiness Deductions (Calculated)

The sum of rows 11 through 15, above.

(17) Net Nonbusiness Ordinary Income/Loss (Calculated)

Row 9 minus row 16 above.

(18) Reduction for Nonbusiness Capital Gain (Calculated)

The lesser of the loss on row 17 or the gain on row 2, above.

(19) Reduced Nonbusiness Ordinary Income or Loss (Calculated)

Row 17 plus row 18, above.

(20) Business Capital Gain/Loss (Calculated)

The sum of the following rows on the Excess Business Loss and NOL worksheet.

- Short Term Trade or Business Cap Gain or Loss
- Long Term Trade or Business Capital Gain or Loss

(21) Reduction for Remaining Nonbusiness Income (Calculated)

If row 20 is a loss, then this row is the lesser of row 20 or row 2 minus row 18. Otherwise zero.

(22) Reduced Business Capital Loss (Calculated)

Row 20 plus Row 21, above.

(23) Total Business and Nonbusiness Cap Loss (Calculated)

The amount on row 2 if it is less than zero, plus if row 22 is less than zero, row 23 minus row 22.

(24) Total Current Year Cap Loss (Calculated)

The amount on the Total Capital Gain or loss row of the Capital Gains and Losses worksheet, if it is a loss.

(25) Capital Loss Deduction (Calculated)

The amount on the Capital Loss Deduction row of the Capital Gains and Losses worksheet.

(26) Capital Loss Carried Over (Calculated)

Row 24 minus row 25 above. If row 24 is not a loss this row will be zero.

(27) Reduced Total Business and Nonbusiness Loss (Calculated)

Row 23 minus row 26, but not less than zero. If Row 24 is not a loss this row will be zero.

(28) Adjustment

Any adjustment required to the amounts computed by the program on the rows above. Include the IRC Section 1202 exclusion to the extent it changes the NOL.

(29) Total NOL Generated (If Negative) (Calculated)

Row 1 plus row 27 plus row 28, minus row 19 (if row 19 is less than zero).

IRA DEDUCTIONS

IRA Deductions
(1)   **Taxpayer's Compensation**
(2)   Adjustment to Taxpayer's Compensation
(3)   **Spouse's Compensation**
(4)   Adjustment to Spouse's Compensation
(5)   Taxpayer Covered by Pension (Y/N)
(6)   Spouse Covered by Pension (Y/N)
(7)   Taxpayer Over 50 (Y/N)
(8)   Spouse Over 50 (Y/N)
(9)   **Taxpayer's Deductible IRA Limit**
(10) Taxpayer's Traditional IRA Contribution
(11) **Spouse's Deductible IRA Limit**
(12) Spouse's Traditional IRA Contribution
(13) **Taxpayer's IRA Deduction**
(14) **Spouse's IRA Deduction**
(15)
(16) **Roth IRA Modified AGI**
(17) **Taxpayer's Roth IRA Limit**
(18) Taxpayer's Roth IRA Contribution
(19) **Spouse's Roth IRA Limit**
(20) Spouse's Roth IRA Contribution

Caution! The Taxpayer Relief Act of 1997, the Tax Technical Corrections Act of 1998, the Community Renewal Tax Relief Act of 2000, and the Economic Growth and Tax Relief Reconciliation Act of 2001 have raised several questions of interpretation, especially with regard to IRA and Roth IRA computations. At the date of this publication, little guidance from Treasury or the IRS was available with regard to these issues. Until such guidance is forthcoming, please exercise due care in relying on the results produced by the program. See also **NOTE 4** on page 284.

(1) Taxpayer's Compensation: (Calculated)

The sum of the taxpayer's wages and self-employment income. If the **Wages** worksheet is active, then wages included on this row will be the sum of the following rows on that worksheet:

> Taxpayer's FICA Wages
>
> > *Less*: Taxpayer's 401(k)/SIMPLE
>
> Taxpayer's HI Only Wages
>
> Taxpayer's Non-FICA Wages
>
> Taxpayer's Dependent Care Inclusion
>
> Taxpayer's Adoption Assistance Exclusion

If the **Wages** worksheet is not active, then wages included on this row will be the amount on the "Wages" row of the **Ordinary Income** worksheet. If the **Self-employment Income and Loss** worksheet is active, then self-employment income included on this row will be the amount from the "Taxpayer's Total Self-employment Income or Loss" row minus the taxpayer's self-employment tax deduction. If the **Self-employment Income and Loss** worksheet is not active, then self-employment income included on this row will be the amount from the "Self-employment Income" row of the **Ordinary Income** worksheet minus the self-employment tax deduction.

(2) Adjustment to T/P's Compensation

Any adjustment required to the amounts of the taxpayer's compensation as computed on the row above. For years after 2003, this row should include the amount excluded under section 112 for combat pay. See IRC § 219(f)(7).

(3) Spouse's Compensation: (Calculated)

The sum of the spouse's wages and self employment income. If the **Wages** worksheet is active, then wages included on this row will be the sum of the following rows on that worksheet:

Spouse's FICA Wages

>*Less*: Spouse's 401(k)/SIMPLE

Spouse's HI Only Wages

Spouse's Non-FICA Wages

Spouse's Dependent Care Inclusion

Spouse's Adoption Assistance Exclusion

If the **Wages** worksheet is not active, then no wages will be included on this row. If the **Self-employment Income and Loss** worksheet is active, then self-employment income included on this row will be the amount from the "Spouse's Total Self-employment Income or Loss" row minus the Spouse's self-employment tax deduction. If the **Self-employment Income and Loss** worksheet is not active, then no self-employment income will be included on this row.

(4) Adjustment to Spouse's Compensation

Any adjustment required to the amounts of the Spouse's compensation as computed on the row above. For years after 2003, this row should include the amount excluded under section 112 for combat pay. See IRC § 219(f)(7).

(5) Taxpayer Covered by Pension (Y/N)

If the taxpayer is an "active participant" in a pension or profit-sharing plan, enter "1" or "Y" (Yes). If not, enter "0" or "N" (No). Special rules apply for married taxpayers filing separately. See IRC §§ 219(g)(5) and 219(g)(7). When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the corresponding row, below, in the Spouse column.

(6) Spouse Covered by Pension (Y/N)

If the spouse is an "active participant" in a pension or profit-sharing plan, enter "1" or "Y" (Yes). If not, enter "0" or "N" (No). Special rules apply for married taxpayers filing separately. See IRC §§ 219(g)(5) and 219(g)(7). When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the corresponding row, above, in the Taxpayer column.

(7) Taxpayer Over 50 (Y/N)

Specify whether or not the taxpayer has attained the age of 50 before the close of the taxable year. Answer "Y" for Yes or "N" for No. See IRC § 219(b)(5).

When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the "Spouse Over 50 (Y/N)" row, below, in the Spouse column.

For years before 2002, this row will be N/A. See **NOTE 5** on page 284.

(8) Spouse Over 50 (Y/N)

Specify whether or not the taxpayer has attained the age of 50 before the close of the taxable year. Answer "Y" for Yes or "N" for No. See IRC § 219(b)(5).

When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the "Taxpayer Over 50 (Y/N)" row, above, in the Taxpayer column.

For years before 2002, this row will be N/A. See **NOTE 5** on page 284.

(9) Taxpayer's Deductible IRA Limit (Calculated)

The limit on the taxpayer's IRA deduction as defined by IRC § 219(b) and (c). Until a contribution is specified on row 10 "Taxpayer's Traditional IRA Contribution" or row 12 "Spouse's Traditional IRA Contribution", below, the program shows the maximum amount for both taxpayer and spouse. Once a contribution has been specified for the spouse with the higher earned income, the program adjusts the limit for the other spouse's IRA accordingly. See **NOTE 5** on page 284.

If the taxpayer is covered by an employer plan, the limit is reduced. See IRC § 219(g)(2).

The program uses the following statutory amounts for the floor:

	Married Filing Jointly	Single, Head of Household, and Married Filing Separately Living Apart	Married Filing Separately
2000	$52,000	$32,000	0
2001	$53,000	$33,000	0
2002	$54,000	$34,000	0
2003	$60,000	$40,000	0
2004	$65,000	$45,000	0
2005	$70,000	$50,000	0
2006	$75,000	$50,000	0
2007	$83,000	$52,000	0
2008	$85,000	$53,000	0
2009	$89,000	$55,000	0

	Married Filing Jointly	Single, Head of Household, and Married Filing Separately Living Apart	Married Filing Separately
2010	$89,000	$56,000	0
2011	$90,000	$56,000	0
2012	$92,000	$58,000	0
2013	$95,000	$59,000	0
2014	$96,000	$60,000	0
2015–2016	$98,000	$61,000	0
2017	$99,000	$62,000	0
2018	$101,000	$63,000	0
2019	$103,000	$64,000	0
2020	$104,000	$65,000	0

For years after 2020, the inflation floor is adjusted for inflation in accordance with IRC § 219(g)(8) as described under Adjustments.

(10) Taxpayer's Traditional IRA Contribution

The amount of the taxpayer's contribution to his or her own traditional IRA or (for pre-1997 years) the spouse's contribution for the taxpayer to a spousal IRA. To have the program compute the maximum deductible contribution, enter the maximum amount allowed under IRC § 219. The program does not allow you to enter a greater amount. The amount entered here reduces the Taxpayer's Roth IRA Limit, even if the amount entered here exceeds the allowable traditional IRA deduction. The excess is treated as a nondeductible traditional IRA contribution. It also reduces the amount of earned income available to the spouse for his/her IRA contributions in cases where there is less than the full amount of earned income needed for both spouses.

When running a taxpayer and spouse analysis, enter the taxpayer's contribution on this row in the Taxpayer column and the spouse's contribution on the "Spouse's Traditional IRA Contribution" row, below, in the Spouse column.

(11) Spouse's Deductible IRA Limit (Calculated)

The limit on the spouse's IRA deduction as defined by IRC § 219(b) and (c). With regard to the spousal IRA, until a contribution is specified on row 10 "Taxpayer's Traditional IRA Contribution" or row 12 "Spouse's Traditional IRA Contribution", the program shows the maximum amount for both taxpayer and spouse. Once a contribution has been specified for the spouse with the higher earned income, the program adjusts the limit for the other spouse's IRA accordingly. See **NOTE 5** on page 284.

If the spouse is covered by an employer plan, the limit is reduced. See IRC §
219(g)(3), and the table for row 9 above. If the taxpayer is covered by an
employer plan then the amount of the floor is represented by the following
table.

2000–2006	$150,000
2007	$156,000
2008	$159,000
2009	$166,000
2010	$167,000
2011	$169,000
2012	$173,000
2013	$178,000
2014	$181,000
2015	$183,000
2016	$184,000
2017	$186,000
2018	$189,000
2019	$193,000
2020	$196,000

For 2021 and subsequent years, the program adjusts the reduction floor for
inflation in accordance with IRC § 219(g)(8) as described under Inflation
Adjustments.

(12) Spouse's Traditional IRA Contribution

The amount of the spouse's contribution to his or her own traditional IRA or the
taxpayer's contribution for the spouse to a spousal IRA. To have the program
compute the maximum deductible contribution, enter the maximum amount
allowed under IRC § 219. The program does not allow you to enter a greater
amount. The amount entered here reduces the Spouse's Roth IRA Limit, even
if the amount entered here exceeds the allowable traditional IRA deduction.
The excess is treated as a nondeductible traditional IRA contribution. It also
reduces the amount of earned income available to the taxpayer for his/her IRA
contributions in cases where there is less than the full amount of earned
income for both spouses.

When running a taxpayer and spouse analysis, enter the spouse's contribution
on this row in the Spouse column and the taxpayer's contribution on the
"Taxpayer's Traditional IRA Contribution" row, above, in the Taxpayer column.

(13) Taxpayer's IRA Deduction (Calculated)

The taxpayer's IRA deduction as limited. This amount is posted automatically to the "Taxpayer's IRA" row of the **Ordinary Income** worksheet. In computing the taxpayer's deduction, the program gives the deduction first to the spouse with the higher earned income. To the extent that the spouse uses the deduction with a contribution, the program adjusts the limit for the lower-earning spouse. If both spouses have sufficient earned income, each is entitled to an IRA deduction on that basis, and the program allows the deduction accordingly.

(14) Spouse's IRA Deduction (Calculated)

The spouse's IRA deduction as limited. This amount is posted automatically to the "Spouse's IRA" row of the **Ordinary Income** worksheet. In computing the spousal deduction, the program gives the deduction first to the spouse with the higher earned income. To the extent that the spouse uses the deduction with a contribution, the program adjusts the limit for the lower-earning spouse. If both spouses have sufficient earned income, each is entitled to an IRA deduction on that basis and the program allows the deduction accordingly.

(15) Blank

(16) Roth IRA Modified AGI (Calculated)

The amount of adjusted gross income as computed for purposes of the limits on contributions to a Roth IRA. This AGI applies for purposes of the phaseout applicable to current year contributions and also cannot exceed $100,000 if there is to be a qualified rollover contribution from a regular IRA to a Roth IRA. The program computes the amount on this row by calculating a hypothetical AGI computed:

- without regard to the Roth Rollover Inclusion row of the **Other Ordinary Income** worksheet;
- after the passive activity real estate allowance and the social security inclusion (also computed without regard to the Roth Rollover Inclusion);
- without regard to the deduction for regular IRA contributions;
- without regard to IRC §§ 135, 137, 221, and 222.

In computing AGI for other purposes, including modified AGI for purposes of the actual passive activity real estate allowance, the actual social security income inclusion, and the regular IRA deduction, the program includes the rollover amount. See IRC Section 408A(c)(3)(C) as amended by the Tax Technical Corrections Act of 1998.

Note that the program has no provision for separately entering or computing the § 931 possessions exclusion or § 933 Puerto Rico income exclusion.

Therefore, if such an exclusion has been taken into account in entering AGI amounts, and there is social security income included in modified AGI you should adjust the modified AGI computed by the program on this row to eliminate the effect of these exclusions on the social security exclusion. See IRC §§ 408A(c)(3)(C) and 219(g)(3)(A).

As of the date of publication of the program, one authority on how to compute modified AGI on this row was the following excerpt from the Conference Report (105-599) accompanying the Internal Revenue Service Restructuring and Reform Act of 1998 at page 339:

> "Conversion of IRAs into Roth IRAs. — The conferees wish to clarify that for purposes of determining the $100,000 adjusted gross income ("AGI") limit on IRA conversions to Roth IRAs, the conversion amount is not taken into account. Thus, for this purpose, AGI (and all AGI-based phaseouts) are to be determined without taking into account the conversion amount. For purposes of computing taxable income, the conversion amount (to the extent otherwise includible in AGI) is to be taken into account in computing the AGI-based phaseout amounts. The conferees wish to clarify that the language of the Senate Finance committee report (appearing in connection with section 6005(b) of the Senate amendment) relating to calculation of AGI limit for conversions is superseded."

See also Prop. Treas. Reg § 1-408A-3, A-5 and 1-408A-4, A-9. Please exercise caution in relying on the results of this computation.

(17) Taxpayer's Roth IRA Limit (Calculated)

The taxpayer's Roth IRA limit computed after the AGI phaseout in IRC § 408A(c)(2). For purposes of computing modified AGI and the limit, the program applies the rules of the Tax Technical Corrections Act of 1998. The program reduces the Roth limit by the amount of the allowable regular IRA contribution. The amount of the Roth contribution is not deducted in computing adjusted gross income or taxable income, but is provided on this worksheet for informational purposes. See **NOTE 5** on page 284. The floor for the AGI phaseout is represented by the following table:

	Married Filing Jointly	Single, Head of Household, and Married Filing Separately Living Apart	Married Filing Separately
2000–2006	$150,000	$95,000	0
2007	$156,000	$99,000	0
2008	$159,000	$101,000	0
2009	$166,000	$105,000	0

	Married Filing Jointly	Single, Head of Household, and Married Filing Separately Living Apart	Married Filing Separately
2010	$167,000	$105,000	0
2011	$169,000	$107,000	0
2012	$173,000	$110,000	0
2013	$178,000	$112,000	0
2014	$181,000	$114,000	0
2015	$183,000	$116,000	0
2016	$184,000	$117,000	0
2017	$186,000	$118,000	0
2018	$189,000	$120,000	0
2019	$193,000	$122,000	0
2020	$196,000	$124,000	0

For 2021 and subsequent years, the program adjusts the AGI reduction floor for inflation in accordance with IRC § 408A(c)(3)(E) as described under Inflation Adjustments.

(18) Taxpayer's Roth IRA Contribution

The amount of the taxpayer's contribution to his nondeductible Roth IRA in years after 1999. See IRC § 408A. To have the program compute the maximum contribution, enter the maximum amount allowed under IRC § 219.

Note. The contribution to a Roth IRA is limited to the excess of the Roth IRA limit over the amount of the traditional IRA contribution. The program applies this limitation in computing the Roth IRA limit.

When running a taxpayer and spouse analysis, enter the taxpayer's contribution on this row in the Taxpayer column and the spouse's contribution on the "Spouse's Roth IRA Contribution" row, below, in the Spouse column.

(19) Spouse's Roth IRA Limit (Calculated)

The spouse's Roth IRA limit computed after the AGI phaseout in IRC Section 408A(c)(2). See the table for row 9 above. For purposes of computing modified AGI and the limit, the program applies the rules of the Tax Technical Corrections Act of 1998. The program reduces the Roth limit by the amount of the allowable regular IRA contribution. The amount of the Roth contribution is not deducted in computing adjusted gross income or taxable income, but is provided on this worksheet for informational purposes. See **NOTE 5** on page 284.

(20) Spouse's Roth IRA Contribution

The amount of the spouse's contribution to her nondeductible Roth IRA in years after 1999. See IRC § 408A. To have the program compute the maximum contribution, enter the maximum amount allowed under IRC § 219.

Note. The contribution to a Roth IRA is limited to the excess of the Roth IRA limit over the amount of the traditional IRA contribution. The program applies this limitation in computing the Roth IRA limit.

When running a taxpayer and spouse analysis, enter the spouse's contribution on this row in the Spouse column and the taxpayer's contribution on the corresponding row above in the Taxpayer column.

NOTE 1

For married taxpayers filing separately, the program automatically applies the rule of IRC § 219(g)(4), as amended by the TAMRA of 1988. In other words, the program assumes that the taxpayer is electing to have the new rule applied to 1987 as permitted by TAMRA § 1011(a)(2). Therefore, if the taxpayer lived with his spouse and either the spouse or the taxpayer was covered by an employer plan, you should answer "Yes" on row 5 "Taxpayer Covered by Pension (Y/N)" above. You should also indicate, on row 2 "Married Separate Lived Together" of the **Filing Status** worksheet, that the taxpayer lived with his spouse. The program will then apply the IRA phaseout using an applicable dollar amount (the start of the phaseout) for AGI of "0." Otherwise, for all years, the program uses an applicable dollar amount of $25,000 for married filing separately.

NOTE 2

In cases where there is both an IRA limitation and a social security exclusion computation, the program first computes the social security exclusion with AGI computed without the IRA deduction. Then the program computes the IRA deduction with AGI taking into consideration the social security exclusion just computed. Finally, the program recomputes the social security exclusion with AGI taking into consideration the just computed IRA deduction. This procedure follows IRS Announcement 88–38, 1988–10, I.R.B. 60.

NOTE 3

The program includes the amount on the "Taxpayer's Alimony Received" row of the **Other Ordinary Income** worksheet in the taxpayer's earned income for purposes of computing the IRA limitation as is permitted by IRC § 219(f). It includes the amount on the "Spouse's Alimony Received" row for purposes of computing the spouse's earned income. When running a taxpayer and spouse analysis, enter the taxpayer's alimony received on the "Taxpayer's Alimony Received" row of the **Other Ordinary Income** worksheet in the Taxpayer

column and the spouse's alimony received on the corresponding row in the Spouse column.

NOTE 4

The program applies the technical correction provisions of the Community Renewal Tax Relief Act of 2000.

NOTE 5

The changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 effective in after 2001 have been made permanent. See the Pension Protection Act of 2006, § 811.

NOTE 6

This version of the program does not have any provision for the increase in the catch-up contribution limits for employees of bankrupt employers who were subject to indictment or conviction resulting from business transactions related to the bankruptcy. See IRC § 219(b)(5)(C).

TAXPAYER'S KEOGH AND SEP DEDUCTIONS

Taxpayer's Keogh and SEP Deductions
(1)   Taxpayer
(2)   Compute Deduction?
(3)   **Self-Employment Income**
(4)   Adj to Passive Self-Employment Income
(5)   Adj to Other Self-Employment Income
(6)   **Adjusted Self-Employment Income**
(7)   **Statutory Employee Net Income**
(8)   Adj to Stat Employee Income
(9)   **Adjusted Statutory Employee Income**
(10)   **Total Self-Employment Income**
(11)   **Less: Self-Employment Tax Ded**
(12)   **Less: Contribution**
(13)   **Less: Adjustment to Contribution**
(14)   **Net Earnings From Self-Employment**
(15)   **Limit**
(16)   Adjustment to Limit
(17)   **Adjusted Limit**
(18)   **Lesser of Net Earnings or Limit**
(19)   Money Purchase Profit Sh or SEP
(20)   **Maximum Deduction %**
(21)   Contribute Maximum Deduction?
(22)   If No Then % of Compensation
(23)   Basic 401(k) Contribution
(24)   Catch-up 401(k) Contribution
(25)   **Other Contribution Deduction**
(26)   Adj to Contribution Deduction
(27) **Taxpayer's Keogh/SEP Deduction**

Caution! The Economic Growth and Tax Relief Reconciliation Act of 2001 has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At the date of publication of the program, little guidance from the Treasury or the IRS was available with regard to these issues. This section explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTES following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Taxpayer

Heading to indicate that this worksheet applies to the taxpayer and not the taxpayer's spouse. For the spouse, see the **Spouse's Keogh and SEP Deductions** worksheet on page 294.

(2) Compute Deduction?

Compute the deduction on row 25 below. If you answer "Yes," the program computes the Keogh/SEP deduction in accordance with the entries on the rows below. If you answer "No," the program skips the automatic computation and simply adds together the amounts on rows 23, 24 and 26 below. In either event, the result is posted to the "Taxpayer's Keogh and SEP" row of the **Ordinary Income** worksheet.

(3) Self-Employment Income (Calculated)

The sum of the following rows on the **Self-employment Income and Loss** worksheet:

- row 1 "Taxpayer's Self-employment Income or Loss"
- row 6 "Taxpayer's Other Self-employment Income from Individual Activities"
- row 7 "Taxpayer's Self-employment Income from Passive Activities"
- row 23 "Taxpayer's Self-employment Income Adjustment"

If the **Self-employment Income & Loss** worksheet is not active, then the amount on this row will be the amount on row 3 "Self-employment Income" of the **Ordinary Income** worksheet.

(4) Adjustment to Passive Self-Employment Income

Any adjustment required to Passive Activity self-employment income included on row 3, above. The program is designed to handle the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any taxpayer passive activity self-employment income other than the

285

income from the business with respect to which you want the program to compute the deduction.

Note. The amount of the self-employment tax deduction, which reduces net earnings from self-employment for purposes of the Keogh/SEP deduction will be reduced by the program proportionately for any negative adjustment entered on this row. See the description for row 11, below. And see IRC §§ 404(a)(8)(D) and 401(c)(2).

For 2010, if the amount on row 3 attributable to passive self-employment income has been reduced by the taxpayer's self-employed health insurance deduction, the amount of the deduction needs to be added back on this row. See the worksheet on page 22 of IRS Pub 560 for 2010. Although the statute does not support any such adjustment, the Joint Tax Committee technical explanation of the Small Business Jobs act of 2010 states: "It is intended that earned income within the meaning of section 401(c)(2) be computed without regard to this deduction for the cost of health insurance.[77] Thus, earned income for purposes of the limitation applicable to the health insurance deduction is computed without regard to this deduction.

[77] A technical correction may be needed to achieve this result."

(5) Adjustment to Other Self-Employment Income

Any adjustment required to self-employment income included on row 3, other than such income from a passive activity. The program is designed to handle the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any taxpayer non-passive activity self-employment income other than the income from the business with respect to which you want the program to compute the deduction.

Note. The amount of the self-employment tax deduction, which reduces net earnings from self-employment for purposes of the Keogh/SEP deduction will be reduced by the program proportionately for any negative adjustment entered on this row. See the description for row 11, below. And see IRC §§ 404(a)(8)(D) and 401(c)(2).

For 2010, if the amount on row 3 has been reduced by the taxpayer's self-employed health insurance deduction, the amount of the deduction needs to be added back on this row. See the worksheet on page 22 of IRS Pub 560 for 2010. Although the statute does not support any such adjustment, the Joint Tax Committee technical explanation of the Small Business Jobs act of 2010 states: "It is intended that earned income within the meaning of section 401(c)(2) be computed without regard to this deduction for the cost of health insurance.[77] Thus, earned income for purposes of the limitation applicable to the health insurance deduction is computed without regard to this deduction.

[77] A technical correction may be needed to achieve this result.''

(6) Adjusted Self-Employment Income (Calculated)

The sum of rows 3, 4 and 5, above.

Note. When the program computes modified AGI for purposes of the passive activity real estate allowance, this row is the sum of rows 3 and 5 only.

(7) Statutory Employee Net Income (Calculated)

The sum of the following rows on the **Self-employment Income & Loss** Worksheet:

- row 8 "Taxpayer's Statutory Employee Wages"
- row 9 "Taxpayer's Statutory Employee Expenses"

(8) Adjustment to Statutory Employee Income

Any adjustment required to the amount on row 7, above. The program is designed to handle the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any statutory employee self-employment income other than the income from the business with respect to which you want the program to compute the deduction. Note that statutory employee net income of a full-time life insurance salesman does not qualify as net earnings from self-employment for purposes of Keogh/SEP deductions and should be entered as a negative amount on this row. See IRC § 401(c)(2)(a)(iii).

(9) Adjusted Statutory Employee Income (Calculated)

The sum of rows 7 and 8, above.

(10) Total Self-Employment Income (Calculated)

The sum of rows 6 and 9, above.

(11) Less: Self-Employment Tax Deduction (Calculated)

For 2010, if the amount on row 6 is greater than the amount on row 3, the program assumes that the difference is due to the add back of the health insurance deduction. In such event the program recomputes the Self-employment Tax deduction on the basis of the amount on row 6. See the worksheet on page 22 of IRS Pub 560 for 2010. For all years, if the amount on row 3 is greater than the amount on row 6, this row will be the taxpayer's self-employment tax deduction multiplied by row 6 divided by row 3. Otherwise, this will be the total of the taxpayer's self-employment tax deduction. See **NOTE 1** on page 293.

(12) Less: Contribution (Calculated)

The amount from row 25 below.

(13) Less: Adjustment to Contribution (Calculated)

The amount from row 26 below.

(14) Net Earnings From Self-Employment (Calculated)

The sum of rows 10, 11, 12, and 13, above.

(15) Limit (Calculated)

The limit on annual compensation to be taken into account as specified in IRC § 404(l). See also IRC § 401(a)(17). The limit, as adjusted for inflation, varies by year as follows:

Year	Amount
2000–2001	$170,000
2002–2003	$200,000
2004	$205,000
2005	$310,000
2006	$220,000
2007	$225,000
2008	$230,000
2009–2011	$245,000
2012	$250,000
2013	$255,000
2014	$260,000
2015–2016	$265,000
2017	$270,000
2018	$275,000
2019	$280,000
2020	$285,000

For 2021 and subsequent years, the program adjusts the amount for inflation. See "Inflation Adjustments." See also **NOTE 2** on page 293.

(16) Adjustment to Limit

Any adjustment to the limit computed by the program on row 15, above. **For years prior to 1997**, the limit had to be adjusted to take into account earnings of the taxpayer's spouse and lineal descendants under age 19. See IRC §

401(a)(17), prior to amendment by the Small Business Job Protection Act of 1996.

(17) Adjusted Limit (Calculated)

The sum of rows 15 and 16, but not less than 0.

(18) Lesser of Net Earnings or Limit (Calculated)

The lesser of the amount on row 14 or the amount on row 17.

(19) Money Purchase, Profit Sharing or SEP

The type of plan for which the deduction is being computed. Use the drop-down list box to select from among Money Purchase, Profit Sharing, or SEP. For all purposes, the program treats Profit Sharing and SEPs alike.

Note. The program does not compute the limits for SIMPLE IRA or SIMPLE 401(k) plans. It also does not compute the limits for a SARSEP. See IRS Pub. 560, and **NOTE 3** and **NOTE 4** on page 293.

(20) Maximum Deduction Percent (Calculated)

If the selection on row 19 is Money Purchase, this row will be 25%. For years before 2002, if the row 19 selection is Profit Sharing or SEP, this row will be 15%. For years after 2001, this row will be 25% regardless of the selection on row 19. See IRC § 404(a)(3)(A).

(21) Contribute Maximum Deduction?

Answer "Yes" to cause the program to use the percentage on row 20 for the contribution. Otherwise, answer "No" and enter the plan percentage on row 22 below. The program does not handle plans that may have split percentages applicable to different levels of income.

(22) If No Then % of Compensation

If row 21 is "No," enter the plan percentage to be used to compute the deduction. Otherwise, the amount entered on this row has no effect on the computations. Enter the amount expressed as a percentage. For example, enter 10.5 percent as 10.5, not as 0.105.

(23) Basic 401(k) Contribution

For years after 2001, the amount of any 401(k) contribution (other than catch-up) included as part of the plan made on behalf of the taxpayer. Such a salary reduction arrangement may only be part of a profit sharing plan or a pre-ERISA money purchase plan. The program takes this amount into account in applying

the limit of IRC § 415(c)(1)(A), i.e., the $40,000 limit. The program does **not** reduce net earnings from self-employment on row 14, above, by the amount entered here. See IRC §§ 404(a)(12), 415(c)(3)(D), and 404(n). The program will issue a warning message if the entry exceeds the statutorily allowed amount or 100% of the amount on row 14, above. See IRC § 415(c)(1)(B). The program does **not** reduce the statutory limit by the amount entered on the Taxpayer's 401(k)/SIMPLE row of the **Wages** worksheet on page 116. You must take into account any such required reduction before entering the amount here. See also the description for row 25 below. The amounts allowed by IRC § 402(g) vary by year, as follows:

2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000
2007	$15,500
2008	$15,500
2009	$16,500
2010	$16,500
2011	$16,500
2012	$17,000
2013	$17,500
2014	$17,500
2015	$18,000
2016	$18,000
2017	$18,000
2018	$18,500
2019	$19,000
2020	$19,500

For 2021 and subsequent years, the amount is increased for inflation, as described under "Inflation Adjustments" in the help system. See IRC § 402(g). And see **NOTE 2** on page 293.

With regard to SEPs, see **NOTE 3** and **NOTE 4** on page 293.

For years prior to 2002, the program does not take into account 401(k) contributions in computing the deduction and this row will contain N/A.

(24) Catch-up 401(k) Contribution

For years after 2001, the amount of any 401(k) catch-up contribution available to taxpayers age 50 or over, included as part of the plan and made on behalf of the taxpayer. The program does **not** reduce net earnings from self-employment on row 14 above by the amount entered here. Nor does it take the amount entered here into account in computing the amount on row 25. See IRC § 414(v)(3)(A)(i). The program will issue a warning message if the entry on this row exceeds the amount allowed by IRC § 414(v)(2)(B)(i). The amount allowed varies by year as follows:

2002	$1,000
2003	$2,000
2004	$3,000
2005	$4,000
2006	$5,000
2007	$5,000
2008	$5,000
2009	$5,500
2010	$5,500
2011	$5,500
2012	$5,500
2013	$5,500
2014	$5,500
2015	$6,000
2016	$6,000
2017	$6,000
2018	$6,000
2019	$6,000
2020	$6,500

For years after 2020, the amount is increased for inflation, as described under "Inflation Adjustments" in help system. See IRC § 414(v)(2)(B)(i). See **NOTE 2** on page 293.

For years prior to 2002, the program does not take into account 401(k) contributions in computing the deduction and this row will contain N/A.

(25) Other Contribution Deduction (Calculated)

The amount on this row is computed as follows:

1. The sum of rows 10, 11 and 13 is multiplied by the appropriate percentage. Because the contribution deduction and net earnings from self-employment are dependent on each other, the appropriate percentage is determined in accordance with the following formula: (pct / 100) / (1 + (pct / 100)), where "pct" is the amount on row 20, if row 21 is "Yes" or, if row 21 is "No," the lesser of the amounts on rows 20 and 22. See IRC § 401(c)(2).

2. The amount determined in step A., above, is limited to row 17 multiplied by the percentage on row 20, if row 21 is "Yes," or, if row 21 is "No," the lesser of the percentages on rows 20 and 22.

3. The amount determined in step A., above, is further limited to the excess of the § 415(c)(1)(A) limit, i.e., the $40,000 limit (for 2002), over the amount on row 23, the basic 401(k) contribution. See **NOTE 3** on page 293.

4. The amount determined in step A., above, is further limited to 0.5 multiplied by the sum of rows 10, 11, and 13, over the amount on row 23, the basic 401(k) contribution. This is to apply the 100% of compensation limit of IRC § 415(c)(1)(B).

See IRS Pub. 560.

(26) Adjustment to Contribution Deduction

Any adjustment to the amount computed by the program on row 25. This row may be used to reduce the deduction by any amounts included on rows 23 and 24 that are designated Roth contributions. Use this row also to enter the contribution to a defined benefit plan and to make any other required adjustment, other than those entered on the rows above.

Note. The amount entered here will reduce or increase net earnings from self-employment on row 14 and may, therefore, reduce or increase the amount computed on row 25. See IRC §§ 404(a)(8)(B) and 401(c)(2).

Note. The program does not compute any limit on the amount entered here, or take the amount entered here into account in computing any other limitations on this worksheet, (except, as noted, to reduce or increase net earnings from self-employment on row 14). With regard to the limit on combined defined contribution and defined benefit plans. See IRC § 404 (a)(7).

(27) Taxpayer's Keogh/SEP Deduction

The sum of rows 23, 24, 25, and 26, above. If either of the amounts on rows 23 or 24 exceeds the statutory limit, the program includes only the limited amount. The amount on this row is posted to the "Taxpayer's Keogh and SEP" row of the **Ordinary Income** worksheet.

NOTE 1

If the amount on row 3 is greater than the amount on row 6 (indicating a negative adjustment to self-employment income) the program allocates the self-employment tax deduction proportionately. See the description for row 11. As of the date of publication of the program, there was no authority dealing with a case in which the self-employment tax was computed on an amount greater than the amount being used for the Keogh/SEP deduction. See IRC §§ 404(a)(8)(D) and 401(c)(2).

NOTE 2

The future year inflation adjustments applied by this worksheet are based on the amounts entered on the **Calculation Options** dialog box. When the IRS announces the correct amounts for the following year, the next version of the program is updated to apply them. In the meantime, they can be entered on the **Calculation Options** dialog box. Also see "Inflation Adjustments" in the help system.

NOTE 3

In computing the deduction limits for a SEP, the program does not take into account the reduction of the limit of IRC § 415(c)(1)(A) for disparity contributions under IRC § 408(k)(3)(D). See IRC § 402(h)(2)(B).

NOTE 4

There is some question as to whether a SEP set up after 1996 can include a regular (as opposed to catch-up) salary reduction arrangement. See IRC § 408(k)(6)(H). Current IRS Pub. 560 (2003) suggests it cannot, while IRS Pub. 590 for 2002 suggested that it can. The discussion of SEPs was taken out of Pub. 590 for 2003. If a SEP cannot include a salary reduction arrangement, then if the plan is a SEP, no entry should be made on row 23 (Basic 401(k) Contribution). Note that the program does not compute the limits for a pre-1997 SARSEP. See IRS Pub. 560.

SPOUSE'S KEOGH AND SEP DEDUCTIONS

Spouse's Keogh and SEP Deductions
(1) Spouse
(2)   Compute Deduction?
(3)   **Self-Employment Income**
(4)   Adjustment to Passive Self-Employment Income
(5)   Adjustment to Other Self-Employment Income
(6)   **Adjusted Self-Employment Income**
(7)   **Statutory Employee Net Income**
(8)   Adjustment to Statutory Employee Income
(9)   **Adjusted Statutory Employee Income**
(10)   **Total Self-Employment Income**
(11)   **Less: Self-Employment Tax Deduction**
(12)   **Less: Contribution**
(13)   **Less: Adjustment to Contribution**
(14) **Net Earnings From Self-Employment**
(15) **Limit**
(16) Adjustment to Limit
(17) **Adjusted Limit**
(18) **Lesser of Net Earnings or Limit**
(19) Money Purchase, Profit Sharing, or SEP
(20) **Maximum Deduction %**
(21) Contribute Maximum Deduction?
(22) If No, then Percentage of Compensation
(23) Basic 401(k) Contribution
(24) Catch-up 401(k) Contribution
(25) **Other Contribution Deduction**
(26) Adjustment to Contribution Deduction
(27) Taxpayer's Keogh/SEP Deduction

Caution! The Economic Growth and Tax Relief Reconciliation Act of 2001 has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At the date of publication of the program, little guidance from the Treasury or the IRS was available with regard to these issues. This section explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTES following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Spouse

Heading to indicate that this worksheet applies to the taxpayer's spouse and not the taxpayer. For the taxpayer, see the **Taxpayer's Keogh and SEP Deductions** worksheet on page 284.

(2) Compute Deduction?

Compute the deduction on row 25 below. If you answer "Yes," the program computes the Keogh/SEP deduction in accordance with the entries on the rows below. If you answer "No," the program skips the automatic computation and simply adds together the amounts on rows 23, 24, and 26 below. In either

event, the result is posted to the "Spouse's Keogh and SEP" row of the **Ordinary Income** worksheet.

(3) Self-Employment Income (Calculated)

The sum of the following rows on the **Self-employment Income & Loss** worksheet:

- row 11 "Spouse's Self-employment Income or Loss"
- row 16 "Spouse's Self-employment Income from Other Individual Activities"
- row 17 "Spouse's Self-employment Income from Passive Activities"
- row 24 "Spouse's Self-employment Income Adjustment"

If the Self-employment Income & Loss Worksheet is not active, then the amount on this row will be 0.

(4) Adjustment to Passive Self-Employment Income

Any adjustment required to Passive Activity self-employment income included on row 3, above. The program is designed to handle the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any spouse passive activity self-employment income other than the income from the business with respect to which you want the program to compute the deduction. The amount of the self-employment tax deduction, which reduces net earnings from self-employment for purposes of the Keogh/SEP deduction will be reduced by the program proportionately for any negative adjustment entered on this row. See the description for row 11, below. And see IRC §§ 404(a)(8)(D) and 401(c)(2).

For 2010, if the amount on row 3 attributable to passive self-employment income has been reduced by the taxpayer's self-employed health insurance deduction, the amount of the deduction needs to be added back on this row. See the worksheet on page 22 of IRS Pub 560 for 2010. Although the statute does not support any such adjustment, the Joint Tax Committee technical explanation of the Small Business Jobs act of 2010 states: "It is intended that earned income within the meaning of section 401(c)(2) be computed without regard to this deduction for the cost of health insurance.[77] Thus, earned income for purposes of the limitation applicable to the health insurance deduction is computed without regard to this deduction.

[77] A technical correction may be needed to achieve this result."

(5) Adjustment to Other Self-Employment Income

Any adjustment required to self-employment income included on row 3, other than such income from a passive activity. The program is designed to handle

the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any spouse non-passive activity self-employment income other than the income from the business with respect to which you want the program to compute the deduction. The amount of the self-employment tax deduction, which reduces net earnings from self-employment for purposes of the Keogh/SEP deduction will be reduced by the program proportionately for any negative adjustment entered on this row. See the description for row 11, below. And see IRC §§ 404(a)(8)(D) and 401(c)(2).

For 2010, if the amount on row 3 has been reduced by the taxpayer's self-employed health insurance deduction, the amount of the deduction needs to be added back on this row. See the worksheet on page 22 of IRS Pub 560 for 2010. Although the statute does not support any such adjustment, the Joint Tax Committee technical explanation of the Small Business Jobs act of 2010 states: "It is intended that earned income within the meaning of section 401(c)(2) be computed without regard to this deduction for the cost of health insurance.[77] Thus, earned income for purposes of the limitation applicable to the health insurance deduction is computed without regard to this deduction.

[77] A technical correction may be needed to achieve this result."

(6) Adjusted Self-Employment Income (Calculated)

The sum of rows 3, 4 and 5, above. When the program computes modified AGI for purposes of the Passive Activity real estate allowance, this row is the sum of rows 3 and 5 only.

(7) Statutory Employee Net Income (Calculated)

The sum of the following rows on the **Self-employment Income & Loss** worksheet:

- row 18 "Spouse's Statutory Employee Wages"
- row 19 "Spouse's Statutory Employee Expenses"

(8) Adjustment to Statutory Employee Income

Any adjustment required to the amount on row 7 above. The program is designed to handle the Keogh/SEP deduction for one business for the taxpayer and one for the spouse. Use this row to subtract any statutory employee self-employment income other than the income from the business with respect to which you want the program to compute the deduction. Note that statutory employee net income of a full-time life insurance salesman does not qualify as net earnings from self-employment for purposes of Keogh/SEP deductions and should be entered as a negative amount on this row. See IRC § 401(c)(2)(a)(iii).

(9) Adjusted Statutory Employee Income (Calculated)

The sum of rows 7 and 8, above.

(10) Total Self-Employment Income (Calculated)

The sum of rows 6 and 9, above.

(11) Less: Self-Employment Tax Deduction (Calculated)

For 2010, if the amount on row 6 is greater than the amount on row 3, the program assumes that the difference is due to the add back of the health insurance deduction. In such event the program recomputes the Self-employment Tax deduction on the basis of the amount on row 6. See the worksheet on page 22 of IRS Pub 560 for 2010. **For all years**, if the amount on row 3 is greater than the amount on row 6, this row will be the spouse's self-employment tax deduction multiplied by row 6 divided by row 3. Otherwise, this will be the total of the spouse's self-employment tax deduction. See **NOTE 1** on page 302.

(12) Less: Contribution (Calculated)

The amount from row 25 below.

(13) Less: Adjustment to Contribution (Calculated)

The amount from row 26 below.

(14) Net Earnings From Self-Employment (Calculated)

The sum of rows 10, 11, 12, and 13, above.

(15) Limit (Calculated)

The limit on annual compensation to be taken into account as specified in IRC § 404(l). See also IRC § 401(a)(17). The limit, as adjusted for inflation, varies by year as follows:

Year	Amount
2000–2001	$170,000
2002–2003	$200,000
2004	$205,000
2005	$210,000
2006	$220,000
2007	$225,000
2008	$230,000

2009–2011	$245,000
2012	$250,000
2013	$255,000
2014	$260,000
2015–2016	$265,000
2017	$270,000
2018	$275,000
2019	$280,000
2020	$285,000

For 2021 and subsequent years, the program adjusts the amount for inflation. See "Inflation Adjustments." See also **NOTE 2** on page 302.

(16) Adjustment to Limit

Any adjustment to the limit computed by the program on row 15, above. **For years prior to 1997**, the limit had to be adjusted to take into account earnings of the taxpayer's spouse and lineal descendants under age 19. See IRC § 401(a)(17), prior to amendment by the Small Business Job Protection Act of 1996.

(17) Adjusted Limit (Calculated)

The sum of rows 15 and 16, but not less than 0.

(18) Lesser of Net Earnings or Limit (Calculated)

The lesser of the amount on row 14 or the amount on row 17.

(19) Money Purchase, Profit Sharing, or SEP

The type of plan for which the deduction is being computed. Use the drop down list box to select from among Money Purchase, Profit Sharing, or SEP. For all purposes, the program treats Profit Sharing and SEPs alike.

Note. The program does not compute the limits for SIMPLE IRA or SIMPLE 401(k) plans. It also does not compute the limits for a SARSEP. See IRS Pub. 560, and **NOTE 3** and **NOTE 4** on page 303.

(20) Maximum Deduction % (Calculated)

If the selection on row 19 is Money Purchase, this row will be 25%. **For years before 2002**, if the row 19 selection is Profit Sharing or SEP, this row will be 15%. **For years after 2001**, this row will be 25% regardless of the selection on row 19. See IRC § 404(a)(3)(A).

(21) Contribute Maximum Deduction?

Answer Yes to cause the program to use the percentage on row 20 for the contribution. Otherwise, answer No and enter the plan percentage on row 22 below. The program does not handle plans that may have split percentages applicable to different levels of income.

(22) If No Then % of Compensation

If row 21 is No, enter the plan percentage to be used to compute the deduction. Otherwise, the amount entered on this row has no effect on the computations. Enter the amount expressed as a percentage. For example, enter 10.5 percent as 10.5, not as 0.105.

(23) Basic 401(k) Contribution

For years after 2001, the amount of any 401(k) contribution (other than catch-up) included as part of the plan made on behalf of the spouse. Such a salary reduction arrangement may only be part of a profit sharing plan or a pre-ERISA money purchase plan. The program takes this amount into account in applying the limit of IRC § 415(c)(1)(A), i.e., the $40,000 limit. The program does **not** reduce net earnings from self-employment on row 14, above, by the amount entered here. See IRC §§ 404(a)(12), 415(c)(3)(D), and 404(n). The program will issue a warning message if the entry exceeds the statutorily allowed amount or 100% of the amount on row 14, above. See IRC § 415(c)(1)(B). The program does **not** reduce the statutory limit by the amount entered on the "Less: Spouse's 401(k)/SIMPLE" row of the **Wages** worksheet. You must take into account any such required reduction before entering the amount here. See also the description for row 25 below. The amounts allowed by IRC § 402(g) vary by year, as follows:

2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000
2007	$15,500
2008	$15,500
2009	$16,500
2010	$16,500
2011	$16,500
2012	$17,000
2013	$17,500

2014	$17,500
2015	$18,000
2016	$18,000
2017	$18,000
2018	$18,500
2019	$19,000
2020	$19,500

For 2021 and subsequent years, the amount is increased for inflation, as described under "Inflation Adjustments" in help system. See IRC § 402(g). And see **NOTE 2** on page 302.

A money purchase plan cannot contain a basic 401(k) arrangement unless the plan was in existence on June 27, 1974 and included a salary reduction arrangement on that date. See IRC § 401(k)(6) and IRS Pub 560. With regard to SEPs, see **NOTE 3** and **NOTE 4** on page 303.

For years prior to 2002, the program does not take into account 401(k) contributions in computing the deduction and this row will contain N/A.

(24) Catch-up 401(k) Contribution

For years after 2001, the amount of any 401(k) catch-up contribution available to taxpayers age 50 or over, included as part of the plan and made on behalf of the spouse. The program does **not** reduce net earnings from self-employment on row 14 above by the amount entered here. Nor does it take the amount entered here into account in computing the amount on row 25. See IRC § 414(v)(3)(A)(i). The program will issue a warning message if the entry on this row exceeds the amount allowed by IRC § 414(v)(2)(B)(i). The amount allowed varies by year as follows:

2002	$1,000
2003	$2,000
2004	$3,000
2005	$4,000
2006	$5,000
2007	$5,000
2008	$5,000
2009	$5,500
2010	$5,500
2011	$5,500
2012	$5,500
2013	$5,500

2014	$5,500
2015	$6,000
2016	$6,000
2017	$6,000
2018	$6,000
2019	$6,000
2020	$6,500

For year after 2021, the amount is increased for inflation, as described under "Inflation Adjustments" in the help system. See IRC § 414(v)(2)(B)(i). See **NOTE 2** on page 302.

For years prior to 2002, the program does not take into account 401(k) contributions in computing the deduction and this row will contain N/A.

(25) Other Contribution Deduction (Calculated)

The amount on this row is computed as follows:

A. The sum of rows 10, 11 and 13 is multiplied by the appropriate percentage. Because the contribution deduction and net earnings from self-employment are dependent on each other, the appropriate percentage is determined in accordance with the following formula: (pct/100)/(1+(pct/100)), where "pct" is the amount on row 20, if row 21 is Yes or, if row 21 is No, the lesser of the amounts on rows 20 and 22. See IRC § 401(c)(2).

B. The amount determined in step A, above, is limited to row 17 multiplied by the percentage on row 20, if row 21 is Yes, or, if row 21 is No, the lesser of the percentages on rows 20 and 22.

C. The amount determined in step A, above, is further limited to the excess of the § 415(c)(1)(A) limit, i.e., the $40,000 limit (for 2002), over the amount on row 23, the basic 401(k) contribution. See **NOTE 3** on page 302.

D. The amount determined in step A, above, is further limited to 0.5 multiplied by the sum of rows 10, 11 and 13, over the amount on row 23, the basic 401(k) contribution. This is to apply the 100% of compensation limit of IRC § 415(c)(1)(B).

See IRS Pub. 560.

(26) Adjustment to Contribution Deduction

Any adjustment to the amount computed by the program on row 25. This row may be used to reduce the deduction by any amounts included on rows 23 and 24 that are designated Roth contributions. Use this row also to enter the

contribution to a defined benefit plan and to make any other required adjustment, other than those entered on the rows above.

Note. The amount entered here will reduce or increase net earnings from self-employment on row 14 and may, therefore, reduce or increase the amount computed on row 25. See IRC §§ 404(a)(8)(B) and 401(c)(2).

Note. The program does not compute any limit on the amount entered here, or take the amount entered here into account in computing any other limitations on this worksheet, (except, as noted, to reduce or increase net earnings from self-employment on row 14). With regard to the limit on combined defined contribution and defined benefit plans. See IRC § 404 (a)(7).

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(27) Spouse's Keogh/SEP Deduction

The sum of rows 23, 24, 25, and 26, above. If either of the amounts on rows 23 or 24 exceeds the statutory limit, the program includes only the limited amount. The amount on this row is posted to the "Spouse's Keogh and SEP" row of the **Ordinary Income** worksheet.

NOTE 1

If the amount on row 3 is greater than the amount on row 6 (indicating a negative adjustment to self-employment income) the program allocates the self-employment tax deduction proportionately. See the description for row 11. As of the date of publication of the program, there was no authority dealing with a case in which the self-employment tax was computed on an amount greater than the amount being used for the Keogh/SEP deduction. See IRC §§ 404(a)(8)(D) and 401(c)(2).

NOTE 2

The future year inflation adjustments applied by this worksheet are based on the amounts entered on the **Calculation Options** dialog box. When the IRS announces the correct amounts for the following year, the next version of the program is updated to apply them. In the meantime, they can be entered on the **Calculation Options** dialog box. See "Inflation Adjustments" in the help system.

NOTE 3

In computing the deduction limits for a SEP, the program does not take into account the reduction of the limit of IRC § 415(c)(1)(A) for disparity contributions under IRC § 408(k)(3)(D). See IRC § 402(h)(2)(B).

NOTE 4

There is some question as to whether a SEP set up after 1996 can include a regular (as opposed to catch-up) salary reduction arrangement. See IRC § 408(k)(6)(H). Current IRS Pub. 560 (2003) suggests it cannot, while IRS Pub. 590 for 2002 suggested that it can. The discussion of SEPs was taken out of Pub. 590 for 2003. If a SEP cannot include a salary reduction arrangement, then if the plan is a SEP, no entry should be made on row 23 "Basic 401(k) Contribution". Note that the program does not compute the limits for a pre-1997 SARSEP. See IRS Pub. 560.

EDUCATIONAL INTEREST INCOME AND EXPENSE

Educational Interest Income & Expense

(1)	Education Expenses § 135 & § 221
(2)	Education Expenses § 135 Only
(3)	Education Expenses § 221 Only
(4)	Total Qualified EE Proceeds
(5)	Qualified EE Bond Interest
(6)	**Exclusion**
(7)	**Net Qualified EE Bond Int**
(8)	**Total § 221 Expenses**
(9)	**Less: § 135 Exclusion**
(10)	**Net § 221 Expenses**
(11)	Qualified Educational Loans
(12)	Qualified Educational Loan Interest
(13)	**Education Loan Deduction**

Caution! This worksheet computes the exclusion for savings bond interest provided by IRC § 135 and the deduction for education loan interest provided by IRC § 221. With regard to the these computations and especially the interplay between the two, at date of publication of the program, complete published guidance was not available from the Treasury or the IRS. The material below explains how the program handles these calculations. You are cautioned to carefully examine the row descriptions for this worksheet and to rely upon our interpretations only to the extent you agree with them. Contact Bloomberg Tax Technology if you have any questions.

(1) Education Expenses Section 135 & Section 221

The cost of attendance of the taxpayer, his spouse, or dependents at an eligible educational institution to the extent such expenses qualify for both the Series EE bond interest exclusion under IRC § 135 and the deduction for interest on educational loans under IRC § 221. Do **not** include expenses to the extent covered by scholarship, an education IRA distribution, etc., nor any expenses taken into account in determining the Hope Scholarship or Lifetime Learning Credits.

If the taxpayer has only qualified EE bond interest income and does not have educational loan interest expense, use the "Education Expenses Section 135 Only" row, below, and do not use this row or the "Education Expenses Section 221 Only" row, below.

If the taxpayer has only educational loan interest expense and does not have qualified EE bond interest income, use the "Education Expenses Section 221 Only" row, below, and do not use either this row or the "Education Expenses Section 135 Only" row, below.

If the taxpayer has both the interest income and the interest expense, then use this row for the expenses that qualify both; use the "Education Expenses Section 135 Only" row, below, for expenses that qualify only for the interest exclusion; and use the "Education Expenses Section 221 Only" row, below, for expenses that qualify only for the interest deduction. See IRC § 135(c) and IRC § 221(e)(2).

(2) Education Expenses Section 135 Only

The cost of attendance of the taxpayer, his spouse, or dependents at an eligible educational institution to the extent such expenses qualify for only the EE bond interest exclusion under IRC § 135 and not the deduction for interest on educational loans under IRC § 221. Do **not** include expenses to the extent covered by scholarship, an education IRA distribution, etc., nor any expenses taken into account in determining the Hope Scholarship or Lifetime Learning Credits. However, contributions to an education IRA or a qualified state tuition program are included.

Use this row only if the taxpayer has only qualified EE bond interest income and not educational loan interest expense; do not use either the "Education Expenses Section 135 & Section 221" row, above, or the "Education Expenses Section 221 Only" row, below.

If the taxpayer has only educational loan interest and not qualified EE bond interest income, then use the "Education Expenses Section 221 Only" row, below, and do not use this row or the "Education Expenses Section 135 & Section 221" row, above.

If the taxpayer has both the interest income and the interest expense, then use this row for the expenses that qualify only for the interest exclusion; use the "Education Expenses Section 221 Only" row, below, for expenses that qualify only for the interest deduction; and use the "Education Expenses Section 135 & Section 221" row, above, for expenses that qualify for both. See IRC § 135(c) and IRC § 221(e)(2).

(3) Education Expenses Section 221 Only

The cost of attendance of the taxpayer, his spouse, or dependents at an eligible educational institution to the extent such expenses qualify for only the deduction for interest on educational loans under IRC § 221 and not the EE bond interest exclusion under IRC § 135. Include expenses (net of the EE bond interest exclusion, if any) incurred in prior years that were paid with loan proceeds on which interest is still being paid up to a total period of 60 months. For years after 2001, the 60 month limit no longer applies. See IRC § 221(d). Do not include expenses to the extent covered by scholarship, an education IRA distribution, etc.

If the taxpayer has only qualified EE bond interest income and not educational loan interest expense, then use the "Education Expenses Section 135 Only" row, above, and do not use either this row or the "Education Expenses Section 135 & Section 221" row, above.

Use this row only if the taxpayer has only educational loan interest expense and not qualified EE bond interest income; do not use either the "Education Expenses Section 135 Only" row, above, or the "Education Expenses Section 135 & Section 221" row, above.

If the taxpayer has both the interest income and the interest expense, then use the "Education Expenses Section 135 Only" row, above, for the expenses that qualify only for the interest exclusion; use this row for expenses that qualify only for the interest deduction; and use the "Education Expenses Section 135 & Section 221" row, above, for expenses that qualify for both. See IRC § 135(c) and IRC § 221 (e)(2).

(4) Total Qualified EE Proceeds

The aggregate proceeds received during the taxable year upon the redemption of qualified United States Series EE bonds by an individual who pays qualified higher education expenses during the year of the redemption of the bond. Such bonds must be issued after December 31, 1989, to an individual who is at least 24 years of age on the date of issue. See IRC § 135.

(5) Qualified EE Bond Interest

Interest received on qualified Series EE U.S. savings bonds by an individual who pays qualified higher education expenses during the year of redemption of the bond.

Such bonds must be issued after December 31, 1989, to an individual who is at least 24 years of age on the date of issue. See IRC § 135.

(6) Exclusion (Calculated)

The exclusion for the portion of the interest entered on row 5, above, applicable to years after 1989. The program automatically computes the limitations based on modified adjusted gross income. The statutory base used to compute the exclusion is (as supplied by the Treasury):

Year	Statutory Base: All (Except MFJ)	Married Filing Jointly
2000	$54,100	$84,100
2001	$55,750	$83,650
2002	$57,600	$86,400
2003	$58,500	$87,750
2004	$59,850	$89,750
2005	$51,200	$91,850
2006	$63,100	$94,700
2007	$65,600	$98,400
2008	$67,100	$100,650
2009	$69,950	$104,900
2010	$70,100	$105,100
2011	$71,100	$106,650
2012	$72,850	$109,250
2013	$74,700	$112,050
2014	$76,000	$113,950
2015	$77,200	$115,750
2016	$77,550	$116,300
2017	$78,150	$117,250
2018	$79,700	$119,550
2019	$81,100	$121,600
2020	$82,350	$123,550

For 2021 and subsequent years, the amounts used by the program reflect the technical correction to IRC § 135(b)(2)(B)(ii) contained in Section 1703 of the Small Business Act of 1996. This provision corrected the apparently unintentional elimination of the inflation adjustment for 1993 contained in the 1993 Revenue Reconciliation Act.

For 2021 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 135(b)(2)(B). See "Calculations" in the help system.

(7) Net Qualified EE Bond Interest (Calculated)

Row 5 less the exclusion on row 6.

(8) Total Section 221 Expenses (Calculated)

The sum of rows 1 and 3, above.

(9) Less: Section 135 Exclusion (Calculated)

The amount on row 6 multiplied by a fraction, the numerator of which is the amount on row 1 and the denominator of which is the sum of the amounts on rows 1 and 2.

(10) Net Section 221 Expenses (Calculated)

The sum of rows 8 and 9, above.

(11) Qualified Educational Loans

The amount of any qualified education loan or loans incurred solely to pay the expenses on the "**Net § 221 Expenses**" row immediately above. If the amount entered on this row is more than the expenses, and there is an amount on row 12 "Qualified Educational Loan Interest", below, the program reduces the deduction to zero and issues a warning message. Otherwise, the program does not use the amount on this row to determine the educational loan interest deduction (or for any other computation). See IRC § 221.

(12) Qualified Educational Loan Interest

The interest paid by the taxpayer during the taxable year on qualified education loans. See IRC § 221. If there is an amount on this row, but no amount on row 11 "Qualified Educational Loans", above, or row 8 "**Total § 221 Expenses**", above, the program reduces the deduction to zero and issues a warning message.

(13) Education Loan Deduction (Calculated)

The amount on this row is calculated as follows and posted to row 18 "Spouse's Keogh & SEP" of the **Ordinary Income** worksheet:

1. The program first computes the lesser of the amount on row 10 and the amount on row 11, above.

2. If the amount on row 10 is less than the amount on row 11, the program divides the amount in step 1, above, by the amount on row 11. This fraction is then multiplied by the amount on row 12. If the amount on row 10 is equal to or greater than the amount on row 11, the amount on row 12 is used in its entirety.

3. Next, the program limits the resulting amount to the maximum amount allowed for the year involved, as follows:

1998	1000
1999	1500
2000	2000
2001 and later	2500

4. Finally, the program phases out the amount in accordance with the formula in IRC Section 221 and the taxpayer's adjusted gross income.

EDUCATION EXPENSES

Education Expenses

(1)   Hope Scholarship Expenses: Student #1
(2)   Adjustment to Expenses for Deduction Purposes
(3)   Disaster Area Student (Y/N):
(4)   Deduction or Credit
(5)   Hope Scholarship Expenses: Student #2
(6)   Adjustment to Expenses for Deduction Purposes
(7)   Disaster Area Student (Y/N):
(8)   Deduction or Credit
(9)   Hope Scholarship Expenses: Student #3
(10)   Adjustment to Expenses for Deduction Purposes
(11)   Disaster Area Student (Y/N):
(12)   Deduction or Credit
(13) Disaster Area Lifetime Learning Expenses
(14) Other Lifetime Learning Expenses
(15)   Adjustment to Expenses for Deduction Purposes
(16)   Deduction or Credit
(17) **Total Expenses for Deduction Purposes**
(18) **Deduction Before AGI Phaseout**
(19) **Deduction After AGI Phaseout**
(20) **Hope Credit Before AGI Phaseout**
(21) **Hope Credit After AGI Phaseout**
(22) **Refundable Portion of Hope Credit**
(23) **Nonrefundable Portion of Hope Credit**
(24) **Lifetime Credit Before AGI Phaseout**
(25) **Lifetime Credit After AGI Phaseout**
(26) **Total Nonrefundable Credit**

(1) Hope Scholarship Expenses: Student #1

Qualified tuition and related expenses paid by the taxpayer during the taxable year for education furnished to eligible student #1 during any academic period beginning in such taxable year or within the first three months following such taxable year. Eligible students include the taxpayer, his spouse, and dependents.

Do not make any entry if an election to have the Hope Scholarship Credit apply with respect to this student (by the taxpayer or any other individual) is in effect with respect to such student for any two prior taxable years.

The Hope Scholarship Credit is not allowed, and no entry should be made, for a taxable year if this student has completed (before the beginning of the taxable year) the first two years (four years for 2009 and later) of postsecondary education at an eligible educational institution.

See IRC § 25A for further limitations including the requirement that qualified tuition and expenses be reduced by scholarships, etc.

(2) Adjustment to Expenses for Deduction Purposes

Any adjustment required to the amount of expenses entered on the row above for purposes of the deduction allowed by IRC § 222, as opposed to the credit allowed by IRC § 25A. Include, as a positive amount, expenses that qualify for the deduction but not for the credit and, as a negative amount, expenses that qualify for the credit and not the deduction. For example, it appears that amounts taken into account in computing the exclusion for U.S. Savings Bond interest for an individual who pays higher education expenses do **not** reduce the amount taken into account for purposes of the Hope Credit, but do reduce the amount taken into account for purposes of the deduction. See IRC § 222(c)(2)(b). In general, see IRC § 25A(b)(2) for limitations that may apply to the credit but not the deduction.

(3) Disaster Area Student (Y/N)

Student #1 is an individual who attended an eligible educational institution (as defined in section 25A(f)(2)) located in the Gulf Opportunity Zone for any taxable year beginning during 2005 or 2006, or the Midwestern Disaster Area in 2008 or 2009. See IRC § 1400O. For years other than 2005, 2006, 2008 and 2009, this row will be N/A.

Note. For 2009, the program treats a Yes answer on any of rows 3, 7, or 11, or a dollar amount on row 13, as an election to waive application of IRC § 25A(i) to all computations on this worksheet and apply the benefits of section 702(a)(1)(B) of the Heartland Disaster Relief Act of 2008, instead.

(4) Deduction or Credit

Specify whether to compute a deduction for the expenses on rows 1 and 2 above, or a credit for the expenses on row 1. Enter D for deduction or C for credit. See IRC §§ 25A and 222.

For years before 2002 and after 2020, entering Deduction on this row will produce an error message.

An entry of Deduction on this row will cause neither the credit nor the deduction to be computed if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the

Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(5) Hope Scholarship Expenses: Student #2

Qualified tuition and related expenses paid by the taxpayer during the taxable year for education furnished to eligible student #2 during any academic period beginning in such taxable year or within the first three months following such taxable year. Eligible students include the taxpayer, his spouse, and dependents.

Do not make any entry if an election to have the Hope Scholarship Credit apply with respect to this student (by the taxpayer or any other individual) is in effect with respect to such student for any two prior taxable years.

The Hope Scholarship Credit is not allowed, and no entry should be made, for a taxable year if this student has completed (before the beginning of the taxable year) the first two years (four years for 2009 and later) of postsecondary education at an eligible educational institution.

See IRC § 25A for further limitations including the requirement that qualified tuition and expenses be reduced by scholarships, etc.

(6) Adjustment to Expenses for Deduction Purposes

Any adjustment required to the amount of expenses entered on the row above for purposes of the deduction allowed by IRC § 222 as opposed to the credit allowed by IRC § 25A. Include, as a positive amount, expenses that qualify for the deduction but not for the credit, and as a negative amount expenses that qualify for the credit and not the deduction. For example, it appears that amounts taken into account in computing the exclusion for U.S. Savings Bond interest for an individual who pays higher education expenses do not reduce the amount taken into account for purposes of the Hope Credit, but do reduce the amount taken into account for purposes of the deduction. See IRC § 222(c)(2)(b). In general, see IRC § 25A(b)(2) for limitations that may apply to the credit but not the deduction.

(7) Disaster Area Student (Y/N)

Student #2 is an individual who attended an eligible educational institution (as defined in section 25A(f)(2)) located in the Gulf Opportunity Zone for any taxable year beginning during 2005 or 2006, or the Midwestern Disaster Area in 2008 or 2009. See IRC § 1400O. For years other than 2005, 2006, 2008 and 2009 this row will be N/A.

Note. For 2009, the program treats a Yes answer on any of rows 3, 7, or 11, or a dollar amount on row 13, as an election to waive application of IRC § 25A(i) to all computations on this worksheet and apply the benefits of section 702(a)(1)(B) of the Heartland Disaster Relief Act of 2008, instead.

(8) Deduction or Credit

Specify whether to compute a deduction for the expenses on rows 5 and 6 above, or a credit for the expenses on row 5. Enter D for deduction or C for credit. See IRC §§ 25A and 222.

For years before 2002 and after 2020, entering Deduction on this row will produce an error message.

An entry of Deduction on this row will cause neither the credit nor the deduction to be computed if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(9) Hope Scholarship Expenses: Student #3

Qualified tuition and related expenses paid by the taxpayer during the taxable year for education furnished to eligible student #3 during any academic period beginning in such taxable year or within the first three months following such taxable year. Eligible students include the taxpayer, his spouse, and dependents.

Do not make any entry if an election to have the Hope Scholarship Credit apply with respect to this student (by the taxpayer or any other individual) is in effect with respect to such student for any two prior taxable years.

The Hope Scholarship Credit is not allowed, and no entry should be made, for a taxable year if this student has completed (before the beginning of the taxable year) the first two years (four years for 2009 and later) of postsecondary education at an eligible educational institution.

See IRC § 25A for further limitations including the requirement that qualified tuition and expenses be reduced by scholarships, etc.

(10) Adjustment to Expenses for Deduction Purposes

Any adjustment required to the amount of expenses entered on the row above for purposes of the deduction allowed by IRC § 222 as opposed to the credit allowed by IRC § 25A. Include, as a positive amount, expenses that qualify for the deduction but not for the credit, and as a negative amount expenses that qualify for the credit and not the deduction. For example, it appears that amounts taken into account in computing the exclusion for U.S. Savings Bond

311

interest for an individual who pays higher education expenses do not reduce the amount taken into account for purposes of the Hope Credit, but do reduce the amount taken into account for purposes of the deduction. See IRC § 222(c)(2)(b). In general, see IRC § 25A(b)(2) for limitations that may apply to the credit but not the deduction.

(11) Disaster Area Student (Y/N)

Student #3 is an individual who attended an eligible educational institution (as defined in section 25A(f)(2)) located in the Gulf Opportunity Zone for any taxable year beginning during 2005 or 2006, or the Midwestern Disaster Area in 2008 or 2009. See IRC § 1400O. For years other than 2005, 2006, 2008 and 2009 this row will be N/A.

Note. For 2009, the program treats a Yes answer on any of rows 3, 7, or 11, or a dollar amount on row 13, as an election to waive application of IRC § 25A(i) to all computations on this worksheet and apply the benefits of section 702(a)(1)(B) of the Heartland Disaster Relief Act of 2008, instead.

(12) Deduction or Credit

Specify whether to compute a deduction for the expenses on rows 9 and 10 above, or a credit for the expenses on row 9. Enter D for deduction or C for credit. See IRC §§ 25A and 222.

For years before 2002 and after 2020, entering Deduction on this row will produce an error message.

An entry of Deduction on this row will cause neither the credit nor the deduction to be computed if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(13) Disaster Area Lifetime Learning Expenses

Total qualified tuition and related expenses for the taxpayer, his spouse, and dependents (other than Hope scholarship expenses), with respect to any course of instruction at an eligible educational institution located in the Gulf Opportunity Zone or the Midwestern Disaster Area, to acquire or improve job skills of the individual, which expenses are paid by the taxpayer during the taxable year for education furnished during any academic period beginning in such taxable year or within the first three months following such taxable year. See IRC § 1400O.

> **Note.** For 2009, the program treats a Yes answer on any of rows 3, 7, or 11, or a dollar amount on row 13, as an election to waive application of IRC § 25A(i) to all computations on this worksheet and apply the benefits of section 702(a)(1)(B) of the Heartland Disaster Relief Act of 2008, instead.

See IRC § 25A for further limitations including the requirement that qualified tuition and expenses be reduced by scholarships, etc.

For years other than 2005, 2006, 2008 and 2009, this row will be N/A.

(14) Other Lifetime Learning Expenses

Total qualified tuition and related expenses for the taxpayer, his spouse, and dependents (other than Hope scholarship expenses), with respect to any course of instruction at an eligible educational institution, to acquire or improve job skills of the individual, which expenses are paid by the taxpayer during the taxable year for education furnished during any academic period beginning in such taxable year or within the first three months following such taxable year. For 2005, 2006, 2008 and 2009 include only expenses incurred for courses of instruction at institutions other than those located in the Gulf Opportunity Zone or the Midwestern Disaster Area.

Include only expenses paid after June 30, 1998 (in taxable years ending after such date), for education furnished in academic periods beginning after such dates. See IRC § 25A for further limitations including the requirement that qualified tuition and expenses be reduced by scholarships, etc.

(15) Adjustment to Expenses for Deduction Purposes

Any adjustment required to the amount of expenses entered on rows 13 and 14 above for purposes of the deduction allowed by IRC § 222 as opposed to the credit allowed by IRC § 25A. Include, as a positive amount, expenses that qualify for the deduction but not for the credit, and as a negative amount expenses that qualify for the credit and not the deduction. For example, it appears that amounts taken into account in computing the exclusion for U.S. Savings Bond interest for an individual who pays higher education expenses do not reduce the amount taken into account for purposes of the Lifetime Learning Credit, but do reduce the amount taken into account for purposes of the deduction. See IRC § 222(c)(2)(b). In general, see IRC § 25A(b)(2) for limitations that may apply to the credit but not the deduction.

(16) Deduction or Credit

Specify whether to compute a deduction for the expenses on row 13 through 15 above or a credit for the expenses on rows 13 and 14. Enter D for deduction or C for credit. See IRC §§ 25A and 222.

For years before 2002 and after 2020, entering Deduction on this row will produce an error message.

An entry of Deduction on this row will cause neither the credit nor the deduction to be computed if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(17) Total Expenses for Deduction Purposes: (Calculated)

For each of the students above and for the lifetime learning expenses, if the answer to the Deduction or Credit row is Deduction, this row will include the amounts on the expense row(s) and the adjustment for purposes of the deduction row. Otherwise this row will not include any amount for such expenses.

For years before 2002 and after 2020, this row will be N/A.

This row will also be N/A if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(18) Deduction Before AGI Phaseout: (Calculated)

The lesser of the amount on row 17 or the maximum deduction allowed before application of the adjusted gross income limits contained in IRC § 222. These maximums are $3000 in 2002 and 2003, and $4000 in years after 2003.

For years before 2002 and after 2020, this row will be N/A.

This row will also be N/A if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(19) Deduction After AGI Phaseout: (Calculated)

The § 222 deduction on row 18 reduced according to the adjusted gross income limits in IRC § 222.

In 2002 and 2003, the adjusted gross income limit is $65000 ($130,000 in case of a joint return). Over that amount reduces the deduction to zero.

For years after 2003, adjusted gross income of not over $65,000 ($130,000 in case of a joint return) allows the full amount on row 18. Over that amount but not over $80,000 ($160,000 in case of a joint return) allows not more than $2,000 and over $80,000 ($160,000 in case of a joint return) reduces the deduction to zero.

For years before 2002 and after 2020, this row will be N/A.

This row will also be N/A if the taxpayer's filing status is Separate or the taxpayer may be claimed as a dependent on another taxpayer's return as indicated by the Must Itemize Supported row on the **Filing Status** worksheet. See IRC §§ 222(c)(3) and (d)(4).

(20) Hope Credit Before AGI Phaseout: (Calculated)

The Hope credit before application of the AGI phaseout. For each student for whom the credit is elected, as indicated on rows 4, 8 and 12, the Hope credit is 100% of the first $1000 of expenses entered on rows 1, 5 and 9, plus 50% of the next $1000 of expenses. For Disaster Area students, the $1,000 amount is increased to $2,000. See IRC § 1400O.

For 2002 through 2005, the amount is also $1,000.

For 2006 and 2007, the amount is $1,100.

For 2008, the amount is $1,200.

For 2009 and later, the amount is $2000, plus 25% of the next $2,000, except if the taxpayer has elected the benefits afforded disaster area student(s) by an entry on row 3, 7, 11 or 13, above.

(21) Hope Credit After AGI Phaseout: (Calculated)

The amount on row 20, above, reduced by the AGI phaseout. The credit is phased out on the basis of AGI in excess of $40,000 ($80,000 on a joint return) divided by $10,000 ($20,000 on a joint return).

For years after 2001, the threshold is as follows:

Year	All (Except MFJ)	Married Filing Jointly
2002	$41,000	$82,000
2003	$41,000	$83,000
2004	$42,000	$85,000
2005	$43,000	$87,000
2006	$45,000	$90,000
2007	$47,000	$94,000
2008	$48,000	$96,000

For 2009 and later, the credit is phased out on the basis of AGI in excess of $80,000 ($160,000 on a joint return) divided by $10,000 ($20,000 on a joint return), except if the taxpayer has elected the benefits afforded disaster area student(s) by an entry on row 3, 7, 11 or 13, above.

(22) Refundable Portion of Hope Credit: (Calculated)

The refundable portion of the Hope Credit calculated, **in 2009 and later only**, as 40% of the amount on row 21, above. The refundable portion of the Hope Credit calculated, in 2009 and later only, as 40% of the amount on row 21, above. If the taxpayer is subject to the rules of IRC § 1(g) (unearned income taxed at parent's rates) no part of the credit is refundable. To have the program apply this rule, you should use the Minor Child analysis. See the **Assumptions** dialog.

(23) Nonrefundable Portion of Hope Credit: (Calculated)

Row 22 minus row 23, above.

(24) Lifetime Credit Before AGI Phaseout: (Calculated)

If the credit is elected for the Lifetime Learning expenses, as indicated on row 16, then **for 2005 and 2006**, the credit included on this row is 40% of the lesser of the amount on row 13 or $10,000, plus 20% of the lesser of the amount on row 14 or $10,000 reduced by the amount on row 13. See IRC § 1400O. **For other years**, the amount of the credit is 20% of the lesser of the amount on row 14 or $10,000 ($5,000 for years before 2003).

(25) Lifetime Credit After AGI Phaseout (Calculated)

The amount on row 20, above, reduced by the AGI phaseout. See the description for row 21 for how the phaseout is computed. The increase in the phaseout floor for 2009 and later, to $80,000 ($160,000 on a joint return) does not apply for purposes of the lifetime credit.

(26) Total Nonrefundable Credit (Calculated)

The sum of rows 23 and 25, above.

Note. For years other than 2009 and 2010, the program totals the hope and lifetime credits before applying the AGI phaseout, and the amounts on rows 23 and 25 may not foot exactly to the amount on this row, due to rounding differences.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

Domestic Production Activities Deduction

(1) Domestic Production Income or Loss:
(2)   Self-employment
(3)   Passive Activity
(4)   Publicly Traded Partnerships
(5)   Nonpassive Other Ordinary
(6)   Other Qualified Income/Loss
(7) **Total Domestic Production Inc/loss**
(8) W-2 Wages Paid
(9)   Individual Activities
(10) **Domestic Production Deduction (Calculated)**
(11) Qualified Oil Related Income
(12) **Oil Related Reduction**
(13) **Net Domestic Production Deduction**

Caution! The American Jobs Creation Act of 2004 which added IRC Section 199 to the Code has raised numerous questions of interpretation with regard to the computation of the deduction for domestic production activities. At date of publication, no guidance from the Treasury or the IRS was available with regard to these issues. This help topic describes how the program computes the deduction. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

(1) Domestic Production Income or Loss

Heading for rows 2 through 7, below.

(2) Self-employment

The amount of qualified production activities self-employment income or loss of the taxpayer for the taxable year. See IRC § 199. Enter the amount here or press W to access the **Self-employment Income and Loss** worksheet. If that worksheet is active, the amount on this row will be the sum of the following rows on that worksheet:

▪ Taxpayer's Self-employment Inc/Loss:

▪ Domestic Production Inc/Loss

▪ Individual Activities

▪ Spouse's Self-employment Inc/Loss:

▪ Domestic Production Inc/Loss

▪ Individual Activities

Caution! If you do not use the subworksheet, the amount entered here will be used solely for purpose of computing the deduction on row 10 below. It does not otherwise enter into the computation of taxable income. If you use the **Self-employment Income and Loss** worksheet, then the amounts are included for all purposes.

For years before 2005, this row will be N/A.

(3) Passive Activity

The amount of passive activity qualified production income or loss of the taxpayer for the taxable year. See IRC § 199. All entries for passive and MAPRRA activity items must be made through the **Individual Activity** worksheets, accessed through the **Passive & MAPRRA Income/Loss** worksheet.

No entry may be made directly here; use the subworksheet.

For years before 2005, this row will be N/A.

(4) Publicly Traded Partnerships

The amount of publicly traded partnership qualified production income or loss of the taxpayer for the taxable year. See IRC § 199. All entries for such partnerships must be made through the **Individual Activity** worksheets, accessed through the **Publicly Traded Partnerships** worksheet for this row.

No entry may be made directly here; use the subworksheet.

For years before 2005, this row will be N/A.

(5) Nonpassive Other Ordinary

The amount of nonpassive, qualified production ordinary income or loss of the taxpayer for the taxable year, other than self-employment income. See IRC § 199. Enter the amount here or press W to access the **Other Ordinary Income** worksheet. If that worksheet is active the amount on this row will be the sum of the following rows on that worksheet:

- Nonpassive Domestic Production
- Individual Activities

Caution! If you do not use the subworksheet, the amount entered here will be used solely for purpose of computing the deduction on row 10 below. It does not otherwise enter into the computation of taxable income. If you use the **Other Ordinary Income** worksheet, then the amounts are included for all purposes.

For years before 2005, this row will be N/A.

(6) Other Qualified Income/Loss

Any qualified production income or loss of the taxpayer for the taxable year, other than amounts computed by the program or entered on the rows above. See IRC § 199.

Caution! The amount entered here is used solely for purpose of computing the deduction on row 10 below. It does not otherwise enter into the computation of taxable income. Therefore, you must include this amount elsewhere (for example as self-employment or other income) for it to be properly included in taxable income.

For years before 2005, this row will be N/A.

(7) Total Domestic Production Inc/loss (Calculated)

The sum of rows 2 through 6, above.

For years before 2005, this row will be N/A.

(8) W-2 Wages Paid

The amount of wages the taxpayer is required to include on W-2s with respect to employment of employees of the taxpayer during the calendar year ending during the taxpayer's taxable year. See IRC § 199(b)(2). For years beginning after May 17, 2006, do not include any amount which is not properly allocable to domestic production gross receipts.

Caution! The amount entered here is used solely for purpose of computing the deduction on row 10 below. It does not otherwise enter into the computation of taxable income. Therefore, you must include this amount elsewhere (for example as a deduction in computing self-employment or other income) for it to be properly deducted in computing taxable income.

For years before 2005, this row will be N/A.

(9) W-2 Wages Paid – Individual Activities

W-2 wages paid from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

(10) Domestic Production Deduction (Calculated)

3% (6% in years 2007 through 2009, 9% in years after 2009) of the lesser of:

- The amount on row 7 "**Total Domestic Production Inc/loss**", or

- The taxpayer's adjusted gross income computed without regard to the deduction on this row.

The amount is further limited to the 50% of the sum of the amounts on rows 8 and 9 (W-2 Wages).

For years before 2005, this row will be N/A.

(11) Qualified Oil Related Income:

For years after 2009, the portion of the amount on row 7 that is oil related qualified production activities income. See IRC § 199(d)(9).

For years before 2010, this row will be N/A.

(12) Oil Related Reduction: (Calculated)

Three percent (3%) of the least of the following amounts:

- The amount on row 7 "**Total Domestic Production Inc/loss**",
- The amount on row 11 "Qualified Oil Related Income" or,
- The taxpayer's adjusted gross income computed without regard to the domestic production deduction.

For years before 2010, this row will be N/A.

(13) Net Domestic Production Deduction: (Calculated)

The amount on row 10 net of the amount on row 12, above.

CAPITAL GAINS AND LOSSES

Capital Gains and Losses
(1) Short-term Investment Gain or Loss
(2)   Individual Activities
(3)   Security Transaction Analyzer
(4) Short-term Passive Activity Gain or Loss
(5) Short-term Trade or Business MAPRRA Gain or Loss
(6) Short-term Gain: PTP Gain Activities
(7) Other PTP Short-term Gain or Loss
(8) Sale of Pass Through Short-term Gain or Loss: Investment
(9) Active Trade or Business Short-term Gain or Loss
(10) Short-term Gain or Loss – Other
(11)   Individual Activities
(12) Short-term Loss Carryover: § 1411
(13) Short-term Loss Carryover: Adjustment for § 163
(14) Short-term Loss Carryover: Other than § 163 or § 1411
(15) **2003 Post 5/5 Net Short-term Gain or Loss**
(16)
(17) **Net Short-term Gain or Loss**
(18)
Continued on next page

Capital Gains and Losses (continued)

(19) Section 1231 Unrecaptured Section 1250 Gain (25%): Investment
(20) Other Section 1231 Gain or Loss: Investment
(21) Other Unrecaptured Section 1250 Investment Gain (25%)
(22)   Individual Activities
(23) Unrecaptured Section 1250 Capital Gain Dividends (25%)
(24) 5-Year Capital Gain Dividends Purchased Pre-2001
(25) Other Capital Gain Dividends
(26) 5-Year Investment Gain Purchased Pre-2001
(27)   Individual Activities
(28) 5-Year Investment Gain Purchased Post-2000
(29) Other Long-term Investment Gain or Loss
(30)   Individual Activities
(31)   Security Transaction Analyzer
(32) **Child's Capital Gain Dividends: Parent's Return**
(33) Sale of Pass Through Long-term Gain or Loss: Investment
(34) Section 1231 Unrecaptured Section 1250 Gain (25%): Trade or Business
(35) Section 1231 Unrecaptured Section 1250 Gain (25%): Passive
(36) Other Passive Section 1231 Gain or Loss
(37) Other Section 1231 Trade or Business Gain or Loss
(38) Long-term Passive Gain or Loss
(39) Long-term Trade or Business MAPRRA Gain or Loss
(40) Long-term Gain: PTP Gain Activities
(41) Other PTP Long-term Gain or Loss
(42) Long-term Gain – Lump Sum
(43) Long-term Gain Sale of Residence
(44) Active Trade or Business Long-term Gain or Loss
(45) Other Long-term Gain or Loss
(46)   Individual Activities
(47) 28% Rate Gain or Loss
(48) **2003 Post 5/5 Net Long-term Gain or Loss**
(49) **Net Long-term Gain or Loss**
(50) **Total Capital Gain or Loss**
(51) **Net Capital Gain**
(52) **Total 28% Rate Gain or Loss**
(53)   **Net Short-term Loss**
(54) **Net 28% Rate Gain**
(55) **Total Unrecaptured Section 1250 Gain**
(56)   Adjustment to Unrecaptured Section 1250 Gain
(57)   **Total Short-term & 28% Losses**
(58) **Net Unrecaptured Section 1250 Gain**
(59)
(60) Qualified 5-Year Gain:
(61)   **5-Yr Gain Purchased Pre-2001**
(62)   Adjustment to Pre-2001 5-Year Gain
(63)   **Total Pre-2001 5-Year Gain**
(64)   **5-Year Gain Purchased Post-2000**
(65)   Adjustment to Post-2000 5-Year Gain
(66)   **Total Post-2000 5-Year Gain**
(67) **Total Qualified 5-Year Gain**
(68)
(69) **Capital Loss Deduction**

(1) Short-Term Investment Gain or Loss

The sum of all gains less the sum of all losses from the sale or exchange of capital assets which are investment assets under IRC § 163(d) and which are held one year or less.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead, enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

Include short-term gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before pressing Enter.

See IRC § 1222. The program automatically includes the amount entered here in total short-term capital gain or loss and also takes it into account in computing investment income on the **Net Investment Income** worksheet, for purposes of the investment interest limitation. See, however, **NOTE 1** on page 343 regarding carryovers.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(2) Short-Term Investment Gain or Loss – Individual Activities

Short-term investment gain or loss from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(3) Security Transaction Analyzer (Calculated)

Short-term investment gain or loss from transactions entered on the **Security Transaction Analyzer** worksheet. See the description for the "Short-Term Investment Gain or Loss" row, above. For 2003, this row will include only transactions before 5/6/03.

No entry may be made on this row. Instead, press W to access the **Security Transaction** worksheet to enter individual sales or exchanges of stocks, bonds, and other investment security transactions.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(4) Short-Term Passive Gain/Loss

The net short-term gain or loss from passive activities or non-Trade or Business MAPRRA activities after application of the passive activity limitations. This amount represents all but the trade or business MAPRRA portion of the

amount from the "Short-term Capital Gain/Loss" row of the **Passive & MAPRRA Inc/Loss** worksheet.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W for the **Passive & MAPRRA Income and Loss** worksheet.

(5) Short Term Trade or Business MAPRRA Gain/Loss

The net short-term gain or loss from Trade or Business MAPRRA (Material Participation Rental Real Estate Activities). This amount represents the MAPRRA trade or business portion of the "Short-term Capital Gain/Loss" row of the **Passive & MAPRRA Inc/Loss** worksheet.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W for the **Passive & MAPRRA Income and Loss** worksheet.

(6) Short-Term Gain from Publicly Traded Partnership Gain Activities

The net short-term gain from publicly traded partnerships that have a gain for the year, after application of the limitations applicable to such partnerships.

For each PTP that has a net gain and a net short-term gain for the year, the program computes the net short-term gain's proportionate part of the net gain.

This row represents the sum of these computations. This amount is posted from row 14 "Short-term Capital Gain – Gain PTPs (Calculated)" of the **Publicly Traded Partnerships** worksheet. See **NOTE 2** for that worksheet on page 216. The program treats such gain as investment income for purposes of the investment interest limitation and so it is separately shown here.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, access the **Publicly Traded Partnerships** worksheet.

(7) Other Publicly Traded Partnership Short-Term Gain or Loss

Short-term gain or loss after applicable limitations from publicly traded partnerships other than the amount of short-term gain from such partnerships included on the row above.

This amount is posted from the "Other Income and Loss: Other Short-Term Capital Gain/Loss" row of the **Publicly Traded Partnerships** worksheet.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, access the **Publicly Traded Partnerships** worksheet.

(8) Sale of Pass Through Short Term Gain or Loss: Investment

The short-term gain or loss recognized on the sale of an interest in a pass through entity which contains an activity in which the taxpayer materially participates. Enter any portion of the short-term gain or loss attributable to the deemed sale of Section 1411 property on row 1, Short-term Investment Gain or Loss, above, and the remainder of the short-term gain or loss on the sale of the interest on this row 8. If the short-term gain or loss attributable to the deemed sale of Section 1411 property does not represent investment gain or loss under IRC § 163(d), instead enter the short-term gain or loss attributable to the deemed sale of Section 1411 property on row 10, Short-term Gain or Loss Other, below. See the example in NOTE 4, below. See IRC § 1411(c)(4) and Prop. Treas. Reg. 1.1411–7(b)(1).

If the gain or loss from the sale of the pass through is already included elsewhere on this worksheet, then enter the portion of the gain or loss that is excluded from Section 1411 here and enter an equal amount as an offset on row 1, above. See the description for row 33, below.

The program treats the amount as short term investment gain or loss (see row 1) for purposes of the investment interest expense computation.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(9) Active Trade or Business Short-term Gain Or Loss

The sum of all gains less the sum of all losses from the sale or exchange of capital assets held one year or less held as part of an active trade or business,

other than assets held for investment, § 163, or passive activity gain or loss. With regard to sale of a pass through entity see row 8, above.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before pressing Enter. See IRC § 1222.

Include gains from the sale of goodwill, property, or land held by either a sole proprietor or an ignored entity.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(10) Short-Term Gain or Loss – Other

The sum of all gains less the sum of all losses from the sale or exchange of capital assets held one year or less other than assets held for investment, and passive activity gain or loss, or gains or losses derived from the sales of a property held in an active trade or business. With regard to the sale of a pass through entity, see row 8, above.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead, enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

If losses exceed gains, enter the amount as a negative number by pressing "–" before Enter. See IRC § 1222.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does **not** include this amount in the computation of investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(11) Short-Term Gain or Loss – Other – Individual Activities

Other short-term gain or loss from individual activities. See the description for the preceding row.

No entry may be made on this row. Instead, use the **Individual Activity** worksheets.

(12) Short-Term Loss Carryover: § 1411

Carryover from prior years of net short-term capital loss in excess of net long-term capital gain from property held for purposes of the Medicare Investment Income Tax, IRC § 1411. See rows 1, 2, 3, 4, 6, 7, 10, and 11, above. See IRC § 1212 and **NOTE 3** on page 344.

In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the short-term loss carryover between § 1411, § 163 and other losses.

For years before 2013, this row will be N/A.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

Note. Short-term loss carryovers for alternative minimum tax purposes must be separately entered.

The total short term capital loss carryover equals the sum of rows 12, 13, and 14.

See **NOTE 1** on page 343 for a discussion on how the program allocates capital loss carryovers.

(13) Short-term Loss Carryover: Adjustment for § 163

The amount of the adjustment to row 12 above necessary to calculate the short term capital loss carryover for purposes of calculating net investment income under IRC § 163. See row 8, above. Also see IRC § 1212 and **NOTE 3** on page 344.

The program treats the amount on this row as a short-term loss carryover from investment for purposes of the investment interest expense computation on the Net Investment Income worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

Do not include losses from the sale of an active trade or business.

In multiple year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the short-term loss carryover between § 1411, § 163, and other losses.

Note. Short-term loss carryovers for alternative minimum tax purposes must be separately entered.

The program uses this item in the computation of investment income for investment interest limitation purposes. See **NOTE 1** and **NOTE 2** to the **Net Investment Income** worksheet on page 233 and page 234.

The total short term capital loss carryover equals the sum of rows 12, 13, and 14.

See **NOTE 1** on page 343 for a discussion on how the program allocates capital loss carryovers.

(14) Short-term Loss Carryover: Other than § 163 or § 1411

Carryover from prior years of net short-term capital loss in excess of net long-term capital gain from property held neither for investment purposes under IRC § 163 nor for Medicare Investment Income Tax purposes under IRC § 1411. See rows 5 and 9, above. Also see IRC § 1212 and **NOTE 3** on page 344.

In multiple year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the short-term loss carryover between § 1411, § 163 and other losses.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program does not include this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

Note. Short-term loss carryovers for alternative minimum tax purposes must be separately entered.

The total short term capital loss carryover equals the sum of rows 12, 13, and 14.

See **NOTE 1**, below, for a discussion on how the program allocates capital loss carryovers.

(15) 2003 Post 5/5 Net Short-term Gain or Loss (Calculated)

For 2003, total net short-term gain or loss from transactions after 5/5/03. See Section 301 of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

No entry may be made on this row. To enter the data and have the program compute the amount, press W for the **2003 Post 5/5 Capital Gains and Losses** worksheet.

(16) (Blank)

(17) Net Short-Term Gain or Loss (Calculated)

The total of rows 1 through 15, above. This amount is posted automatically to the "Net Short-Term Gain or Loss" row of the **Main Worksheet**.

(18) (Blank)

(19) Section 1231 Unrecaptured Section 1250 Gain (25%) from Investment

The amount of Section 1231 unrecaptured section 1250 gain from involuntary conversion of assets used in transactions entered into for profit. Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories and itemized casualty loss. Also use the worksheet to have investment casualty and Section 1231 unrecaptured section 1250 gains automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 1(h).

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(20) Other Section 1231 Gain or Loss from Investment

Section 1231 gain or loss (other than unrecaptured section 1250 gain and 28% rate gain or loss) from investment assets treated as long-term capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Access the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Also use the worksheet to have investment casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 1231.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(21) Other Unrecaptured Section 1250 Investment Gain (25%)

Unrecaptured section 1250 gain, other than Section 1231 gain, from the sale of assets held for investment and not as a trade or business and held for more than one year.

As an alternative, you may enter the gain described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(22) Other Unrecaptured Section 1250 Investment Gain – Individual Activities

Unrecaptured section 1250 investment gain, other than Section 1231 gain, from individual activities. See the description for the row above. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(23) Unrecaptured Section 1250 Capital Gain Dividends (25%)

Dividends representing unrecaptured section 1250 gain. See IRC § 1(h). Enter the amount here or press W to use the **Interest and Dividends** worksheet.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(24) 5-Year Capital Gain Dividends Purchased Pre-2001

Dividends representing qualified 5-year gain from the sale of capital assets for which the holding period begins before 1/1/01. Enter the amount here or press W to use the **Interest and Dividends** worksheet. This row does not apply to years before 2001 or after 2003.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains so except for years 2001–2003 any amount on this row will be treated as other capital gain dividends (row 25).

(25) Other Capital Gain Dividends

Dividends representing long-term capital gain other than unrecaptured section 1250 gain, 28% rate gain, or 2003 post 5/5 dividends. Enter the amount here or use the **Interest and Dividends** worksheet.

Note. For 2003, enter capital gain dividends from sales properly taken into account for the portion of the taxable year on or after 5/6/03 on the row above. Do not include such dividends on this row.

If you are running "Minor Child" calculations (see "Assumptions dialog" in the help system) and you are electing to have the child's income taxed to the parent by answering "Yes" on row 1 (Elect Income on Parent's Return) of the **Minor Child Tax** worksheet, you should enter any 20% capital gain dividends of the child on this row in the child's column, either here or on the subworksheet row of the same title. Alternatively you may enter such dividends in the child's column of row 29 "Other Long-Term Investment Gain or Loss", below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(26) 5-Year Investment Gain Purchased Pre-2001 (Calculated)

Qualified 5-year investment gain from assets for which the holding period begins before 1/1/01 from transactions entered on the **Security Transaction Analyzer** worksheet. See IRC § 1(h)(2). See also the description for the "Other Long-Term Investment Gain or Loss" row, below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains so except for years 2001–2003 any amount on this row will be treated as other capital gain dividends (row 25).

No entry may be made on this row. Instead, press W to access the **Security Transaction Analyzer** worksheet to enter individual sales or exchanges of stocks, bonds, and other investment security transactions.

(27) 5-Year Investment Gain Purchased Pre-2001 – Individual Activities

Qualified 5-year investment gain from assets for which the holding period begins before 1/1/01 from individual activities. See the description for the row above.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains so except for years 2001–2003 any amount on this row will be treated as other capital gain dividends (row 25).

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(28) 5-Year Investment Gain Purchased Post-2000 (Calculated)

Qualified 5-year investment gain from assets from assets for which the holding period begins after 12/31/00 from transactions entered on the **Security Transaction Analyzer** worksheet. See IRC § 1(h)(2). See also the description for the "Other Long-Term Investment Gain or Loss" row, below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains so except for years 2001–2003 any amount on this row will be treated as other capital gain dividends (row 25).

No entry may be made on this row. Instead, press W to access the **Security Transaction Analyzer** worksheet to enter individual sales or exchanges of stocks, bonds, and other investment security transactions.

(29) Other Long-Term Investment Gain or Loss

The sum of all gains less the sum of all losses (other than gains and losses entered on the rows above and 28% rate gains and losses) from the sale or exchange of capital assets which are investment assets under IRC § 163(d). Include gains and losses on assets held more than one year.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

Do not include collectibles gain or loss, or section 1202 (small business stock) gain. Instead, enter such transactions on the **28% Rate Gains and Losses** worksheet accessed from the "28% Rate Gain or Loss" row, below.

If you are running "Minor Child" calculations (see "Assumptions dialog" in the help system) and you are electing to have the child's income taxed to the parent by answering "Yes" on row 1 (Elect Income on Parent's Return) of the **Minor Child Tax** worksheet, you should enter any capital gain dividends of the child on rows 23, 24, or 25 above in the child's column, or on the "Capital Gain Dividends" rows of the **Interest and Dividends** worksheet, accessed from rows 23, 24, and 25, above. Alternatively, you may enter such dividends (other than unrecaptured section 1250 and qualified 5-year) in the child's column of this row.

In general, long-term investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income). If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before Enter. See IRC § 1222.

The program automatically takes the amount entered here into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation. As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(30) Other Long-Term Investment Gain or Loss – Individual Activities

Other long-term investment gain or loss from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(31) Security Transaction Analyzer (Calculated)

Other long-term investment gain or loss from transactions entered on the **Security Transaction Analyzer** worksheet. See the description for the "Other Long-Term Investment Gain or Loss" row, above.

For 2003, this row will include only transactions before 5/6/03.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

No entry may be made on this row. Instead, press W to access the **Security Transaction** worksheet to enter individual sales or exchanges of stocks, bonds, and other investment security transactions.

(32) Child's Capital Gain Dividends Included on the Parent's Return (Calculated)

The amount of any capital gain dividends of the child, entered on rows 29 or 30 "Other Long-Term Investment Gain or Loss – Individual Activities", above, or posted to the capital gain dividends rows (23, 24, and 25), above, from the **Interest and Dividends** worksheet, which are included on the parent's return pursuant to the election to include the child's income in the parent's gross income. See the "Elect Income on Parent's Return" row on the **Minor Child Tax** worksheet.

The program allocates the child's total income to be included on the parent's return between capital gain dividends and ordinary income interest and dividends on a proportionate basis. It also allocates the capital gains dividends among the various categories of capital gain (28% rate, unrecaptured section 1250, qualified 5-year and other capital gain) on a proportionate basis.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet. The program also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(33) Sale of Pass Through Long Term Gain or Loss: Investment

The long-term gain or loss recognized on the sale of an interest in a pass through entity which contains an activity in which the taxpayer materially participates. Enter any portion of the long-term gain or loss attributable to the deemed sale of Section 1411 property on row 29, above, and the remainder of the long-term gain or loss on the sale of the interest on this row 33. If the long-term gain or loss attributable to the deemed sale of Section 1411 property does not represent investment gain or loss under IRC § 163(d), instead enter the long-term gain or loss attributable to the deemed sale of Section 1411 property on row 45, Other Long-term Gain or Loss Other, below. See the example in NOTE 4, below. See IRC § 1411(c)(4) and Prop. Treas. Reg. 1.1411-7(b)(1).

If the gain or loss from the sale of the pass through is already included elsewhere on this worksheet, then enter the portion of the gain or loss that is excluded from Section 1411 here and enter an equal amount as an offset on row 29, above. For example, assume that the taxpayer sold an interest in a passive activity for a long-term capital gain of $50,000 which the program has included on row 38 below. Assume that under IRC § 1411(c)(4) and Prop. Treas. Reg. 1.1411-7, only $40,000 of the gain is included for purposes of the Medicare Net Investment Income Tax. In such case, enter 10,000 on this row and −10,000 on row 29, above.

The program treats the amount on this row as long term investment gain or loss (see row 29) for purposes of the investment interest expense computation.

For years after 2012, the program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(34) Section 1231 Unrecaptured Section 1250 Gain (25%) – Trade or Business

The amount of Section 1231 unrecaptured section 1250 gain from the sale or involuntary conversion of assets used in a trade or business. See IRC §§ 1231 and 1(h). Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or for investment income on the **Net Investment Income** worksheet.

(35) Section 1231 Unrecaptured Section 1250 Gain (25%): Passive

The amount of Section 1231 unrecaptured section 1250 gain from the sale or involuntary conversion of assets used in a passive activity. See IRC §§ 1231 and 1(h). Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(36) Other Passive Section 1231 Gain or Loss

Section 1231 gain or loss from the sale of passive activities (other than unrecaptured section 1250 gain and 28% rate gain or loss) which is treated as long-term capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Also use the worksheet to have investment casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 1231.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet,

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(37) Other Section 1231 Trade or Business Gain or Loss

Section 1231 gain or loss from trade or business assets (other than unrecaptured section 1250 gain and 28% rate gain or loss) which is treated as long-term capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Also use the worksheet to have investment casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 1231.

The program does not use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or for investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

(38) Long-term Passive Gain or Loss

The net long-term gain or loss (other than 28% rate gain or loss) from passive activities or non-Trade or Business MAPRRA activities after application of the passive activity limitations. This amount represents all but the MAPRRA trade

or business portion of the "Other Long-term Capital Gain/Loss" row of the **Passive & MAPRRA Inc/Loss** worksheet.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W for the **Passive & MAPRRA Income and Loss** worksheet.

(39) Long-term Trade or Business MAPRRA Gain/Loss:

The net long-term gain or loss (other than 28% rate gain or loss) from Trade or Business MAPRRA (Material Participation Rental Real Estate Activities). This amount represents the MAPRRA trade or business portion of the "Other Long-term Capital Gain/Loss" row of the **Passive & MAPRRA Inc/Loss** worksheet.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or for investment income on the Net Investment Income worksheet.

No entry may be made on this row. Instead, press W for the **Passive & MAPRRA Income and Loss** worksheet.

(40) Long-Term Gain from Publicly Traded Partnership Gain Activities

The net long-term gain (other than 28% rate gain or loss) from publicly traded partnerships that have a gain for the year, after application of the limitations applicable to such partnerships. For each PTP that has a net gain and a net long-term gain for the year, the program computes the net long-term gain's proportionate part of the net gain. This row represents the sum of these computations.

This amount is posted from the "Allocated to: Gain Partnerships: Other Long-Term Capital Gain" row of the **Publicly Traded Partnerships** worksheet. See **NOTE 2** for that worksheet. Such gain is treated by the program as investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation and so is separately shown here.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, access the **Publicly Traded Partnerships** worksheet.

(41) Other Publicly Traded Partnership Long-Term Gain or Loss

Long-term gain or loss (other than 28% rate gain or loss and after applicable limitations) from publicly traded partnerships other than the amount of long-term gain from such partnerships included on the row above.

This amount is posted from the "Other Income and Loss: Other Long-Term Capital Gain/Loss" row of the **Publicly Traded Partnerships** worksheet. The program does not treat the gain or loss on this row as investment income for purposes of the investment interest limitation.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, access the subworksheet to enter publicly traded partnership income and loss items.

(42) Long-Term Gain – Lump Sum

The long-term gain from a lump sum distribution from a qualified retirement plan, after application of the phaseout percentage and reduction by the capital gain's portion of the death benefit exclusion and estate tax, if any. See IRC § 401 for qualifications and limitations.

Do not include the capital gain portion of the lump sum that is subject to the special 20% tax if that election is being made by the taxpayer. Enter the capital gain amount here or access the **Lump Sum Distribution** subworksheet, which computes this amount automatically as well as the 5- or 10-year averaging tax and the 20% tax. The subworksheet also allows you to see the effects of these various elections available to those who qualify. See the **Lump Sum Distribution** worksheet on page 351.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or for investment income on the **Net Investment Income** worksheet.

(43) Long-Term Gain on Sale of Residence

The amount of any taxable long-term capital gain (other than 28% rate gain) from the sale of the taxpayer's principal residence. See IRC § 121.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

The program does **not** use this amount in the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

Note. Enter only the portion taxable after the application of IRC §§ 1034 and 121.

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(44) Active Trade/Business Long-term Gain/Loss:

The sum of all gains less the sum of all losses from the sale or exchange of capital assets (other than gains and losses entered on the rows above and 28% rate gains and losses) held as part of an active trade or business. Include sales of assets held more than 1 year.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before pressing Enter. See IRC § 1222.

Note. Do not include collectibles gain or loss. Instead, enter such transactions on the **28% Rate Capital Gains and Losses** worksheet accessed from the "28% Rate Gain or Loss" row, below.

For years after 2000 and before 2004, if any of the gains included on this row constitute qualified 5-year gains, also include the amount of any such qualified 5-year gains as an adjustment on row 66 (Adjustments Pre-2001 5-Year Gain) of this worksheet.

Do **not** include gains from the sale of an S corporation or a partnership interest held for investment. Include gains from the sale of goodwill, property, or land held by either a sole proprietor or an ignored entity.

The program does **not** use this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet or for investment income on the **Net Investment Income** worksheet.

For gain or loss from the sale of a pass through entity, see row 33, above.

(45) Other Long-Term Gain or Loss

The sum of all gains less the sum of all losses from the sale or exchange of capital assets (other than gains and losses entered on the rows above and 28% rate gains and losses) which are neither investment assets under IRC § 163(d) nor held as part of an active trade or business. Include sales of assets held more than 1 year.

Do not include transactions properly taken into account for the portion of the taxable year on or after 5/6/03. Instead enter such transactions on the **2003 Post 5/5 Capital Gains and Losses** worksheet.

If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before pressing Enter. See IRC § 1222.

Note. Do not include collectibles gain or loss. Instead, enter such transactions on the **28% Rate Capital Gains and Losses** worksheet accessed from the "28% Rate Gain or Loss" row, below.

For years after 2000 and before 2004, if any of the gains included on this row constitute qualified 5-year gains, also include the amount of any such qualified 5-year gains as an adjustment on row 62 (Adjustments to Pre-2001 5-Year Gain) of this worksheet.

As an alternative, you may enter the gain or loss described on this row on the individual activity worksheets accessed from the row below.

The program does **not** include this amount on the computation of investment income on the **Net Investment Income** worksheet.

For years after 2012, the program includes this amount on the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet.

(46) Other Long-Term Gain or Loss – Individual Activities

Other long-term capital gain or loss from individual activities. See the description for the preceding row.

No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(47) 28% Rate Gain or Loss (Calculated)

Total net 28% rate capital gain or loss. See IRC § 1(h).

No entry may be made on this row. To enter the data and have the program compute the appropriate limitations, press W for the **28% Rate Capital Gains and Losses** worksheet.

(48) 2003 Post 5/5 Net Long-term Gain or Loss (Calculated)

Total net long-term gain or loss from transactions properly taken into account for the portion of the taxable year on or after 5/6/03. See Section 301 of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

No entry may be made on this row. To enter the data and have the program compute the amount, press W for the **2003 Post 5/5 Capital Gains and Losses** worksheet.

(49) Net Long-Term Gain or Loss (Calculated)

Total of rows 19 through 48, above. This amount is posted automatically to the "Net Long-Term Gain or Loss" row of the **Main Worksheet**.

(50) Total Capital Gain or Loss (Calculated)

The sum of row 17 "Net Short-term Gain or Loss" and row 49 "**Net Long-term Gain or Loss**", above.

(51) Net Capital Gain (Calculated)

The excess of the gain on row 49 over the loss (if any) on row 17.

(52) Total 28% Rate Gain or Loss (Calculated)

The amount from row 47, above.

(53) Net Short-Term Loss (Calculated)

The loss (if any) from row 17, above.

(54) Net 28% Rate Gain (Calculated)

The excess of the gain (if any) on row 52 over the loss on row 53. See IRC Section 1(h)(5) as amended by the IRS Restructuring and Reform Act of 1998.

(55) Total Unrecaptured Sec 1250 Gain (Calculated)

The sum of rows 19, 21, 22, 23, 34 and 35, above.

When running a Minor Child analysis, this amount is increased by the parent's share of the child's unrecaptured section 1250 dividends for children for whom dividend and interest income is included on the parent's return pursuant to the election specified on the "Elect Income on Parent's Return" row of the **Minor Child Tax** worksheet.

(56) Adjustment to Unrecaptured Section 1250 Gain

Any adjustment to total unrecaptured section 1250 gain as computed by the program on the row above. Include unrecaptured section 1250 gain entered elsewhere in the program as other capital gain. Include unrecaptured section 1250 gain from the sale of an interest in a partnership. Include also the unrecaptured section 1250 gain on the sale of a residence previously used as a rental property.

The amount entered on this row does not change the amount of total capital gain or total net capital gain. It merely recharacterizes gain entered elsewhere in the program as unrecaptured section 1250 gain. See Prop. Treas. Reg. § 1.1(h)–1(b)(3), REG-106527-98, Aug. 9, 1999 dealing with sales of interests in partnerships, S corporations, and trusts. See also IRC § 1(h)(11) as amended by the IRS Restructuring and Reform Act of 1998.

(57) Total Short-Term and 28% Losses (Calculated)

The net loss (if any) resulting from combining rows 52 and 53, above.

(58) Net Unrecaptured Section 1250 Gain (Calculated)

The sum of rows 55 and 56 reduced (but not below zero) by the loss on row 57.

(59) (Blank)

(60) Qualified 5-Year Gain:

Heading for rows 61 through 67, below.

(61) 5-Year Gain Purchased Pre-2001 (Calculated)

For years after 2000, if the amount on row 51 "Net Capital Gain" is greater than 0, this row will be the sum of rows 24, 26 and 27, above. When running a Minor Child analysis, this amount is increased by the parent's share of the child's qualified 5-year capital gain dividends from assets purchased pre-2001 for children for whom dividend and interest income is included on the parent's return pursuant to the election specified on the "Elect Income on Parent's Return" row of the **Minor Child Tax** worksheet.

This row will be N/A for years after 2003.

(62) Adjustment to Pre-2001 5-Year Gain

Any adjustment to qualified 5-year gain on assets the holding period for which begins before 1/1/01, as computed on the row above. Enter the amount of pre-2001 qualified 5-year gain included in the program elsewhere as other gain. Include qualified pre-2001 5-year section 1231 gain treated as long-term capital gain and qualified pre-2001 5-year passive activity gain. The amount entered on this row does not change the amount of total capital gain or total net capital gain. It merely recharacterizes gain entered elsewhere in the program as pre-2001 qualified 5-year gain.

For years before 2001 or after 2003, this row does not apply. See IRC § 1(h)(2).

(63) Total Pre-2001 5-Year Gain (Calculated)

For years after 2000 and before 2004, if the amount on row 51 "Net Capital Gain" is greater than 0, this row will be the sum of rows 61 and 62, above.

For years prior to 2001 or if row 51 is zero or a loss, this row will be N/A. This row will also be N/A for years after 2003.

(64) 5-Year Gain Purchased Post-2000 (Calculated)

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains, so any year will be N/A.

(65) Adjustment to Post-2000 5-Year Gain

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains, so all years prior to 2006 will be N/A. For years after 2005, numbers entered on this row have no affect on the calculations but remain in order to maintain compatibility with earlier versions of the program.

(66) Total Post-2000 5-Year Gain (Calculated)

The American Taxpayer Relief Act of 2012 eliminated the category of 5-year gains, so all years will be N/A.

(67) Total Qualified 5-Year Gain: (Calculated)

For years after 2000 and before 2004, the amount on row 63, above.

(68) (Blank)

(69) Capital Loss Deduction (Calculated)

The allowable deduction for net capital loss. The amount is automatically limited to $3,000 ($1,500 if married filing separately) in any one year. See IRC § 1211.

In multiple-year situations, the excess is carried over to future years on the following rows, above:

- row 12 "Short-term Loss Carryover: § 1411"
- row 13 "Short-term Loss Carryover: Adjustment for § 163"
- row 14 "Short-term Loss Carryover: Other than § 163 or § 1411"
- (for carryovers to years before 1997):
    - row 47 "28% Rate Gain or Loss"
    - row 48 "**2003 Post 5/5 Net Long-term Gain or Loss**"
- (for carryovers to years after 1996):

- row 19 of the **28% Rate Capital Gains and Losses** worksheet
- row 20 of the **28% Rate Capital Gains and Losses** worksheet
- row 21 of the **28% Rate Capital Gains and Losses** worksheet

See IRC Sections 1212(b) and 1(h)(5)(A)(ii)(IV) as amended by the IRS Restructuring and Reform Act of 1998. See also **NOTE 3**, below.

For years after 2012, the program allocates the capital losses to the "Nonbusiness Net Capital Gain/Loss" row of the **Medicare Investment Income Tax** worksheet in a manner consistent with Prop. Treas. Reg. § 1.1411(d)(4)(iii). See **NOTE 1**, below.

NOTE 1

In computing net long-term loss from investment and net short-term loss from investment for IRC § 163 purposes of net investment income and the investment interest limitation, the program allocates the carryovers proportionately between investment and noninvestment. For Medicare Investment Income purposes under IRC § 1411 the program allocates the carryovers between investment and noninvestment first to the noninvestment losses then to § 1411 losses.

The results for the § 1411 purposes are represented by the amount on the Loss Carryover:§ 1411 row. The results for purposes of the § 163 limitation are represented by the sum of the "Loss Carryover: § 1411" row and the "Loss C/O: Adj for § 163" row.

For example, suppose that during 2013 there is $100,000 of ordinary income, a $20,000 long-term capital loss from a passive activity, a $12,000 long-term capital loss from marketable securities and an $8,000 long-term capital loss from an active trade or business. The total capital loss is $40,000 of which $3,000 is allowed against ordinary income under IRC § 1211 and $37,000 is carried over to 2014. The program computes the § 1411 carryover to 2014 by considering the carryover to first come from the nonsection 1411 losses. These losses total $8,000. Therefore, of the $37,000, $8,000 is allocated to the nonsection 1411 losses and $29,000 is allocated to the § 1411 losses. The $29,000 will appear in 2014 on the "Loss Carryover: § 1411" row.

Next the program computes the § 163 carryover on a proportionate basis. The total § 163 loss is $12,000. The § 163 carryover is therefore computed as $12,000 ÷ $40,000 x $37,000 = $11,100. Since the § 163 carryover is less than the § 1411 carryover, the difference of $17,900 will appear on the "Long-term Loss C/O: Adj for § 163" row as a positive amount. The total of the "Loss Carryover: § 1411" row and the "Long-term Loss C/O: Adj for § 163" row ($11,100) is treated by the program as the § 163 carryover.

The balance of any carryover will appear on the Other row.

Note. For carryovers from 2012 to 2013, for purposes of § 1411, the entire carryover is considered allocable to § 1411. The § 163 carryover is computed proportionately in all years. For carryovers to 2012 and before, no amount is allocated to § 1411, and the "C/O: Adj for § 163" row will represent the entire amount of the § 163 carryover.

In addition, for purposes of computing capital losses from investment, or for purposes of the Medicare Investment Income Tax the program does not take into account the taxable income limit affecting carryovers prescribed by IRC § 1212(b)(2) as amended by the TAMRA of 1988. However, the program does take into account the $3,000 limit of IRC § 1211. See **NOTE 2** to the **Net Investment Income** on page 234.

NOTE 2

Do not use this subworksheet in multiple-year situations unless you have the same taxpayer in all columns. Carryovers generated by one taxpayer cannot be used by another.

When running a taxpayer and spouse analysis, carryovers generated in the spouse's column will be carried to the following years in the spouse's column; those generated in the taxpayer's column will be carried to subsequent years' taxpayer's columns; and those generated in the combined column will be carried to subsequent years' combined columns.

Similar rules are applied when running other types of analyses such as adjustment and difference.

NOTE 3

In computing capital loss carryovers to years after 1987, the program follows the rule of IRC § 1212(b)(2) as amended by the TAMRA of 1988 to the effect that carryovers are increased to the extent the capital loss was not usable in the previous year due to the absence of taxable income.

NOTE 4

Note. The following example reflects the rules of Proposed Regulation REG-130843-13, December 2, 2013, effective for years after 2013, but on which taxpayers may rely for 2013. The former Proposed Regulation REG-130507-11, December 05, 2012, was withdrawn on December 2, 2013. That regulation was also effective after 2013 but could be relied upon for 2013. It appears that you may rely on either proposed regulation for 2013, and may wish to apply the former proposed regulation, instead of the rules illustrated below.

Assume the Taxpayer owns a 100% interest in an S-corporation engaged in the business of farming. The Taxpayer materially participates in the business.

Assume that the Taxpayer does not qualify for the optional simplified reporting method in Prop. Treas. Reg. § 1.1411-7(c). For purposes of IRC Section 163 the interest is held for investment. The Taxpayer has held his interest in the S-corporation for more than one year. Taxpayer sells his interest in the S-corporation for 3,000,000. The adjusted basis in the Taxpayer's stock is 1,000,000, so he recognizes a 2,000,000 gain (3,000,000 – 1,000,000) on the sale of his stock. The S-corporation owns two assets, the land used for farming land and a portfolio of marketable securities. The land has an adjusted basis of 2,000,000, and a fair market value of 2,200,000. The portfolio of marketable securities has a fair market value of 200,000 and an adjusted basis of 150,000. All the securities have been held for more than one year. Upon the sale of Taxpayer's interest, Taxpayer calculates a deemed sale of the two assets at fair market value, resulting in a 200,000 gain from the deemed sale of the land (2,200,000 – 2,000,000) and a 50,000 gain from the deemed sale of the securities (200,000 – 150,000). For Medicare Investment Income Tax purposes, Taxpayer recognizes the lesser of the gain recognized for Chapter 1 purposes or the gain from the deemed sales of Section 1411 property. See IRC § 1411(c)(4) and Prop. Treas. Reg. 1.1411-7(b)(1).

Enter 50,000, the gain recognized on the deemed sale of the marketable securities, on row 29 "Other Long Term Investment Gain/Loss". The 50,000 gain is recognized for both Medicare Investment Income Tax purposes and Chapter 1 purposes. The Taxpayer recognizes the gain on the deemed sale of the marketable securities for Medicare Investment Income Tax purposes because the securities constitute Section 1411 property to the Taxpayer. Taxpayer does not recognize the gain from the deemed sale of the land for Medicare Investment Income Tax purposes because he materially participated in the business of farming, so the land does not constitute Section 1411 property to the Taxpayer. Enter the remainder of the capital gain on the sale of the stock, 1,950,000 (2,000,000 – 50,000), on row 33 "Sale of Pass-thru Long Term G/L: Inv". The 1,950,000 is recognized solely for Chapter 1 purposes. See Prop. Treas. Reg. 1.1411-7(b)(1) for a detailed discussion.

2003 POST 5/5 CAPITAL GAINS AND LOSSES

2003 Post 5/5 Capital Gains and Losses
(1) Short-term Investment Gain or Loss
(2)   Individual Activities
(3)   Security Transaction Analyzer
(4) Short-term Gain or Loss - Other
(5)   Individual Activities
(6) **Post 5/5/03 Net Short-term Gain or Loss**
(7)
(8) Post 5/5/03 Capital Gain Dividends
(9) Other Long-term Investment Gain or Loss
(10)   Individual Activities
(11)   Security Transaction Analyzer
(12) **Child's Capital Gain Dividends: Parent's Return**
(13) Other Long-term Gain or Loss
(14)   Individual Activities
(15) **Post 5/5/03 Net Long-term Gain or Loss**
(16) **Total Post 5/5/03 Capital Gain or Loss**
(17)
(18) **Post 5/5/03 Net Capital Gain**
(19) Adjustment to Post 5/5/03 Short-term
(20) Adjustment to Post 5/5/03 Long-term
(21) **Post 5/5/03 Net Capital Gain Adjusted**

(1) Short-term Investment Gain or Loss

The sum of all gains less the sum of all losses from transactions properly taken into account for the portion of the taxable year on or after 5/6/03 from the sale or exchange of capital assets which are investment assets under IRC § 163(d) and which are held one year or less.

Include short-term gain or loss from the sale of stocks, bonds, etc., held for investment, as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing – before pressing Enter.

Note. If the full year amount of a 2003 short-term gain or loss has been entered elsewhere in the program, i.e. as a passive activity item, do **not** adjust for the post 5/5/03 portion here. Instead use row 19 "Adjustment to Post 5/5/03 Short-term" below. The Security Transaction Analyzer accessed from row 3 below automatically assigns the gain or loss to the proper category with no further adjustment required.

See IRC § 1222. The program automatically includes the amount entered here in total short-term capital gain or loss and also takes it into account in computing investment income on the **Net Investment Income** worksheet, for purposes of the investment interest limitation. See, however, **NOTE 1** to the **Capital Gains and Loses** worksheet regarding carryovers.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below or in the **Security Transaction Analyzer**.

(2) Short-term Investment Gain or Loss – Individual Activities

Short-term investment gain or loss for the portion of the taxable year on or after 5/6/03 from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

(3) Security Transaction Analyzer

Short-term investment gain or loss from transactions on or after 5/6/03 and before 1/1/04 as entered on the **Security Transaction Analyzer** worksheet. See the description for row 2 "Short-term Investment Gain or Loss – Individual Activities", above.

No entry may be made on this row. Instead, press W to access the **Security Transaction Analyzer** worksheet to enter individual sales or exchanges of stocks, bonds and other investment security transactions.

(4) Short-term Gain or Loss – Other

The sum of all gains less the sum of all losses from transactions properly taken into account for the portion of the taxable year on or after 5/6/03 from the sale or exchange of capital assets which are not investment assets under IRC § 163(d) and which are held one year or less.

If losses exceed gains, enter the amount as a negative number by pressing – before pressing Enter. See IRC § 1222.

Note. If the total amount of the 2003 short-term gain or loss has been entered elsewhere in the program, i.e. as a passive activity item, do not adjust for the post 5/5/03 portion here. Instead use row 19 "Adjustment to Post 5/5/03 Short-term", below.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activities** worksheets accessed from the row below.

(5) Short-term Gain or Loss – Other – Individual Activities

Short-term noninvestment gain or loss for the portion of the taxable year on or after 5/6/03 from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

347

(6) Post 5/5/03 Net Short-term Gain or Loss (Calculated)

The sum of rows 1 through 4 above.

(7) (Blank)

(8) Post 5/5/03 Capital Gain Dividends

Dividends representing long-term capital gain from transactions for the portion of the taxable year on or after 5/6/03 other than unrecaptured Section 1250 gain and other than 28% rate gain. Enter the amount here or press W to use the **Interest and Dividends** worksheet.

(9) Long-term Investment Gain/Loss

The sum of all gains less the sum of all losses (other than unrecaptured section 1250 gain and 28% rate gains and losses) from the sale or exchange of capital assets properly taken into account for the portion of the taxable year on or after 5/6/03 held for more than one year, which are investment assets under IRC § 163(d).

If you are running "Minor Child" calculations (see the Note at the beginning of the **Minor Child Tax** worksheet section) and you are electing to have the child's income taxed to the parent by answering "Yes" on row 1 of the **Minor Child Tax** worksheet, you should enter any capital gain dividends of the child in the child's column on the Capital Gain Dividends rows of the **Interest and Dividends** worksheet, accessed from row 8 above. Alternatively, you may enter such dividends (other than unrecaptured Section 1250 and 28% rate in the child's column of this row.

In general, long-term investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income).

If losses exceed gains, enter the amount as a negative number by pressing – before pressing Enter. See IRC Sec. 1222.

Note. If the full year amount of a 2003 Long-term gain or loss has been entered elsewhere in the program, i.e. as a Section 1231 gain, do **not** adjust for the post 5/5/03 portion here. Instead use row 19 "Adjustment to Post 5/5/03 Short-term" below. Note also that the Security Transaction Analyzer accessed from row 3 above automatically assigns the gain or loss to the proper category with no further adjustment required (except where required for AMT purposes).

The program automatically takes the amount entered here into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below or in the **Security Transaction Analyzer** worksheet.

(10) Long-term Investment Gain/Loss – Individual Activities

Long-term investment gain or loss for the portion of the taxable year on or after 5/6/03 from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

(11) Security Transaction Analyzer

Long-term investment gain or loss on or after 5/6/03 and before 1/1/04 from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

(12) Child's Capital Gain Dividends Included on the Parent's Return (Calculated)

The amount of any 2003 post 5/5 capital gain dividends of the child, entered on rows 9 or 10 above or posted to row 8, the capital gain dividends row above from the **Interest and Dividends** worksheet, which are included on the parent's return pursuant to the election to include the child's income in the parent's gross income. See row 1 (Elect Income on Parent's Return) on the **Minor Child Tax** worksheet.

The program allocates the child's total income to be included on the parent's return among capital gain dividends, qualified dividends, and other ordinary income interest and dividends on a proportionate basis. It also allocates the capital gains dividends among the various categories of capital gain (28% rate, unrecaptured Section 1250) on a proportionate basis.

(13) Other Long-term Gain or Loss

The sum of all gains less the sum of all losses (other than unrecaptured Section 1250 gain and 28% rate gains and losses) from the sale or exchange of capital assets properly taken into account for the portion of the taxable year on or after 5/6/03 held for more than one year, which are not investment assets under IRC § 163(d).

If losses exceed gains, enter the amount as a negative number by pressing – before pressing Enter. See IRC § 1222.

> **Note.** If the full year amount of a 2003 Long-term gain or loss has been entered elsewhere in the program, i.e. as a Section 1231 gain or a passive activity gain or loss, do not adjust for the post 5/5/03 portion here. Instead use row 20 "Adjustment to Post 5/5/03 Long-term" below.

As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(14) Other Long-term Gain or Loss – Individual Activities

Long-term noninvestment gain or loss properly taken into account for the portion of the taxable year on or after 5/6/03 from individual activities. See the description for the row above.

No entry may be made on this row. Instead, access the **Individual Activities** worksheets.

(15) Post 5/5/03 Net Long-term Gain or Loss (Calculated)

The sum of rows 8 through 14 above.

(16) Total Post 5/5/03 Capital Gain or Loss (Calculated)

The sum of rows 6 and 15 above.

(17) (Blank)

(18) Post 5/5/03 Net Capital Gain (Calculated)

The excess of the gain on row 15 over the loss on row 6.

(19) Adjustment to Post 5/5/03 Short-term

Any adjustment required to the amount computed by the program on row 6 above. Use this row to reclassify as post 5/5 gain or loss any full year short-term gain or loss entered elsewhere in the program. For example, the full year amount of a short-term passive activity gain will be posted by the program to the regular **Capital Gains and Losses** worksheet. To the extent that part of such gain is properly attributable to the portion of the taxable year on or after 5/5/03, enter the amount here. The amount entered here does **not** increase the total gain included in Net Capital Gain or in Adjusted Gross Income. It merely reclassifies such amount as post 5/5/03 instead of pre 5/6/03.

(20) Adjustment to Post 5/5/03 Long-term

Any adjustment required to the amount computed by the program on row 15 above. Use this row to reclassify as post 5/5 gain or loss any full year long-term gain or loss entered elsewhere in the program (other than unrecaptured

Section 1250 gain, collectibles gain or loss, or Section 1202 gain). For example, the full year amount of a long-term passive activity gain will be posted by the program to the regular **Capital Gains and Losses** worksheet. To the extent that part of such gain is properly attributable to the portion of the taxable year on or after 5/6/03, enter the amount here. Similarly, a Section 1231 gain will be posted by the program (if Section 1231 gains exceed losses) to the regular **Capital Gains and Losses** worksheet. Use this row to enter any part of such gain properly attributable to the portion of the year on or after 5/6/03. The amount entered here does **not** increase the total gain included in Net Capital Gain or in Adjusted Gross Income. It merely reclassifies such amount as post 5/5/03 instead of pre 5/6/03.

(21) Post 5/5/03 Net Cap Gain Adjusted (Calculated)

The excess of the gain computed by adding rows 15 and 20 over any loss computed by adding rows 6 and 19.

LUMP SUM DISTRIBUTION

Lump Sum Distribution
(1) Taxpayer's Distribution:
(2) Capital Gain Distribution
(3) Capital Gain After Phaseout
(4) Ordinary Income Distribution
(5) Ordinary with Cap Gain Phaseout
(6) Annuity Distribution
(7) Section 101(b) Exclusion
(8) Estate Tax on Distribution
(9) Elect 10-Year Averaging
(10) Select Averaging on Whole
(11) Make 20% Cap Gain Election
(12) Minimum Distribution Allowance
(13)   20% Capital Gain Tax
(14)   **Averaging Tax**
(15) Spouse's Distribution:
(16) Capital Gain Distribution
(17) Capital Gain After Phaseout
(18) Ordinary Income Distribution
(19) Ordinary with Cap Gain Phaseout
(20) Annuity Distribution
(21) Section 101(b) Exclusion
(22) Estate Tax on Distribution
(23) Elect 10-Year Averaging
(24) Select Averaging on Whole
(25) Make 20% Cap Gain Election
(26) Minimum Distribution Allowance
(27)   20% Cap Gain Tax
(28)   **Averaging Tax**
(29) **Total Lump Sum Tax**

Note. In general, see Form 4972 for the requirements for the treatment accorded by this worksheet. See also the Notes starting on page 358.

351

(1) Taxpayer's Distribution:

Heading for rows 2 through 14, below.

(2) Capital Gain Distribution

The capital gain portion of the taxpayer's lump sum distribution from box 3 of Form 1099R. See IRC § 402(a)(2) prior to amendment by the 1986 TRA and IRC § 1122(h)(3)–(5) of the Act.

Enter the spouse's capital gain distribution on row 16 "Capital Gain Distribution", below.

When running a taxpayer and spouse analysis, enter the taxpayer's capital gain distribution on this row in the Taxpayer column and the spouse's capital gain distribution on the "Spouse's Capital Gain Distribution" row, below, in the Spouse column.

(3) Capital Gain After Phaseout (Calculated)

The capital gain on row 2, above, multiplied by the phaseout percentage for the year. These percentages are:

Year	Percentage
2000 and subsequent	0

(4) Ordinary Income Distribution

The ordinary income portion of the taxpayer's lump sum distribution (box 2a minus box 3 of Form 1099R). See IRC § 402(e)(4)(E) prior to amendment by the 1986 TRA and IRC § 1122 of the Act.

Enter the spouse's ordinary distribution on row 18 "Ordinary Income Distribution", below.

When running a taxpayer and spouse analysis, enter the taxpayer's ordinary income distribution on the this row in the Taxpayer column and the spouse's ordinary income distribution on the corresponding row below, in the Spouse column.

(5) Ordinary with Capital Gain Phaseout (Calculated)

The sum of row 2 "Capital Gain Distribution" and row 4 "Ordinary Income Distribution" less row 3 "Capital Gain After Phaseout (Calculated)", above.

(6) Annuity Distribution

The current actuarial value of any annuity contracts distributed as part of the taxpayer's distribution from box 8 of Form 1099R. See IRC § 402(e)(2).

Enter the spouse's annuity distribution on row 20 "Annuity Distribution", below.

When running a taxpayer and spouse analysis, enter the taxpayer's annuity distribution on this row in the Taxpayer column and the spouse's annuity distribution on the Spouse's Annuity Distribution row, below, in the Spouse column.

(7) § 101(b) Exclusion

The exclusion is repealed for decedents dying after August 20, 1996.

(8) Estate Tax on Distribution

Any federal estate tax attributable to the taxpayer's entire lump sum distribution. See IRC § 691(c). Enter the estate tax on the spouse's distribution on row 22 "Estate Tax on Distribution" below.

For years after 1999, see NOTE 9, below.

When running a taxpayer and spouse analysis, enter the taxpayer's estate tax on the this row in the Taxpayer column and the spouse's estate tax on the Spouse's Estate Tax on Distribution row, below, in the Spouse column.

(9) Elect 10-Year Averaging

For years after 1999, only 10-year averaging is available. For such years, any portion of a distribution for which 10-year averaging is not elected, and which is not subject to the 20% capital gain election, is posted by the program to the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet. See **NOTE 9** on page 360.

Enter the election for the spouse's distribution on row 23 "Elect 10-Year Averaging" below. When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the corresponding row, below, in the Spouse column.

(10) Select Averaging on Whole

Apply the 10-year averaging provisions to the entire distribution of the taxpayer. Enter "1" or "Y" (Yes), or "0" or "N" (No).

"Yes" means not making the election in § 1222(h)(4) of the 1986 Tax Reform Act to have the phaseout rules for capital gain applied. The answer here determines how much of the taxpayer's distribution will be subject to the averaging computations and how much will be subject to the capital gain and 20% capital gain computations.

A "No" answer on this row and on row 11 "Make 20% Capital Gain Election" below results in the capital gain portion being taxed on Schedule D (after the phaseout) and the rest of the distribution being taxed under 10-year averaging,

depending on the answer on row 9 "Elect 10-Year Averaging" above. A "Yes" answer on this row is inconsistent with a "Yes" answer on the next row and the program will not allow the conflict.

See row 14 "**Averaging Tax**", below, and **NOTE 9** on page 360.

Enter the election for the spouse's distribution on row 24 "Select Averaging on Whole", below.

When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the spouse's Select Averaging on Whole row below in the Spouse column.

(11)   Make 20% Capital Gain Election

Apply the 20% Capital Gain tax to the taxpayer's distribution. Distributees who were over 50 on 1/1/86 may elect to have the capital gain portion of the distribution taxed at 20% and the ordinary income portion taxed under 10-year averaging depending on the answer on row 9 above (Taxpayer Elect 10 Year Averaging). See 1986 TRA § 1122(h)(3)(A).

A "No" answer on this and the previous row results in the capital gain being taxed on Schedule D (after the phaseout) and the rest of the distribution being taxed under 10-year averaging, depending on the answer on row 9 "Elect 10-Year Averaging" and row 10 "Select Averaging on Whole" above. The election on this row is inconsistent with an election to treat the whole distribution as subject to averaging on the row above and the program will not allow the conflict.

For years after 1999, see row 14 "**Averaging Tax**", below, and **NOTE 9** on page 360.

Enter the election for the spouse's distribution on row 25 "Make 20% Capital Gain Election", below.

When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the spouse's Make 20% Capital Gain Election row, below, in the Spouse column.

(12)   Minimum Distribution Allowance (Calculated)

The minimum distribution allowance applicable to the portion of the taxpayer's distribution that is subject to 10-year averaging. The portion is determined on the basis of the answers to row 10 "Select Averaging on Whole" and row 11 "Make 20% Capital Gain Election", above. See IRC § 402(e)(1)(D).

(13)   20% Capital Gain Tax (Calculated)

If row 11 "Make 20% Capital Gain Election" is "Yes", this row will be 20% of the amount on row 2 "Capital Gain Distribution", above, adjusted for the capital

gains portion of the estate tax and the IRC § 101(b) exclusion. Otherwise, this row will be zero.

(14) Averaging Tax (Calculated)

The 10-year averaging tax on the ordinary income part of the taxpayer's distribution. The spouse's averaging tax appears on row 28 "**Averaging Tax**", below. The amount of the taxpayer's distribution subject to averaging depends on the answers on row 10 "Select Averaging on Whole" and row 11 "Make 20% Capital Gain Election", above.

The program uses only 10-year averaging if it has been elected on row 10. The balance of the distribution is posted to the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet, except to the extent of the portion subject to the 20% capital gain election. See **NOTE 9** on page 360.

(15) Spouse's Distribution:

Heading for rows 16 through 28, below.

(16) Capital Gain Distribution

The capital gain portion of the spouse's lump sum distribution from box 3 of Form 1099R. See IRC § 402(a)(2) prior to amendment by the 1986 TRA and § 1122(h)(3)-(5) of the Act.

When running a taxpayer and spouse analysis, enter the spouse's capital gain distribution on this row in the Spouse column and the taxpayer's capital gain distribution on the "Taxpayer's Capital Gain Distribution" row above in the Taxpayer column.

(17) Capital Gain After Phaseout (Calculated)

The capital gain on row 16 "Capital Gain Distribution" above multiplied by the phaseout percentage for the year. These percentages are:

Year	Percentage
2000 and subsequent	0

(18) Ordinary Income Distribution

The ordinary income portion of the spouse's lump sum distribution (box 2a minus box 3 of Form 1099R). See IRC § 402(e)(4)(E) prior to amendment by the 1986 TRA and § 1122 of the Act.

When running a taxpayer and spouse analysis, enter the spouse's ordinary income distribution on this row in the Spouse column and the taxpayer's

ordinary income distribution on the Taxpayer's Ordinary Income Distribution row, above, in the Taxpayer column.

(19) Ordinary with Capital Gain Phaseout (Calculated)

The sum of row 16 "Capital Gain Distribution" and row 18 "Ordinary Income Distribution" less row 17 "Capital Gain After Phaseout (Calculated)", above.

(20) Annuity Distribution

The current actuarial value of any annuity contracts distributed as part of the spouse's distribution from box 8 of Form 1099R. See IRC § 402(e)(2).

When running a taxpayer and spouse analysis, enter the spouse's annuity distribution on this row in the Spouse column and the taxpayer's annuity distribution on the "Taxpayer's Annuity Distribution" row, above, in the Taxpayer column.

(21) Section 101(b) Exclusion

The exclusion is repealed for decedents dying after August 20, 1996.

(22) Estate Tax on Distribution

Any federal estate tax attributable to the spouse's entire lump sum distribution. See IRC § 691(c).

For years after 1999, see NOTE 9, below.

When running a taxpayer and spouse analysis, enter the spouse's estate tax on the this row in the Spouse column and the taxpayer's estate tax on the "Taxpayer's Estate Tax on Distribution" row, above, in the Taxpayer column.

(23) Elect 10-Year Averaging

For years after 1999, only 10-year averaging is available. For such years, any portion of a distribution for which 10-year averaging is not elected, and which is not subject to the 20% capital gain election, is posted by the program to the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet. See **NOTE 9** on page 360.

When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the Taxpayer's Elect 10 Year Averaging row, above, in the Taxpayer column.

(24) Select Averaging on Whole

Apply the 10-year averaging provisions to the entire distribution of the spouse. Enter "1" or "Y" (Yes), or "0" or "N" (No).

"Yes" means not making the election in § 1222(h)(4) of the 1986 Tax Reform Act to have the phaseout rules for capital gain applied. The answer here determines how much of the spouse's distribution will be subject to the averaging computations and how much will be subject to the capital gain and 20% capital gain computations.

A "No" answer on this row and on row 25 "Make 20% Capital Gain Election" below results in the capital gain portion being taxed on Schedule D (after the phaseout) and the rest of the distribution being taxed under 10-year averaging, depending on the answer on row 24 "Select Averaging on Whole", above. A "Yes" answer on this row is inconsistent with a "Yes" answer on the next row and the program will not allow the conflict.

For years after 1999, see row 28 "**Averaging Tax**", below, and **NOTE 9** on page 360.

When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the "Taxpayer's Select Averaging on Whole" row, above, in the Taxpayer column.

(25) Make 20% Capital Gain Election

Apply the 20% Capital Gain tax to the spouse's distribution. Distributees who were over 50 on 1/1/86 may elect to have the capital gain portion of the distribution taxed at 20% and the ordinary income portion taxed under 5- or 10-year averaging depending on the answer on row 23 above (Spouse Elect 10-Year Averaging). See 1986 TRA § 1122(h)(3)(A).

A "No" answer on this and the previous row results in the capital gain being taxed on Schedule D (after the phaseout) and the rest of the distribution being taxed under 10-year averaging, depending on the answer on row 23 "Elect 10-Year Averaging", above.

The election on this row is inconsistent with an election to treat the whole distribution as subject to averaging on the row above and the program will not allow the conflict.

When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the "Taxpayer's Make 20% Capital Gain Election" row, above, in the Taxpayer column.

(26) Minimum Distribution Allowance (Calculated)

The minimum distribution allowance applicable to the portion of the spouse's distribution that is subject to 10-year averaging. The portion is determined on the basis of the answers to row 24 "Select Averaging on Whole" and row 25 "Make 20% Capital Gain Election", above. See IRC § 402(e)(1)(D).

(27) 20% Capital Gain Tax (Calculated)

If row 25 "Make 20% Capital Gain Election" is Yes, this row will be 20% of the amount on row 16 "Capital Gain Distribution", above, adjusted for the capital gains portion of the estate tax and the IRC § 101(b) exclusion. Otherwise, this row will be zero.

(28) Averaging Tax (Calculated)

The 10-year averaging tax on the ordinary income part of the spouse's distribution. The amount of the spouse's distribution subject to averaging depends on the answers on row 24 "Select Averaging on Whole" and row 25 "Make 20% Capital Gain Election", above.

The program uses only 10-year averaging if it has been elected on row 23 "Elect 10-Year Averaging". The balance of the distribution is posted to the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet, except to the extent of the portion subject to the 20% capital gain election. See **NOTE 9** on page 360.

(29) Total Lump Sum Tax (Calculated)

The sum of rows 14 "Averaging Tax (Calculated)" and 28 "**Averaging Tax**", above. This amount is posted to the "5/10-year Tax on Lump Sum" row of the **Self-employment & Other Taxes** worksheet.

NOTE 1

See **NOTE 9** on page 360 for distributions after 1999.

NOTE 2

The options on this worksheet allow you to test the various alternative treatments available to the taxpayer and select the one that it most advantageous. However, in running the analysis, it is important to consider the computations appearing elsewhere and **not** make a determination solely on the basis of the numbers appearing on this worksheet. Specifically, if you do not elect 20% capital gain treatment (row 11 for the taxpayer, row 25 for the spouse) the capital gain portion of the distribution will be taxed on the **Capital Gains and Losses** worksheet and the results of that computation will not appear here.

Therefore, in comparing alternatives, you should either:

1. Select one of the Tile options on the Worksheets menu, which will allow you to view all the affected worksheets at once, or

2. Click the worksheet tabs (or select Cascade on the Worksheets menu) to flip through the affected worksheets, or

3. Set up a number of cases each with a different alternative. (For example, the alternatives include only 10-year averaging and the 20% capital gains tax, for those who qualify, and ordinary income treatment.)

Case 1: No elections. (The program carries the capital gain to the **Capital Gains and Losses** worksheet after phaseout, and treats the ordinary portion as subject to averaging using 5 years.)

Case 2: Elect 10-year averaging with no other elections. (The program carries the capital gain to the **Capital Gains and Losses** worksheet after phaseout, and treats the ordinary portion as subject to averaging using 10 years.)

Case 3: Averaging on whole with 10-year.

Case 4: 20% capital gain tax with 10-year averaging.

In addition, you may wish to try other alternatives that would be more beneficial than the above, but that would not involve the use of this worksheet. These are:

1. The capital gain subject to the 20% tax and the ordinary portion taxed as Other Income. Enter 20% of the capital gain on the "5/10-year Tax on Lump Sum" row of the **Self-employment and Other Taxes** worksheet. Enter the ordinary income on the "State Exempt Pensions" and "Other Pension and IRA Distributions" rows of the **Other Ordinary Income** worksheet, divided in accordance with the treatment of the distribution for state tax purposes.

2. The capital gain on Schedule D (after phaseout) and the ordinary portion taxed as Other Income. Enter the capital gain, after the phaseout on the "Long-term Gain – Lump Sum" row of the **Capital Gains and Losses** worksheet. Enter the ordinary income, after the capital gain phaseout on the "State Exempt Pensions" and "Other Pension and IRA Distributions" rows of the **Other Ordinary Income** worksheet, divided in accordance with the treatment of the distribution for state tax purposes. This alternative is available only for years before 1992, since starting with 1992 the capital gain that may be reported on Schedule D is completely phased out.

3. The entire distribution taxed as Other Income. Enter the distribution on the "State Exempt Pensions" and "Other Pension and IRA Distributions" rows of the **Other Ordinary Income** worksheet, divided in accordance with the treatment of the distribution for state tax purposes.

NOTE 3

The exclusion is repealed for decedents dying after August 20, 1996.

NOTE 4

The program does not apply the 6-year look-back rule. The rule will apparently apply only rarely to distributions received in post-1986 years because of

restrictions on the number of distributions to which the averaging provisions can be applied. See IRC § 402(e)(4)(B) as amended by the 1986 Tax Reform Act.

NOTE 5

The program does not automatically compute the penalty tax for early distributions from qualified plans nor the 15% excise tax on excess distributions from such plans. See IRC §§ 4973, 4974, and 4980A. You may include these taxes for the years to which they apply if you wish under "SS Tip & Excess Plan Taxes" on the **Self-employment and Other Taxes** subworksheet.

NOTE 6

The program assumes that the capital gain tax applicable under the 20% election will be treated for purposes of applying credits the same way as the 10-year averaging tax. Further, the program does not include the capital gain amount subject to the 20% tax in adjusted gross income or taxable income for regular or alternative minimum purposes. It also does not include the 20% tax as part of the regular tax in computing the net minimum tax. Instead, the program treats the 20% tax as if it were part of the averaging tax. This treatment is suggested by Form 4972 for 1987 and subsequent years.

NOTE 7

In computing the 10-year averaging tax with 1986 single rates pursuant to the elections on rows 9 and 23 above, the program follows Form 4972 for 2000 and subsequent years and adds the 1986 single zero bracket amount before applying the schedules.

NOTE 8

The program does not handle multiple recipients of a lump sum distribution. See the instructions for Form 4972.

NOTE 9

Beginning in 2000, 5-year averaging is repealed. See the Small Business Act of 1996, § 1401. 10-year averaging and the 20% capital gains tax are still available with respect to distributees who were 50 or older on January 1, 1986.

For years after 1999, any amount of the distribution entered on this worksheet and not subject to one of these elections is posted by the program to the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet.

The program continues to apply the reduction for the estate tax to such distributions for post-1999 years, regardless of whether either of the two elections have been made. See the Small Business Act of 1996, Sections 1401(c)(9) and (b)(2).

Distributees who are not eligible for either 10-year averaging or the 20% capital gains tax should not use this worksheet in years after 1999, but should instead enter the amount of the distribution directly on the "State Exempt Pensions" and "Other Pension & IRA Distributions" rows of the **Other Ordinary Income** worksheet, divided in accordance with the treatment of the distribution for state tax purposes. For such distributees, the estate tax should be entered as an Other Itemized deduction on the **Itemized Deductions** worksheet.

28% RATE CAPITAL GAINS AND LOSSES

28% Rate Capital Gains and Losses
(1)   Section 1231 Gain or Loss: Investment
(2)   Collectibles Gain or Loss: Investment
(3)   Qualified Small Business Stock Gain
(4)   2003 Post 5/5 Qualified Small Business Stock Gain
(5)   Capital Gain Dividends
(6)   Other 28% Rate Investment Gain or Loss
(7)   Individual Activities
(8)   Security Transaction Analyzer
(9)   **Child's Capital Gain Dividend: Parent's Return**
(10) Section 1231 Trade or Business Gain or Loss
(11) Section 1231 Passive Gain or Loss
(12) Collectibles Gain or Loss: Non-Investment
(13) Passive Activity Gain or Loss
(14) Trade or Business MAPRRA Gain or Loss
(15) PTP Gain Activities
(16) Other PTP Activities
(17) Other 28% Rate Gain or Loss
(18) Individual Activities
(19) Long-term Loss Carryover: § 1411
(20) Long-term Loss Carryover: Adjustment for § 163
(21) Long-term Loss Carryover: Other than § 163 or § 1411
(22)
(23) **Total 28% Rate Gain or Loss**

(1) Section 1231 Gain or Loss from Investment

The 28% rate portion of Section 1231 gain or loss from investment assets treated as capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Use the worksheet also to have investment casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC §§ 1231 and 1(h).

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(2) Collectibles Gain or Loss from Investment

The amount of gain or loss on collectibles which are investment assets held for more than one year. See IRC § 1(h). If losses exceed gains, enter the amount as a negative number by pressing "–" before pressing Enter.

The program includes the amount entered here in Total 28% Rate Gain or Loss (row 18 below), and also takes it into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(3) Qualified Small Business Stock Gain

Enter the gain from the sale or exchange of qualified small business stock net of the allowable exclusion. Include only the aggregate amount that may be taken into account in computing the exclusion after subtracting the exclusion. Include only stock issued after August 10, 1993, held for more than five years and that meets the other requirements of IRC Section 1202.

Enter any gain that does not qualify for the exclusion on the "Other Long-Term Investment Gain or Loss" row of the **Capital Gains and Losses** worksheet and not on this worksheet.

For example, assume a taxpayer has a $12,000,000 gain on the sale of Section 1202 stock, of which $10,000,000 qualifies for the exclusion. Enter $5,000,000 on this row (50% of $10,000,000) and $2,000,000 on the "Other Long-Term Investment Gain or Loss" row of the **Capital Gains and Losses** worksheet. If the stock were empowerment zone stock, you would enter $4M on this row (40% of $10M) and $2M on the "Other Long-term Investment Gain or Loss" row of the **Capital Gains and Losses** worksheet. For Section 1202 stock acquired after the date of enactment of the Creating Small Business Jobs act of 2010, the exclusion is 100% and no amount should be included on this row. See IRC § 1202(a)(4).

The program includes the gain on this row in row 19 below (Total 28% Rate Gain or Loss) and automatically computes the 7% AMT preference (42% for years before 2004) for this gain on the Alternative Minimum Tax worksheet. To compute the preference, the program multiplies the amount on this row by 7% (42% for years before 2004). Note that for empowerment zone gain excluded at 60% an adjustment must be made on the Other Exclusion Preferences row of the Alternative Minimum Tax worksheet so that the preference equals 7% of the excluded amount. For stock acquired after February 17, 2009, and on or before September 27, 2010, the preference amount computed by the program should be tripled. This is because the program computes the preference as 7%

of the amount on this row, and the amount on this row only represents 25% of the gain. Seven percent (the percentage used by the program) of 25% (the amount on this row) is one third of 7% (the actual preference percentage) times 75% (the excluded amount). See IRC § 57(a)(7). For Section 1202 stock acquired after September 27, 2010, the exclusion is 100%, no amount should be included on this row, and there is no AMT preference. See IRC § 1202(a)(4).

The amount is included as Net Investment Capital Gain/Loss on the **Net Investment Income** worksheet.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

Do not include any gains that qualify for the IRC § 1045 rollover.

(4) 2003 Post 5/5 Qualified Small Business Stock Gain

For sales of Qualified Small Business Stock in 2003 after 5/5, enter the gain from the sale or exchange net of the allowable exclusion. Include only the aggregate amount that may be taken into account in computing the exclusion after subtracting the exclusion. Include only stock issued after August 10, 1993, held for more than five years, and that meets the other requirements of IRC § 1202.

Enter any gain that does not qualify for the exclusion on the "Other Long-term Investment Gain or Loss" row of the **Capital Gains and Losses** worksheet and not on this worksheet.

The program includes the gain on this row in row 23 "Total 28% Rate Gain or Loss" below and automatically computes the 7% AMT preference for this gain on the **Alternative Minimum Tax** worksheet. To compute the preference, the program multiplies the amount on this row by 7%.

See the example in the row description above.

For all years other than 2003, this row will be N/A.

(5) Capital Gain Dividends

Dividends treated as 28% rate capital gain. Enter the amount here or press W. to use the **Interest and Dividends** worksheet.

The amount is included as Net Investment Capital Gain/Loss on the **Net Investment Income** worksheet.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

363

(6) Other 28% Rate Investment Gain or Loss

The sum of all 28% rate gains and losses (other than gains and losses entered on the rows above) from the sale or exchange of capital assets that are investment assets under IRC § 163(d).

Investment capital gains and losses include gain or loss from the sale of stocks, bonds, etc., held for investment, as well as such gains and losses from passive activities described in IRC § 469(e)(1)(A) (portfolio income). If losses exceed gains, enter the amount as a negative number by pressing the minus sign (–) before pressing Enter. See IRC § 1(h).

The program automatically takes the amount entered here into account in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation. As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(7) Other 28% Rate Investment Gain or Loss – Individual Activities

Other 28% rate investment gain or loss from individual activities. See the help message for the row above.

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(8) Security Transaction Analyzer

Other 28% rate investment gain or loss from transactions entered on the **Security Transaction Analyzer** worksheet. See the description for the **Other 28% Rate Investment Gain/Loss** row above. No entry may be made on this row. Instead, press W to access the **Security Transaction** worksheet to enter individual sales or exchanges of stocks, bonds and other investment security transactions.

The amount is included as Net Investment Capital Gain/Loss on the **Net Investment Income** worksheet.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(9) Child's Capital Gain Dividends: Parent's Return (Calculated)

The amount of any 28% rate capital gain dividends of the child, entered on rows 6 or 7 above or posted to row 5 "Capital Gain Dividends" above from the **Interest and Dividends** worksheet, which are included on the parent's return pursuant to the election to include the child's income in the parent's gross income. See the "Elect Income on Parent's Return" row on the **Minor Child Tax** worksheet.

The program allocates the child's total income to be included on the parent's return between capital gain dividends and ordinary income interest and dividends on a proportionate basis. It also allocates the capital gains dividends among the various categories of capital gain (28% rate, unrecaptured section 1250 and other capital gain) on a proportionate basis.

The amount is included as Net Investment Capital Gain/Loss on the **Net Investment Income** worksheet.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(10) Section 1231 Trade or Business Gain/Loss

The 28% rate portion of Section 1231 gain or loss from trade or business assets which is treated as capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Use the worksheet also to have investment casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC Sections 1231 and 1(h).

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program does not use this amount in the computation of the Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

(11) Section 1231 Passive Gain or Loss

The 28% rate portion of Section 1231 gain or loss from passive activities which are treated as capital gain or loss because Section 1231 gains exceed Section 1231 losses for the year.

Press W for the Section 1231 & Casualty Gain/Loss worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss. Use the worksheet also to have investment casualty and Section 1231 gain and loss automatically included on the Net Investment Income worksheet for purposes of the investment interest limitation. See IRC §§ 1231 and 1(h).

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(12) Collectibles Gain or Loss: Non-Investment

The amount of the gain or loss on collectibles held for more than one year (18 months if sold after 7/28/97 and before 1/1/98) which are not investment assets. See IRC Section 1(h).

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

Do not include non-deductible personal losses.

(13) Passive Activity Gain or Loss

Net 28% rate gain or loss from passive activities or non-Trade or Business MAPRRA activities after application of the passive activity limitations.

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income and Loss** worksheet.

(14) Trade or Business MAPRRA Gain or Loss

Net 28% rate gain or loss from Trade or Business MAPRRA activities after application of the passive activity limitations.

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program does **not** use this amount in the computation of the Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss** worksheet.

(15) Publicly Traded Partnership Gain Activities

Net 28% rate gain from publicly traded partnerships that have a gain for the year, after application of the limitations applicable to such partnerships. The program treats such gain as investment income for purposes of the investment interest limitation and so it is separately shown here.

The amount is included as Net Investment Capital Gain/Loss on the **Net Investment Income** worksheet.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet.

(16) Other Publicly Traded Partnership Activities

Net 28% rate gain or loss (after applicable limitations) from publicly traded partnerships other than the amount of 28% rate gain from such partnerships included on the row above. The program does not treat the gain or loss included on this row as investment income for purposes of the investment interest limitation.

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships** worksheet.

(17) Other 28% Rate Gain or Loss

The sum of all 28% rate gains and losses (other than gains and losses entered on the rows above) from the sale or exchange of capital assets which are **not** investment assets under IRC Section 163(d).

If losses exceed gains, enter the amount as a negative number by pressing "–" before pressing enter. See IRC §§ 1(h) and 1222. As an alternative, you may enter the gain or loss described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does **not** use this amount to compute the investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation.

For years after 2012, the program uses this amount in the computation of Nonbusiness Net Capital Gain/Loss on the **Medicare Investment Income Tax** worksheet.

(18) Other 28% Rate Gain or Loss from Individual Activities

Other 28% rate capital gain or loss from individual activities. See the description for the row above.

No entry may be made on this row. Instead, press W to access the **Individual Activity** worksheets.

(19) Long-Term Loss Carryover: § 1411

Carryovers to 1997 and subsequent years of prior years' net long-term capital loss in excess of net short-term capital gain from purposes of the Medicare Investment Income Tax, IRC § 1411. And see IRC § 1212.

Note. Enter long-term loss carryovers to 1996 and prior years on the **Capital Gains and Losses** worksheet and not on this worksheet.

The program uses this item in computing investment income for investment interest limitation purposes. See rows 1, 2, 3, 5, 6, 7, 8, 9, 11, 12, 13, 15, 16, 17, and 18, above.

For years after 2012, the program uses this amount in the computation of "Nonbusiness Net Capital Gain/Loss" on the **Medicare Investment Income Tax** worksheet.

In multiple year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the long-term loss carryover between § 1411, § 163, and other losses.

Note. Long-term loss carryovers for alternative minimum tax purposes must be separately entered.

For years before 2013, this row will be N/A.

The total short term capital loss carryover equals the sum of rows 19, 20, and 21.

See **NOTE 1** on the **Capital Gains and Losses** worksheet for a discussion on how the program allocates capital loss carryovers.

(20) Long-term Loss Carryover: Adjustment for § 163

The amount of the adjustment to row 19 above necessary to calculate the short term capital loss carryover for purposes of calculating net investment income under IRC § 163. Also see IRC § 1212 and **NOTE 3** of the **Capital Gains and Losses** worksheet.

For years after 2012, the program does not use this amount in the computation of the Medicare Investment Income on the Medicare Investment Income Tax worksheet.

The program treats the amount on this row as a long term loss carryover from investment for purposes of the investment interest expense computation on the Net Investment Income worksheet.

Do not include losses from the sale of an active trade or business.

In multiple year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the long-term loss carryover between § 1411, § 163, and other losses.

The program uses this item in the computation of investment income for investment interest limitation purposes. See **NOTE 1** and **NOTE 2** to the **Net Investment Income** worksheet.

The total long term capital loss carryover equals the sum of rows 19, 20, and 21.

See **NOTE 1** on the **Capital Gains and Losses** worksheet for a discussion on how the program allocates capital loss carryovers.

Note. Long-term loss carryovers for alternative minimum tax purposes must be separately entered.

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(21) Long-term Loss Carryover: Other than § 163 or § 1411

Carryovers to 1997 and subsequent years of prior years' net long-term capital loss in excess of net short-term capital gain from property held neither for

investment purposes under IRC § 163 nor for Medicare Investment Tax purposes under IRC § 1411. See rows 10 and 14, above. See IRC § 1212. (Note: Long-term loss carryovers to 1996 and prior years should be entered on the **Capital Gains and Losses** worksheet and not on this worksheet.)

The program does not use this amount to compute the investment income on the Net Investment Income worksheet.

For years after 2012, the program does not uses this amount in the computation of Medicare Investment Income on the **Medicare Investment Income Tax** worksheet.

In multiple year situations, enter the amount in the first column of each case only; the program will compute the other columns. In computing the other columns, the program allocates the long-term loss carryover between § 1411, § 163, and other losses.

The total long term capital loss carryover equals the sum of rows 19, 20, and 21.

See **NOTE 1** on the **Capital Gains and Losses** worksheet for a discussion on how the program allocates capital loss carryovers.

Note. Long-term loss carryovers for alternative minimum tax purposes must be separately entered.

(22) (Blank)

(23) Total 28% Rate Gain or Loss (Calculated)

The sum of rows 1 through 21, above. This amount is posted to row 47 "28% Rate Gain or Loss" of the **Capital Gains and Losses** worksheet.

ITEMIZED DEDUCTIONS

Itemized Deductions
(1)   65 or Over?
(2)   Medical Expense
(3)   **AGI Floor**
(4)   **Net Deductible Medical**
(5)   Specific Disaster Casualty Losses
(6)   Other Net Personal Casualty Loss
(7)   **10% of AGI**
(8)   **Net Deductible Casualty**
(9)   Charitable Contributions
(10) State Income Taxes
(11) Adjustment to State Income Taxes
(12) **Total State Income Taxes**
(13) Qualified Vehicle Sales Tax
(14) **Qualified Vehicle Tax Phased-out**
(15) **Total Income & Vehicle Sales Taxes**
(16) State and Local Sales Taxes
(17) **Higher Tax Amount**
(18) Property Taxes: Residential
(19) Other State & Local Taxes
(20) Total Personal Taxes
(21) Limited Personal Taxes
(22) Property Taxes: Investment
(23) Qualified Residence Interest
(24) Investment Interest Expense
(25) Investment Casualty Loss
(26) Short-term Investment Casualty Loss
(27)   Individual Activities
(28) Miscellaneous Investment Expenses
(29)   Individual Activities
(30) Employee Business Casualty Loss
(31) Other Employee Business Expenses
(32) Other Miscellaneous Expense
(33) **2% of AGI**
(34) **Net Deductible Miscellaneous Expense**
(35) Gambling Losses
(36) Qualified Disaster Contributions
(37) Other Itemized Deductions
(38) **Total Itemized Before Floor**
(39) **Medical, Casualty, Investment Interest, & Gambling Losses**
(40) **Itemized without Medical, Casualty & Interest**
(41) **3% AGI Floor Post-1990**
(42) **Itemized After Floor**
(43) **Total Itemized**

(1) 65 or Over?

The taxpayer or his or her spouse is age 65 years or over at the end of the taxable year. For years before 2013, or after 2016, this row will be N/A. See IRC § 213(a).

(2) Medical Expense

All medical expense deductions for the taxpayer, spouse, and dependents. Include expenditures for doctors, hospitals, prescription drugs, and medical insurance. See IRC § 213(a).

(3) AGI Floor: (Calculated)

For all taxpayers before 2013, for all taxpayers in 2017 through 2020, and for all taxpayers 65 or over, 7.5% of adjusted gross income. For all other years and taxpayers,10% of adjusted gross income.

(4) Net Deductible Medical (Calculated)

The net of row 2 "Medical Expense" less row 3 "**AGI Floor**", above.

(5) Specific Disaster Casualty Losses

Personal casualty and theft losses attributable to Qualified Disasters which arise in a qualified disaster area on or after the first day of the incident period of the qualified disaster to which such area relates, and which are attributable to such qualified disaster. See Section 204(b) of the Further Consolidated Appropriations Act of 2020. Such losses must first be reduced by $500.

Personal casualty and theft losses attributable to Hurricane Harvey or Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, and the California wildfires, in 2017. Such losses must first be reduced by the $500 floor. See Section 504(b) of the Disaster Tax Relief and Airport and Airway Extension Act of 2017.

Personal casualty and theft losses attributable to Hurricanes Katrina, Rita or Wilma, 2007 severe storms and tornadoes in Kansas, or Midwestern disaster losses occurring in 2008. Do not reduce such losses by casualty and theft gains or by the $100 floor. See IRC § 1400S(b).

For years after 2007, include on this row personal casualty losses attributable to any federally declared disaster occurring before January 1, 2010, and occurring in a disaster area, over personal casualty gains. Such losses must first be reduced by the $100 ($500 in 2009) floor.

For years before 2004, this row will be N/A.

(6) Other Net Personal Casualty Loss

Personal casualty and theft losses, other than losses described in row 5, above, in excess of personal casualty and theft gains.

For losses, include only the excess over $100 for each loss. For 2009, include only the excess over $500.

If gains exceed losses, do not include here, but enter as capital gains and losses instead. See IRC § 165(h).

For 2018 through 2025, enter only the losses for a federally declared disaster. See IRC § 165(h)(5).

(7) 10% of AGI (Calculated)

Ten percent of adjusted gross income.

(8) Net Deductible Casualty (Calculated)

The sum of row 5 and the net of row 6 "Other Net Personal Casualty Loss" over row 7 "**10% of AGI**", above.

For fiduciaries, see **Special Cases** in the **Main Worksheet** section on page 101.

(9) Charitable Contributions

The total amount of charitable contributions after application of the 50%, 30%, and 20% limitations. See IRC § 170. Use the subworksheet to enter the details and have the program compute the regular tax limitations. See row 36, below, for qualified contributions made after August 27, 2005 and before January 1, 2006.

Using the subworksheet automatically activates the **AMT Charitable Contributions Adjustment** worksheet that automatically computes the charitable contributions deduction for AMT purposes. Note, however, that AMT charitable contribution carryovers must be separately entered on that worksheet and are **not** brought forward from the regular tax **Charitable Contributions** worksheet.

(10) State Income Taxes

The deduction for state and local income taxes under IRC § 164. Use the **State Estimated and Withholding** worksheet accessed from this row to have the program automatically compute the deduction using one of several methods available.

The amount on this row is used by the program as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to being included as an itemized deduction for regular tax purposes. This row may also be used by the program as an automatic adjustment for state tax purposes if you have the Fifty States program edition.

(11) Adjustment to State Income Taxes

Any adjustment required to the federal deduction for state income taxes paid as computed by the **State Estimated & Withholding** worksheet or entered on the State Income Taxes row, above.

The program uses the amount on this row as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to being included as an itemized deduction for regular tax purposes. This row may also be used

by the program as part of the automatic adjustment for state income taxes for state purposes if you have the Fifty States program edition.

(12) Total State Income Taxes (Calculated)

The sum of rows 10 and 11, above. A potion of this amount is allocated to the Medicare Investment Income Tax on the **Allocable State Income Taxes** worksheet.

(13) Qualified Vehicle Sales Tax

Any state or local sales or excise tax imposed on the purchase of a qualified motor vehicle. Do not enter more than the amount of the tax on the first $49,500 of the purchase price. Do not enter amounts related to vehicles purchased for business use. See row 14, below. For 2010 include only amounts paid in 2010 on vehicles bought in 2009 after February 16, 2009. For years other than 2009 and 2010, this row will be N/A. See IRC § 164(b)(6).

(14) Qualified Vehicle Tax Phased-out

The amount on row 13, phased-out in accordance with the formula in IRC § 164(b)(6)(c). For married filing jointly, the threshold is $250,000. For all others it is $125,000. For years other than 2009 and 2010, this row will be N/A.

Note. The program does not compute the phaseout on the tax on vehicles purchased for business use which is deductible in computing adjusted gross income and not here. This is because the calculation is circular and will require a technical correction to be mathematically feasible.

(15) Total Income & Vehicle Sales Taxes

The sum of rows 12 and 14, above.

If this row is higher than row 16 "State & Local Sales Taxes" below, (or if the year is before 2004 or after 2013) the program uses the amount on this row as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to including it as an itemized deduction for regular tax purposes. This row may also be used as an automatic adjustment for state tax purposes if you have **Income Tax Planner with Fifty States**.

(16) State & Local Sales Taxes

Total deduction for state and local sales taxes under IRC § 164. The amount may be computed using the Optional state sales tax tables plus the sales tax paid on motor vehicles, boats and other amounts specified by the IRS. Alternatively, the taxpayer may use the actual amount of state and local sales taxes paid. See IRC § 164(b)(5). The program includes the higher of this amount or

the amount on row 15 "Total Income & Vehicle Sales Taxes", above, in total itemized deductions on row 38 "Total Itemized Before Floor (Calculated)", below.

Enter the amount here or press W to access the **State and Local Sales Taxes** worksheet and have the program compute the amount using either the actual tax paid or the optional tables.

This row only applies to years after 2003. For other years this row will be N/A.

(17) Higher Tax Amount (Calculated)

The greater of the amount on row 15 "Total Income & Vehicle Sales Taxes" or row 16 "State & Local Sales Taxes", above. For years before 2004, this row will be the amount on row 12 "Total State Income Taxes (Calculated)". The program includes this amount in the "Total Itemized Before Floor" row below.

The program uses the amount on this row as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to including it as an itemized deduction for regular tax purposes.

(18) Property Taxes: Residential

The federal deduction for state and local property taxes paid on the taxpayer's residence. The program uses the amount on this row as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to being included as an itemized deduction for regular tax purposes.

If you are using **Income Tax Planner with Fifty States**, include only those property taxes that qualify as residential for state purposes. Enter nonqualify-ing residential property taxes on row 19 "Other State & Local Taxes", below.

(19) Other State & Local Taxes

State and local taxes other than income, sales, residential property, and invest-ment property taxes. Include non-investment personal property taxes and real estate taxes on property that does not qualify as residential for state purposes. See row 18 "Property Taxes: Residential", above.

The program uses the amount on this row as part of the adjustment for state taxes on the Alternative Minimum Tax worksheet in addition to including it as an itemized deduction for regular tax purposes.

(20) Total Personal Taxes

The sum of rows 17, 18, and 19.

(21) Limited Personal Taxes

The $10,000 ($5,000 for married filing separately) limitation provided under IRC § 164(b)(6).

(22) Property Taxes: Investment

State and local property taxes on investment property. This item is included as an investment expense in computing investment income on the **Net Investment Income** worksheet for purposes of the investment interest limitation, in addition to being included as an itemized deduction.

The program uses the amount on this row as part of the adjustment for state taxes on the **Alternative Minimum Tax** worksheet in addition to being included as an itemized deduction for regular tax purposes.

(23) Qualified Residence Interest

Interest that meets both the definition of "Qualified Residence Interest" in IRC § 163(h)(3) and the definition of "Qualified Housing Interest" in IRC § 56(e)(1). Generally, this will be interest on debt incurred to acquire, construct, or rehabilitate the taxpayer's principal or second residence.

No entry may be made on this row. Instead press W to access the **Qualified Residence Interest** worksheet, which contains the information needed to compute the Alternative Minimum Tax.

(24) Investment Interest Expense

The total of all Form 1040, Schedule A (Itemized) investment interest expense after applicable limitations. This amount plus the amount deducted as investment interest under Ordinary Income should correspond to the total of line 8 of Form 4952. Use the subworksheet to enter the details and have the program compute the limitations. See IRC § 163(d).

(25) Investment Casualty Loss

Casualty losses from investment assets held for more than one year which are not treated as capital losses under Section 1231.

Access the **Section 1231 & Casualty Gain/Loss** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, capital gain and loss, and itemized casualty loss. Also use the worksheet to have casualty and Section 1231 gain and loss automatically included on the **Net Investment Income** worksheet for purposes of the investment interest limitation. See IRC § 123.

(26) Short-Term Investment Casualty Loss

Casualty losses from investment assets held for one year or less. See Form 4684, Part II, line 32, and IRC §§ 1231 and 165.

As an alternative, you may enter the loss described on this row on the **Individual Activity** worksheets accessed from the row below.

(27) Short-Term Investment Casualty Loss Individual Activities

Short-term investment casualty losses from individual activities. See the description for the previous row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(28) Miscellaneous Investment Expenses

Itemized investment expenses that are subject to the 2% of AGI floor of IRC § 67. Include investment advisory fees, investment publications, etc. See IRC § 212. Do not include investment casualty losses.

As an alternative, you may enter the expenses described on this row on the **Individual Activity** worksheets accessed from the row below.

For years 2018 through 2025, this row will be N/A.

(29) Miscellaneous Investment Expenses Individual Activities

Miscellaneous investment expenses from individual activities. See the description for the previous row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

For years 2018 through 2025, this row will be N/A.

(30) Employee Business Casualty Loss

Casualty losses from assets used in performing services as an employee and held for more than one year (six months if purchased after 6/22/84 and before 1/1/88), which are not treated as capital losses under § 1231. Press W for the **Section 1231 & Casualty Gain/Loss** worksheet to enter details and have the program compute and distribute the items of gain and loss among ordinary income, capital gain and loss, and itemized casualty loss.

For years 2018 through 2025, this row will be N/A.

(31) Other Employee Business Expenses

Allowable itemized employee business expenses such as transportation, union dues, uniforms, travel away from home, educational expenses, etc. Include meal and entertainment expenses after application of the 80% limit of IRC § 274(n) (50% for years after 1993). Also include casualty losses from assets

used in performing services as an employee and held for one year or less (six months if purchased after 6/22/84 and before 1/1/88).

For years 2018 through 2025, this row will be N/A.

(32) Other Miscellaneous Expenses

Expenses subject to the 2% of AGI floor of IRC § 67 other than investment expense, investment casualty loss, and employee business expenses. Include tax return preparation fees, and legal and accounting fees related to determination of tax liability. See IRC § 212.

For years 2018 through 2025, this row will be N/A.

(33) 2% of AGI (Calculated)

Two percent of adjusted gross income.

For years 2018 through 2025, this row will be N/A.

(34) Net Deductible Miscellaneous Expense (Calculated)

If row 25 is answered "Yes," this is the sum of rows 30 through 35. Otherwise, this is the sum of rows 27 through 35.

(35) Gambling Losses

The itemized deduction for wagering losses to the extent of winnings. Enter the amount as a positive number. Enter winnings as Other Ordinary Income on the **Other Ordinary Income** worksheet. See IRC § 165 (d).

Note. A professional gambler may be able to deduct losses directly against winnings, rather than as an itemized deduction. See IRC § 62.

(36) Qualified Disaster Contributions

The amount of qualified cash contributions paid beginning on August 23, 2017 and ending on December 31 2017 due to the California wildfires or Hurricanes Harvey, Irma, or Maria, elected by the taxpayer to be subject to the 100% of contribution base limitation, after application of that limitation. See Section 504(a) of the Disaster Tax Relief and Airport and Airway Extension Act of 2017 and the Bipartisan Budget Act of 2018.

The total amount of qualified cash contributions paid on or after August 28, 2005 and before January 1, 2006, elected by the taxpayer to be subject to the 100% of contribution base limitation, after application of that limitation. Also the amount of qualified 2008 Midwestern disaster area contributions so elected. See IRC § 1400S(a). And see IRC § 170. Use the **Charitable Contributions** worksheet to enter the details and have the program compute the limitations.

Using the subworksheet automatically activates the **AMT Charitable Contributions Adjustment** worksheet that automatically computes the charitable contributions deduction for AMT purposes. Note, however, that AMT charitable contribution carryovers must be separately entered on that worksheet and are not brought forward from the regular tax **Charitable Contributions** worksheet.

For years other than 2005, 2006, 2008, 2009, 2017, 2018, 2019, 2020, and 2021, this row will be N/A.

(37) Other Itemized

All other itemized deductions not entered above. Include only those items specifically listed in IRC § 67(b) as deductible without restriction, such as moving expenses (pre-1994 years), impairment-related work expenses for handicapped employees, estate tax on income in respect of a decedent, claim of right restoration expenses, expenses of short sales in the nature of interest, etc.

Enter moving expenses on the "Other Adjustments" row of the **Ordinary Income** worksheet instead of here.

For fiduciaries, see **Special Cases** in the **Main Worksheet** section on page 101.

(38) Total Itemized Before Floor (Calculated)

For years after 2017 and before 2026, the sum of the following rows, above:

- row 4 "**Net Deductible Medical**"
- row 8 "**Net Deductible Casualty**"
- row 9 "Charitable Contributions"
- row 21 "Limited Personal Taxes"
- row 22 "Property Taxes: Investment"
- row 23 "Qualified Residence Interest"
- row 24 "Investment Interest Expense"
- row 35 "Gambling Losses"
- row 36 "Qualified Disaster Contributions"
- row 37 "Other Itemized Deductions"

For all other years:

- row 4 "**Net Deductible Medical**"
- row 8 "**Net Deductible Casualty**"
- row 9 "Charitable Contributions"

379

- row 20 "Total Personal Taxes"
- row 22 "Property Taxes: Investment"
- row 23 "Qualified Residence Interest"
- row 24 "Investment Interest Expense"
- row 25 "Investment Casualty Loss"
- row 26 "Short-term Investment Casualty Loss"
- row 27 "Individual Activities"
- row 34 "**Net Deductible Miscellaneous Expense**"
- row 35 "Gambling Losses"
- row 36 "Qualified Disaster Contributions"
- row 37 "Other Itemized Deductions"

(39) Medical, Casualty, Investment Interest & Gambling Losses (Calculated)

The sum of the following rows, above.

- row 4 "**Net Deductible Medical**"
- row 8 "**Net Deductible Casualty**"
- row 24 "Investment Interest Expense"
- row 25 "Investment Casualty Loss"
- row 26 "Short-term Investment Casualty Loss"
- row 27 "Individual Activities"
- row 35 "Gambling Losses"
- row 37 "Other Itemized Deductions"

For fiduciaries, this row will be zero. See IRC § 68.

(40) Itemized without Medical, Casualty & Interest (Calculated)

Row 38 "Total Itemized Before Floor (Calculated)" minus row 39 "Medical, Casualty, Investment Interest & Gambling Losses (Calculated)", above.

For fiduciaries, this row will be zero.

(41) 3% AGI Floor Post-1990 (Calculated)

Three percent of adjusted gross income in excess of these amounts:

Year	Joint or Surviving Spouse	Head of Household	Single	Married Filing Separate
2000	$128,950	$128,950	$128,950	$64,475
2001	$132,950	$132,950	$132,950	$66,475
2002	$137,300	$137,300	$137,300	$68,650
2003	$139,500	$139,500	$139,500	$67,750
2004	$142,700	$142,700	$142,700	$71,350
2005	$145,950	$145,950	$145,950	$72,975
2006	$150,500	$150,500	$150,500	$75,250
2007	$156,400	$156,400	$156,400	$78,200
2008	$159,950	$159,950	$159,950	$79,975
2009	$166,800	$166,800	$166,800	$83,400
2010–2012	Floor temporarily eliminated			
2013	$300,000	$275,000	$250,000	$150,000
2014	$305,050	$279,650	$254,200	$152,525
2015	$309,900	$284,050	$258,250	$154,950
2016	$311,000	$285,350	$259,400	$155,650
2017	$313,800	$287,650	$261,500	$156,900
2018-2025	Floor temporarily eliminated			

See IRC § 68(b)(1). **For 2026 and subsequent years**, the program adjusts the amount for inflation in accordance with IRC § 68(b)(2). See Inflation Adjustments.

The amount on this row is limited to 80% of the amount on row 40, above. See IRC § 68. It applies to individuals **in 1991 and subsequent years**.

For years 2006 and 2007, the floor is reduced by 1/3. **For 2008 and 2009**, it is reduced by 2/3. See IRC § 68(f).

For years after 2017 and before 2026, the amount will be zero.

For fiduciaries, this row will be zero.

(42) Itemized After Floor (Calculated)

Row 40 "**Itemized without Medical, Casualty & Interest**" minus row 41 "3% AGI Floor Post-1990 (Calculated)", above.

For fiduciaries, this row will be zero.

(43) Total Itemized (Calculated)

The sum of rows 39 "**Medical, Casualty, Investment Interest, & Gambling Losses**" and 42 "**Itemized After Floor**", above.

For fiduciaries, this row will be the amount on row 38 "**Total Itemized Before Floor**".

The program automatically posts the amount on this row to the "Itemized Deductions" row of the **Main Worksheet**.

CHARITABLE CONTRIBUTIONS

Charitable Contributions
(1)   **AGI for Limits**
(2)   Adjustment to AGI for Limits
(3)   60% Charities:
(4)   Cash - Current
(5)   Cash Carryover – Entered
(6)   **Cash Carryover – Computed**
(7)   **Total 60% Cash**
(8)   50% Charities
(9)   Cash - Current
(10)   Cash Carryover - Entered
(11)   **Cash Carryover - Computed**
(12)   **Total 50% Cash**
(13)   Capital Gain Property – Current
(14)   Cap Gain Carryover – Entered
(15)   **Capital Gain Carryover – Computed**
(16)   **Total Capital Gain Property**
(17)   30% Charities:
(18)   Cash – Current
(19)   Cash Carryover – Entered
(20)   **Cash Carryover – Computed**
(21)   **Total Cash**
(22)   Capital Gain Property – Current
(23)   Cap Gain Carryover – Entered
(24)   **Cap Gain Carryover – Computed**
(25)   **Total Capital Gain Property**
(26)   **Total Charitable Deduction Before Conservation**
(27)   Nonfarm Conservation
(28)   Current Year Nonfarm Conservation
(29)   Nonfarm Conservation Carryover – Entered
(30)   **Nonfarm Conservation Carryover – Computed**
(31)   **Total Nonfarm Conservation**
(32)   Farm Conservation
(33)   Current Year Farm Conservation
(34)   Farm Conservation Carryover – Entered
(35)   **Farm Conservation Carryover – Computed**
(36)   **Total Farm Conservation**
(37)   **Total Charitable Before Qualified**
(38)   Qualified Disaster Contributions
(39)   **Qualified Contributions Allowed**

Note. This worksheet computes charitable contributions limitations for regular tax purposes only. A separate worksheet, the **AMT Charitable Contributions Adjustment** worksheet, which is automatically activated along with this one, is used to compute the AMT charitable contributions deduction. Note that you must enter AMT charitable contributions carryovers separately on that worksheet. The program does not automatically post entered carryovers from this worksheet to the **AMT** worksheet.

(1) AGI for Limits (Calculated)

The amount from the "Adjusted Gross Income" row of the **Main Worksheet**. See row 2 "Adjustment to AGI for Limits" below for possible adjustments required.

(2) Adjustments to AGI for Limits

Any adjustment applicable to AGI, as computed on the row above, to be used for purposes of the IRC § 170 limits. Include NOL carrybacks generated before 2018 that are included in AGI. See IRC § 170(b)(1)(H). NOL Carrybacks generated after 2017 will be included in row 1 above. The adjustment entered on this row is automatically included in AGI for purposes of the IRC § 170 limits as applied for AMT purposes as well as regular tax purposes. However, it is not used for any other purpose.

Note. For AMT purposes, the NOL carryback adjustment must be further adjusted to reflect the difference between the regular tax NOL carryback and the AMT NOL carryback. See the **AMT Charitable Contributions Adjustment** worksheet on page 466.

The program does not automatically adjust charitable contribution carryovers if a net operating loss carryover is increased due to a charitable contribution. Enter such adjustments as needed in the carryover year to reduce the amount of the carryover allowed. See IRC § 170(d)(1)(B).

(3) 60% Charities

Heading for rows 4 through 7. 50% charities are organizations subject to the limitations of IRC § 170(b)(1)(A).

(4) Cash Contributions – Current (60% Charities)

This years cash contributions to charities described in IRC § 170(b)(1)(A) for years 2018 through 2025. Do not make any entries on this row after 2025. See IRC § 170(b)(1)(G).

For years before 2018, this row will be N/A.

(5) Cash Carryover – Entered (60% Charities)

Cash contributions (and certain property contributions treated as cash) to IRC § 170(b)(1)(A) charities carried over to the year(s) being run because they exceeded limitations in prior years.

In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) If there is an NOL, see **NOTE 6** on page 395.

For years before 2018, this row will be N/A.

(6) Cash Carryover – Computed (60% Charities)

Carryovers of cash contributions to 60% charities entered on row 4 above in multiple-year situations. (See NOTE 1.) The carryover appears in the column for the year to which it is carried. In one-year situations, this row will contain zeros.

Do not enter carryovers that are generated in the year(s) being run because these are automatically computed on row 6 below. Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Note. AMT entered carryovers must be separately entered on the AMT Charitable Contributions Adjustment worksheet.

For years before 2018, this row will be N/A.

(7) Total 60% Cash

The total deduction allowed for the year for the items on rows 4-6, above, after application of the 60% limitation of IRC § 170(b)(1)(G).

For years before 2018, this row will be N/A.

(8) 50% Charities

Heading for rows 9 through 16.

50% charities are organizations subject to the limitations of IRC § 170(b)(1)(A).

(9) Cash Contributions – Current (50% Charities)

This year's cash contributions (and certain property contributions treated as cash) to charities described in IRC § 170(b)(1)(A). Include capital gain contributions if the election under IRC § 170(b)(1)(C)(iii) to reduce the amount by 100% of the gain under IRC § 170(e)(1) has been made. In such cases, enter

the reduced amount. See, however, **NOTE 1** on page 392 with regard to carryovers. Include also the amount of ordinary income property contributions after application of the subsection (e) reduction.

(10) Cash Carryover – Entered (50% Charities)

Cash contributions (and certain property contributions treated as cash) to IRC § 170(b)(1)(A) charities carried over to the year(s) being run because they exceeded limitations in prior years. Include capital gain contributions if the election under IRC § 170(b)(1)(C)(iii) to reduce the amount by 40% of the gain under IRC § 170(e)(1) has been made (100% after 1986). (See **NOTE 1** on page 392.) In such cases, enter the reduced amount. Include also the amount of ordinary income property contributions to 50% charities after application of the subsection (e) reduction. If there is an NOL, see **NOTE 6** on page 395.

In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) Do not enter carryovers that are generated in the year(s) being run because these are automatically computed on row *11* below. Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

(11) Cash Carryover – Computed (50% Charities) (Calculated)

Carryovers of cash contributions to 50% charities entered on row 9, above, in multiple-year situations. (See **NOTE 1** on page 392.) The carryover appears in the column for the year to which it is carried. In one-year situations, this row will contain zeros. If there is an NOL, see **NOTE 6** on page 395.

(12) Total Cash (Calculated)

The total deduction allowed for the year for the items on rows 9–11, above, after application of the 50% limitation of IRC § 170(b)(1)(A). Note that the capital gain contributions on rows 13-15, below, may also use up part of the 50% limitation.

(13) Capital Gain Property Contributions – Current (50% Charities)

This year's capital gain property contributions to charities described in IRC § 170(b)(1)(A). Such contributions are subject to the additional 30% limitation of IRC § 170(b)(1)(C). Do not enter capital gain contributions here if the election under IRC § 170(b)(1)(C)(iii) to reduce the amount by 100% of the gain under

IRC § 170(e) has been made. Instead, enter such contributions as cash on row 9 above. (See **NOTE 1** on page 392.)

(14) Capital Gain Property Carryover – Entered (50% Charities)

Prior years' capital gain property contributions to IRC § 170(b)(1)(A) charities carried over to the current year(s) because they exceeded limitations in prior years. If there is an NOL, see **NOTE 6** on page 395.

Do not include capital gain contributions if the election under IRC § 170(b)(1)(C)(iii) to reduce the amount by 40% of the gain under IRC § 170(e) has been made (100% after 1986). (See **NOTE 1** on page 392.)

In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.)

Do not enter carryovers generated in the year(s) being run since these are automatically computed on row 15.

Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

(15) Capital Gain Property Carryover – Computed (50% Charities) (Calculated)

Carryovers of capital gain property contributions to 50% charities entered on row 13 "Capital Gain Property – Current", above, in multiple-year situations. The carryover appears in the column for the year to which it is carried. (See **NOTE 1** on page 392.)

In multiple-case and one-year situations, this row will contain zeros. If there is an NOL, see **NOTE 6** on page 395.

(16) Total Capital Gain Property (Calculated)

The total deduction allowed for the year for the items on rows 13-15, above, after application of the 50% and 30% limitations of IRC § 170(b)(1)(A) and (C).

(17) 30% Charities:

Heading for rows 18 through 25. 30% charities are organizations subject to the limitations of IRC § 170(b)(1)(B). These include private non-operating foundations, veterans organizations, fraternal societies, and cemetery companies.

But see, Weingarden v. Commissioner, 87-2 USTC 9455 (6th Cir. 1987), holding that a VFW post is a 50% charity.

(18) Cash Contributions – Current (30% Charities)

This year's cash contributions to charities described in IRC § 170(b)(1)(B). Include the amount of any ordinary income property contributions after application of the subsection (e) reduction.

(19) Cash Carryover – Entered (30% Charities)

Cash contributions to IRC § 170(b)(1)(B) charities carried over to the year(s) being run because they exceeded limitations in prior years. Include also the amount of any ordinary income property contributions to 30% charities after application of the subsection (e) reduction.

In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) If there is an NOL, see **NOTE 6** on page 395.

Do not enter carryovers that are generated in the year(s) being run because these are automatically computed on row 20, below.

Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Do not enter carryovers from any year before 1984 since such carryovers are not permitted.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

(20) Cash Carryover – Computed (30% Charities) (Calculated)

Carryovers of cash contributions to 30% charities entered on row 18 above in multiple-year situations. The carryover appears in the column for the year to which it is carried.

In one-year situations, this row will contain zeros. If there is an NOL, see **NOTE 6** on page 395.

(21) Total Cash (Calculated)

The total deduction allowed for the year for the items on rows 18–20 ("30% Charities" rows), above, after application of the 30% limitation of IRC § 170(b)(1)(B).

(22) Capital Gain Property Contributions – Current (30% Charities)

This year's capital gain property contributions to charities described in IRC § 170(b)(1)(B). Such capital gain contributions are subject to the additional 20% limitation of IRC § 170(b)(1)(D) which the program computes automatically.

(23) Capital Gain Property Carryover – Entered (30% Charities)

Prior years' capital gain property contributions to IRC § 170(b)(1)(B) charities carried over to the current year(s) because they exceeded limitations in prior years. In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) If there is an NOL, see **NOTE 6** on page 395.

Do not enter carryovers that are generated in the year(s) being run since these are automatically computed on row 24, below.

Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Do not enter carryovers from any year before 1984 since such carryovers are not permitted.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

(24) Capital Gain Carryover – Computed (30% Charities) (Calculated)

Carryovers of capital gain property contributions to 30% charities entered on row 22 "Capital Gain Property – Current", above, in multiple-year situations. The carryover appears in the column for the year to which it is carried. If there is an NOL, see **NOTE 6** on page 395.

In one-year situations, this row will contain zeros.

(25) Total Capital Gain Property (Calculated)

The total deduction allowed for the year for the items on rows 22–24, above, after application of the 30% and 20% limitations of IRC § 170(b)(1)(B) and (D).

(26) Total Charitable Deduction Before Conservation: (Calculated)

The total IRC § 170 deduction for the year before conservation and qualified contributions are taken into account. Conservation and Qualified contributions are entered on the rows below and subject to special treatment.

(27) Nonfarm Conservation: (Blank)

Heading for rows 28 through 31, below.

(28) Current Year Nonfarm Conservation

This year's qualified conservation contributions made by a taxpayer who was not a farmer in the year of the contribution, or if the conservation property does not meet the requirements of IRC § 170 (b)(1)(E)(iv)(II).

For years before 2006, this row will contain N/A.

For contributions of qualified conservation easements made after the expiration date provided by IRC § 170(b)(1)(E)(vi) enter the contribution on row 13 or 22 above.

(29) Nonfarm Conservation Carryover – Entered

Prior years' nonfarm conservation property contributions carried over to the current year(s) because they exceeded the limitation in prior years. In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) If there is an NOL, see **NOTE 6** on page 395.

Do not enter carryovers that are generated in the year(s) being run since these are automatically computed on row 30 below.

Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Do not enter carryovers from any year before 2006 since such carryovers are not permitted.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

For years before 2007, this row will contain N/A.

(30) Nonfarm Conservation Carryover – Computed (Calculated)

Carryovers of nonfarm conservation property contributions entered on row 28, above, in multiple-year situations. The carryover appears in the column for the year to which it is carried. If there is an NOL, see **NOTE 6** on page 395.

In one-year situations, this row will contain zeros.

For years before 2006, this row will contain N/A.

(31) Total Nonfarm Conservation: (Calculated)

The total nonfarm conservation deduction allowed for the year for the items on rows 28–30, above, after application of the 50% limitation of IRC § 170(b)(1)(E).

For years before 2006, this row will contain N/A.

(32) Farm Conservation: (Blank)

Heading for rows 33 through 36, below.

(33) Current Year Farm Conservation

This year's qualified conservation contributions made by a taxpayer who is a farmer in the year of the contribution. The conservation property must meet the requirements of IRC § 170 (b)(1)(E)(iv)(II). Include contributions of food made by a qualified rancher or farmer in 2008 after the date of enactment of the Tax Extenders and Alternative Minimum Tax Relief Act of 2008. See IRC § 170(b)(3).

For years before 2006, this row will contain N/A.

For contributions of qualified farm conservation easements made after the expiration date provided by IRC § 170(b)(1)(E)(vi) enter the contribution on row 13 or 22 above.

(34) Farm Conservation Carryover – Entered

Prior years' farm conservation property contributions carried over to the current year(s) because they exceeded the limitation in prior years. In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. (See discussion and examples in **NOTE 2** on page 392.) If there is an NOL, see **NOTE 6** on page 395.

Do not enter carryovers that are generated in the year(s) being run since these are automatically computed on row 35 below.

Note that in multiple-year situations, the amount of carryover entered in a subsequent year can never exceed the amount entered in a previous year since entered carryovers can only expire, they cannot be generated.

Do not enter carryovers from any year before 2006 since such carryovers are not permitted.

Note. AMT entered carryovers must be separately entered on the **AMT Charitable Contributions Adjustment** worksheet.

For years before 2007, this row will contain N/A.

(35) Farm Conservation Carryover – Computed: (Calculated)

Carryovers of farm conservation property contributions entered on row 33, above, in multiple-year situations. The carryover appears in the column for the year to which it is carried. If there is an NOL, see **NOTE 6** on page 395.

In one-year situations, this row will contain zeros.

For years before 2006, this row will contain N/A.

(36) Total Farm Conservation

The total farm conservation deduction allowed for the year for the items on rows 33–35, above, after application of the 100% limitation of IRC § 170(b)(1)(E).

For years before 2006, this row will contain N/A.

(37) Total Charitable Before Qualified

The total IRC § 170 deduction for the year before qualified contributions are taken into account. Qualified contributions are entered on the row below and subject to special treatment, but only in 2005, 2006, 2008 and 2009. The amount on this row is posted automatically to the Charitable Contributions row of the **Itemized Deductions** worksheet.

(38) Qualified Disaster Contributions

The amount of any qualified cash contributions for 2020 for which limitations have been suspended. See CARES Act (Pub. L. No. 116-136) Sec. 2205.

The amount of qualified cash contributions paid on or after January 1, 2018 and before February 19, 2020, for relief efforts in one or more qualified disaster areas, to any 50-percent charitable organization, elected by the taxpayer to be subject to the 100% of contribution base limitation. See Section 204 of the Further Consolidated Appropriations Act, 2020. H.R 1865. Enter such contributions only in 2018, 2019 or 2020, except for partners or shareholders in fiscal year partnerships or Subchapter S corporations with such contributions and with years ending in 2021.

The amount of qualified cash contributions paid after October 7, 2017, and before January 1, 2018, for the California wildfires or paid after August 22,

2017, and before January 1, 2018, for Hurricanes Harvey, Irma, or Maria to any 50-percent charitable organization, elected by the taxpayer to be subject to the 100% of contribution base limitation. See Section 504(a) of the Disaster Tax Relief and Airport and Airway Extension Act of 2017. Enter such contributions only in 2017, except for partners or shareholders in fiscal year partnerships or Subchapter S corporations with such contributions and with years ending in 2018.

Also, the total amount of qualified cash contributions paid on or after August 28, 2005 and before January 1, 2006, or on or after the earliest applicable disaster date for 2008 Midwestern disasters and before January 1, 2009, and elected by the taxpayer to be subject to the 100% of contribution base limitation. See IRC § 1400S(a). And see IRC § 170. Enter such contributions only in 2005 or 2008, except for partners or shareholders in fiscal year partnerships or Subchapter S corporations with such contributions and with years ending in 2006. Do not include carryovers of such contributions. Any such carryovers will be computed automatically, in multiple year situations that include 2005 and 2008, and will be included by the program in the amount appearing on row 6 above. Otherwise, any such carryovers must be entered on row 5.

For years before 2005, after 2009 and before 2017, and after 2021, this row will contain N/A.

(39) Qualified Contributions Allowed: (Calculated)

The total current year deduction allowed for qualified contributions entered on row 38 above, after application of the 100% limit contained in IRC § 1400S(a).

For years before 2005, after 2009 and before 2017 and after 2021, this row will contain N/A.

NOTE 1

Under IRC § 170(b)(1)(C)(iii), capital gain property contributions to 50% charities are treated as the equivalent of cash if the election is made to reduce the amount of such contributions under Section 170(e)(1) by 40% of the gain (for post–1986 years, the reduction must be in the amount of 100% of the gain). However, carryovers to any taxable year in which this election is made must be recomputed as if the election had been made in the year the carryovers arose. The program does not make this recomputation. In such cases, you should run the program starting with the first year for which the election is to be made and enter the carryovers as recomputed on rows 10 and 14 (entered carryovers).

NOTE 2

In multiple-year situations, an entered carryover should be entered in each year to which it can be carried. The following example illustrates the principle.

Assume you are running a 5-year projection for Harry Jones starting in 2019. After reducing his carryovers for amounts used prior to 2019, his carryovers to 2020 and beyond are made up of the following amounts:

| From | Carried to | | | | |
	2019	2020	2021	2022	2023
2015	50,000	50,000			
2016	40,000	40,000	40,000		
2017	60,000	60,000	60,000	60,000	
2018	30,000	30,000	30,000	30,000	30,000
Totals	180,000	180,000	130,000	90,000	30,000

For each year you would enter the total cumulative amount that can be carried to that year. In this case, the entries would be:

2019	180,000
2020	180,000
2021	130,000
2022	90,000
2023	30,000

Note that even though a carryover is entered in more than one year, the program will not deduct it in a subsequent year if it was used by the program in a previous year. For example, suppose Harry makes no further contributions and has $200,000 of adjusted gross income in 2019 and 2020. The program will generate a deduction of $100,000 in 2019, $80,000 in 2020, and nothing thereafter. It assumes that amounts entered in later years are included in the amounts entered in earlier years and keeps track of how they are used up.

Spreading the entered carryovers to the years to which they can be carried is an ideal application for a custom worksheet. Such a worksheet can be created for each entered carryover row needed for the situation being run. The row titles for the custom worksheet would be the years in which the carryovers were generated. Each carryover would then be entered in all the years to which it can be carried. The program will automatically total the carryovers and post them to the row from which the custom worksheet was created.

NOTE 3

The program computes the limitations on charitable contributions as follows:

1. First the program applies the 50% AGI limit on contributions to §
   170(b)(1)(A) charities (50% Charities:). The order of application is as
   follows:

   a. Cash – Current

   b. Capital Gain Property – Current

   c. Cash Carryover – Entered

   d. Cash Carryover – Computed

   e. Capital Gain Carryover – Entered

   f. Capital Gain Carryover – Computed

   At each step involving capital gain property (items b, e and f, above), the
   program applies the 30% AGI limit of IRC § 170(b)(1)(D). Therefore, in
   computing the amount of current year capital gain contribution (item b,
   above) allowed, for example, the program takes the least of:

   - The remaining 50% limit (after reduction by current year cash)

   - The 30% limit

   - The current year capital gain contribution

   Then, in computing the amount of entered cash carryover allowed, the
   program reduces the 50% limit by the total of the current year cash allowed
   and the current year capital gain allowed **after application of the 30%
   limit to the capital gain**. See Treas. Reg. § 1.170A–10(c)(2)(iv).

2. Next, the program computes the 50%/30% limit applicable to 30% chari-
   ties. For this purpose, the program reduces the 50% amount by the full
   amount of capital gain contributions and carryovers to IRC § 170(b)(1)(A)
   charities without regard to the 30% limit of IRC § 170(b)(1)(D). See IRC §
   170(b)(1)(B)(ii) and Treas. Reg. § 1.170A–8(f) Example 2.

3. Next, the program applies the 50%/30% limit, as computed in 2, above, to
   contributions to 30% charities. The order of application and methodology is
   the same as for 50% charities.

4. Next, the program applies the limits to conservation contributions. First the
   program applies the remaining 50% limit to nonfarm conservation contribu-
   tions. Then the 100% limit is applied to farm conservation contributions.
   The method, in each category, is to apply the limit to current year contribu-
   tions first, then entered carryovers, then computed carryovers. As of the
   date of publication of the program there was little or no authority on the
   order of the computation of conservation contributions.

NOTE 4

NOTE 4

Do not use this subworksheet for a fiduciary since estates and trusts are not subject to the Section 170 limitations. (See IRC § 642(c).) Instead, enter the total charitable deduction of a fiduciary directly on the **Itemized Deductions** worksheet. To create a custom worksheet for charitable contributions of a fiduciary, use the "Other Itemized" row of the **Itemized Deductions** worksheet.

NOTE 5

Do not use this subworksheet in multiple-year situations unless you have the same taxpayer in all columns. Carryovers generated by one taxpayer cannot be used by another. When running a taxpayer and spouse analysis, carryovers generated in the spouse's column will be carried to the following years in the spouse's column; those generated in the taxpayer's column will be carried to subsequent years' taxpayer's columns; and those generated in the combined column will be carried to subsequent years' combined columns. Similar rules are applied when running other types of analyses such as adjustment and difference.

NOTE 6

The program does not compute the reduction in charitable contribution carry-overs to the extent that charitable contributions reduce taxable income (as computed for purposes of the second sentence of section 172(b)(2)) and increases the net operating loss deduction for a taxable year succeeding the contribution year. Any such adjustment must be entered on the worksheet. To adjust in multiple year situations, start the analysis with the year the adjustment applies to.

STATE ESTIMATED AND WITHHOLDING

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┌─────────────────────────────────────────────────────────┐
│ State Estimated and Withholding                         │
│                                                         │
│   (1)    State Credits:                                 │
│   (2)    Resident State                                 │
│   (3)    New York Nonresident                           │
│   (4)    Other Nonresident State                        │
│   (5)    Total State Credits                            │
│   (6)    Federal Deduction:                             │
│   (7)      Resident State                               │
│   (8)      New York Nonresident                         │
│   (9)      Other Nonresident State                      │
│  (10)    Total Federal Deduction                        │
│  (11)    Federal Refund Inclusion:                      │
│  (12)      Resident State Net Refund                    │
│  (13)      NY Nonresident Net Refund                    │
│  (14)      Other Nonresident Net Refund                 │
│  (15)        Total Net Refund                           │
│  (16)    Tax Benefit Rule:                              │
│  (17)    If AMT or Unused Credits Find Lowest Amount    │
│  (18)      Tax Benefit Reduction                        │
│  (19)      Federal Refund Inclusion                     │
└─────────────────────────────────────────────────────────┘
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(1) State Credits:

Heading for rows 2 through 5, below.

(2) Resident State

Total resident state credit for estimated and withholding taxes paid. No entry may be made on this row.

To enter resident state estimated and withholding payments and have the program compute the resident state credit, the federal deduction, and the refund for overpayments, press W for the **Resident State Estimated & Withholding Payments** worksheet.

(3) New York Nonresident

Total New York nonresident state credit for estimated and withholding taxes paid. No entry may be made on this row.

To enter New York nonresident state estimated and withholding payments and have the program compute the New York state credit, the federal deduction, and the refund for overpayments, press W for the **New York Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and New York nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(4) Other Nonresident State

Total nonresident state (other than New York) credit for estimated and withholding taxes paid. No entry may be made on this row.

To enter nonresident state estimated and withholding payments and have the program compute the nonresident state credit, the federal deduction, and the refund for overpayments, press W for the **Other Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(5) Total State Credits (Calculated)

The sum of rows 2, 3, and 4, above.

(6) Federal Deduction:

Heading for rows 7 through 10, below.

(7) Resident State

Total federal deduction for resident state estimated and withholding taxes paid. No entry may be made on this row.

To enter resident state estimated and withholding payments and have the program compute the resident state credit, the federal deduction, and the refund for overpayments, press W for the **Resident State Estimated & Withholding Payments** worksheet.

(8) New York Nonresident

Total federal deduction for New York nonresident state estimated and withholding taxes paid. No entry may be made on this row.

To enter New York nonresident state estimated and withholding payments and have the program compute the New York state credit, the federal deduction, and the refund for overpayments, press W for the **New York Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and New York nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(9) Other Nonresident State

Total federal deduction for nonresident state (other than New York) estimated and withholding taxes paid. No entry may be made on this row.

To enter nonresident state estimated and withholding payments and have the program compute the nonresident state credit, the federal deduction, and the refund for overpayments, press W for the **Other Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(10) Total Federal Deduction (Calculated)

The sum of rows 7, 8, and 9, above.

(11) Federal Refund Inclusion:

Heading for rows 12 through 15, below.

(12) Resident State Net Refund

Total federally includible refund of resident state estimated and withholding taxes overpaid net of amounts offset against the federal deduction. The inclusion may be further reduced by application of the tax benefit rule on rows 16 through 19, below. No entry may be made on this row.

To enter resident state estimated and withholding payments and have the program compute the resident state credit, the federal deduction, and the refund for overpayments, press W for the **Resident State Estimated & Withholding Payments** worksheet.

(13) NY Nonresident Net Refund

Total federally includible refund of New York nonresident state estimated and withholding taxes overpaid net of amounts offset against the federal deduction. The inclusion may be further reduced by application of the tax benefit rule on rows 16 through 19, below. No entry may be made on this row.

To enter New York nonresident state estimated and withholding payments and have the program compute the New York state credit, the federal deduction, and the refund for overpayments, press W for the **New York Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and New York nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(14) Other Nonresident Net Refund

Total federally includible refund of nonresident state (other than New York) estimated and withholding taxes overpaid net of amounts offset against the

federal deduction. The inclusion may be further reduced by application of the tax benefit rule on rows 16 through 19, below. No entry may be made on this row.

To enter nonresident state estimated and withholding payments and have the program compute the nonresident state credit, the federal deduction, and the refund for overpayments, press W for the **Other Nonresident State Estimated & Withholding Payments** worksheet.

This subworksheet cannot be accessed unless you have the Fifty States program edition and nonresident calculations are selected. See the **Assumptions** dialog accessed from the Main menu.

(15) Total Net Refund (Calculated)

The sum of rows 12, 13, and 14, above.

(16) Tax Benefit Rule:

Heading for rows 17 through 19, below.

(17) If AMT or Unused Credits, Find Lowest Amount (Y/N)

Multiple year situations only: If the taxpayer was subject to the federal alternative minimum tax or had unused personal or miscellaneous credits (post-1996) in the prior year, you want the program to search for the lowest state tax deduction that produced a tax benefit in that year. Answer "Y" for Yes or "N" for No.

If you answer Yes, the program will search for the lowest tax benefit amount in the prior year and will include in income that portion of the net state tax refund equal to such amount. See Technical Advice Memorandum LTR 8749007, August 14, 1987.

If you answer No, the program includes the entire net state tax refund if any part of it produced a tax benefit. See **NOTE 1** on page 400 for the method used by the program to make these computations and for the changes that the program considers to be a tax benefit.

(18) Tax Benefit Reduction

The amount of the state tax refund otherwise includible in federal income that did not result in a federal tax benefit in the year it was paid by the taxpayer and, therefore, is excluded for federal purposes in the year received (or applied for state purposes).

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns. See **NOTE 1** on page 400 for how the program applies the tax benefit rule in this context.

(19) Federal Refund Inclusion (Calculated)

The sum of rows 15 "**Total Net Refund**" and 18 "Tax Benefit Reduction", above. This amount is posted to the "Tax Refunds" row of the **Other Ordinary Income** worksheet.

NOTE 1

In computing the includible refund (row 19 in multiple-year situations, the program applies the tax benefit rule as follows:

1. The inclusion is first limited to the amount of the state tax deduction for the prior year (the amount on the Higher Tax Amount row of the federal **Itemized Deductions** worksheet for the prior year). If the prior year was one in which the deduction for state sales taxes could be used instead of the deduction for the state income taxes, the program further limits the inclusion to the excess of the amount on the Higher Tax Amount row over the amount on the State & Local Sales Taxes row for the prior year.

    If the taxpayer was not subject to the alternative minimum tax in the prior year and had no unused personal or miscellaneous credits in the prior year, then:

    a. **For 1993 and subsequent years**, the program limits the inclusion to the difference between itemized deductions for the prior year and what itemized deductions would have been without the state tax refund. For this purpose, the program recomputes the 3% floor for the prior year. See Rev. Rul. 93–75, IRB 1993–35, 11/8/93.

    b. The inclusion is further limited to the amount by which the taxpayer's federal itemized deductions for the prior year exceeded the taxpayer's standard deduction for that year.

    c. The inclusion is further reduced by the taxpayer's negative taxable income for the prior year.

2. If the taxpayer **was** subject to the alternative minimum tax in the prior year (or had unused personal or miscellaneous credits (including unused 10% bracket in 2001) in the prior year), then the inclusion, as reduced in 1.A. above, is used to reduce the taxpayer's itemized deductions for the prior year and the taxpayer's regular and alternative minimum taxes are recomputed for that year.

    If this recomputation results in no tax benefit, then the entire refund is excluded. Otherwise, the computation depends on the answer on row 17 for the current year, as follows:

    a. If row 17 is "No," the entire refund, as reduced in 1.a, above (the limited refund), is included in income. If the taxpayer had prior year unused credits but was not subject to the alternative minimum tax, the inclu-

sion is limited to the amount computed in steps 1.a through 1.c. Otherwise, the inclusion is the entire refund, as reduced in 1.a, above. See the "Note also" at the end of step b, below.

b. If row 17 is "Yes," the program searches for the lowest amount of the limited refund that produced a tax benefit. To do so, the program first reduces the prior year's state tax deduction by half of the limited refund and recomputes the taxpayer's regular and alternative minimum taxes for the prior year.

If no tax benefit is produced, the program increases the deduction by one-quarter of the limited refund and tries the prior year tax computations again. On the other hand, if a tax benefit is produced, the program further reduces the prior year deduction by one-quarter of the limited refund and tries again. This process is continued until the program finds the highest amount of the deduction that produced a tax benefit. The rest of the limited refund is the lowest amount that did not produce a benefit. This amount then appears on row 18 "Tax Benefit Reduction".

Note: If the taxpayer had unused personal or miscellaneous credits in that year but was not subject to the alternative minimum tax, the program limits the inclusion to the amount computed in steps 1.a through 1.c above.

Note also: For all years, when the taxpayer is in an AMT situation in the prior year, the program does not limit the inclusion to the excess over the standard deduction. Nor does the program take into account the possibility that without the deduction for the refund amount, the taxpayer might not have elected the standard deduction in the prior year. Therefore, if the taxpayer was in an AMT situation in the prior year and excluding the refund amount would reduce total itemized below the standard deduction, the results produced by the program may have to be adjusted.

In general, see IRS Pub. 525.

NOTE

For purposes of the tax benefit computations, when the taxpayer was subject to the AMT in the prior year, or had unused personal or miscellaneous credits, the program considers any of the following to be a tax benefit:

1. Any decrease in the final federal tax liability (the amount on the "Net Federal Tax" row of the **Main Worksheet**);

2. Any increase in the carryover of the minimum tax credit;

3. Any decrease in the usage of other credits that would normally be subject to carryover or carryback, including the:

- Adoption credit
- DC Homebuyer credit
- Mortgage Interest credit
- Empowerment Zone Employment credit
- NY Liberty Zone Employee credit
- Specified Credits
- General Business credit
- Regular tax foreign Tax credit, or
- AMT Foreign Tax credit.

See IRC Section 111.

The program does not consider an increase in the minimum tax credit carryover or a decrease in the usage of other carryoverable credits to be a tax benefit, if such items (in the aggregate) are fully offset by an increase in the final federal tax liability.

Note that, in individual situations, the assumptions used by the program in this regard may not be correct. For example, the prior year's general business credit, or other credits, may have expired at the end of that year and may no longer be subject to carryover. In addition, there may be more than one solution to finding the lowest tax benefit amount so that the one determined by the program may not be the one most advantageous to the taxpayer. Further, in recomputing the prior year's tax, the program does not recompute the AMT NOL limitation, nor, when there is an NOL, does it recompute AMTI without the NOL for purposes of the AMT foreign tax credit limit. In most cases, it appears that these amounts are unaffected by the state tax deduction, but there may be exceptions to this general rule.

Note also that the criteria for determining whether or not there was a tax benefit when the taxpayer was subject to the alternative minimum tax in the prior year are slightly different from the criteria used in versions of the program prior to 91.2. See the manual for version 91.1, p. 1–149. As of the date of publication of the program there was little authority on this question.

Finally, whether or not the taxpayer was subject to the AMT in the prior year or had unused credits, the program does **not** consider other situations in which the refund might be excludable, such as the presence of unused personal credits in a year prior to 1996. The program also does **not** consider the possible interplay between other recoveries and the state tax refund. In some cases, therefore, you may have to adjust the inclusion produced by the

program by making an entry on the "Adjustment to Tax Refunds" row of the
Other Ordinary Income worksheet.

RESIDENT STATE ESTIMATED AND WITHHOLDING PAYMENTS

Resident State Estimated & W/H Payments
(1)   State Credit:
(2)   Apply Prior Year Refund
(3)   to Current Year Estimated (Y/N)
(4)   If No: Portion to Apply
(5)   Auto Prepay Current Year Tax
(6)   Auto Prepay Prior Year Tax
(7)   Refund for Prior Year
(8)   Withholding from Wages Worksheet
(9)   Other Current Year Withholding
(10)   April-Dec Estimated Payments
(11)   **Auto Estimate (Prepay) Amount**
(12)   Jan Estimate Paid Next Year
(13)   Amount Paid with Extension
(14)   Other Refundable Credits
(15)   **Total State Credit**
(16)   Federal Deduction:
(17)   Estimate Paid For Prior Year:
(18)   Offset Refund vs Estimate
(19)   Include Whole Refund in Income
(20)   Total Prior Year State Credit
(21)   Estimate Paid for Prior Year
(22)   **Reduction:Refund Received**
(23)   Payments for Current Year:
(24)   **Total Est & W/H Paid:Current Year**
(25)   **Prior Year's Refund Applied**
(26)   Auto Deduct Current Year Tax
(27)   Auto Deduct Prior Year Tax
(28)   **Auto Deduction Amount**
(29)   Prior Year Deficiency Paid
(30)   Taxes Paid for Previous Years
(31)   **Total Federal Deduction**
(32)   Federal Refund Inclusion:
(33)   **Total Refund**
(34)   **Less: Allocation to Deduction**
(35)   **Net Refund**

Note. The **New York Nonresident State Estimated and Withholding Payments** worksheet and the **Other Nonresident State Estimated and Withholding Payments** worksheet follow the format of this worksheet. See the help system for the exact row descriptions.

(1) State Credit

Heading for rows 2–3 through 15, below.

(2–3) Apply Prior Year Refund to Current Year Estimated (Y/N)

The entire refund of the prior year resident state taxes (entered on row 7, below) is to be applied to the current year state tax liability. If you answer "No", the program will apply the amount entered on row 4, below, up to the amount of the refund.

(4) If No: Portion to Apply

If the answer to rows 2–3, above, is "No", enter here the amount of the refund of the prior year resident state tax that is to be applied to the current year state tax liability. If the amount entered here is greater than the refund, the program ignores the excess. Also, if rows 2–3, above, is "Yes", the amount on this row will be ignored.

(5) Auto Prepay Current Year Tax

Automatically generates a prepayment for resident state purposes equal to the deficiency in the current year's tax payments. If you answer "Yes", the program generates an assumed estimated state tax payment amount equal to the excess, if any, of the current year's state tax (as shown on the "State Tax" row of the **Main Worksheet**) (exclusive of nonresident taxes, see **NOTE 1** on page 413) over the sum of the other payments on rows 9 through 14, below, plus the refund applied pursuant to the entries on rows 2–3, 4, and 7. The amount generated appears on row 11, below, and is used by the program both for state credit and federal deduction purposes. See the description for row 11, below.

A "Yes" answer on this row is inconsistent with a "Yes" on 6, below, and the program will not allow the conflict. See **NOTE 2** on page 414.

(6) Auto Prepay Prior Year Tax

Automatically generates a prepayment for state purposes equal to the deficiency in the current year's tax payments as compared to the prior year's resident state tax.

If you answer "Yes", the program generates an assumed estimated state tax payment amount equal to the excess, if any, of the prior year's state tax (as shown on the "State Tax" row of the **Main Worksheet**) (exclusive of nonresident taxes, see **NOTE 1** on page 413) over the sum of the other payments on rows 9 through 14, below, plus the refund applied pursuant to the entries on rows 2–3, 4, and 7. The amount generated appears on 11 and is used by the program for both state credit and federal deduction purposes. See the description for row 11, below.

A "Yes" answer has no effect in the first year of a multiple-year situation, nor in a multiple case situation, since the program does not know the amount of the

prior year's tax. A "Yes" answer on this row is inconsistent with a "Yes" on row 5, above and the program will not allow the conflict. See **NOTE 2** on page 414.

(7) Refund for Prior Year

The amount of any refund of resident state taxes due the taxpayer for the prior year.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns based on the payments indicated below and the state tax entered on the "State Tax" row of the **Main Worksheet** or computed there by **Income Tax Planner with Fifty States**.

The state tax is the amount on the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413). State payments are the sum of the following six rows plus the amount of any refund applied pursuant to the two rows above.

(8) Withholding from Wages Worksheet

Current year resident state taxes withheld for the taxpayer and spouse as entered on the **Wages** worksheet. No entry may be made on this row. To enter withholding, press W for the **Wages** worksheet.

(9) Other Current Year Withholding

Current year resident state taxes withheld for the taxpayer and spouse, other than the amount entered on the **Wages** worksheet.

(10) April-December Estimated Payments

Total resident state estimated payments made during the current year for the current year's state tax.

Enter any state income tax credits provided by the state for contributions to a IRC § 170(c) charity treated as payments for state income taxes on this row. See IRS Notice 2019-12.

Do not include any refund for the prior year applied to the current year. Such refunds are handled on row 2–3, 4, and 7. Also, do not include any payments made in January of the current year for the prior year, or payments made in April of the current year in conjunction with an extension of time to file the prior year's return. Instead, enter such payments on rows 21 and 13, respectively.

(11) Auto Estimate (Prepayment) Amount (Calculated)

If the answers on rows 5 and 6 are both "No", this row will be zero.

If the answer on row 5 above is "Yes", this row will be the current year's state tax from the "State Tax" row of the **Main Worksheet** (exclusive of nonresident

taxes, see **NOTE 1** on page 413) minus the sum of the following other payments of state tax:

- the sum of these rows:
  - row 8 "Withholding from Wages Worksheet"
  - row 9 "Other Current Year Withholding"
  - row 10 "April-December Estimated Payments"
  - row 12 "January Estimate Paid Next Year"
  - row 13 "Amount Paid with Extension"
  - row 14 "Other Refundable Credits"
- the state refund applied pursuant these rows, above:
  - row 2–3 "Apply Prior Year Refund to Current Year Estimated (Y/N)"
  - row 4 "If No: Portion to Apply"
  - row 7 "Refund for Prior Year"

If the answer on row 6, above, is "Yes", then in the second and subsequent years of a multiple-year situation, this row will be the prior year's state tax from the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413) minus the other current year's payments described above.

See also **NOTE 2** on page 414.

(12) January Estimate Paid Next Year

Any estimated resident state tax payment made for the current year in January of the following year. Enter the payment in the column for the year to which it applies for state purposes, not the year in which it is paid.

(13) Amount Paid with Extension

Any resident state tax payment made in the following year in conjunction with an extension of time to file the current year's return. Enter the payment in the column for the year to which it applies for state purposes, not the year in which it is paid.

(14) Other Refundable Credits

Any resident state or local refundable credits for the current year other than the credit for taxes withheld or estimated tax paid.

(15) Total State Credit (Calculated)

If the answer to row 2–3 "Apply Prior Year Refund to Current Year Estimated (Y/N)" above is "Yes", the amount shown here is the sum of:

- row 8 "Withholding from Wages Worksheet"
- row 9 "Other Current Year Withholding"
- row 10 "April-December Estimated Payments"
- row 11 "**Auto Estimate (Prepay) Amount**"
- row 12 "January Estimate Paid Next Year"
- row 13 "Amount Paid with Extension"
- row 14 "Other Refundable Credits"

plus row 7 "Refund for Prior Year".

If the answer to row 2–3 "Apply Prior Year Refund to Current Year Estimated (Y/N)" is "No", the amount shown here is the sum of rows 9 through 14 (listed above), plus row 4 "If No: Portion to Apply".

(16) Federal Deduction:

Heading for rows 17 through 31, below.

(17) Estimate Paid for Prior Year:

Heading for rows 18 through 22, below.

(18) Offset Refund Against Estimated Payments

If you answer "Yes" on this row, the entire resident state tax refund in the current year will be offset by the program and reduce the current year's federal deduction. The program will reduce the federal refund inclusion in the current year and will also reduce the federal deduction for the current year by the lesser of the refund on row 7, above, or the estimated state tax payments on row 21, below, made during the current year for the prior year. The amount of the reduction will appear on rows 22 and 34, below. The balance, if any, of the refund will be included in federal income (subject to the tax benefit rule).

If you answer "No" on this row and on row 19, below, the program applies the rule of IRS Publication 525, which states:

> "If you receive a refund...that is for amounts you paid in 2 or more separate years, you must allocate, on a pro rata basis, the recovered amount between the years in which you paid it."

The result of this rule is that when there is a refund in the current year of the prior year's state tax, and there was at least one payment in the current year

for the prior year, the refund is apportioned among all the payments made for the prior year. The amount apportioned to the payment made in the current year appears on rows 22 and 34, below, and reduces the deduction for that year. The balance is included in income (subject to the tax benefit rule). See IRS Publication 525 (2000), p. 16.

(19) Include Whole Refund in Income

If you answer "Yes" on this row, the entire resident state tax refund will be included in income (subject to the tax benefit rule) and the entire amount paid during the year for state taxes (estimated, withheld, and refund applied), will be taken as a federal deduction. None of the refund will be used to offset and reduce the deduction. Rows 22 and 34, below, will be zero.

If you answer "No" on this row and on row 18, above, the program applies the rule of IRS Publication 525 which states:

> "If you receive a refund...that is for amounts you paid in 2 or more separate years, you must allocate, on a pro rata basis, the recovered amount between the years in which you paid it."

The result of this rule is that when there is a refund in the current year of the prior year's state tax, and there was at least one payment in the current year for the prior year, the refund is apportioned among all the payments made for the prior year. The amount apportioned to the payment made in the current year appears on rows 22 and 34, below, and reduces the deduction for that year. The balance is included in income (subject to the tax benefit rule). See IRS Publication 525 (2000), p. 16.

(20) Total Prior Year State Credit

Total amount of estimated and withholding paid on account of the resident state tax for the immediate prior year, whether paid in the prior or current year. Include any other refundable state credits applicable to the prior year as well.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

The program uses the amount on this row for two different purposes:

First, the amount on this row is used to compute how a resident state tax refund received in the current year is to be treated vis-a-vis a state tax payment in the current year on account of the tax due for the prior year. This computation is needed only if the answers on the two prior rows are "No," there is a refund in the current year, and an amount is entered on row 21, below. See rows 18 and 19, above.

Second, the amount on this row, as computed by the program for all years after the first in a multiple-year situation, is used to compute the resident state tax

refund or deficiency assumed to be includible or deductible for federal purposes. The refund, which appears on row 33, below, is the amount on this row less the state tax in the prior year. The deficiency, which appears on row 29, below, is the state tax in the prior year less the amount on this row.

The amount computed on this row is the sum of the following rows (of the previous column):

- row 8 "Withholding from Wages Worksheet"
- row 9 "Other Current Year Withholding"
- row 10 "April-December Estimated Payments"
- row 12 "January Estimate Paid Next Year"
- row 13 "Amount Paid with Extension"
- row 14 "Other Refundable Credits"
- row 25 "**Prior Year's Refund Applied**"
- row 28 "**Auto Deduction Amount**"

In many situations, this will be the same as the amount on row 15, above. However, since the computation on this row is relevant only for federal purposes, the amount on row 25 is used in lieu of the actual refund applied for resident state purposes and the amount on row 28 is deemed for this purpose as actually paid. This is done in order to have the resident state tax refund and deduction amounts for federal purposes computed on the basis of consistent assumptions from year to year. See **NOTE 2** on page 414.

(21) Estimate Paid for Prior Year

The amount of any payments made in the current year as resident state tax estimated payments for the prior year. Include any payments made in January of the current year for the prior year and any payments made in April of the current year in conjunction with an extension of time to file the prior year's state return. The amount on this row should also be included on row 20, above.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns as the sum of rows 12 and 13 of the previous column.

(22) Reduction: Refund Received (Calculated)

If row 18 is "Yes", this amount is the lesser of row 21 and the state tax refund on row 33, below. See **NOTE 2** on page 414 for special circumstances associated with the options on rows 26 and 27.

If rows 18 and 19 are both "No", this row will be the state tax refund on row 33 multiplied by the fraction obtained by dividing the amount on row 21, above, by

the amount on row 20, above. This represents the amount of the refund to be applied against the January and April payments made in the current year for the prior year under the rule of IRS Publication 525. See the descriptions for rows 18 and 19, above.

If row 19 is "Yes", this row will be zero.

(23) Payments for Current Year:

Heading for rows 24 through 28, below.

(24) Total Estimated & Withholding Paid in Current Year (Calculated)

The sum of rows 9, 10 and 11, above.

(25) Prior Year's Refund Applied (Calculated)

If row 2–3 above is "Yes", this is the entire resident state tax refund which has been applied for resident state estimated tax purposes.

If row 2–3 is "No", this is the lesser of the resident state tax refund or the amount on row 4, above.

The resident state tax refund for this purpose is the amount on row 33, below. See **NOTE 2** on page 414 for special circumstances associated with the options on rows 26 and 27 ("auto deduct tax" rows).

(26) Auto Deduct Current Year Tax

Automatically generate a deduction for federal purposes equal to the deficiency in the current year's resident state tax payments. If you answer "Yes" here, the program will generate, for federal deduction purposes, an assumed estimated state tax payment equal to the amount by which the current year's resident state tax liability from the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413) exceeds the Total State Credit on row 15, above. The amount generated appears on row 28, below (Auto Deduction Amount) and is used by the program **only** for federal deduction purposes.

(Note that when computing the total state credit for purposes of this calculation, the program substitutes for the amount on row 7 "Refund for Prior Year" the calculated amount on row 25. This is done in order to have the state tax refund and deduction amounts computed on the basis of consistent assumptions from year to year.)

Note. If you answered "Yes" to row 6 in the State Credit section above, it is **not** necessary to answer "Yes" here again, since the state credit computation is automatically used for federal deduction purposes. You would only answer "Yes" here (and not in the State Credit section), if you wanted to show the effects on the federal computation of payment of the state deficiency in the current year but did not want the assumed payment to reduce the total tax due. A "Yes" answer on this row is inconsistent with a "Yes" on row 27, below, and the program will not allow the conflict. See **NOTE 2** on page 414.

(27) Auto Deduct Prior Year Tax

If you answer "Yes" here, the program will generate, for federal deduction purposes, an assumed estimated state tax payment equal to the amount by which the prior year's state tax liability from the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413) exceeds the Total State Credit on row 15, above. The amount generated appears on row 28, below (Auto Deduction Amount) and is used by the program **only** for federal deduction purposes.

(Note that when computing the total state credit for purposes of this calculation, the program substitutes for the row 7 "Refund for Prior Year", the calculated amount on row 25 "**Prior Year's Refund Applied**". This is done in order to have the state tax refund and deduction amounts computed on the basis of consistent assumptions from year to year.)

Note. If you answered "Yes" to row 6 in the State Credit section above, it is **not** necessary to answer "Yes" here again, since the state credit computation is automatically used for federal deduction purposes. You would only answer "Yes" here (and not in the State Credit section) if you wanted to show the effects on the federal computation of payment in the current year of the state deficiency (based on the prior year's tax) but did not want the assumed payment to reduce the total tax due.

A "Yes" answer here has no effect in the first year of a multiple-year situation or in a multiple case situation, since the program does not know the amount of the prior year's tax. A "Yes" answer on this row is inconsistent with a "Yes" on row 26, above, and the program will not allow the conflict. See **NOTE 2** on page 414.

(28) Auto Deduction Amount (Calculated)

If row 26 is "Yes", this will be the excess (if any) of the amount on the "State Tax" row of the **Main Worksheet** over the sum of the following rows, above:

- row 8 "Withholding from Wages Worksheet"
- row 9 "Other Current Year Withholding"

- row 10 "April-December Estimated Payments"
- row 11 "**Auto Estimate (Prepay) Amount**"
- row 12 "January Estimate Paid Next Year"
- row 13 "Amount Paid with Extension"
- row 14 "Other Refundable Credits"
- row 25 "**Prior Year's Refund Applied**"

If row 27 is "Yes", then in multiple-year situations, after the first year, this is the excess (if any) of the previous year's resident State Tax over the sum of rows 9 through 14 and row 25 (listed above) in the current year. In all other cases, this row is zero.

(29) Prior Year Deficiency Paid

The amount of the immediately prior year state tax deficiency paid in the current year. In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns as the excess of the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413) in the previous column over row 20 in the current column of this worksheet.

Note. For federal deduction purposes, the program assumes that each year's state tax deficiency is paid in the following year.

(30) Taxes Paid for Previous Years

The amount of any resident state tax deficiencies paid in the current year for years before the immediately preceding year.

(31) Total Federal Deduction (Calculated)

The sum of the following rows, above:
- row 21 "Estimate Paid for Prior Year"
- row 22 "**Reduction:Refund Received**"
- row 24 "**Total Est & W/H Paid:Current Year**"
- row 25 "**Prior Year's Refund Applied**"
- row 28 "**Auto Deduction Amount**"
- row 29 "Prior Year Deficiency Paid"
- row 30 "Taxes Paid for Previous Years"

This amount is by the program to the "Federal Deduction: Resident State" row of the **State Estimated and Withholding Worksheet** and included in the "State Income Taxes" row of the **Itemized Deduction** worksheet.

(32) Federal Refund Inclusion:

Heading for rows 33 through 35, below.

(33) Total Refund (Calculated)

In the first year of a multiple-year situation or in multiple cases, this will be the amount on row 7, above.

In the second and subsequent years of a multiple-year situation, this will be the excess (if any) of the amount on row 20 of this worksheet in the current year over the amount on the "State Tax" row of the **Main Worksheet** (exclusive of nonresident taxes, see **NOTE 1** on page 413) in the prior year. The amount on row 20 is used in lieu of the actual state payments on row 15 of the previous year, so that the state tax refund and deduction amounts for federal purposes are computed on a consistent basis from year to year.

(34) Less: Allocation to Deduction (Calculated)

The amount from row 22, above.

(35) Net Refund (Calculated)

The sum of rows 33 and 34, above. This amount is posted by the program to the "Federal Refund Inclusion: Resident State Net Refund" row of the **State Estimated and Withholding** worksheet.

NOTE 1

If either New York or another nonresident state has been selected for inclusion in the computations (see the **Assumptions** dialog accessed from the Main menu), the **NY Nonresident State Estimated & Withholding Payments** worksheet, and the **Other Nonresident State Estimated & Withholding Payments** worksheet should be used for the computations relating to payments to the nonresident state.

If the appropriate nonresident state withholding and estimated worksheet are used, then the nonresident taxes due (as shown on the "New York Nonresident Tax" and "Other Nonresident Tax" rows of the **State Tax – Main Worksheet**) are excluded from the computations on this worksheet.

If the appropriate nonresident state withholding and estimated worksheets are **not** used, the nonresident taxes are included by the program on this worksheet. In such case when there are payments to and taxes imposed by more than one jurisdiction, the amounts produced by the program on this

worksheet will **not** reflect the fact that one jurisdiction may have an overpayment and another an underpayment, or that the amount paid in the current year for one jurisdiction may bear a different relationship to the total amount paid for that jurisdiction than the amount paid in the current year bears to the total for a different jurisdiction. Thus you may need to adjust the amount of federal refund included in income or federal deduction for prior year tax when there are multiple jurisdictions. See the adjustment rows on the **Itemized Deductions** and **Other Ordinary Income** worksheets.

NOTE 2

The automatic prepayment options on this worksheet should be used with some caution. The most simple application of these options is to use one of the methods specified on rows 5 and 6 ("auto prepay tax" rows) which cause an automatic prepayment to be used by the program both for state credit and federal deduction purposes. However, by selecting one of these options, the automatic prepayment is considered by the program to have been actually made and is subtracted from the net state tax due in the **Summary Report**. In such case, there may be a tendency to overlook the fact that this amount has not been actually paid. Therefore, any presentation of such a **Summary Report** to the client should be accompanied by an explanation of the fact that the prepayment amount is owed in addition to the amount shown on the report.

The above problem can be avoided by selecting one of the prepayment options on row 26 or 27 ("auto deduct tax" rows), since these options only apply for federal deduction purposes. The effect of these options is to assume that the payment is made and deductible for federal purposes, while not including it in the total state credits and therefore not having it deducted in computing the state tax due.

However, as noted in the row descriptions above, in order to have consistent assumptions apply from year to year, in multiple-year situations, the program may generate state tax refunds or deficiencies that appear only for federal purposes and are not used for state computations. This should not happen if the option on row 26 is used, since there should be no refund when state payment exactly equals the state tax. However, if the option on row 27 is used, the results may be confusing to the extent of the "hypothetical" state tax refunds or deficiencies generated and used by the program.

STATE AND LOCAL SALES TAXES

State and Local Sales Taxes
(1)　Adjusted Gross Income
(2)　Excluded Social Security Income
(3)　Tax Exempt Interest
(4)　Other Adjustments to Income:
(5)　Total Available Income
(6)　Personal Exemptions
(7)　State 1
(8)　　Optional Tax Table Amount
(9)　　Days in State
(10)　　Prorated Tax Table Amount
(11)　　Local Tax Table (A, B, C or D)
(12)　　**Optional Local Sales Tax Table Amount**
(13)　　**Prorated Local Sales Tax Table Amount**
(14)　　State Sales Tax Rate
(15)　　Local Additional Sales Tax Rate
(16)　　Adjustment for Local Tax
(17)　　Total Table Amount for State 1
(18)　State 2
(19)　　Optional Tax Table Amount
(20)　　Days in State
(21)　　Prorated Tax Table Amount
(22)　　Local Tax Table (A, B, C or D)
(23)　　**Optional Local Sales Tax Table Amount**
(24)　　**Prorated Local Sales Tax Table Amount**
(25)　　State Sales Tax Rate
(26)　　Local Additional Sales Tax Rate
(27)　　Adjustment for Local Tax
(28)　　Total Table Amount for State 2
(29)　Total Sales Tax Table Amounts
(30)　Qualified Vehicle Sales Tax
(31)　Other Addition for Cars, etc.
(32)　Total with Optional Tables
(33)　Amount from Receipts Except Cars
(34)　Total of Cars and Other Receipts
(35)　Sales Tax Deduction

(1) Adjusted Gross Income (Calculated)

The taxpayer's adjusted gross income from the **Main Worksheet**.

(2) Excluded Social Security Income (Calculated)

The amount from the "Exclusion" row of the **Other Ordinary Income** worksheet, expressed as a positive number.

(3) Tax Exempt Interest (Calculated)

The sum of the following rows on the **Interest and Dividends** worksheet:

- row 27 "Tax Exempt Interest:"

- row 28 "Private Activity Bond Interest"

- row 29 "Individual Activities"

- row 30 "Other Exempt Interest"
- row 31 "Individual Activities"

(4) Other Adjustments to Income

Any adjustments to AGI, other than those computed above, required or permitted for purposes of computing total available income as used in applying the optional sales tax tables.

(5) Total Available Income (Calculated)

The sum of rows 1 through 4 above.

(6) Personal Exemptions (Calculated)

"Total Personal Exemptions" from the **Main Worksheet**. If the taxpayer is a dependent of another taxpayer as indicated on the "Must Itemize Supported" row of the **Filing Status** worksheet, this row will be zero.

(7) State 1

The first state to use for the optional sales tax tables. If None is selected, the optional table amount will not be computed.

Note. For Alaska enter None, but then, for years after 2004, enter C on row 11, below.

(8) Optional Tax Table Amount (Calculated)

The amount from the optional sales tax tables for the state on row 7, based on the "Total Available Income" on row 5 and the "Personal Exemptions" on row 6.

(9) Days in State

The number of days spent by the taxpayer in State 1. If this row is 0, the program automatically fills in the total number of days in the year. Use this row if the taxpayer lived in more than one place in the taxable year. The program uses the days on this row to prorate the table amount. The difference between the total days in the year and the number of days entered on this row is automatically entered by the program on row 20 below, the days in State 2. See the instructions to Form 1040, Schedule A.

(10) Prorated Tax Table Amount (Calculated)

The amount on row 8 multiplied by the days on row 9 divided by the total days in the year.

(11) Local Tax Table (A, B, C or D)

If the taxpayer's location in or for State 1 is Alaska, Arizona, Texarkana (Arkansas), Los Angeles (California), Colorado, Georgia Louisiana, Missouri, New York City, New York State, North Carolina, South Carolina, Tennessee, Utah, Virginia, or certain cities in Illinois, there are special Optional Local Sales Tax Tables, designated A, B, C or D. See Pub 600 for 2006, and the instructions to Form 1040 Schedule A for other years. Enter the letter of the table that applies. If the location in or for State 1 is not one of the designated locations, enter None. For years before 2005, this row will be N/A.

(12) Optional Local Sales Tax Table Amount (Calculated)

The amount from the optional local sales tax tables for the table selected on row 11, based on the Total Available Income on row 5 and the Personal Exemptions on row 6. For years before 2005, this row will be N/A.

(13) Prorated Local Sales Tax Table Amount (Calculated)

The amount on row 12 multiplied by the days on row 9 divided by the total days in the year.

(14) State Sales Tax Rate (Calculated)

The general state sales tax rate for the state on row 7 for the taxable year. If the rate changed during the year, this rate will be a blended rate. For 2004, this is the rate, according to Bloomberg Tax Technology's information, that was used to create the sales tax tables for the state on row 7. For 2006, the rate is published in Pub 600. For other years, the rate is published in the Optional State and Certain Local Sales Tax Tables contained in the instructions to Form 1040 Schedule A.

(15) Local Additional Sales Tax Rate

The additional local general sales tax rate for the locality in the state on row 7, above, in which the taxpayer lived during the days in the year on row 9. If row 11 is A, B, C or D, the program multiplies the amount on row 13 by the rate on this row. Otherwise, the program adjusts the state table amount on row 10 by a fraction, the numerator of which is the amount on this row and the denominator of which is the rate on row 14, above. See the worksheet in IRS Pub 600 for 2004 and 2006, and the instructions to the form 1040 Schedule A for other years, And see row 16, below.

You may also use this row to adjust the table amount as described in the instruction for Form 1040 Schedule A. For example, if you enter, as a negative amount, one-half of the rate shown on row 14, the program will effectively divide the table amount in half.

(16) Adjustment for Local Tax (Calculated)

If row 11 is A, B, C or D, the program multiplies the amount on row 13 by the rate on row 15. Otherwise the amount on this row is the amount on row 10 multiplied by a fraction the numerator of which is the rate on row 15 and denominator of which is the rate on row 14. See the worksheet in IRS Pub 600 for 2004 and 2006, and the instructions to Form 1040 Schedule A for other years. And see row 15, above.

(17) Total Table Amount for State 1 (Calculated)

The sum of rows 10 and 16, above.

(18) State 2

The second state to use for the optional sales tax tables. If None is selected, the optional table amount will not be computed for state 2.

Note. For Alaska enter None, but then, for years after 2004, enter C on row 22, below.

(19) Optional Tax Table Amount (Calculated)

The amount from the optional sales tax tables for the state on row 18, based on the Total Available Income on row 5 and the Personal Exemptions on row 6.

(20) Days in State: (Calculated)

The number of days spent by the taxpayer in State 2. Use this row if the taxpayer lived in more than one place in the taxable year. The program uses the days on this row to prorate the table amount. The difference between the total days in the year and the number of days entered on row 9 is automatically entered by the program on this row. See IRS Pub 600 for 2006 and the instructions for Form 1040 Schedule A for other years.

(21) Prorated Tax Table Amount (Calculated)

The amount on row 19 multiplied by the days on row 20 divided by the total days in the year.

(22) Local Tax Table (A, B, C or D)

If the taxpayer's location in or for State 2 is Alaska, Arizona, Texarkana (Arkansas), Los Angeles (California), Colorado, Georgia, Louisiana, Missouri, New York City, New York State, North Carolina, South Carolina, Tennessee, Utah, Virginia, or certain cities in Illinois, there are special Optional Local Sales Tax Tables, designated A, B, C or D. See Pub 600 for 2006 and the instructions to Form 1040 Schedule A for other years. Enter the letter of the table that

applies. If the location in or for State 2 is not one of the designated locations, enter None. For years before 2005, this row will be N/A.

(23) Optional Local Sales Tax Table Amount (Calculated)

The amount from the optional local sales tax tables for the table selected on row 22, based on the Total Available Income on row 5 and the Personal Exemptions on row 6. For years before 2005, this row will be N/A.

(24) Prorated Local Sales Tax Table Amount (Calculated)

The amount on row 23 multiplied by the days on row 20 divided by the total days in the year.

(25) State Sales Tax Rate (Calculated)

The general state sales tax rate for the state on row 18 for the taxable year. If the rate changed during the year, this rate will be a blended rate. For 2004, this is the rate, according to Bloomberg Tax Technology's information, that was used to create the sales tax tables for the state on row 18. For 2006, the rate is published in Pub 600. For other years, the rate is published in the Optional State and Certain Local Sales Tax Tables contained in the instructions to Form 1040 Schedule A.

(26) Local Additional Sales Tax Rate

The additional local general sales tax rate for the locality in the state on row 18, above, in which the taxpayer lived during the days in the year on row 20. If row 22 is A, B, C or D, the program multiplies the amount on row 24 by the rate on this row. Otherwise, the program adjusts the state table amount on row 21 by a fraction, the numerator of which is the amount on this row and the denominator of which is the rate on row 25, above. See the worksheet in IRS Pub 600 for 2004 and 2006, and the instructions to Form 1040 Schedule A for other years, and see row 27, below.

You may also use this row to adjust the table amount as described in the instructions to Form 1040, Schedule A. For example, if you enter, as a negative amount, one-half of the rate shown on row 25, the program will effectively divide the table amount in half.

(27) Adjustment for Local Tax (Calculated)

If row 22 is A, B, C or D, the program multiplies the amount on row 24 by the rate on row 26. Otherwise the amount on this row is the amount on row 21 multiplied by a fraction the numerator of which is the rate on row 25 and denominator of which is the rate on row 25. See the worksheet in IRS Pub 600

for 2004 and 2006, and the instructions to Form 1040 Schedule A for other years. And see row 26, above.

(28) Total Table Amount for State 2 (Calculated)

The sum of rows 21 and 27, above.

(29) Total Sales Tax Table Amounts (Calculated)

The sum of rows 17 and 28, above.

(30) Qualified Vehicle Sales Tax: (Calculated)

The amount from the Qualified Vehicle Sales Tax row of the Itemized Deductions worksheet. For years other than 2009 and 2010, this row will be zero, or N/A.

(31) Other Addition for Cars, etc.

Any amount allowed in addition to the optional sales tax tables for taxes paid on the purchase of motor vehicles, boats and other special items. See IRC § 164(b)(5)(H)(i)(I). In the case of motor vehicles, if the rate of tax exceeds the general rate, the excess must be disregarded and the general rate be treated as the rate of tax. See IRC § 164(b)(5)(F).

For 2009 use this row to adjust any amount computed by the program on the Qualified Vehicle Sales Tax row above. Any such adjustment may be positive, as where the cost of the vehicle is greater than $49,500 (the limit for Qualified Vehicle Sales Tax) or negative, as where the Qualified Vehicle Sales tax is computed at a rate that is higher than the general sales tax rate.

(32) Total with Optional Tables (Calculated)

Row 29, above, plus the sum of rows 30 and 31 (the latter not less than zero)

(33) Amount from Receipts Except Cars

Other general sales taxes actually paid by the taxpayer in addition to the amounts on rows 30 and 31.

(34) Total of Cars and Other Receipts (Calculated)

The sum of rows 30 and 31, above. (but not less than zero), plus row 33.

(35) Sales Tax Deduction (Calculated)

The greater of row 32 or row 34, above.

QUALIFIED RESIDENCE INTEREST

Qualified Residence Interest
(1)   Mortgage Insurance Premiums
(2)   **Phased Out Mortgage Insurance Premiums**
(3)   Qualified Housing Interest
(4)   Other Qualified Residence Interest
(5)   **Total Qualified Residence Interest**

(1) Mortgage Insurance Premiums

Premiums paid for qualified mortgage insurance in connection with acquisition indebtedness with respect to a qualified residence of the taxpayer and properly allocable to the taxable year. See IRC § 163(h)(3)(E). Do not enter any amount for contracts issued before 1/1/07 nor any amount paid or accrued after 12/31/2014 or properly allocable to any period after such date.

For years before 2007 or after 2020, this row will be N/A.

(2) Phased Out Mortgage Insurance Premiums: (Calculated)

The amount on row 1 above phased out based on AGI in accordance with IRC § 163(h)(3)(E)(ii).

(3) Qualified Housing Interest

Interest that meets both the definition of "Qualified Residence Interest" in § 163(h)(3) and the definition of "Qualified Housing Interest" in § 56(e)(1). Generally this will be interest on debt incurred to acquire, construct, or rehabilitate the taxpayer's principal or second residence.

For post-1987 years the debt is limited to $1,000,000 ($500,000 for married filing separately) except for acquisition debt outstanding on October 13, 1987. For debt incurred after December 15, 2017, and before January 1, 2026, the limit is $750,000 ($375,000 for married filing separately). However, if the debt used to acquire, construct or substantially improve the taxpayer's principal or second residence exceeds the limit, an additional $100,000 of such debt qualifies for treatment as qualified residence interest. See Rev. Rul. 2010–25, I.R.B. 2010–44. Such interest, apparently, also meets the definition of qualified housing interest. Any such additional debt reduces the $100,000 limit for non-acquisition indebtedness on row 4. See, generally, IRC § 163(h).

(4) Other Qualified Residence Interest

Interest that meets the definition of "Qualified Residence Interest" in § 163(h)(3) but is not "Qualified Housing Interest" as defined by § 56(e)(1). Generally such interest is interest secured by the taxpayer's principal or

second residence (limited to fair market value) that was not incurred to acquire, construct or rehabilitate it.

For 1987, to be "Qualified Residence Interest," the debt must not exceed the basis or must be incurred for educational or medical purposes. "Basis" for this purpose includes all debt existing on August 16, 1986.

For 1988 and subsequent years, the debt cannot exceed $100,000 ($50,000 for married filing separately). The $100,000 limit is reduced by any amount incurred to acquire, construct or substantially improve the taxpayer's principal or second residence and included as an addition to the $1,000,000 limit on row 3 above. Interest secured by the taxpayer's home if not "Qualified Residence Interest" should be treated as personal, investment, or passive activity interest, as the case may be.

Do not enter amounts for years 2018 through 2025 on this row.

(5) Total Qualified Residence Interest: (Calculated)

The sum of rows 2 through 4, above.

STANDARD DEDUCTION

Standard Deduction
(1) **Basic Standard Deduction**
(2) **Additional Standard Deduction**
(3) **Real Property Taxes**
(4) Adjustment to Property Taxes
(5) **Total Property Taxes**
(6) **Limit on Property Taxes**
(7) **Disaster Loss Deduction**
(8) Adjustment to Disaster Loss Deduction
(9) **Total Disaster Loss Deduction**
(10) **Qualified Vehicle Sales Tax**
(11) **Vehicle Sales Tax Phased-out**
(12) **Total Standard Deduction**

(1) Basic Standard Deduction (Calculated)

The basic standard deduction for the filing status selected. See IRC § 63(c)(1)(A).

For the years 2000 through 2020, the program uses the amount published by the Treasury.

For years after 2020 and before 2026, the program uses the amounts in IRC § 63(c)(7) and any inflation adjustments.

For 2026 and later years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4) as described under Inflation Adjustments.

For 2003 and later years, for married filing jointly and qualifying widower filing statuses, the program uses 200% of the standard deduction for single taxpayers. See IRC § 63(c)(2)(A).

In the case of a taxpayer who is must itemized because he or she is supported, the basic standard deduction is limited. See IRC § 63(c)(5), and the **Filing Status** worksheet.

(2) Additional Standard Deduction: (Calculated)

The additional standard deduction for taxpayers and spouses who are aged or blind. The number of the additional standard deduction amounts is specified on the **Filing Status** worksheet.

For the years 2000 through 2020, the program uses the amount published by the Treasury.

For 2020 and later years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4) as described under Inflation Adjustments.

For 2003 and later years, for married filing jointly and qualifying widower filing statuses, the program uses 200% of the standard deduction for single taxpayers. See IRC § 63(c)(2)(A).

(3) Real Property Taxes (Calculated)

For 2008 and 2009, the sum of the "Property Taxes: Residential and Property Taxes: Investment" rows of the **Itemized Deductions** worksheet.

For years before 2008 or after 2009, this row will be N/A.

(4) Adjustment to Property Taxes

Any adjustment required to real property taxes computed by the program on the row above. Enter, as a negative amount, any foreign real property taxes so included. This row may also be used to enter total State and Local property taxes, if the **Itemized Deductions** worksheet is not active.

For years before 2008 or after 2009, this row will be N/A.

(5) Total Property Taxes (Calculated)

The sum of rows 3 and 4, above, but not less than zero.

For years before 2008 or after 2009, this row will be N/A.

(6) Limit on Property Taxes (Calculated)

The lesser of the amount on row 5 or $1,000 ($500 in case of married filing separately).

For years before 2008 or after 2009, this row will be N/A.

(7) Disaster Loss Deduction (Calculated)

The amount from the "Specific Disaster Casualty Losses" row of the **Itemized Deductions** worksheet.

For years before 2008, this row will be N/A. See IRC §§ 63(c)(1)(D) and 63(c)(8).

(8) Adjustment to Disaster Loss Deduction

Any adjustment required to the disaster loss deduction computed by the program on the row above. Enter as a negative amount any Midwestern disaster area losses so included in 2008. See § 712 of the Tax Extenders and AMT Tax Relief Act of 2008. (Please note that the reference in § 712 to § 702(c)(1)(A) was apparently meant as a reference to § 702(b)(1)(A).

(9) Total Disaster Loss Deduction (Calculated)

The sum of rows 7 and 8, above.

(10) Qualified Vehicle Sales Tax (Calculated)

Any state or local sales or excise tax imposed on the purchase of a qualified motor vehicle. No entry may be made here. Instead enter the amount of Qualified Vehicle Sales Tax on the **Itemized Deductions** worksheet. For years other than 2009 and 2010, this row will be N/A. See IRC § 164(b)(6).

(11) Vehicle Sales Tax Phased-out (Calculated)

The amount on row 12, phased-out in accordance with the formula in IRC § 164(b)(6)(c). For married filing jointly, the threshold is $250,000. For all others it is $125,000.

For years other than 2009 and 2010, this row will be N/A.

Note. The program does not compute the phaseout on the tax on vehicles purchased for business use which is deductible in computing adjusted gross income and not here. This is because the calculation is circular and will require a technical correction to be mathematically feasible.

(12) Total Standard Deduction (Calculated)

The sum of rows 1, 2, 6 and 9 and 11, above.

QUALIFIED INCOME DEDUCTION

Qualified Income Deduction

(1)	Qualified Income Loss Allocation
(2)	Taxpayer's Self-Employment Amount
(3)	Spouse's Self-Employment Amount
(4)	Other Income Qualified Amount
(5)	Combined Qualified Passive Amount
(6)	Combined Amount Nonpassive Individual Activities
(7)	Adjustment to Qualified Income Amount
(8)	**Total Qualified Income Amount**
(9)	Publicly Traded Partnerships
(10)	REIT Dividends
(11)	Less: PTP/REIT Loss Carryover
(12)	**Total REITs and PTPs**
(13)	**x 20%**
(14)	**Combined Qualified Business Income Amount**
(15)	**Taxable Income**
(16)	**Net Capital Gain**
(17)	**Taxable Less NCG**
(18)	**x 20% (Limit)**
(19)	**Tentative Deduction <(R14, R18)**
(20)	Adjustment
(21)	**Total Deduction**

Caution! The Tax Cut and Jobs Act has raised numerous questions of interpretation concerning the deduction computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Qualified Income Loss Allocation

The access row for the Qualified Income Loss Allocation worksheet. This row will always be zero.

(2) Taxpayer's Self-Employment Amount

The qualified business income amount attributable to the taxpayer's self-employment income. The amount is computed on the **Qualified Income Amount – Taxpayer's Self-employment** worksheet accessed from this row. It is based on the taxpayer's self-employment income entered on the **Self-Employment Income and Loss** worksheet.

(3) Spouse's Self-Employment Amount

The qualified business income amount attributable to the spouse's self-employment Income. The amount is computed on the **Qualified Income Amount – Spouse's Self-Employment** worksheet accessed from this row. It

is based on the spouse's self-employment income entered on the **Self-Employment Income and Loss** worksheet.

(4) Other Income Qualified Income Amount

The business income amount attributable to the taxpayer's self-employment Income. The amount is computed on the **Qualified Income Amount – Taxpayer's Self-Employment** worksheet accessed from this row. It is based on the taxpayer's self-employment income entered on the **Self-Employment Income and Loss** worksheet.

(5) Combined Qualified Income Passive

The combined business income amounts of all the passive activities. The amount for each activity appears on the "Qualified Income Amount" row of the **Passive and MAPRRA Items** worksheet for each activity. The computation for each activity is done on the worksheet accessed from that row.

(6) Combined Qualified Income Nonpassive Individual Activities

The combined business income amounts of all the nonpassive activities. The amount for each activity appears on the "Qualified Income Amount" row of the **Nonpassive Items** worksheet for each activity. The computation for each activity is done on the worksheet accessed from that row.

(7) Adjustment to Qualified Income Amount

Any adjustments to the qualified income amount. Include as a negative amount any reduction under IRC § 199A(b)(7) for income received by a patron's trade or business from a specified agricultural or horticultural cooperative.

(8) Total Qualified Income Amount (Calculated)

The total of rows 2 and 7.

(9) Publicly Traded Partnerships

The sum of the two "Domestic Prod/Qualified Income" rows on the **Publicly Traded Partnerships** worksheet.

(10) REIT Dividends

Total REIT dividends from the **Interest and Dividends** worksheet.

(11) Less: PTP/REIT Loss Carryover

Carryover from the previous year of the amount on row 12, if it is negative. See IRC § 199A(c)(2) and Proposed Treasury Regulation §1.199A-1.

(12) Total REITs and Publicly Traded Partnerships (Calculated)

The sum of rows 9, 10, and 11.

(13) x 20% (Calculated)

Row 12 times 20%.

(14) Combined Qualified Business Income Amount (Calculated)

The sum of rows 8 and 13, above, but not less than zero.

(15) Taxable Income (Calculated)

Taxable Income computed without regard to the deduction on this worksheet. If there is also a Net Operating Loss, the program computes the NOL first and the QID second. The exact ordering is as follows:

1. Taxable Income without the NOL and without the QID

2. The NOL

3. Taxable Income with the NOL but without the QID

4. The QID

5. Taxable Income with the NOL and the QID

As of the date of publication of the program there was no authority on how to break the circle caused by two provisions of the statute both of which depend on Taxable Income, but neither of which refers to the other.

(16) Net Capital Gain (Calculated)

The excess of Long-term Gain over Short-term losses, plus Qualified Dividends, less any amount used to support the investment interest deduction.

(17) Taxable Less Net Capital Gain (Calculated)

The excess, if any, of row 14, above over row 15.

(18) x 20% (Limit) (Calculated)

Row 17 times 20%.

(19) Tentative Deduction (Lesser: Row 14 and Row 18) (Calculated)

The lesser of rows 14 and 18, above.

(20) Adjustment

Enter any adjustment for items not taken into account automatically. Include any qualified payments to a patron from a specified agricultural or horticultural cooperative under IRC § 199A(g)(2), after any limitation for taxable income under IRC § 199A(g)(2)(B).

(21) Total Deduction (Calculated)

The sum of rows 19 and 20.

Note. For years before 2017 and after 2025, all of the calculated rows on this worksheet will be N/A. The deduction expires in 2026.

QUALIFIED INCOME LOSS ALLOCATION

Qualified Income Loss Allocation
(1) **Current Year Total Qualified Loss**
(2) C/O Qualified Loss from Prior Year
(3) **Total Qualified Losses**
(4) **Losses Allocated to Gains**
(5) **C/O Qualified Loss to Next Year**

(1) Current Year Total Qualified Loss (Calculated)

The total losses from qualified business activities with losses for the year.

(2) Carryover Qualified Loss from Prior Year

Any remaining qualified business losses from the prior year. Equals row 5 from the prior year. This row will be N/A in 2018.

(3) Total Qualified Losses (Calculated)

The sum of rows 1 and 2.

(4) Losses Allocated to Gains (Calculated)

The losses on row 3, above, that have been applied to qualified business activities with gains for the year. See Proposed Treasury Regulation §1.199A-1. For purposes of allocation, each of the following amounts shall be treated as a separate business activity:

- The "Taxpayer's Domestic/Qualified Income or Loss" row of the **Self-Employment Income and Loss** worksheet.

- The "Spouse's Domestic/Qualified Income or Loss" row of the **Self-Employment Income and Loss** worksheet.

- The "Nonpassive Domestic/Qualified Income or Loss" row of the **Other Ordinary Income** worksheet.

- The total of the "Taxpayer's Domestic Production/Qualified Self-Employment Income", the "Spouse's Domestic Production/Qualified Self-Employment Income", and the "Other Domestic Production/Qualified Income/Loss" rows for each **Nonpassive Items** worksheet.

- The total of the "Ordinary Domestic Production/Qualified Business Non-Self-employment Income or Loss", "Taxpayer's Other Self-employment Income or Loss", and "Spouse's Other Self-Employment Income or Loss" item types from each **Passive and MAPRRA Items – Options** worksheet.

(5) Carryover Qualified Loss to Next Year (Calculated)

Row 3 less row 4.

ALTERNATIVE MINIMUM TAX

Alternative Minimum Tax

(1)	**Taxable Income:**
(2)	**Preferences & Adjustments:**
(3)	**Regular Tax NOL**
(4)	**Standard Deduction**
(5)	**Personal Exemptions**
(6)	**Medical Expense Adjustment**
(7)	Casualty Loss Adjustment
(8)	**Miscellaneous Itemized**
(9)	**Taxes**
(10)	**Tax Refunds**
(11)	**Regular Tax Investment Interest**
(12)	AMT Investment Interest
(13)	**Housing Interest Adjustment**
(14)	Charitable Contribs Adjustment
(15)	**Itemized Deduction Floor**
(16)	**Private Activity Bond Interest**
(17)	**Section 1202 Exclusion Preference**
(18)	Exclusion Adjustment to Qualified Dividends
(19)	Other Exclusion Preferences
(20)	Individual Activities
(21)	Other Exclusion Adjustments
(22)	Individual Activities
(23)	**Regular Tax Capital Loss or Gain**
(24)	AMT Capital Gain or Loss
(25)	**Regular Tax Ordinary 1231 Loss/Gain**
(26)	AMT Ordinary 1231 Gain or Loss
(27)	**Reg Tax Ordinary Passive Loss/Gain**
(28)	AMT Ordinary Passive Gain/Loss
(29)	**Reg Tax Ordinary PTP Loss/Gain**
(30)	AMT Ordinary PTP Gain/Loss
(31)	Deferral Adjustment to Qualified Dividends

Alternative Minimum Tax (Continued)
(32) Other Deferral Preferences
(33)   Individual Activities
(34)   Other Deferral Adjustments
(35)   Individual Activities
(36)   AMT Net Operating Loss Subject to 100% Limit
(37) Carry Through Regular NOL
(38) **Regular Tax NOL**
(39)   Other AMT NOL
(40) **Total AMT Net Operating Loss Deduction Not Subject to 100%**
(41)   Fiduciary Adjustments
(42) **Alt Min Taxable Income**
(43) **AMT Exemption Before Phaseout**
(44) Adjustment to AMT Exemption
(45) **Adjusted AMT Exemption**
(46) **Exemption After Phaseout**
(47) **Taxable Excess**
(48) **Tentative Minimum Tax from Schedule**
(49) Tentative Minimum Alternative Capital Gains Tax
(50) Foreign Earned Income Tentative Minimum Tax
(51) **Tent Min Tax Bef AMT Foreign Tax Credit**
(52) **AMT Foreign Tax Credit Allowed**
(53) **Tentative Minimum Tax**
(54) **Regular Tax Before Foreign Tax Credit**
(55) **Foreign Tax Credit Allowed**
(56) **Regular Tax**
(57) **Alternative Minimum Tax**

Caution! The 1986 Tax Reform Act, the 1987 Revenue Act, the TAMRA of 1988, the Revenue Reconciliation Act of 1990, the Taxpayer Relief Act of 1997, the Tax Increase Prevention and Reconciliation Act of 2005, the Heartland Disaster Tax Relief Act of 2008, and the IRS instructions to Form 6251, Notice 94–28, March 17, 1994, and Treas. Reg. § 1.55–1 have raised numerous questions of interpretation, especially concerning alternative minimum tax calculations. At date of publication, complete guidance from the Treasury or the IRS was not available with regard to many of these issues. This part of the manual explains how these questions have been resolved and how the program does the alternative minimum tax calculations. You are cautioned to carefully examine the row descriptions for each worksheet and the Notes that follow these descriptions. Rely upon our interpretations only if you agree with them.

(1) Taxable Income (Calculated)

Regular tax taxable income from the "Taxable Income" row of the **Main Worksheet**.

(2) Preferences & Adjustments:

Heading for rows 3 through 41, below.

(3) Regular Tax Net Operating Loss (Calculated)

The amount from the "Net Operating Loss Deduction" row of the **Other Ordinary Income** worksheet. The amount is shown as positive to indicate it is being added back to regular taxable income.

(4) Standard Deduction (Calculated)

The regular tax standard deduction if the taxpayer's itemized deductions are less than his standard deduction and the taxpayer has not elected to itemize. The amounts on the Total Disaster Loss Deduction and the Vehicle Sales Tax Phased-out rows of the **Standard Deduction** worksheet will not be included. See IRC § 56(b)(1)(E).

If the taxpayer's itemized deductions are equal to or greater than his standard deduction, this row will be zero.

(5) Personal Exemptions (Calculated)

The taxpayer's total deduction for personal exemptions.

(6) Medical Expense Adjustment (Calculated)

This row will be the lesser of the amount on the "Net Deductible Medical" row of the **Itemized Deductions** worksheet or 2.5% of the "Adjusted Gross Income" row of the **Main Worksheet**.

For years after 2012 (2016 for taxpayers over 65), this row will be zero.

(7) Casualty Loss Adjustment

The alternative minimum casualty loss adjustment. Generally, this represents the difference between the regular tax itemized investment casualty loss as computed on the regular tax **Section 1231 & Casualty Gain/Loss** worksheet and the AMT itemized investment casualty loss as computed on the **Section 1231 & Casualty Gain/Loss – Alternative Minimum** worksheet. If the taxpayer's itemized deductions are less than the standard deduction, this adjustment will be zero.

No entry may be made on this row. Instead, press W to use the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet.

This row also includes the difference between the regular tax itemized deduction for personal casualty losses and the AMT deduction.

(8) Miscellaneous Itemized (Calculated)

If the taxpayer's itemized deductions are equal to or greater than his standard deduction, this row will be the amount on the "Net Deductible Miscellaneous

Expense" row of the **Itemized Deductions** worksheet. If the taxpayer's itemized deductions are less than his standard deduction, this row will be zero.

(9) Taxes (Calculated)

For years before 2018, if the taxpayer's itemized deductions are equal to or greater than his standard deduction, this row will be the sum of the following rows on the **Itemized Deductions** worksheet:

- row 17 "Higher Tax Amount" — state income taxes or the higher of state income or state and local sales taxes for years to which such computation applies. **For 2009 and 2010**, if the state income tax plus the vehicle tax is the higher amount, the total on this row is reduced by the vehicle tax.

- row 18 "Property Taxes: Residential"

- row 19 "Other State & Local Taxes"

- row 22 "Property Taxes: Investment"

For years after 2017, the sum of the following from the Itemized Deductions worksheet:

- row 19 "Other State & Local Taxes"

- row 20 "Total Personal Taxes"

- row 22 "Property Taxes: Investment"

If the taxpayer's itemized deductions are less than his standard deduction, this row is zero.

(10) Tax Refunds (Calculated)

This row will contain the sum of the "Tax Refunds" and "Adjustment to Tax Refunds" rows on the **Other Ordinary Income** worksheet.

(11) Regular Tax Investment Interest (Calculated)

If the taxpayer's itemized deductions are equal to or greater than his standard deduction, this row will be the sum of the "Investment Interest Expense" row of the **Ordinary Income** worksheet (converted to a positive amount) and the "Investment Interest Expense" row of the **Itemized Deductions** worksheet. If the taxpayer's itemized are less than his standard deduction, this row will be only the amount on the "Investment Interest Expense" row of the **Ordinary Income** worksheet.

(12) AMT Investment Interest

The alternative minimum tax investment interest deduction. Make no entry on this row. Instead, use the subworksheet.

(13) Housing Interest Adjustment (Calculated)

If the taxpayer's itemized deductions are equal to or greater than his standard deduction, this row is the amount on the "Other Qualified Residence Interest" row of the **Itemized Deductions** worksheet. If the taxpayer's itemized are less than his standard deduction, this row is zero.

(14) Charitable Contributions Adjustment

The adjustment in computing AMTI for charitable contributions. For taxpayers who are itemizing deductions for regular tax purposes, enter the difference between the AMT charitable contributions deduction and the regular tax charitable contributions deduction or access the **AMT Charitable Contributions Adjustment** worksheet. (This worksheet is activated automatically when the regular tax **Charitable Contributions** worksheet is accessed from the **Itemized Deductions** worksheet.)

The program includes the amount on this row in the total on row 42 and treats it as an exclusion adjustment in computing the Minimum Tax Credit. See the NOTES for the **AMT Charitable Contributions Adjustment** worksheet on page 466.

(15) Itemized Deduction Floor (Calculated)

If the taxpayer's itemized deductions, as reduced by the 3% AGI floor, are equal to or greater than the standard deduction, this row will be the amount on the "3% AGI Floor Post-1990" row of the **Itemized Deductions** worksheet. It will be shown as a negative number to indicate that it is being subtracted.

If the taxpayer's itemized deductions as reduced by the floor are less than the standard deduction, this row will be zero. See IRC § 56(b)(1)(F). The net effect of this adjustment is to ignore the 3% floor for AMT purposes. See Form 6251.

(16) Private Act Bond Interest (Calculated)

Private activity bond interest from the "Private Activity Bond Interest" rows of the **Interest and Dividends** worksheet. See IRC § 57(a)(5)(C).

(17) Section 1202 Exclusion Preference (Calculated)

This calculated value is 42% (7% for years after 2003 and before 2011) of the amount on row 3 "Qualified Small Business Stock Gain" of the regular tax **28% Rate Capital Gains and Losses** worksheet on page 361. For 2003 this row will be 42% of the amount on row 3 of the regular tax **28% Rate Capital Gains and Losses** worksheet plus 7% of the amount on row 4 "2003 Post 5/5 Qualified Small Business Stock Gain" of that worksheet. See IRC § 57(a)(7).

Note. This version of the program does not have any provision for separately computing the preference for Section 1202 stock, whose holding period (which must be five years to qualify for the exclusion) begins after December 31, 2000 and which is sold after 2010. With regard to empowerment zone qualified small business stock, see the Qualified Small Business Stock Gain row of the regular tax **28% Rate Capital Gains and Losses** worksheet on page 361.

(18) Exclusion Adjustment to Qualified Dividends

The amount of any AMT exclusion adjustment to Qualified Dividends as entered on the regular tax **Interest and Dividends** worksheet. This row, together with row 31 below, is used primarily to adjust for qualified dividends from trusts and estates against which expenses not allowed for AMT purposes have been allocated. See Treas. Reg. § 1.652(b)–3. The IRS appears to treat all such adjustments as deferral items. See Form 8801. However, it seems that many of such adjustments are really exclusion items. To have the program emulate the IRS approach enter this adjustment as a deferral adjustment on row 31 below, instead of this row, and then adjust for it on the "Adjustments to Exclusion Preferences and Adjustments" row of the **Minimum Tax Credit** worksheet. Any amount entered on this row or on row 31 below will be treated as an addition or subtraction, as the case may be, with respect to qualified dividends in computing the AMT Alternative Capital Gains tax. Amounts entered on this row, as opposed to row 31 below, will also be treated similarly in computing the AMT on exclusion items on the **Minimum Tax Credit** worksheet.

(19) Other Exclusion Preferences

Exclusion preferences other than those included automatically by the program. Include the depletion allowance. See IRC § 53(d)(1)(B)(ii)(I). Generally, the appreciation in charitable contribution property should be entered on the **AMT Charitable Contributions Adjustment** worksheet and not on this row in order to have the program compute the IRC § 170 charitable contribution limitations for AMT purposes. Include any adjustment to the preference for gain on Section 1202 stock computed by the program on the row above. See IRC §§ 1202, 57(a)(7), and 53(d)(1)(b)(ii)(II). See the "Qualified Small Business Stock Gain" row on the **28% Rate Capital Gains and Losses** worksheet.

For exclusion preferences associated with individual activities you may, as an alternative, enter the preferences described on this row on the **Individual Activity** worksheets accessed from the row below.

(20) Other Exclusion Preferences – Individual Activities

Other exclusion preferences from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(21) Other Exclusion Adjustments

Exclusion adjustments other than those included automatically by the program. Use this row to make any necessary adjustment to the exclusion adjustments as so computed.

As an alternative, you may enter the adjustments described on this row on the **Individual Activity** worksheets accessed from the row below.

(22) Other Exclusion Adjustments – Individual Activities

Other exclusion adjustments from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(23) Regular Tax Capital Loss or Gain (Calculated)

The taxpayer's regular tax includible capital gain or deductible capital loss after application of the $3,000 ($1,500 for married filing separately) limitation. If the amount is a gain, it will be shown as a negative to indicate that it is being subtracted from regular taxable income. If it is a loss, it will be shown as a positive to indicate it is being added back to regular taxable income. The sum of this row and the next is the AMT capital gain or loss adjustment.

(24) AMT Capital Gain or Loss

The amount of capital gain or loss recomputed for alternative minimum tax purposes. No entry may be made on this row. Instead, access the subworksheet.

(25) Regular Tax Ordinary 1231 Loss/Gain (Calculated)

The amount from the "Sec 1231 Ordinary & Casualty Gain/Loss" row of the **Ordinary Income** worksheet. If the amount is a gain, it will be shown as a negative to indicate that it is being subtracted from regular taxable income. If it is a loss, it will be shown as a positive to indicate that it is being added back to regular taxable income. The sum of this row and the next is the AMT Section 1231 ordinary income adjustment.

(26) AMT Section 1231 Ordinary & Casualty Gain or Loss

Total includible ordinary income or loss from Section 1231 assets and casualties for alternative minimum tax purposes. No entry may be made on this row. To enter AMT adjustments to Section 1231 and casualty gains and losses, use the subworksheet.

(27) Regular Tax Ordinary Passive Loss/Gain (Calculated)

The amount from the "Passive Activity Income/Loss" row of the **Ordinary Income** worksheet. If it is a gain, it will be shown as a negative to indicate that it is being subtracted from regular taxable income. If it is a loss, it will be shown as a positive to indicate it is being added back to regular taxable income. The sum of this row and the next is the AMT Passive Activity ordinary income adjustment.

(28) AMT Ordinary Passive Income or Loss

The amount of ordinary passive activity income or loss includible for alternative minimum tax purposes. No entry may be made on this row. Instead, use the subworksheets containing the relevant items.

(29) Regular Tax Ordinary PTP Loss/Gain (Calculated)

The amount from the "Publicly Traded Partnerships" row of the **Ordinary Income** worksheet. If the amount is a gain, it will be shown as a negative to indicate that it is being subtracted from regular taxable income. If it is a loss, it will be shown as a positive to indicate it is being added back to regular taxable income. The net of this row and the next is the AMT Publicly Traded Partnership ordinary income adjustment.

(30) AMT Ordinary Publicly Traded Partnership Income and Loss

Total includible ordinary income or loss for alternative minimum tax purposes from publicly traded partnerships. Make no entry on this row. To enter PTP activity items, call up the worksheets.

(31) Deferral Adjustment to Qualified Dividends

The amount of any AMT deferral adjustment to Qualified Dividends as entered on the regular tax **Interest and Dividends** worksheet. This row, together with row 18 above, is used primarily to adjust for qualified dividends from trusts and estates against which expenses not allowed for AMT purposes have been allocated. See Treas. Reg. § 1.652(b)–3. The IRS appears to treat all such adjustments as deferral items. See Form 8801. However, it seems that many of such adjustments are really exclusion items. To have the program emulate the IRS approach enter this adjustment as a deferral adjustment on this row,

instead of row 18, and then adjust for it on the "Adjustments to Exclusion Preferences and Adjustments" row of the **Minimum Tax Credit** worksheet. Any amount entered on this row or on row 18 above will be treated as an addition or subtraction, as the case may be, with respect to qualified dividends in computing the AMT Alternative Capital Gains tax. Amounts entered on this row, as opposed to row 19 above, will not also be treated similarly in computing the AMT on exclusion items on the **Minimum Tax Credit** worksheet.

(32) Other Deferral Preferences

Alternative minimum tax preference items other than the preferences for the depletion allowance, appreciated charitable contribution property, and private activity bond interest. Include certain accelerated depreciation and ACRS deductions and excess intangible drilling costs. See IRC §§ 53 and 57.

As an alternative, you may enter the preferences described on this row on the **Individual Activity** worksheets accessed from the row below.

The program does not take into account the independent producer exception to the intangible drilling cost preference in computing the limit on the AMT foreign tax credit. See IRC § 59(a)(2)(A)(ii) (applicable to years before 2005). You must properly limit that credit before entering it on the "AMT Foreign Tax Credit" row of the **Credits** worksheet.

(33) Other Deferral Preferences – Individual Activities

Other deferral preferences from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(34) Other Deferral Adjustments

Alternative minimum tax adjustments other than those computed by the program and other than those considered as exclusion adjustments under IRC § 53. Include here the adjustments for depreciation on post-1986 property, circulation and research and experimental expenditures, and the treatment of incentive stock options. See IRC §§ 56(a)(1), 56(b)(2), and 56(b)(3). An adjustment on this row may be either positive or negative.

Do **not** include differences between regular taxable income and alternative minimum taxable income attributable to the following:

- Passive activity income or loss;
- Publicly traded partnership (PTP) income or loss;
- § 1231 and casualty gain and loss; and
- Capital gain and loss.

437

These differences are automatically considered to be deferral adjustments by the program and entering them here will cause them to be counted twice. For a fiduciary, include the regular tax deductions for income distributions and estate taxes.

The program does not take into account the limit on the independent producer exception for excess intangible drilling costs in computing the limit on the AMT foreign tax credit. You must properly limit that credit before entering it on the "AMT Foreign Tax Credit" row of the **Credits** worksheet.

As an alternative, you may enter the adjustments described on this row on the **Individual Activities** worksheet accessed from the row below.

(35) Other Deferral Adjustments – Individual Activities

Other deferral adjustments from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, press W to access the **Individual Activities** worksheet.

(36) AMT Net Operating Loss Subject to 100% Limit

The amount of the net operating loss deduction as computed for alternative minimum purposes attributable to the sum of carrybacks of net operating losses for 2001 or 2002 and carryforwards of NOLs to 2001 and 2002. **For years after 2002**, include the amount of the AMT NOL with respect to which an election is made under § 172(b)(1)(H) for losses carried back from 2008 and 2009. For years after 2007 include the amount of AMT NOLs attributable to carrybacks or carryovers of qualified disaster losses. Include also the sum of carrybacks and carryovers attributable to the portion of any AMT NOL that is a qualified Recovery Assistance casualty loss and the sum of carrybacks and carryovers of any AMT NOL attributable to any Midwestern disaster area losses. Enter the amount after all limitations. See IRC § 56(d)(1)(A), § 56(d)(3), and § 1400N. And see Sec. 702 of the Heartland Disaster Tax Relief Act of 2008, Title VII, Subtitle A of H.R. 1424.

In determining how much of the NOL entered on this row is allowed, the program will apply the 100% limit of § 56(d)(1)(A)(ii) after reducing AMTI by the Other Net Operating Loss Deduction (limited to 90% of alternative minimum taxable income) on the next row.

If this row includes an NOL carryback and there are charitable contributions, see the "Adjustment to AGI for Limits" row of the **AMT Charitable Contributions Adjustment** worksheet.

This row does not apply to years before 1996 and will contain N/A for such years.

(37) Carry Through Regular NOL

Set to Yes to carry the regular Net Operating Loss to row 38.

(38) Regular Tax NOL (Calculated)

If row 37 is set to yes, the "Total NOL Deduction" row of the **Excess Business Losses and NOLs** worksheet. Otherwise, zero.

(39) Other AMT Net Operating Loss Deduction

Any adjustment to the net operating loss deduction as computed for alternative minimum tax purposes other than the amount of such deduction attributable to the amount on row 37 above. Enter the amount after all limitations and carryovers/carrybacks. See IRC § 56(d).

If this row includes an NOL carryback and there are charitable contributions, see the "Adjustment to AGI for Limits" row of the **AMT Charitable Contributions Adjustment** worksheet.

(40) Total AMT Net Operating Loss Deduction Not Subject to 100% (Calculated)

The sum of rows 38 and 39 above.

The program will apply the 90% limit of IRC § 56(d)(1)(B) in determining how much of the NOL entered on this row is allowed. For this purpose, the program computes AMTI without regard to the NOL, without regard to the Domestic Production Deduction, and without regard to the fiduciary adjustments on row 41, but including all other limitations and adjustments (such as the charitable contributions adjustment). Then the program computes the 90% limit. AMTI is then recomputed using the NOL as so limited. The program does not compute special NOL limitations for purposes of modified AGI computations such as the passive activity real estate allowance. In other words, the program does not compute the NOL limitation without regard to passive losses for purposes of the real estate exemption modified AGI.

(41) Fiduciary Adjustments

For a fiduciary, the AMT deductions for income distributions and the estate tax. The regular tax amount of these deductions should be included as a positive number on row 34, above. The AMT amount should then be included as a negative here. The adjustment is needed for proper computation of the limit on the AMT net operating loss deduction for a fiduciary.

(42) Alternative Minimum Taxable Income (Calculated)

The sum of rows 1 through 37 and 40, above. For this purpose, the AMT NOL on row 40 will have been limited to 90% of AMTI computed without regard to the Domestic Production Deduction and the Fiduciary Adjustments on row 41, above, and the special AMT NOL on row 36 will have been limited to 100% of AMTI computed after the deduction for the amount on row 40 and without regard to the Domestic Production Deduction and without regard to Fiduciary Adjustments on row 41.

(43) AMT Exemption Before Phaseout (Calculated)

The alternative minimum tax exemption amount for the appropriate filing status as follows:

Years	Single, Head of Household	Married Filing Jointly	Married Filing Separately
2000	$33,750	$45,000	$22,500
2001–2002	$35,750	$49,000	$24,500
2003–2005	$40,250	$58,000	$29,000
2006	$42,500	$62,550	$31,275
2007	$44,350	$66,250	$33,125
2008	$46,200	$69,950	$34,975
2009	$46,700	$70,950	$35,475
2010	$47,450	$74,450	$36,225
2011	$48,450	$74,450	$37,225
2012	$50,600	$78,750	$39,375
2013	$51,900	$80,800	$40,400
2014	$52,800	$82,100	$41,050
2015	$53,600	$83,400	$41,700
2016	$53,900	$83,800	$41,900
2017	$54,300	$84,500	$42,250
2018	$70,300	$109,400	$54,700
2019	$71,700	$111,700	$55,850
2020	$72,900	$113,400	$56,700

See IRC § 55(d).

For years after 2020, the program adjusts the amount for inflation. See IRC § 55(d)(4).

For minor child computations, the limit is: The child's earned income plus the larger of $1000 or the child's share of the unused parental minimum tax exemption.

- **For years after 1999**, the $1000 has been replaced by an amount equal to twice the minimum standard deduction for a dependent taxpayer so that the limit is the child's earned income plus the larger of twice the minimum standard deduction, or the child's share of the unused parental minimum tax exemption. See IRC § 59(j)(1).

- **For years after 1999**, the unused parental minimum tax exemption has been eliminated from the computation and the limit is $5000 plus the child's earned income. See IRC § 59(j)(1).

- **For 2000**, the amount is $5200 plus the child's unearned income.

- For 2001, the amount is $5350 plus the child's earned income.

- For 2002, the amount is $5500 plus the child's earned income.

- For 2003, the amount is $5600 plus the child's earned income.

- For 2004, the amount is $5750 plus the child's earned income.

- For 2005, the amount is $5850 plus the child's earned income.

- For 2006, the amount is $6050 plus the child's earned income.

- For 2007, the amount is $6300 plus the child's earned income.

- For 2008, the amount is $6400 plus the child's earned income.

- For 2009 and 2010, the amount is $6700 plus the child's earned income.

- For 2011, the amount is $6800 plus the child's earned income.

- For 2012, the amount is $6950 plus the child's earned income.

- For 2013, the amount is $7150 plus the child's earned income.

- For 2014, the amount is $7250 plus the child's earned income.

- For 2015 and 2016, the amount is $7400 plus the child's earned income.

- For 2017, the amount is $7500 plus the child's earned income.

- For 2018, the amount is $7600 plus the child's earned income.

- For 2019, the amount is $7750 plus the child's earned income.

- For 2020, the amount is $7900 plus the child's earned income.

- For years after 2020, the program adjusts the amount for inflation in accordance with IRC § 59(j)(2).

See **Inflation Adjustments** in Chapter 9 of the **Operations Guide**.

(44) Adjustment to AMT Exemption

This row is N/A to maintain compatibility with prior versions.

(45) Adjusted AMT Exemption (Calculated)

The sum of rows 43 and 44 above.

(46) Exemption After Phaseout (Calculated)

The program automatically phases out the exemption in accordance with the requirements of IRC § 55(d)(1) and (3).

For years after 2012, the program adjusts the exemption phaseout amount for inflation. See IRC § 55(d)(3).

For 2012 through 2017, and after 2025, the exemption phaseout amount begins at 150,000 of alternative minimum taxable income for joint or surviving spouse, 112,500 for single or head of household, and 75,000 for married filing separate, estates, or trusts.

For years after 2017 and before 2026, the exemption phaseout amount begins at 1,000,000 of alternative minimum taxable income for joint or surviving spouse, 500,000 for single or head of household, and 500,000 for married filing separate, while the program continues to use 75,000 for estates and trusts.

If the taxpayer is married filing separately, this row may show a negative number in the amount of the addition to alternative minimum taxable income required by IRC § 55(d)(2).

(47) Taxable Excess (Calculated)

The excess (if any) of row 42 over row 46.

(48) Tentative Minimum Tax from Schedule (Calculated)

The tentative minimum tax on the amount on row 47 computed on the basis of the rate schedule in IRC § 55(b)(1)(A)(i). The tentative minimum tax is based on the AMTI on row 47 according to the following years and amounts:

2000–2012	26% of the first $175,000 ($87,500 married filing separate), 28% of the excess
2013	26% of the first $179,500 ($89,750 married filing separate), 28% of the excess
2014	26% of the first $182,500 ($91,250 married filing separate), 28% of the excess
2015	26% of the first $185,400 ($92,700 married filing separate), 28% of the excess
2016	26% of the first $186,300 ($93,150 married filing separate), 28% of the excess
2017	26% of the first $187,800 ($93,900 married filing separate), 28% of the excess

2018	26% of the first $191,500 ($95,750 married filing separate), 28% of the excess
2019	26% of the first $194,800 ($97,400 married filing separate), 28% of the excess
2020	26% of the first $197,900 ($98,950 married filing separate), 28% of the excess

For years after 2020, the program adjusts the rate schedule for inflation. See IRC § 55(d)(3).

(49) Tentative Minimum Alternative Capital Gains Tax

The alternative capital gains tax as computed for AMT TMT purposes as defined by IRC § 55(b).

No entry may be made on this row or in the underlying worksheet. To view the alternative capital gains tax calculation, press W for the **Alternative Capital Gains Tax** worksheet. The worksheet must remain active and cannot be killed.

(50) Foreign Earned Income Tentative Minimum Tax: (Calculated)

The foreign earned income tentative minimum tax computed in accordance with IRC § 911(f). No entry may be made on this row. To enter foreign earned income items, press W for the **Foreign Income Exclusion Taxes** worksheet, from which you may access the **Taxpayer's Foreign Income Exclusion** worksheet and the **Spouse's Foreign Earned Income Exclusion** worksheet.

For years before 2006, this row will be zero.

(51) Tentative Minimum Tax Before AMT Foreign Tax Credit (Calculated)

The lesser of row 48 and row 49, or row 50 if it applies.

(52) Alternative Minimum Tax Foreign Tax Credit Allowed (Calculated)

The sum of the following rows on the **Credits** worksheet:

- Alternative Minimum Tax Foreign Tax Credit
- AMT Foreign Tax Credit – Individual Activities

after application of the 90% limit of IRC § 59(a)(2) applicable to **years before 2005**. **For years after 2004**, the program limits the amount of the credit to the amount on row 51, above.

(53) Tentative Minimum Tax (Calculated)

The excess (if any) of row 51 over row 52, above.

(54) Regular Tax Before Foreign Tax Credit (Calculated)

The lowest of row 13 "**Schedule or Table Tax**", row 14 "Alternative Capital Gains Tax", or row 15 "Farm Income Averaging Tax" of the **Main Worksheet**. For years after 2003, the "Farm Income Averaging Tax" is not taken into account and this row will be the lower of the "**Schedule or Table Tax**" and "Alternative Capital Gains Tax" rows of the **Main Worksheet**. See IRC § 55(c)(2).

For years after 2005, if the foreign earned income regular tax applies, this row will be the amount of that tax.

When running Minor Child calculations, for years after 2003, the child's regular tax for purposes of computing the child's AMT is computed without regard to the fact that the parent may be using farm income averaging. Therefore, in such cases the amount on this row may not agree with the amount on row 12 "Minor Child Tax" in the child's column on the **Main Worksheet**.

(55) Foreign Tax Credit Allowed (Calculated)

The sum of the following rows on the **Credits** worksheet:

- Foreign Tax Credit
- Foreign Tax Credit – Individual Activities

after application of the total tax limit of IRC § 904. See IRC § 904(i).

(56) Regular Tax (Calculated)

The excess (if any) of row 54 over row 55, above.

(57) Alternative Minimum Tax (Calculated)

The excess (if any) of row 53 over row 56, above.

NOTE 1

It appears that the IRS's position is that itemized deductions are allowed for alternative minimum tax purposes only if the taxpayer itemizes for regular tax purposes. Therefore, if the taxpayer's regular tax itemized deductions are not equal to or greater than the standard deduction, the program zeros out the adjustments on the following rows of the **Alternative Minimum Tax** worksheet:

- row 6 "Medical Expense Adjustment"
- row 7 "Casualty Loss Adjustment"
- row 8 "Miscellaneous Itemized"
- row 9 "Taxes"
- row 13 "Housing Interest Adjustment (Calculated)"

- row 14 "Charitable Contributions Adjustment"
- row 15 "Itemized Deduction Floor"

See the **Investment Interest – AMT** worksheet on page 459 for the effect of this rule on the interest deduction on row 12 "AMT Investment Interest". For taxpayers who might benefit from not itemizing in order to avoid this AMT rule, you can select "Must Itemize Other" on the **Filing Status** worksheet.

NOTE 2

In calculating those preferences and adjustments that the program computes itself, the program does **not** take into account the tax benefit rule. See IRC § 59(g) authorizing the Treasury to prescribe regulations "under which differently treated items shall be properly adjusted where the tax treatment giving rise to such items will not result in the reduction of the taxpayer's regular tax for any taxable year." At date of publication of the program, no such regulations had been proposed or adopted under the 1986 Act.

Therefore, in making the entries on rows 19–22 (other exclusion preferences and adjustments) and 32–35 (other deferral preferences and adjustments) above you may wish to take the tax benefit rule into account, both with respect to the items you are entering and the ones computed by the program.

SECTION 1231 & CASUALTY GAIN/LOSS – AMT

Section 1231 & Casualty Gain/Loss – Alt Min		

   (1)   **Section 1250 Casualty Gain (25%): Regular Tax**
   (2)   AMT Adjustments to Unrecaptured Section 1250 Casualty Gain (25%)
   (3)   **Other Casualty Gain: Regular Tax:**
   (4)   AMT Adjustments to Other Casualty Gains
   (5)   **Trade or Business Casualty Loss: Regular Tax**
   (6)   AMT Adjustments to Trade or Business Casualty Loss
   (7)   **Employee Casualty Loss: Regular Tax**
   (8)   Alternative Minimum Tax Adjustments to Employee Casualty Loss
   (9)   **Investment Casualty Loss: Regular Tax**
 (10)   AMT Adjustments to Investment Casualty Loss
 (11)   Passive Activity Unrecaptured Section 1250 Casualty Gain (25%)
 (12)   Passive Activity Other Casualty Gain or Loss
 (13)   Publicly Traded Partnership Unrecaptured Sec. 1250 Casualty Gain
 (14)   Publicly Traded Partnership Other Casualty Gain or Loss
 (15)   **Total Casualty Gain or Loss**
 (16)   Unrecaptured Section 1250 Sale Gain (25%)
 (17)   Unrecaptured Sec. 1250 Sale Gain (25%) from Passive Activities
 (18)   Unrecaptured Section 1250 Sale Gain (25%) from Publicly Traded Partnerships
 (19)   **Other Unrecaptured Section 1250 Sale Gain: Regular Tax**
 (20)   AMT Adjustments to Other Unrecaptured Section 1250 Sale Gain (25%)
 (21)   Other Section 1231 Sale Gain/Loss
 (22)   28% Rate Gain or Loss from Passive Activities
 (23)   Other Section 1231 Sale Gain or Loss from Passive Activities
 (24)   28% Rate Gain or Loss from Publicly Traded Partnerships
 (25)   Other Section 1231 Sale Gain or Loss from Publicly Traded Partnerships
 (26)   **Non-Passive 28% Rate Gain or Loss: Regular Tax**
 (27)   AMT Adjustments to Non-passive 28% Rate
 (28)   **Other Section 1231 Gain or Loss: Regular Tax**
 (29)   AMT Adjustments to Other Section 1231 Gain or Loss
 (30)   **Total Section 1231 Gain or Loss**
 (31)   **Total Unrecaptured Section 1250 Gain**
 (32)   **Total 28% Rate Gain or Loss**
 (33)   **Regular Tax Adjustment to 28% Rate Gain or Loss**
 (34)   Additional AMT Adjustment to 28% Rate Gain/Loss
 (35)   **Total Other Section 1231 Gain/Loss**
 (36)   Nonrecaptured Previous Year Losses
 (37)   Nonrecaptured Previous Year Losses – Entered
 (38)   **Nonrecaptured Previous Year Losses – Computed**
 (39)
 (40)   **Ordinary Gain or Loss**
 (41)   **Unrecaptured Section 1250 Gain (25%)**
 (42)   **28% Rate Gain/Loss**
 (43)   **Other Long-term Capital Gain**
 (44)   **Nondeductible Itemized Casualty Loss**
 (45)   **Deductible Itemized Casualty Loss**
 (46)   **Regular Tax Itemized Casualty Loss**
 (47)   **AMT Itemized Casualty Loss Adjustment**

Caution! Reform Act of 1986, the Revenue Act of 1987, the TAMRA of 1988, the Revenue Reconciliation Acts of 1989 and 1990, and the Taxpayer Relief Act of 1997 have raised numerous questions of interpretation concerning the alternative minimum tax computation. At our date of publication, complete guidance from the Treasury or the IRS was not available with regard to many of these issues. This help topic explains how these questions have been

resolved as they relate to Section 1231 and Casualty Gain and Loss as computed for AMT purposes. Carefully examine the row descriptions for this worksheet and the Notes following the descriptions. Contact Bloomberg Tax Technology if you have any questions. Rely on our interpretations only if you agree with them. See also **NOTE 1** on page 456.

(1) Section 1250 Casualty Gain (25%): Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this is the sum of the following rows on the regular tax **Casualty Gains and Losses** worksheet:

- From Trade or Business – Individual Activities: Unrecaptured Sec. 1250(25%)
- From Investment – Individual Activities: Unrecaptured Sec. 1250(25%)

Otherwise this row is zero.

(2) AMT Adjustments to Unrecaptured Section 1250 Casualty Gain (25%)

AMT adjustments to total unrecaptured section 1250 casualty gains carried from the regular tax **Casualty Gains and Losses** worksheet to this worksheet. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

(3) Other Casualty Gain: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this is the sum of the following rows on the regular tax **Casualty Gains and Losses** worksheet:

- Casualty Gains from Trade or Business
- Casualty Gains from Investment

Otherwise this row is zero.

(4) AMT Adjustments to Other Casualty Gains

AMT adjustments to total casualty gains (other than unrecaptured section 1250 gain) carried from the regular tax **Casualty Gains and Losses** worksheet to row 3 "Other Casualty Gain: Regular Tax (Calculated)" above. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

Note. Enter AMT adjustments to the 28% rate portion of these gains on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

(5) Trade or Business Casualty Loss: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this is the sum of the amounts from the Casualty Losses from Trade or Business rows of the regular tax **Casualty Gains and Losses** worksheet. Otherwise, this row is zero.

(6) AMT Adjustments to Trade or Business Casualty Loss

AMT adjustments to total trade or business casualty loss carried from the regular tax **Casualty Gains and Losses** worksheet to the row above. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

Note:Enter adjustments for the 28% rate portion of these losses on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

(7) Employee Casualty Loss: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this is the amount on the Itemized Employee Business Casualty Loss row. If the **Itemized Deductions** worksheet is active, it is the amount on the "Employee Business Casualty Loss" row of that worksheet. Otherwise, this row is zero.

(8) Alternative Minimum Tax Adjustments to Employee Casualty Loss

AMT adjustments to employee casualty loss carried from the regular tax **Casualty Gains and Losses** worksheet to this worksheet. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

Note:Enter adjustments for the 28% rate portion of these losses on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

(9) Investment Casualty Loss: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this is the sum of the amounts from the Casualty Losses from Investment rows of the regular tax **Casualty Gains and Losses** worksheet.

If the **Itemized Deductions** worksheet is active, it is the amount on the Investment Casualty Loss row of that worksheet. Otherwise, this row is zero.

(10) AMT Adjustments to Investment Casualty Loss

AMT adjustments to total investment casualty loss carried from the regular tax **Section 1231 & Casualty Gain/Loss** worksheet to the row above (Investment Casualty Loss: Regular Tax) above. Such adjustments most often arise from

the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

Note. Enter AMT adjustments to the 28% rate portion of these losses on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

(11) Passive Activity Unrecaptured Section 1250 Casualty Gain (25%)

Unrecaptured section 1250 casualty gain from all passive activities (other than PTPs) and MAPRRA activities computed with AMT adjustments and allowed after application of AMT passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss – Alternative Minimum** worksheet to enter passive activity income and loss items.

(12) Passive Activity Other Casualty Gain or Loss

The net casualty gain or loss (other than unrecaptured section 1250 gain) from all passive activities (other than PTPs) and MAPRRA activities computed with AMT adjustments and allowed after application of AMT passive activity limitations.

Note. Enter AMT adjustments to the 28% rate portion of these gains and losses on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

No entry may be made on this row. Instead, press W to access the worksheet to enter passive activity income and loss items.

Note that under Notice 90–21 most casualty losses associated with passive activities are not passive activity deductions and, therefore, should not be entered on the **Passive Activity** worksheets.

(13) Publicly Traded Partnership Unrecaptured Sec. 1250 Casualty Gain

All unrecaptured section 1250 casualty gains from publicly traded partnerships computed with AMT adjustments and allowed after application of AMT PTP limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alternative Minimum** worksheet to enter PTP income and loss items.

(14) Publicly Traded Partnership Other Casualty Gain or Loss

All casualty gains and losses (other than unrecaptured section 1250 gain) from publicly traded partnerships computed with AMT adjustments and allowed after application of AMT PTP limitations.

Note. Enter AMT adjustments to the 28% rate portion of these gains and losses on row 34 "Additional AMT Adjustment to 28% Rate Gain/Loss", below.

No entry may be made on this row. Instead, press W to access the worksheet to enter PTP income and loss items.

Note that under Notice 90–21 most casualty losses associated with passive activities are not passive activity deductions and, therefore, should not be entered on the **Passive Activity** worksheets (nor presumably on the **Publicly Traded Partnership** worksheets).

(15) Total Casualty Gain or Loss (Calculated)

The sum of all the above rows.

(16) Unrecaptured Section 1250 Sale Gain (25%)

Heading for rows 17 through 20, below.

(17) Unrecaptured Sec. 1250 Sale Gain (25%) from Passive Activities

Total Section 1231 unrecaptured section 1250 gains from passive activities (other than PTPs) and MAPRRA activities computed with AMT adjustments and allowed after application of AMT passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss – Alternative Minimum** worksheet to enter passive activity income and loss items.

(18) Unrecaptured Section 1250 Sale Gain (25%) from Publicly Traded Partnerships

Total Section 1231 unrecaptured section 1250 gains from publicly traded partnerships computed with AMT adjustments and allowed after application of AMT PTP limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alternative Minimum** worksheet to enter PTP income and loss items.

(19) Other Unrecaptured Section 1250 Sale Gain: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this row is the sum of the following rows on that worksheet:

- Nonpassive Sec. 1250 Trade or Business Gain (25%)
- Individual Activities
- Sec. 1250 Investment Gain (25%)
- Individual Activities

If the regular tax **Capital Gains and Losses** worksheet is active, this row is the sum of the following rows on that worksheet:

- Sec.1231 Unrecaptured 1250 Gain (25%): Investment
- Sec. 1231 Unrecaptured 1250 Gain (25%): Trade/Business

Otherwise, this row is zero.

(20) AMT Adjustments to Other Unrecaptured Section 1250 Sale Gain (25%):

AMT adjustments to Section 1231 unrecaptured section 1250 gain from the sale of assets and involuntary conversion (other than casualty and theft) carried from the regular tax **Section 1231 & Casualty Gain/Loss** worksheet to this worksheet. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

(21) Other Section 1231 Sale Gain/Loss:

Heading for rows 22 through 29, below.

(22) 28% Rate Gain or Loss from Passive Activities

Total 28% rate gain or loss from passive activities (other than PTPs) and MAPRRA activities computed with AMT adjustments and allowed after application of AMT passive activity limitations.

No entry may be made on this row. Instead, access the **Passive & MAPRRA Income/Loss – Alternative Minimum** worksheet to enter passive activity income and loss items.

(23) Other Section 1231 Sale Gain or Loss from Passive Activities

The total gain or loss from sale of Section 1231 assets (other than unrecaptured section 1250 gain and 28% rate gain or loss) of all passive activities (other than PTPs) and MAPRRA activities computed with AMT adjustments

and preferences, and allowed after application of passive activity AMT limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA Income/Loss – Alternative Minimum** worksheet to enter passive activity income and loss items.

(24) 28% Rate Gain or Loss from Publicly Traded Partnerships

Total 28% rate Section 1231 gains and losses from publicly traded partnerships computed with AMT adjustments and allowed after application of AMT PTP limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alternative Minimum** worksheet to enter PTP income and loss items.

(25) Other Section 1231 Sale Gain or Loss from Publicly Traded Partnerships

All Section 1231 sale gains and losses (other than unrecaptured section 1250 gain and 28% rate gain or loss) from publicly traded partnerships after AMT adjustments and preferences, and allowed after application of PTP AMT limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alternative Minimum** worksheet to enter PTP income and loss items.

(26) Non-Passive 28% Rate Gain or Loss: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this row is the sum of the following rows on that worksheet:

- Nonpassive 28% Rate Trade or Business Gain or Loss
- Individual Activities
- Nonpassive 28% Rate Investment Gain/Loss
- Individual Activities

If the regular tax **28% Rate Capital Gains and Losses** worksheet is active, this row is the sum of the "Sec. 1231 Gain/Loss Investment" and the "Sec. 1231 Trade/Business Gain/Loss" rows on that worksheet.

Otherwise, this row is 0.

(27) AMT Adjustments to Non-passive 28% Rate

AMT adjustments to Section 1231 28% rate gain or loss from sale of assets and involuntary conversion (other than casualty and theft) carried from the regular tax **Section 1231 & Casualty Gain/Loss** worksheet to this worksheet. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

(28) Other Section 1231 Gain or Loss: Regular Tax (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this row is the sum of the following rows on that worksheet:

- Trade or Business Condemnation Gain
- Individual Activities
- Investment Condemnation Gain
- Individual Activities
- Non-Passive Other Sec. 1231 Trade or Business Gain/Loss
- Individual Activities
- Other Investment Sec. 1231 Gain or Loss
- Individual Activities

If the regular tax **Capital Gains and Losses** worksheet is active, this row is the sum of the "Sec. 1231 Ordinary & Casualty Gain/Loss" row on the **Ordinary Income** worksheet plus the sum of the following rows on the **Capital Gains and Losses** worksheet:

- Other Sec 1231 Gain/Loss: Investment
- Other Sec 1231 Trade or Business Gain/Loss

Otherwise this row is the amount on the "Sec. 1231 Ordinary & Casualty Gain/Loss" row on the **Ordinary Income** worksheet.

(29) AMT Adjustments to Other Section 1231 Gain or Loss

AMT adjustments to Section 1231 gain or loss (other than unrecaptured section 1250 gain and 28% rate gain or loss) from sale of assets and involuntary conversion (other than casualty and theft) carried from the regular tax **Section 1231 & Casualty Gain/Loss** worksheet to this worksheet. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6).

453

(30) Total Section 1231 Gain or Loss (Calculated)

The sum of rows 17 through 29 above, plus row 15 (Total Casualty Gain/Loss) if it is a gain.

Except for the effects of nonrecaptured previous year losses, if this is a gain, all Section 1231 gains and losses (including casualty gains and losses that netted to a gain) are treated as capital gains and losses. Otherwise, they are treated as ordinary. See NOTE 1.

(31) Total Unrecaptured Section 1250 Gain (Calculated)

The sum of rows 17, 18, 19 and 20 plus (if row 15 is a gain) the sum of rows 1, 2, 11 and 13. The total on this row is limited to the gain on row 30. See NOTE 1, below.

(32) Total 28% Rate Gain or Loss (Calculated)

The sum of rows 22, 24, 26 and 27.

If row 30 is zero or a loss, this row will be zero.

(33) Regular Tax Adjustment to 28% Rate Gain or Loss (Calculated)

If the regular tax **Section 1231 & Casualty Gain/Loss** worksheet is active, this row is the sum of the following rows on that worksheet:

- Adj to 28% Rate Investment
- Adj to 28% Rate Trade/Business

Otherwise, this row is zero.

(34) Additional AMT Adjustment to 28% Rate Gain/Loss

Additional AMT adjustments to the regular tax adjustment to 28% rate gain or loss carried to the "Regular Tax Adjustments to 28% Rate Gain/Loss" row above from the regular tax **Section 1231 & Casualty Gain/Loss** worksheet.

Include AMT adjustments to 28% rate casualty gains and losses. Such adjustments most often arise from the use of different bases for assets for AMT and regular tax purposes. See IRC § 56(a)(6). An adjustment on this row may also be necessary if there is a net casualty gain for regular tax purposes and a net casualty loss (or zero) for AMT purposes or vice versa.

(35) Total Other Section 1231 Gain/Loss (Calculated)

The gain, if any, on row 30 minus the sum of rows 31 through 34. If row 30 is zero or a loss, this row will be zero. See NOTE 1, below.

(36) Nonrecaptured Previous Year Losses

Heading for rows 37 and 38, below.

(37) Nonrecaptured Previous Year Losses – Entered

Nonrecaptured Section 1231 losses deducted for AMT purposes in the five preceding tax years beginning after 1981. See IRC § 1231(c) and Form 4797, Part I, line 8.

In multiple-year situations, enter the amount in each year to which it can be carried. The program will keep track of how it is used up.

Do not enter losses that are generated in the years being run, since these are automatically computed on row 38 "Nonrecaptured Previous Year Losses – Computed (Calculated)", below. See NOTE 2 for the **Charitable Contributions** worksheet for examples of how carryover rows such as this one are to be entered.

Note. Nonrecaptured Section 1231 losses for regular tax purposes must be separately entered.

Note that in multiple-year situations, the amount of this item entered in a subsequent year can never exceed the amount entered in a previous year. Entered nonrecaptured losses can only expire; they cannot be generated.

(38) Nonrecaptured Previous Year Losses – Computed (Calculated)

Nonrecaptured Section 1231 losses as computed by the program for AMT purposes in multiple-year situations. The amount appears in the column to which it applies.

In multiple-case and one-year situations this row will contain zeros. See IRC § 1231(c) and Form 4797, Part I, line 8.

(39) (Blank)

(40) Ordinary Gain or Loss (Calculated)

See NOTE 1, below, for how this amount is computed. The amount on this row is posted to the "AMT Ordinary 1231 Gain/Loss" row of the **Alternative Minimum Tax** worksheet.

(41) Unrecaptured Section 1250 Gain (25%) (Calculated)

See NOTE 1, below, for how this amount is computed. The amount on this row is posted to the "Sec. 1231 Unrecaptured 1250 Gain (25%)" row of the **Capital Gain/Loss – Alternative Minimum** worksheet.

(42) 28% Rate Gain/Loss (Calculated)

See NOTE 1, below, for how this amount is computed. The amount on this row is posted to the "Section 1231 Gain" row of the **28% Rate Capital Gain/Loss – Alternative Minimum** worksheet.

(43) Other Long-term Capital Gain (Calculated)

See NOTE 1, below, for how this amount is computed. The amount on this row is posted to the "Other Sec 1231 Long-term Gain" row of the **Capital Gain/Loss – Alternative Minimum** worksheet.

(44) Nondeductible Itemized Casualty Loss (Calculated)

See NOTE 1, below, for how this amount is computed. This amount is not allowable as an alternative minimum tax deduction.

(45) Deductible Itemized Casualty Loss (Calculated)

See NOTE 1, below, for how this amount is computed.

(46) Regular Tax Itemized Casualty Loss (Calculated)

This is the amount on the "Itemized Investment Casualty Loss" row of the regular tax **Section 1231 & Casualty Gain/Loss** worksheet.

(47) AMT Itemized Casualty Loss Adjustment (Calculated)

Row 45 "Deductible Itemized Casualty Loss (Calculated)" minus row 46 "Regular Tax Itemized Casualty Loss (Calculated)". If the taxpayer is itemizing for regular tax purposes, this amount is included on the "Casualty Loss Adjustment" row of the **Alternative Minimum Tax** worksheet.

NOTE 1

The computations on this worksheet are performed as follows:

1. First the program determines whether row 15 "Total Casualty Gain or Loss (Calculated)" is a gain or a loss. If it is a loss, all casualty gains and losses are treated as ordinary. Casualty gains and adjustments on rows 1 through 4 and trade or business casualty losses and adjustments on rows 5, 6 and 11 through 14 are included in row 40 "Ordinary Gain or Loss (Calculated)".

    If the sum of rows 7 and 8 is a gain, it is also included in row 40. Otherwise, it is posted to row 44 and is not deductible for AMT purposes.

    Similarly, if the sum of rows 9 and 10 is a gain it is also included in row 40. Otherwise, if the "Apply 1998 Technical Correction Casualty Rule" row of the **Itemized Deductions** worksheet is answered Yes, the sum of rows 9

and 10 is included in row 44 "Nondeductible Itemized Casualty Loss (Calculated)".

2. If row 15 "Total Casualty Gain or Loss (Calculated)" is a gain, casualty gains and losses are included with all other Section 1231 gains and losses. If the total of such Section 1231 gains and losses on row 30 "Total Section 1231 Gain or Loss (Calculated)" is a gain (including casualty gains and losses if row 15 is a gain), then it is treated as capital. However, the portion of the gain equal to nonrecaptured prior year losses is treated as ordinary.

3. If row 30 "Total Section 1231 Gain or Loss (Calculated)" is a gain, the program computes the unrecaptured section 1250 gain portion of the gain, the 28% rate portion of the gain, and the rest of the gain. The computations are performed as follows:

    a. First, the unrecaptured section 1250 investment gain portion is computed as the sum of rows 17, 18, 19 and 20. If row 15 is a gain, then rows 1, 2, 11 and 13 are included.

    b. If the total unrecaptured section 1250 gain is greater than the gain on row 30, the program reduces the total 1250 gain to the amount on row 30. The total unrecaptured section 1250 gain, as so reduced, is shown on row 31.

    c. Next the program computes the 28% rate portion of the gain as the sum of rows 22, 24, 26 and 27. This amount appears on row 32. To this amount are added the adjustments on rows 33 and 34.

    d. Next the program computes the rest of the gain as the amount on row 30 minus the sum of the amounts on rows 31, 32, 33 and 34.

    e. Next, the program reduces the various categories of capital gain by the amount of such gain converted to ordinary income by virtue of a non-recaptured previous year loss. For years after 1996, this conversion is applied first to any 28% rate gain, then to any unrecaptured section 1250 gain and finally to the rest of the gain. See the instructions for Form 1040, Schedule D.

        The final ordinary income amount, including the casualty amounts, if row 15 is a loss, is shown on row 40. The amounts remaining in each category (28% rate, unrecaptured section 1250 gain and other gain) are shown on rows 41 through 43.

        Note: If the amount of nonrecaptured previous year loss equals or exceeds the total gain on row 30, the program treats all of the gains and losses on this worksheet as ordinary and no amounts will appear in the capital gain or loss categories on rows 41 through 43.

4. If row 30 (Total Section 1231 Gain/Loss) is a loss, then:

    a. If row 15 "Total Casualty Gain or Loss (Calculated)" is zero or a gain and the sum of rows 7 "Employee Casualty Loss: Regular Tax (Calculated)" and 8 "Alternative Minimum Tax Adjustments to Employee Casualty Loss" is a loss, then row 44 "Nondeductible Itemized Casualty Loss (Calculated)" is the sum of rows 7 and 8.

        If the sum of rows 9 "Investment Casualty Loss: Regular Tax (Calculated)" and 10 "AMT Adjustments to Investment Casualty Loss" is a loss, and the "Apply 1998 Technical Correction Casualty Rule" row of the **Itemized Deductions** worksheet is Yes, then row 45 "Deductible Itemized Casualty Loss (Calculated)" is the sum of rows 9 and 10.

        Row 40 "Ordinary Gain or Loss (Calculated)" is row 30 "Total Section 1231 Gain or Loss (Calculated)" minus rows 44 and 45.

    b. If row 15 "Total Casualty Gain or Loss (Calculated)" is a loss and the sum of rows 7 "Employee Casualty Loss: Regular Tax (Calculated)" and 8 "Alternative Minimum Tax Adjustments to Employee Casualty Loss" is also a loss, then row 44 is the sum of rows 7 and 8.

        If the sum of rows 9 "Investment Casualty Loss: Regular Tax (Calculated)" and 10 "AMT Adjustments to Investment Casualty Loss" is a loss, and the "Apply 1998 Technical Correction Casualty Rule" row of the **Itemized Deductions** worksheet is Yes or N/A, then row 45 "Deductible Itemized Casualty Loss (Calculated)" is the sum of rows 9 and 10.

        Row 40 is the sum of rows 15 and 30, minus rows 44 and 45.

    c. The following rows will be zero:

        - row 31 "Total Unrecaptured Section 1250 Gain (Calculated)"

        - row 32 "Total 28% Rate Gain or Loss (Calculated)"

        - row 33 "Regular Tax Adjustment to 28% Rate Gain or Loss (Calculated)"

        - row 35 "Total Other Section 1231 Gain/Loss (Calculated)"

        - row 41 "Unrecaptured Section 1250 Gain (25%) (Calculated)"

        - row 42 "28% Rate Gain/Loss (Calculated)"

        - row 43 "Other Long-term Capital Gain (Calculated)"

See, generally, IRC §§ Sections 1231 and 1(h) (as amended by the IRS Restructuring and Reform Act of 1998) and Forms 4684 and 4797.

NOTE 2

The program does not perform a complete recomputation of investment income for AMT investment interest limitation purposes. Instead, the program uses regular tax investment income subject to user adjustment, and, as a result, does not require the elements necessary to reconstruct investment income such as those on the counterpart to this worksheet for regular tax purposes. See NOTE 1 for the **Investment Interest – Alternative Minimum Tax** worksheet.

In all other respects, the breakdown of gain and loss items among the various categories follows the regular tax computation for casualty and Section 1231 gain and loss items.

INVESTMENT INTEREST – AMT

Investment Interest – Alt Min
(1) **Schedule E Investment Interest**
(2) AMT Adjs to Schedule E Interest
(3) **Schedule A Investment Interest**
(4) AMT Adjs to Schedule A Interest
(5) Interest Carryover: Schedule E
(6) Interest Carryover: Schedule A
(7)   **Total AMT Interest**
(8) **Regular Tax Non Disposition Income**
(9) AMT Adjustments to Non Disposition Income
(10) **Regular Tax Net Cap Gain – Investment**
(11) AMT Adjustments To NCG From Investment
(12) **Regular Tax Other Disposition Gain or Loss**
(13) AMT Adjustments to Other Disposition Gain or Loss
(14) **Net Gain from Dispositions**
(15) **Investment Net Cap Gain Reduction**
(16) **Election Amount**
(17) **Private Activity Bond Interest**
(18) **Investment Expenses: Ordinary**
(19) Other AMT Adjs to Investment Income
(20)   **Total AMT Investment Income**
(21) **AMT Investment Interest Deduction**

(1) Schedule E Investment Interest (Calculated)

If the **Investment Interest Expense** worksheet is active, the amount shown here is posted from the "Schedule E Interest" rows of that worksheet. Otherwise, it is the negative amount on the "Investment Interest Expense" row of the **Ordinary Income** worksheet.

(2) Alternative Minimum Tax Adjustments to Schedule E Investment Interest

AMT adjustments to total Schedule E investment interest carried to this worksheet from the regular tax **Investment Interest** worksheet.

(3) Schedule A Investment Interest (Calculated)

If the **Investment Interest Expense** worksheet is active, the amount shown here is posted from the "Schedule A Interest" rows of that worksheet. Otherwise it is the "Investment Interest Expense" row of the **Itemized Deductions** worksheet.

(4) Alternative Minimum Adjustments to Schedule A Interest

Adjustments to Schedule A investment interest carried to this worksheet from the regular tax **Investment Interest** worksheet. One such adjustment would be for residence interest on debt borrowed for investment purposes that is included as Other Qualified Residence Interest for regular tax purposes. Another would be interest paid to carry specific private activity bonds. See IRC § 56(b)(1).

(5) Interest Carryover: Schedule E

Carryover from prior years of Schedule E investment interest for alternative minimum purposes. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. See IRC § 56(b)(1)(C).

If the regular tax **Investment Interest** worksheet is not active, so that investment interest carryovers are not computed for regular tax purposes, the program does not compute the carryovers here either. See **NOTE 1** on page 463.

Note. The investment interest expense carryover must be separately entered for regular and alternative minimum tax purposes in the first column of each case of a multiple-year analysis and in all columns of a multiple case or Minor Child analysis.

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(6) Interest Carryover: Schedule A

Carryover from prior years of Schedule A investment interest for alternative minimum tax purposes. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. See IRC § 56(b)(1)(C).

If the regular tax **Investment Interest** worksheet is not active, so that investment interest carryovers are not computed for regular tax purposes, the program does not compute the carryovers here either. See **NOTE 1** on page 463.

Note. The investment interest expense carryover must be separately entered for regular and alternative minimum tax purposes in the first column of each case of a multiple-year analysis and in all columns of a multiple case or Minor Child analysis.

(7) Total Alternative Minimum Tax Interest (Calculated)

The sum of these rows above:

- row 1 "Schedule E Investment Interest (Calculated)"
- row 2 "AMT Adjs to Schedule E Interest"
- row 3 "**Schedule A Investment Interest**"
- row 4 "AMT Adjs to Schedule A Interest"
- row 5 "Interest Carryover: Schedule E"
- row 6 "Interest Carryover: Schedule A"

(8) Regular Tax Non Disposition Income (Calculated)

If the **Net Investment Income** worksheet is active, the amount shown here is the sum of the following rows of that worksheet:

- If the year is before 2003, Qualified Dividends
- If the year is after 2003, Auto Elected Dividend Addition and Adj to Elected Div Addition
- Other Interest and Dividends
- Ordinary Income: PTP Gain Activities
- Other Investment Income
- Adjustments to Investment Income.

If the **Net Investment Income** worksheet is not active, the amount on this row will be 0.

(9) AMT Adjustments to Non Disposition Income

Alternative Minimum Tax adjustments to the non disposition income amount calculated on row 8 above. Do not include private activity bond interest automatically calculated by the program on row 17 below.

(10) Regular Tax Net Cap Gain – Investment (Calculated)

Net capital gain, as computed for regular tax purposes, determined by only taking into account gains and losses from dispositions of property held for

investment. The amount is the excess of net long-term capital gain over net short-term capital loss. See IRC § 1222 (11).

If the **Net Investment Income** worksheet is not active, the amount on this row will be 0.

(11) AMT Adjustment to NCG From Investment

Alternative Minimum Tax adjustments to net capital gain from investment amount calculated on row 10 above.

(12) Regular Tax Other Disposition Gain or Loss (Calculated)

If the **Net Investment Income** worksheet is active, the amount shown here is the sum of the following rows of that worksheet, reduced by the amount on row 10 above.

- "Net Investment Capital Gain/Loss"
- "Section 1231 Ordinary & Casualty Investment Gain/Loss"
- "Ordinary Property Disposition Gain/Loss: PTP Gain Activities"
- "Other Ordinary Investment Gain/Loss"
- "Net Investment Casualty Loss"
- "Adjustments to Disposition Gain/Loss"

If the **Net Investment Income** worksheet is not active, the amount on this row will be 0.

(13) AMT Adjustments to Other Disposition Gain or Loss

Alternative Minimum Tax adjustments to the other disposition gain or loss amount calculated on row 12 above.

(14) Net Gain From Dispositions (Calculated)

The sum of rows 10, 11, 12 and 13, above.

(15) Investment Net Cap Gain Reduction (Calculated)

The lesser of the sum of rows 10 and 11, or row 14, above, expressed as a negative amount.

(16) Election Amount (Calculated)

If the **Net Investment Income** worksheet is active, the amount shown here is the sum of the following rows of that worksheet:

- Auto Elected Net Cap Gain Addition

- Adj to Elected Net Cap Gn Addition.

The amount is limited to the amount on row 15 (expressed as a positive amount). See the instructions for IRS Form 6251.

If the **Net Investment Income** worksheet is not active, this row will be 0.

(17) Private Act Bond Interest (Calculated)

Private activity bond interest from the "Private Activity Bond Interest" rows of the **Interest and Dividends** worksheet. See IRC § 57(a)(5)(C) and § 56(b)(1)(C)(iii).

(18) Investment Expenses: Ordinary (Calculated)

If the **Net Investment Income** worksheet is active, the amount shown here is the amount from the "Investment Expense: Ordinary" row of that worksheet (expressed as a negative). Otherwise, it is zero.

(19) Other Alternative Minimum Adjustments to Investment Income

AMT adjustments to investment income and expense carried to this worksheet from the regular tax **Investment Interest Expense** worksheet, other than those automatically taken into account by the program. See the calculated rows above this one.

If private activity bond interest has been separately entered on the **Interest and Dividends** worksheet, it will automatically be included by the program as an adjustment to investment income on the "Private Act Bond Interest" row above and should not be included again here. However, expenses relating to such interest should be included here as a negative amount. See IRC § 56(b)(1)(C). See **NOTE 1** on page 463.

(20) Total Alternative Minimum Investment Income (Calculated)

The sum of rows 8, 9, 14, 15, 16, 17, 18, and 19, above, but not less than zero.

(21) Alternative Minimum Interest Deduction (Calculated)

The lesser of row 7 "Total Alternative Minimum Tax Interest (Calculated)" and row 20 "Total Alternative Minimum Investment Income (Calculated)" above. See **NOTE 2** on page 464.

NOTE 1

The program does not perform a complete recomputation of net investment income for AMT investment interest limitation purposes. Instead, the program uses the regular tax net investment income subject to user adjustments on

rows 9, 11, 13, and 19. Therefore, if you have AMT adjustments affecting any of the following worksheets and categories, you may also need to make an adjustment to the appropriate row on this worksheet for the portion of the AMT adjustment that flows through to alternative minimum taxable income and also affects AMT investment income:

- Capital Gain and Loss – Alt Min
- 28% Rate Capital Gain/Loss – Alt Min
- Section 1231 and Casualty Gains and Losses – Alt Min
- Publicly Traded Partnerships
- Other Deferral Preferences
- Other Deferral Adjustments
- Other Exclusion Preferences
- Other Exclusion Adjustments

You may also need to take into account, on row 19 "Other Alternative Minimum Adjustments to Investment Income" of this worksheet, AMT adjustments to investment expenses taken into account in computing net investment income for regular tax purposes. For information on how the program computes net investment income for regular tax purposes, see the **Net Investment Income** worksheet on page 223.

NOTE 2

It appears that the IRS's position is that itemized deductions are allowed for alternative minimum purposes only if the taxpayer itemizes for regular tax purposes. Therefore, if the taxpayer's regular tax itemized deductions are not equal to or greater than the standard deduction, the program allows for AMT purposes only the taxpayer's Schedule E interest. The program treats the Schedule A portion as not allowed for AMT purposes and treats the portion that would have been allowed, had the taxpayer been itemizing, as lost, the same treatment that applies to Schedule A interest for regular tax purposes when the taxpayer does not itemize.

NOTE 3

Beginning with version 1993.4 of the program, the amount of investment income carried from the regular tax computation to this worksheet differs from the amount carried to this worksheet in prior versions. Prior versions carried regular tax net investment income to this worksheet, i.e., investment income reduced by all expenses, including itemized deduction expenses.

The current version of the program carries "regular tax income and gains" before expenses to rows 8, 10 and 12 of this worksheet and then carries

regular tax above the line (AGI) expenses to row 18 "Investment Expenses: Ordinary (Calculated)", thereby eliminating from the computation itemized deduction expenses that are not allowable for AMT purposes.

For files created with versions 1993.3 and earlier and loaded into this version, you may need to adjust the amount entered on row 19, if such amount contains the adjustment for itemized investment expenses now handled automatically by the program.

NOTE 4

The program follows the instructions to Form 6251, which were clarified in 2004, with regard to the amount of investment net capital gain elected to be treated as net investment income purposes pursuant to IRC § 163(d)(4)(B)(iii). See rows 15 and 16 above. Therefore, only in situations where there is less investment net capital gain for AMT purposes than there is for regular tax purposes will there be any difference between the amount of the election for AMT purposes and the amount for regular tax purposes. The program applies this approach to all years, including years before 2004. Further, the program assumes that the amount of qualified dividends elected to be treated as net investment income is the same for AMT as for regular tax purposes, since there are no AMT adjustments applied to such dividends by the program.

AMT CHARITABLE CONTRIBUTIONS ADJUSTMENT

AMT Charitable Contribution Adjustment

(1)	**AGI for Limits**
(2)	Adjustment to AGI for Limits
(3)	60% Charities:
(4)	**Regular Tax Cash - Current**
(5)	AMT Adjustment
(6)	AMT Cash Carryover - Entered
(7)	**AMT Cash Carryover - Computed**
(8)	**Total AMT Cash**
(9)	50% Charities
(10)	Regular Tax Cash - Current
(11)	AMT Adjustment
(12)	AMT Cash Carryover - Entered
(13)	**AMT Cash Carryover - Computed**
(14)	**Total AMT 50% Cash**
(15)	**Regular Tax Capital Gain Property - Current**
(16)	AMT Adjustment
(17)	AMT Capital Gain Carryover - Entered
(18)	**AMT Capital Gain Carryover - Computed**
(19)	**Total AMT Capital Gain Property**
(20)	30% Charities:
(21)	**Regular Tax Cash - Current**
(22)	AMT Adjustment
(23)	AMT Cash Carryover - Entered
(24)	**AMT Cash Carryover - Computed**
(25)	**Total AMT Cash**
(26)	**Regular Tax Capital Gain Property - Current**
(27)	AMT Adjustment
(28)	AMT Capital Gain Carryover - Entered
(29)	**AMT Capital Gain Carryover - Computed**
(30)	**Total AMT Capital Gain Property**
(31)	**Total AMT Charitable Before Conservation**
(32)	Nonfarm Conservation
(33)	**Regular Tax Current Year Nonfarm Conservation**
(34)	AMT Adjustment
(35)	Nonfarm Conservation Carryover – Entered
(36)	**AMT Nonfarm Conservation Carryover – Computed**
(37)	**Total AMT Nonfarm Conservation**
(38)	Farm Conservation
(39)	**Regular Tax Current Year Farm Conservation**
(40)	AMT Adjustment
(41)	AMT Farm Conservation Carryover – Entered
(42)	**AMT Farm Conservation Carryover – Computed**
(43)	**Total AMT Farm Conservation**
(44)	**Total AMT Charitable Before Qualified**
(45)	**Qualified Disaster Contributions**
(46)	**Qualified Contributions Allowed**
(47)	**Total AMT Charitable Deduction**
(48)	**Total Regular Tax Charitable Deduction**
(49)	**AMT Charitable Adjustment**

Caution! The Tax Reform Act of 1986, the Revenue Act of 1987, the TAMRA of 1988, and the Revenue Reconciliation Acts of 1989, 1990, and 1993, and other subsequent statutory changes, have raised numerous questions of interpretation concerning the AMT computation. At our date of publication, complete guidance from the Treasury or the IRS was not available with regard to many of these issues. This part of the manual explains how these questions

have been resolved as they relate to the charitable contributions deduction as computed for AMT purposes. You are cautioned to carefully examine the row descriptions for this worksheet and the Notes following those descriptions. Contact Bloomberg Tax Technology if you have any questions. Rely on our interpretations only if you agree with them.

(1) AGI for Limits (Calculated)

Adjusted gross income to be used for purposes of the IRC § 170 limits as applied for AMT purposes. The amount here is the sum of the first two rows of the regular tax **Charitable Contributions** worksheet.

(2) Adjustment to AGI for Limits

Any adjustment applicable to AGI, as computed on the row above, to be used for purposes of the IRC § 170 limits as applied for purposes of AMT charitable contribution deduction.

The amount computed on the previous row is either regular tax AGI, as adjusted on the regular tax **Charitable Contributions** worksheet.

Note. The regular tax NOL carryback should be adjusted out of regular tax AGI for purposes of the regular tax charitable contributions limits on the "Adjustment to AGI for Limits" row of the regular tax **Charitable Contributions** worksheet.

(3) 60% Charities

Heading for rows 4 through 7.

(4) Regular Tax Cash Current (60% Charities) (Calculated)

The amount from the "50% Charities: Cash – Current" row of the regular tax **Charitable Contributions** worksheet. See IRC § 170(b)(1)(G).

(5) AMT Adjustment (60% Charities – Cash)

Any adjustment applicable to current year cash contributions (and certain property contributions treated as cash) to charities described in IRC § 170(b)(1)(A) and qualifying under IRC § 170(b)(1)(G), as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet. Such adjustments may apply if, for example, the election under IRC § 170(e) is different for purposes of the AMT than for purposes of the regular tax, assuming such different elections are allowed.

(6) AMT Cash Carryover – Entered (60% Charities)

AMT cash contributions to IRC § 170(b)(1)(A) charities qualifying under IRC § 170(b)(1)(G) carried over to the year(s) being run because they exceeded AMT limitations in prior years. In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. Do not enter carryovers that are generated in the years being run.

(7) AMT Cash Carryover – Computed 60% Charities (Calculated)

AMT carryovers of cash contributions to 60% charities. See IRC § 170(b)(1)(G). Cash contributions are posted from the regular tax **Charitable Contributions** worksheet to the "Regular Tax Cash – Current (60% Charities)" row above and adjusted for AMT purposes on the "AMT Adjustment" row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row contains zeros.

(8) Total AMT Cash (60% Charities) (Calculated)

The total deduction allowed for AMT purposes for the year for the items on these rows, above:

- row 2 "Adjustment to AGI for Limits"
- row 4 "**Regular Tax Cash - Current**"
- row 5 "AMT Adjustment"
- row 6 "AMT Cash Carryover - Entered"
- row 7 "**AMT Cash Carryover - Computed**"

(9) 50% Charities

Heading for rows 10 through 18. 50% Charities are organizations subject to the limitations of IRC § 170(b)(1)(A).

(10) Regular Tax Cash – Current (50% Charities) (Calculated)

The amount from the 50% Charities: Cash - Current row of the regular tax Charitable Contributions worksheet.

(11) AMT Adjustment (50% Charities – Cash)

Any adjustment applicable to current year cash contributions (and certain property contributions treated as cash) to charities described in IRC § 170(b)(1)(A) as brought forward to this worksheet on the row above this one from the regular tax Charitable Contributions worksheet.

Such adjustments may apply if, for example, the election under IRC § 170(e) is different for purposes of the AMT than for purposes of the regular tax, assuming such different elections are allowed.

(12) AMT Cash Carryover – Entered (50% Charities)

AMT cash contributions to IRC § 170(b)(1)(A) charities carried over to the year(s) being run because they exceeded AMT limitations in prior years.

In multiple year situations enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. Do not enter carryovers that are generated in the years being run.

(13) AMT Cash Carryover – Computed (50% Charities) (Calculated)

AMT carryovers of cash contributions to 50% charities. Cash contributions are posted from the regular tax Charitable Contributions worksheet to the 50% Charities: Regular Tax Cash - Current row above and adjusted for AMT purposes on the AMT Adjustment row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row contains zeros.

(14) Total AMT Cash (50% Charities) (Calculated)

The total deduction allowed for AMT purposes for the year for the items on these rows, above:

- row 2 "Adjustment to AGI for Limits"
- row 10 "Regular Tax Cash - Current"
- row 11 "AMT Adjustment"
- row 12 "AMT Cash Carryover - Entered"
- row 13 "AMT Cash Carryover - Computed"

after application of the 50% limitation of IRC § 170(b)(1)(A). Note that the capital gain contributions these rows, below, may also use up part of the 50% limitation:

- row 15 "**Regular Tax Capital Gain Property - Current**"
- row 16 "AMT Adjustment"
- row 17 "AMT Capital Gain Carryover - Entered"
- row 18 "**AMT Capital Gain Carryover - Computed**"

(15) Regular Tax Capital Gain Property – Current (50% Charities) (Calculated)

The amount from the "50% Charities: Capital Gain Property – Current" row of the regular tax **Charitable Contributions** worksheet.

(16) AMT Adjustment (50% Charities – Capital Gain Property)

Any adjustment applicable to current year capital gain contributions to charities described in IRC § 170(b)(1)(A) as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet.

Include the IRC § 57(a)(6) (as in effect prior to the Revenue Reconciliation Act of 1993) preference (appreciation in capital gain property) as a negative for the years to which it applies. Additional adjustments to the regular tax amount may apply if, for example, the election under IRC § 170(e) is different for purposes of the AMT than for purposes of the regular tax, assuming such different elections are allowed.

(17) AMT Capital Gain Carryover – Entered (50% Charities)

Prior years' AMT capital gain property contributions to charities described in IRC § 170(b)(1)(A) carried over to the current year(s). Do not include capital gain contributions if the election to reduce the amount by the gain under § 170(e) has been made.

In multiple-year situations, enter the carryover in each year to which it can be carried. Do **not** enter carryovers that are generated in the years being run.

(18) AMT Capital Gain Carryover – Computed (50% Charities) (Calculated)

AMT carryovers of capital gain contributions to 50% charities. Capital gain contributions are posted from the regular tax **Charitable Contributions** worksheet to the "50% Charities: Regular Tax Cap Gain Prop – Current" row above and adjusted for AMT purposes on the "AMT Adjustment" row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row will contain zeros.

(19) Total AMT Capital Gain Property (50% Charities) (Calculated)

The total deduction allowed for the year for the items on these rows above:

- row 15 "**Regular Tax Capital Gain Property - Current**"
- row 16 "AMT Adjustment"
- row 17 "AMT Capital Gain Carryover - Entered"
- row 18 "**AMT Capital Gain Carryover - Computed**"

after application of the 50% and 30% limitations of IRC § 170(b)(1)(A) and (C).

(20) 30% Charities

Heading for rows 21 through 30, below. For the definition of 30% charities, see the regular tax **Charitable Contributions** worksheet on page 382.

(21) Regular Tax Cash – Current (30% Charities) (Calculated)

The amount from the "30% Charities: Cash – Current" row of the regular tax **Charitable Contributions** worksheet.

(22) AMT Adjustment (30% Charities – Cash)

Any adjustment applicable to current year cash contributions (and certain property contributions treated as cash) to charities described in IRC § 170(b)(1)(B) as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet. Such adjustments may apply if, for example, the election under IRC § 170(e) is different for purposes of the AMT than for purposes of the regular tax, assuming such different elections are allowed.

(23) AMT Cash Carryover – Entered (30% Charities)

AMT cash contributions to IRC § 170(b)(1)(B) charities carried over to the year(s) being run because they exceeded AMT limitations in prior years. In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. Do **not** enter carryovers that are generated in the years being run.

(24) AMT Cash Carryover – Computed (30% Charities) (Calculated)

AMT carryovers of cash contributions to 30% charities. Cash contributions are posted from the regular tax **Charitable Contributions** worksheet to the "30% Charities: Regular Tax Cash – Current" row above and adjusted for AMT purposes on the "AMT Adjustment" row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row contains zeros.

(25) Total – AMT Cash (30% Charities) (Calculated)

The total deduction allowed for AMT purposes for the year for the items on these rows above:

- row 21 "**Regular Tax Cash - Current**"
- row 22 "AMT Adjustment"

- row 23 "AMT Cash Carryover - Entered"
- row 24 "**AMT Cash Carryover - Computed**"

after application of the 30% limitation of IRC § 170(b)(1)(B).

(26) Regular Tax Capital Gain Property – Current (30% Charities) (Calculated)

The amount from the "30% Charities: Capital Gain Property – Current" row of the regular tax **Charitable Contributions** worksheet.

(27) AMT Adjustment (30% Charities – Capital Gain Property)

Any adjustment applicable to current year capital gain contributions to charities described in IRC § 170(b)(1)(B) as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet.

Include the IRC § 57(a)(6) (as in effect prior to the Revenue Reconciliation Act of 1993) preference (appreciation in capital gain property) as a negative for the years to which it applies. Additional adjustments to the regular tax amount may apply if, for example, the election under IRC § 170(e) is different for AMT purposes than for regular tax purposes, assuming such different elections are allowed.

(28) AMT Capital Gain Carryover – Entered (30% Charities)

Prior years' AMT capital gain property contributions to charities described in IRC § 170(b)(1)(B) carried over to the current year(s). Do not include capital gain contributions if the election to reduce the amount by the gain under IRC § 170(e) has been made.

In multiple-year situations, enter the carryover in each year to which it can be carried. Do **not** enter carryovers that are generated in the years being run.

(29) AMT Capital Gain Carryover – Computed (30% Charities) (Calculated)

AMT carryovers of capital gain contributions to 30% charities. Capital gain contributions are posted from the regular tax **Charitable Contributions** worksheet on the "30% Charities: Regular Tax Cap Gain Prop – Current" row above and adjusted for AMT purposes on the "AMT Adjustment" row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row will contain zeros.

(30) Total AMT Capital Gain Property (30% Charities) (Calculated)

The total deduction allowed for AMT purposes for the year for the items on these rows above:

- row 26 "**Regular Tax Capital Gain Property - Current**"
- row 27 "AMT Adjustment"
- row 28 "AMT Capital Gain Carryover - Entered"
- row 29 "**AMT Capital Gain Carryover - Computed**"

after application of the 30% and 20% limitations of IRC § 170(b)(1)(B) and (D).

(31) Total AMT Charitable Before Conservation (Calculated)

The total IRC § 170 deduction for the year as computed for AMT purposes, before conservation contributions and qualified disaster contributions are taken into account. Conservation and qualified contributions are computed on the rows below and subject to special treatment.

(32) Nonfarm Conservation (Blank)

Heading for rows 33 through 37 below.

(33) Regular Tax Current Year Nonfarm Conservation (Calculated)

The amount from the Current Year Nonfarm Conservation row of the regular tax **Charitable Contributions** worksheet.

For years before 2006, this row will contain N/A.

(34) AMT Adjustment (Nonfarm Conservation)

Any adjustment applicable to current year nonfarm conservation contributions as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet.

For years before 2006, this row will contain N/A.

(35) AMT Nonfarm Conservation Carryover – Entered

AMT nonfarm conservation contributions carried over to the year(s) being run because they exceeded AMT limitations in prior years.

In multiple year situations enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. Do not enter carryovers that are generated in the years being run.

For years before 2007, this row will contain N/A.

(36) AMT Nonfarm Conservation Carryover – Computed (Calculated)

AMT carryovers of nonfarm conservation contributions. Nonfarm conservation contributions are posted from the regular tax **Charitable Contributions**

worksheet to the "Regular Tax Current Year Nonfarm Conservation" row above and adjusted for AMT purposes on the AMT Adjustment row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row contains zeros.

For years before 2006, this row will contain N/A.

(37) Total AMT Nonfarm Conservation (Calculated)

The total nonfarm conservation deduction allowed for AMT purposes for the year for the items on rows 33–36, above, after application of the 50% limitation of IRC § 170(b)(1)(E).

For years before 2006, this row will contain N/A.

(38) Farm Conservation (Blank)

Heading for rows 39 through 42 below.

For years before 2006, this row will contain N/A.

(39) Regular Tax Current Year Farm Conservation (Calculated)

The amount from the "Current Year Farm Conservation" row of the regular tax **Charitable Contributions** worksheet.

For years before 2006, this row will contain N/A.

(40) AMT Adjustment (Farm Conservation)

Any adjustment applicable to current year farm conservation contributions as brought forward to this worksheet on the row above this one from the regular tax **Charitable Contributions** worksheet.

For years before 2006, this row will contain N/A.

(41) AMT Farm Conservation Carryover – Entered

AMT farm conservation contributions carried over to the year(s) being run because they exceeded AMT limitations in prior years.

In multiple year situations enter the carryover in each year to which it can be carried. The program will keep track of how it is used up. Do not enter carryovers that are generated in the years being run.

For years before 2007, this row will contain N/A.

(42) AMT Farm Conservation Carryover – Computed (Calculated)

AMT carryovers of farm conservation contributions. Farm conservation contributions are posted from the regular tax **Charitable Contributions** worksheet to the "Regular Tax Current Year Farm Conservation" row above and adjusted

for AMT purposes on the "AMT Adjustment" row. The carryover on this row appears in the column for the year to which it is carried. In one-year situations, this row contains zeros.

For years before 2006, this row will contain N/A.

(43) Total AMT Farm Conservation (Calculated)

The total farm conservation deduction allowed for AMT purposes for the year for the items on rows 39–42, above, after application of the limitation of IRC § 170(b)(1)(E).

For years before 2006, this row will contain N/A.

(44) Total AMT Charitable Before Qualified (Calculated)

The total IRC § 170 deduction for the year as computed for AMT purposes, before qualified disaster contributions are taken into account. Qualified contributions are computed on the rows below and subject to special treatment, **but only in 2005, 2006, 2008, 2009, 2017, 2018, 2019, 2020, and 2021**.

For years before 2006 and for 2010 through 2016, this row will contain N/A.

(45) Qualified Disaster Contributions (Calculated)

The amount from the "Qualified Disaster Contributions" row of the regular tax **Charitable Contributions** worksheet.

For years other than 2005, 2006, 2008, 2009, 2017, 2018, 2019, 2020, and 2021, this row will contain N/A.

(46) Qualified Contributions Allowed (Calculated)

The total current year deduction allowed for qualified disaster contributions from row 45 above, after application of the 100% limit, as computed for AMT purposes.

For years other than 2005, 2006, 2008, 2009, 2017, 2018, 2019, 2020, and 2021, this row will contain N/A.

(47) Total AMT Charitable Deduction (Calculated)

The sum of rows 44 and 46, above.

(48) Total Regular Tax Charitable Deduction (Calculated)

The amount from the "Charitable Contributions" row of the regular tax **Itemized Deductions** worksheet. If the taxpayer's standard deduction for the year for regular tax purposes is greater than or equal to his total regular tax itemized deductions, this row is zero.

(49) AMT Charitable Adjustment (Calculated)

Row 47 "**Total AMT Charitable Deduction**" minus row 48 "**Total Regular Tax Charitable Deduction**" above, expressed as a negative. If the taxpayer's standard deduction for the year for regular tax purposes is greater than or equal to his total regular tax itemized deductions, this row is zero. The amount on this row is posted back to the "Charitable Contributions Adjustments" row of the **Alternative Minimum Tax** worksheet.

NOTE 1

For further information on how to enter amounts on this worksheet and how the program computes the charitable contribution limitations, see the notes following the regular tax **Charitable Contributions** worksheet on page 382.

NOTE 2

The program does **not** automatically post the regular tax charitable contributions carryovers to this worksheet, since AMT carryovers may be different. Therefore, carryovers must be separately entered on the carryover rows of this worksheet.

NOTE 3

The program considers the adjustment computed on this worksheet to be an exclusion adjustment for purposes of computing the minimum tax credit. That is, the amount described in IRC § 53(d)(1)(B)(i)(II) is computed with regard to this adjustment.

CAPITAL GAIN/LOSS – ALT MIN

Capital Gain/Loss – Alt Min

(1)	Short-term Passive Gain or Loss
(2)	Short-term Pub Trade Partnership Gain or Loss
(3)	**Short-term Gain/Loss – Other**
(4)	Short-term Loss Carryover
(5)	AMT Adjs to Short-term Gain or Loss
(6)	2003 Post 5/5 Net Short-term Gain or Loss
(7)	**Net Short-term Gain or Loss**
(8)	
(9)	Long-term Passive Gain or Loss
(10)	Long-term Pub Trdd Partnership Gain or Loss
(11)	Section 1231 Unrecaptured Section 1250 Gain (25%)
(12)	Other Section 1231 Long-term Gain
(13)	**Other Unrecaptured Section 1250 Gain (25%): Regular Tax**
(14)	AMT Adjustments to Other Unrecaptured Section 1250 Gain
(15)	**5-Year Gain <2001: Regular Tax**
(16)	AMT Adjustments to <2001 5-Year
(17)	**5-Year Gain >2000: Regular Tax**
(18)	AMT Adjustments to >2000 5-Year
(19)	**Other Long-term Gain or Loss: Regular Tax**
(20)	AMT Adjustments to Other Long-term Gain or Loss
(21)	28% Rate Gain or Loss
(22)	2003 Post 5/5 Net Long-term Gain or Loss
(23)	**Net Long-term Gain or Loss**
(24)	**Total Capital Gain or Loss**
(25)	**Net Capital Gain**
(26)	**Total 28% Gain or Loss**
(27)	**Net Short-term Loss**
(28)	**Net 28% Rate Gain**
(29)	**Total Unrecaptured Section 1250 Gain**
(30)	**Total Short-term & 28% Losses**
(31)	**Net Unrecaptured Section 1250 Gain**
(32)	
(33)	**Capital Loss Deduction**

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(1) Short-Term Passive Gain or Loss

Net short-term gain or loss from passive activities and MAPRRA as computed with alternative minimum adjustments and after application of the AMT passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA – Alt Min** worksheet.

(2) Short-Term Publicly Traded Partnership Gain or Loss

Net short-term gain or loss from PTPs as computed with alternative minimum adjustments and preferences, and after application of the AMT PTP limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alt Min** worksheet.

(3) Short-Term Gain or Loss – Other (Calculated)

If the regular tax **Capital Gains and Losses** worksheet is active, this is the sum of rows 1, 2, 3, 8, 9, and 10 on that worksheet. Otherwise, this is the amount from the "Net Short-Term Capital Gain/Loss" row of the **Main Worksheet**. Generally, this represents all current year short-term capital gains and losses from the regular tax computation other than those from passive activities and publicly traded partnerships which are separately computed for AMT purposes on row 1 "Short-Term Passive Gain or Loss" and row 2 "Short-Term Publicly Traded Partnership Gain or Loss".

(4) Short-Term Loss Carryover

Carryover from prior years of net short-term capital loss in excess of net long-term capital gain for purposes of the alternative minimum tax. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns.

If the regular **Capital Gains and Losses** worksheet is not active, so that capital loss carryovers are not computed for regular tax purposes, the program does not compute the carryovers here either.

Note. Short-term capital loss carryovers must be separately entered for regular tax and AMT purposes.

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(5) Alternative Minimum Tax Adjustments to Short-Term Gain or Loss

Adjustments to the amount computed on row 3 "Short-Term Gain or Loss – Other (Calculated)", above, for purposes of the alternative minimum tax. Include adjustments caused by different depreciation rules and different treatment of Incentive Stock Options. See IRC § 56.

Adjustments related to 2003 post 5/5 gains and losses should be entered on the **2003 Post 5/5 Capital Gain/Loss – AMT** worksheet and **not** on this worksheet.

Do not include adjustments applicable to passive activities or PTPs. Instead, enter such adjustments on the worksheets for these types of activities and items.

(6) 2003 Post 5/5 Net Short-term Gain/Loss

For 2003, total net short-term gain or loss from transactions after 5/5/03 as computed for AMT purposes. See Section 301 of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

No entry may be made on this row. To enter the data and have the program compute the amount, press W to access the **2003 Post 5/5 Capital Gains and Losses – Alt Min** worksheet.

(7) Net Short-Term Gain or Loss (Calculated)

The sum of rows 1 through 6, above.

(8) (Blank)

(9) Long-Term Passive Gain or Loss

Net long-term gain or loss (other than 28% rate gain or loss) from passive activities and MAPRRA as computed with alternative minimum adjustments and after application of the AMT passive activity limitations.

No entry may be made on this row. Instead, press W to access the **Passive & MAPRRA – Alt Min** worksheet.

(10) Long-Term Publicly Traded Partnership Gain or Loss

Net long-term gain or loss (other than 28% rate gain or loss) from publicly traded partnerships computed with alternative minimum adjustments and after application of the AMT PTP limitations.

No entry may be made on this row. Instead, press W to access the **Publicly Traded Partnerships – Alt Min** worksheet.

(11) Section 1231 Unrecaptured Section 1250 Gain (25%)

Section 1231 unrecaptured section 1250 gain, computed with alternative minimum tax adjustments.

No entry may be made here. Instead, press W to access the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet.

(12) Other Section 1231 Long-term Capital Gain

Section 1231 net gain (other than unrecaptured section 1250 gain and 28% rate gain or loss) computed with alternative minimum adjustments and treated as long-term capital gain or loss because AMT Section 1231 gains exceed AMT Section 1231 losses for the year.

No entry may be made here. Instead, press W to access the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet.

(13) Other Unrecaptured Section 1250 Gain (25%) – Regular Tax (Calculated)

If the regular tax **Capital Gains and Losses** worksheet is active, this is the sum of rows 21, 22, 23, and 56 on that worksheet. Otherwise, this row is 0.

(14) AMT Adjustments to Other Unrecaptured Section 1250 Gain

AMT adjustments to unrecaptured section 1250 gain carried to this worksheet from the regular tax **Capital Gains and Losses** worksheet. Such adjustments arise due to different bases for assets for AMT and regular tax purposes. Include adjustments caused by different depreciation rules. See IRC § 56.

Do not include adjustments applicable to passive activities, PTPs or Section 1231 unrecaptured section 1250 gain. Instead, enter such adjustments on the worksheets for these types of activities and items.

Note, however, that any AMT adjustment to amounts entered on the Adjustment to Unrecaptured Section 1250 Gain row of the regular tax **Capital Gains and Losses** worksheet should be entered here. Note further that any adjustment entered here changes total AMT Capital Gain or Loss. Therefore, if an AMT adjustment has been entered elsewhere, e.g., as a passive activity adjustment to Other Capital Gain and the entry here is designed to merely change its classification from Other Capital Gain to Pre-2001 Qualified 5-Year, an offsetting entry should be made below on row 20 "AMT Adjustments to Other Long-Term Capital Gain or Loss".

(15) 5-Year Gain Purchased Pre-2001: Regular Tax (Calculated)

If the regular tax **Capital Gains and Losses** worksheet is active, this is the sum of rows 21, 22, 23 and 56 on that worksheet. Otherwise, this row is zero.

For years before 2001, this row will be N/A.

(16) AMT Adjustments to Pre-2001 5-Year

AMT adjustments to Pre-2001 Qualified 5-Year gain carried to this worksheet from the regular tax **Capital Gains and Losses** worksheet. Such adjustments arise due to different bases for assets for AMT and regular tax purposes. Include adjustments caused by different depreciation rules. See IRC § 56.

The amount of any adjustment entered here changes total AMT Capital Gain or Loss. Therefore, if an AMT adjustment has been entered elsewhere, e.g., as a passive activity adjustment to Other Capital Gain and the entry here is designed to merely change its classification from Other Capital Gain to Pre-2001 Qualified 5-Year, an offsetting entry should be made below on row 20 "AMT Adjustments to Other Long-Term Capital Gain or Loss".

(17) 5-Year Gain Purchased Post-2000: Regular Tax

If the regular tax **Capital Gains and Losses** worksheet is active, this is the sum of rows 28 and 62 on that worksheet. Otherwise, this row is zero.

For years before 2001, this row will be N/A.

(18) AMT Adjustments to Post-2000 5-Year

AMT adjustments to Post-2000 Qualified 5-Year gain carried to this worksheet from the regular tax **Capital Gains and Losses** worksheet. Such adjustments arise due to different bases for assets for AMT and regular tax purposes. Include adjustments caused by different depreciation rules. See IRC § 56.

The amount of any adjustment entered here changes total AMT Capital Gain or Loss. Therefore, if an AMT adjustment has been entered elsewhere, e.g., as a passive activity adjustment to Other Capital Gain and the entry here is designed to merely change its classification from Other Capital Gain to Post-2000 Qualified 5-Year, an offsetting entry should be made below on row 20 "AMT Adjustments to Other Long-Term Capital Gain or Loss".

(19) Other Long-Term Gain or Loss – Regular Tax (Calculated)

If the regular **Capital Gains and Losses** worksheet is active, this row is the sum of the following rows on that worksheet:

- Other Capital Gain Dividends
- Other Long-Term Investment Gain/Loss
- Other Long-Term Investment Gain/Loss – Individual Activities
- Other Long-Term Investment Gain/Loss – Security Transaction Analyzer
- Child's Capital Gain Dividend: Parent's Return
- Sale of Pass Through Long Term Gain Investment or Loss
- Active Trade or Business Long Term Gain or Loss
- Long-Term Gain – Lump Sum
- Long-Term Gain Sale of Residence
- Long-Term Gain/Loss – Other
- Long-Term Gain/Loss – Other – Individual Activities

From this total is subtracted the sum of rows 56, 62, and 65 of the regular **Capital Gains and Losses** worksheet, which are included on rows 13, 15, and 17 of this worksheet.

If the regular worksheet is not active, this is the amount on the "Net Long-Term Gain or Loss" row of the **Main Worksheet**.

Generally, this represents all long-term capital gains and losses from the regular tax computation other than qualified 5-year gain and unrecaptured section 1250 gain and other than gain or loss from passive activities, publicly traded partnerships, and Section 1231 net gain, which are separately computed for AMT purposes on the following rows of this worksheet:

- row 9 "Long-Term Passive Gain or Loss"
- row 10 "Long-Term Publicly Traded Partnership Gain or Loss"
- row 11 "Section 1231 Unrecaptured Section 1250 Gain (25%)"
- row 12 "Other Section 1231 Long-term Capital Gain".

(20) AMT Adjustments to Other Long-Term Capital Gain or Loss

AMT long-term adjustments (other than those relating to unrecaptured section 1250 gain, qualified 5-year gain, or 28% rate gain or loss) that arise due to different bases for assets for AMT and regular tax purposes. Include adjustments caused by different depreciation rules and different treatment of Incentive Stock Options. See IRC § 56.

Adjustments related to 2003 post 5/5 gains and losses should be entered on the **2003 Post 5/5 Capital Gain/Loss – AMT** worksheet and **not** on this worksheet.

Do not include adjustments applicable to passive activities, PTPs, or Section 1231 gains and losses. Instead, enter such adjustments on the worksheets for these types of activities and items.

(21) 28% Rate Gain or Loss

Total net 28% rate capital gain or loss as computed for AMT purposes. Included are collectibles gains and losses and small business stock gain. See IRC § 1(h).

No entry may be made here. To have the program compute the appropriate limitations, press W for the **28% Capital Gain/Loss – Alt Min** worksheet.

(22) 2003 Post 5/5 Net Long-term Gain/Loss

For 2003, total net long-term gain or loss from transactions after 5/5/03 as computed for AMT purposes. See Section 301 of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

No entry may be made on this row. To enter the data and have the program compute the amount, press W to access the **2003 Post 5/5 Capital Gains and Losses – Alt Min** worksheet.

(23)   Net Long-Term Gain or Loss (Calculated)

The sum of these rows, above:

- row 9 "Long-Term Passive Gain or Loss"
- row 10 "Long-Term Publicly Traded Partnership Gain or Loss"
- row 11 "Section 1231 Unrecaptured Section 1250 Gain (25%)"
- row 12 "Other Section 1231 Long-term Capital Gain"
- row 13 "Other Unrecaptured Section 1250 Gain (25%) – Regular Tax (Calculated)"
- row 14 "AMT Adjustments to Other Unrecaptured Section 1250 Gain"
- row 15 "5-Year Gain Purchased Pre-2001: Regular Tax (Calculated)"
- row 16 "AMT Adjustments to Pre-2001 5-Year"
- row 17 "5-Year Gain Purchased Post-2000: Regular Tax"
- row 18 "AMT Adjustments to Post-2000 5-Year"
- row 19 "Other Long-Term Gain or Loss – Regular Tax (Calculated)"
- row 20 "AMT Adjustments to Other Long-Term Capital Gain or Loss"
- row 21 "28% Rate Gain or Loss"
- row 22 "2003 Post 5/5 Net Long-term Gain/Loss"

(24)   Total Capital Gain or Loss (Calculated)

The sum of row 7 "Net Short-Term Gain or Loss (Calculated)" and row 23 "Net Long-Term Gain or Loss (Calculated)".

(25)   Net Capital Gain (Calculated)

The excess of the gain on row 23 over the loss (if any) on row 7.

(26)   Total 28% Rate Gain or Loss (Calculated)

The amount from row 21, above.

(27)   Net Short-Term Loss (Calculated)

The loss (if any) from row 7, above.

(28)   Net 28% Rate Gain (Calculated)

The excess of the gain (if any) on row 26 over the loss on row 27.

(29) Total Unrecaptured Section 1250 Gain (Calculated)

The sum of rows 11, 13 and 14, above.

(30) Total Short-Term and 28% Rate Losses (Calculated)

The net loss (if any) resulting from combining rows 26 and 27, above.

(31) Net Unrecaptured Section 1250 Gain (Calculated)

Row 29 reduced (but not below zero) by the loss on row 30.

(32) (Blank)

(33) Capital Loss Deduction (Calculated)

The allowable deduction for net capital loss. The program recomputes the capital loss deduction for alternative minimum tax purposes in accordance with the adjustments entered here.

In multiple-year situations, if the regular tax **Capital Gains and Losses** worksheet is active, the program carries over excess losses to future years on the "Short-Term Loss Carryover" and "Long-Term Loss Carryover" rows of this worksheet.

NOTE 1

The program does not perform a complete recomputation of investment income for AMT investment interest purposes. Instead, the program uses regular tax investment income subject to user adjustment. As a result, the program does not require the elements necessary to reconstruct investment income such as those on the counterpart to this worksheet for regular tax purposes. See **NOTE 2** on page 464.

NOTE 2

In applying the carryover limitation rules of IRC § 1212(b)(2) to alternative minimum capital loss carryovers, the program uses alternative minimum taxable income instead of regular taxable income.

2003 POST 5/5 CAPITAL GAIN/LOSS – AMT

2003 Post 5/5 Capital Gain/Loss – Alt Min

(1)	**Short-term Post 5/5/03: Regular Tax**
(2)	AMT Adjustments
(3)	**AMT Post 5/5/03 Net Short-term Gain/Loss**
(4)	**Long-term Post 5/5/03 Regular Tax**
(5)	AMT Adjustments
(6)	**AMT Post 5/5/03 Net Long-term Gain/Loss**
(7)	**Total AMT Post 5/5/03 Capital Gain/Loss**
(8)	
(9)	**AMT Post 5/5/03 Net Capital Gain**
(10)	**Regular Tax Adj to Post 5/5/03 Short-term Gain/Loss**
(11)	Additional AMT Adjustment to Post 5/5/03 Short-term
(12)	**Regular Tax Adj to Post 5/5/03 Long-term Gain/Loss**
(13)	Additional AMT Adjustment to Post 5/5/03 Long-term
(14)	**AMT Post 5/5/03 NCG – Adjusted**

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(1) Short-term Post 5/5/03: Regular Tax (Calculated)

The amount from the "Post 5/5/03 Net Short-term Gain/Loss" row of the regular tax **2003 Post 5/5 Capital Gains and Losses** worksheet.

(2) AMT Adjustments

Alternative minimum tax adjustments to the amount computed by the program on the row above.

Note. If the full year amount of a 2003 short-term gain or loss AMT adjustment has been entered elsewhere in the program, i.e. as a passive activity item, do **not** adjust for the post 5/5/03 portion here. Instead use row 11 "Additional AMT Adjustment to Post 5/5/03 Short-term" below.

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(3) AMT Post 5/5/03 Net Short-term Gain/Loss (Calculated)

The sum of rows 1 and 2, above.

(4) Long-term Post 5/5/03 Regular Tax (Calculated)

The amount from the "Post 5/5/03 Net Long-term Gain/Loss" row of the regular tax **2003 Post 5/5 Capital Gains and Losses** worksheet.

(5) AMT Adjustments

Alternative minimum tax adjustments to the amount computed by the program on the row above.

> **Note.** If the full year amount of a 2003 long-term gain or loss AMT adjustment has been entered elsewhere in the program, i.e. as a passive activity item, do **not** adjust for the post 5/5/03 portion here. Instead use row 13 "Additional AMT Adjustment to Post 5/5/03 Long-term" below.

(6) AMT Post 5/5/03 Net Long-term Gain/Loss (Calculated)

The sum of rows 4 and 5 above.

(7) Total AMT Post 5/5/03 Capital Gain/Loss

The sum of rows 3 and 6 above.

(8) (Blank)

(9) AMT Post 5/5/03 Net Capital Gain (Calculated)

The excess of the gain on row 6 over the loss on row 3.

(10) Regular Tax Adjustment to Post 5/5/03 Short-term Gain/Loss (Calculated)

The amount from the "Adjustment to Post 5/5/03 Short-term" row of the regular tax **2003 Post 5/5 Capital Gains and Losses** worksheet.

(11) Additional AMT Adjustment to Post 5/5/03 Short-term

Alternative minimum tax adjustments to the amounts computed by the program on rows 3 and 10.

Use this row to reclassify as post 5/5 gain or loss any full year short-term gain or loss AMT adjustment entered elsewhere in the program. For example, the full year amount of a short-term passive activity gain, including any AMT adjustment entered on the **Passive Activity Items** worksheet, will be posted by the program to the **AMT Capital Gains and Losses** worksheet. To the extent that part of such AMT adjustment is properly attributable to the portion of the taxable year on or after 5/6/03, enter the amount here. The amount entered here does **not** increase the total gain included in AMT Net Capital Gain or in AMT taxable income. It merely reclassifies such amount as post 5/5/03 instead of pre 5/6/03.

(12) Regular Tax Adjustment to Post 5/5/03 Long-term Gain/Loss (Calculated)

The amount from the "Adjustment to Post 5/5/03 Long-term" row of the regular tax **2003 Post 5/5 Capital Gains and Losses** worksheet.

(13) Additional AMT Adjustment to Post 5/5/03 Long-term

Any adjustment required to the amount computed by the program on rows 6 and 12 above. Use this row to reclassify as post 5/5 gain or loss any full year long-term gain or loss AMT adjustment entered elsewhere in the program (other than adjustments of unrecaptured section 1250 gain, collectibles gain or loss, or Section 1202 gain). For example, the full year amount of a long-term passive activity gain, including any AMT adjustment entered on the **Passive Activity Items** worksheet, will be posted by the program to the **Capital Gains and Losses – Alt Min** worksheet. To the extent that part of such gain is properly attributable to the portion of the taxable year on or after 5/6/03, enter the amount here. Similarly, a Section 1231 gain, including any AMT adjust-ments entered on the **Section 1231 & Casualty G/L – Alt Min** worksheet, will be posted by the program (if AMT section 1231 gains exceed losses) to the **Capital Gain/Loss – Alt Min** worksheet. Use this row to enter any part of such AMT adjustment properly attributable to the portion of the year on or after 5/6/03. The amount entered here does not increase the total gain included in AMT Net Capital Gain or in AMT taxable income. It merely reclassifies such amount as post 5/5/03 instead of pre 5/6/03.

(14) AMT Post 5/5/03 Net Capital Gain – Adjusted (Calculated)

The excess of the gain computed as the sum of rows 3, 10 and 11 above over the loss computed as the sum of rows 6, 12, and 13.

28% RATE CAPITAL GAIN/LOSS – AMT

28% Rate Capital Gain/Loss – Alt Min
(1) Passive Activity Gain or Loss (2) Publicly Traded Partnership G/L (3) Section 1231 Gain (4) **Other 28% Rate Gain or Loss** (5) AMT Adjs to 28% Rate G/L (6) Long-term Loss Carryover (7) **Total AMT 28% Rate Gain/Loss**

(1) Passive Activity Gain or Loss

Net 28% rate gain or loss from passive activities and MAPRRA computed with alternative minimum adjustments and after application of the AMT passive activity limitations. No entry may be made on this row. Instead, press W for the **Passive & MAPRRA Income/Loss – Alt Min** worksheet.

(2) Publicly Traded Partnership Gain or Loss

Net 28% rate gain or loss from PTPs computed with alternative minimum adjustments and after application of the AMT PTP limitations. No entry may be

made on this row. Instead, press W for the **Publicly Traded Partnerships – Alt Min** worksheet.

(3) Section 1231 Gain

The 28% rate portion of Section 1231 gain or loss from trade or business assets, computed with alternative minimum adjustments, which is treated as capital gain or loss because AMT Section 1231 gains exceed AMT Section 1231 losses for the year.

No entry may be made on this row. Instead, press W for the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet to enter the details and have the program compute and distribute the items of gain and loss among ordinary income, the various capital gain and loss categories, and itemized casualty loss.

(4) Other 28% Rate Gain/Loss (Calculated)

If the regular **Capital Gains and Losses** worksheet is active, this row is the sum of the following rows on that worksheet:

- Collectibles Gain/Loss: Investment
- Qualified Small Business Stock Gain
- Capital Gain Dividends
- Other 28% Rate Investment Gain/Loss
  - Individual Activities
  - Security Transaction Analyzer
- Child's Capital Gain Dividends: Parent's Return
- Collectibles Gain or Loss: Non Investment
- Other 28% Rate Gain or Loss
  - Individual Activities

If the regular **Capital Gains and Losses** worksheet is not active, then this row will be zero.

(5) AMT Adjustments to 28% Rate Gain or Loss

AMT adjustments to 28% rate gain or loss arising due to different bases for assets for AMT and regular tax purposes. Include adjustments caused by different depreciation rules and different treatment of Incentive Stock Options. See IRC § 55 and 1(h).

Do not include adjustments applicable to passive activities, PTPs, or Section 1231 net gain. Instead, enter such adjustments on the worksheets for these types of activities and items.

(6) Long-term Loss Carryover

Carryover to 1997 and subsequent years of prior years' net long-term capital loss in excess of net short-term capital gain for alternative minimum purposes. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. Enter AMT long-term loss carryovers to 1996 and prior years on the **Capital Gain/Loss – Alt Min** worksheet, not on this worksheet.

Note. Long-term capital loss carryovers must be separately entered for regular and alternative minimum purposes.

(7) Total AMT 28% Rate Gain/Loss (Calculated)

The sum of rows 1 through 6, above.

PASSIVE & MAPRRA INCOME/LOSS – AMT

Passive & MAPRRA – Alt Min
(1)   Individual Activities
(2)   **Real Estate Income/Loss**
(3)   **Other Passive Income/Loss**
(4)   **Total Passive Income/Loss**
(5)   Real Estate Exemption
(6)   **Exemption Used**
(7)   **Balance After Exemption**
(8)   **Net Income/Loss Before**
(9)   **Year of Sale Items**
(10) **Year of Sale Loss Allowed**
(11) **MAPRRA Income/Loss Allowed**
(12) **Total Income/Loss Allowed**
(13) **Allocated to**
(14)   Ordinary Income/Loss
(15)   § 1231 Unrecap § 1250 Gain(25%)
(16)   § 1231 28% Rate Gain/Loss
(17)   Other § 1231 Gain/Loss
(18)   Ordinary Property Disposition Gain/Loss
(19)   Short-term Capital Gain/Loss
(20)   28% Rate Capital Gain/Loss
(21)   Other Long-term Capital Gain/Loss
(22)   Unrecaptured § 1250 Casualty Gain
(23)   Other Casualty Gain/Loss
(24) **Losses Carried to Next Year**

Note. This worksheet applies only to activities that are not publicly traded partnerships. See also the caution message for the regular tax **Passive & MAPRRA Income/Loss** worksheet on page 192 and the Notes for that worksheet starting on page 199.

(1) Individual Activities

You must access the **Individual Activity** worksheets. These **Individual Activity** worksheets are the only method for entering passive activity income and loss items.

(2) Real Estate Income or Loss (Calculated)

The sum of all items of passive activity income and loss as computed for AMT purposes for activities that are active participation rental real estate (see IRC § 469(i)). (All items of passive income and loss are entered through the **Individual Activity** worksheets accessed from row 1 above.) Included are all prior year unallowed losses as computed for AMT purposes carried to the current year.

For activities sold during the year, this row includes passive income and loss items for activities that have a net passive gain in the year of sale as computed for AMT purposes but not activities that have a net passive loss in the year of sale. See IRC § 469(g)(1)(A). For this purpose, the program includes AMT prior year unallowed losses carried to the current year in the computation of net gain or loss.

(3) Other Passive Income or Loss (Calculated)

The sum of all items of passive activity income and loss as computed for AMT purposes for activities that are not active participation rental real estate (see IRC § 469(i)). (All items of passive income and loss are entered through the **Individual Activity** worksheets accessed from row 1 above.) Included are all prior year unallowed losses as computed for AMT purposes carried to the current year.

For activities sold during the year, this row includes passive income and loss items for activities that have a net passive gain in the year of sale as computed for AMT purposes but not activities that have a net passive loss in the year of sale. See IRC § 469(g)(1)(A). For this purpose, the program includes AMT prior year unallowed losses carried to the current year in the computation of net gain or loss.

(4) Total Passive Income or Loss (Calculated)

The sum of row 2 (Real Estate Income/Loss) and row 3 (Other Passive Income/Loss), above.

(5) Real Estate Exemption

No entry may be made on this row. Press W to access the **Real Estate Exemption – Alt Min** worksheet (this worksheet is always active). The $25,000 exemption for rental real estate passive activities in which the taxpayer actively participated is posted here from that worksheet. See IRC § 469(i).

For married filing separately, the exemption is $12,500 ($0 if the taxpayer lived with his spouse at any time during the taxable year). This latter item of information is provided on the **Filing Status** worksheet. The default is assumed to be lived apart at all times.

The exemption is automatically phased out in accordance with the formula in IRC § 469(i)(3), which is based on Modified Adjusted Gross Income. See NOTE 5 for the regular tax **Passive & MAPRRA Income/Loss** worksheet on page 192 and the description for row 5 "Real Estate Exemption" of that worksheet on page 194.

(6) Exemption Used (Calculated)

The amount of the exemption used by "active" real estate losses, i.e., the lesser of row 5 "Real Estate Exemption" or row 2 "Real Estate Income or Loss (Calculated)", above.

For this purpose, row 2 refers to the negative amount in row 2. That is, if row 2 is a positive amount, no real estate exemption is needed or allowed. Also for this purpose, row 2 is limited to the negative total in row 4 "Total Passive Income or Loss (Calculated)".

(7) Balance After Exemption (Calculated)

Row 5 "Real Estate Exemption" minus row 6 "Exemption Used (Calculated)", above.

(8–9) Net Income or Loss Before Year of Sale Items (Calculated)

If the amount in row 4 "Total Passive Income or Loss (Calculated)" is a loss, the row 6 "Exemption Used (Calculated)" amount will be shown here. If row 4 is a gain, the row 4 amount will appear here.

(10) Year of Sale Loss Allowed (Calculated)

The sum of all items of passive activity income and loss for activities sold during the year that have a net passive loss in the year of sale as computed for AMT purposes. See IRC § 469(g)(1)(A). For this purpose, the program includes AMT prior year unallowed losses carried to the current year in the computation of net gain or loss.

(11) MAPRRA Income or Loss Allowed (Calculated)

This row is the sum of all items of MAPRRA (material participation rental real estate) income and loss computed on an AMT basis that are allowed to real estate professionals. See **NOTE 9** of the regular tax **Passive & MAPRRA Income/Loss** worksheet on page 202 for how the program computes the amount on this row.

(12) Total Income or Loss Allowed (Calculated)

The sum of rows 8–9, 10 and 11.

(13) Allocated to

Heading for rows 14 through 23.

No entry may be made on these rows. If you've entered information for one (or more) of these rows through the **Individual Activities** worksheets (accessed from row 1 above), you can view the summary worksheet for the row (showing the amount of the item allowed for each activity) by pressing W (or double-clicking on the amount). To access the **Individual Activities** worksheet, press W (or double click) on the summary worksheet row for a particular activity. To access the worksheet for the activity, press W (or double click) on the activity's row on the **Individual Activities** worksheet.

Note. See **NOTE 2** and **NOTE 9** (starting on page 199) for the regular tax **Passive & MAPRRA Income or Loss** worksheet for how the program computes the allowed amount for each activity. The computation is the same as that for regular tax purposes on rows 14 through 25 of the regular tax worksheet, except for the pre-enactment phase-in allowance and alternative minimum adjustments and carryovers.

(14) Ordinary Income or Loss (Calculated)

Total ordinary income or loss from passive and MAPRRA activities allowed for AMT purposes. This amount plus the amount on the "Ordinary Property Disposition Gain/Loss" row, below, is posted to the **Alternative Minimum Tax** worksheet. See the description for row 13 "**Allocated to**", above.

(15) Section 1231 Unrecaptured Section 1250 Gain (25%) (Calculated)

Total Section 1231 unrecaptured section 1250 gain from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 13 "Allocated to", above.

(16) Section 1231 28% Rate Gain or Loss (Calculated)

Total Section 1231 28% rate gain or loss from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 13 "Allocated to", above.

(17) Other Section 1231 Gain or Loss (Calculated)

Total section 1231 gain/loss (other than unrecaptured section 1250 gain) from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 13 "Allocated to", above.

(18) Ordinary Property Disposition Gain/Loss (Calculated)

Total allowed depreciation recapture and other ordinary gain or loss from dispositions of property from passive and MAPRRA activities allowed for AMT purposes. This amount plus the amount on the "Ordinary Income or Loss" row above is posted to the **Alternative Minimum Tax** worksheet. See the description for row 13 "Allocated to", above.

(19) Short-Term Capital Gain or Loss (Calculated)

Total short-term capital gain/loss from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Capital Gains and Losses – Alt Min** worksheet where it may be further limited if it is a loss. See the description for row 13 "Allocated to", above.

(20) 28% Rate Capital Gain/Loss (Calculated)

Total 28% rate capital gain/loss from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **28% Rate Capital Gain/Loss – Alt Min** worksheet where it may be further limited if it is a loss. See the description for row 13 "Allocated to", above.

(21) Other Long-Term Capital Gain or Loss (Calculated)

Total long-term capital gain/loss (other than 28% rate gain/loss) from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Capital Gains and Losses – Alt Min** worksheet where it may be further limited if it is a loss. See the description for row 13 "Allocated to", above.

(22) Unrecaptured Section 1250 Casualty Gain (Calculated)

Total unrecaptured section 1250 casualty gain from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Section**

1231 & Casualty Gain/Loss – Alt Min worksheet. See the description for row 13 "Allocated to", above.

(23) Other Casualty Gain or Loss (Calculated)

Total casualty gain/loss (other than unrecaptured section 1250 gain) from passive and MAPRRA activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 13 "Allocated to", above.

(24) Losses Carried to Next Year (Calculated)

The passive activity loss carryover for alternative minimum tax purposes. For information on how the program allocates the carryover among activities and among items within each activity, see **NOTE 2** and **NOTE 9** of the regular tax **Passive & MAPRRA Income or Los**s worksheet (starting on page 199).

NOTE 1

In general, this worksheet and its supporting subworksheets mimic in operation the regular tax **Passive & MAPRRA Income/Loss** worksheet, except that these worksheets allow for alternative minimum adjustments and do not allow the phase-in for pre-1987 interests. Please consult the regular tax passive worksheets for further explanations and limitations.

NOTE 2

The program does not handle the effects of the taxpayer's insolvency on the allowance of passive activity and farm losses for purposes of the alternative minimum tax. See IRC § 58.

INDIVIDUAL PASSIVE ACTIVITIES

See **Individual Activities** beginning on page 25 for a description of how to enter data for individual passive activities for both regular and alternative minimum tax purposes.

REAL ESTATE EXEMPTION – AMT

Real Estate Exemption – Alt Min
(1) Modified AGI for AMT Limit
(2) Adjustment to Modified AGI
(3) **Maximum Real Estate Exemption**
(4) Reduction: Maximum Real Estate Exemption
(5) **AMT Real Estate Exemption**

Caution! The Tax Reform Act of 1986, the Revenue Act of 1987, the TAMRA of 1988, the Revenue Reconciliation Acts of 1989, 1990, and 1993, and the Taxpayer Relief Act of 1997 have raised numerous questions of interpretation concerning the AMT computation. At our date of publication, complete guidance from the Treasury or the IRS was not available with regard to many of these issues. This part of the manual explains how these questions have been resolved as they relate to the passive activity exemption for active participation real estate as computed for AMT purposes. Carefully examine the row descriptions for this worksheet and the Note following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Modified AGI for AMT Limit (Calculated)

Adjusted gross income to be used for purposes of the IRC § 469(i)(3) phaseout of the passive activity active participation real estate exemption as computed for AMT purposes. The amount is the sum of the first two "modified AGI" rows of the regular tax **Passive Real Estate Exemption** worksheet.

AMT Modified AGI is further adjusted by adding back regular tax Schedule E investment interest allowed and subtracting AMT Schedule E interest as computed on the **Investment Interest – Alt Min** worksheet on a Modified AGI basis, and by subtracting the AMT NOL deduction.

For purposes of these computations, rows 22, 24, 26 and 28 of the **Alternative Minimum Tax** worksheet are computed on a regular tax modified AGI basis, and rows 23, 25, 27, and 29 are computed on an AMT modified AGI basis.

The program does **not** recompute a special AMT NOL without regard to passive activities for purposes of these computations. See IRC § 469(i)(3). See **NOTE 1** of the regular tax **Passive & MAPRRA Income/Loss** worksheet on page 199.

(2) Adjustment to Modified AGI

Any adjustment applicable to AGI, as computed on the row above, to be used for purposes of the IRC § 469(i)(3) phaseout of the passive activity real estate exemption as computed for AMT purposes.

The amount computed on the row above is the regular tax modified AGI, as adjusted on the regular tax **Passive Real Estate Exemption** worksheet.

(3) Maximum Real Estate Exemption (Calculated)

The maximum exemption from the passive activity limitations for active participation rental real estate activities allowable to the taxpayer before any reduction entered on row 4, below, and before application of any phaseout.

The exemption is $25,000 except for taxpayers married filing separately and trusts.

A married taxpayer filing separately is allowed $12,500 unless he lived with his spouse for part of the year, in which case the exemption is zero. (This item of information is entered on the **Filing Status** worksheet. The default is assumed to be lived apart at all times.) The exemption is also zero for trusts. See IRC § 469(i).

The exemption is automatically phased out in accordance with the formula in IRC § 469(i)(3), which reduces the $25,000 exemption by 50% of the amount by which the taxpayer's modified adjusted gross income exceeds $100,000. (Different limits apply for married filing separately.)

(4) Reduction: Maximum Real Estate Exemption

The amount by which the maximum AMT passive activity real estate exemption is reduced for the taxpayer. This row is used for estates.

For taxable years ending less than two years after the date of death of the decedent, enter the amount of the exemption allowable (before phaseout) to the surviving spouse of the decedent.

For taxable years thereafter, enter 25,000, since the estate is no longer entitled to any exemption. See IRC § 469(i)(4).

(5) AMT Real Estate Exemption (Calculated)

The passive activity exemption for active participation real estate after application of the reduction on row 4 above and application of the phaseout. The amount on this row is posted back to row 5 "Real Estate Exemption" of the **Passive & MAPRRA Income/Loss – Alt Min** worksheet. See the description for that row on page 491 for further details.

NOTE

See **NOTE 2** for the regular tax **Passive Real Estate Exemption** worksheet on page 204.

PUBLICLY TRADED PARTNERSHIPS –AMT

Publicly Traded Partnerships – Alt Min
(1)   Individual Activities
(2)   **Total Gain Activities**
(3)   **Total Loss Activities**
(4)   **Year of Sale Loss Allowed**
(5)   **Total Income/Loss Allowed**
(6)   **Allocated to:**
(7)   Ordinary Income/Loss
(8)   § 1231 Unrecaptured § 1250 Gain(25%)
(9)   § 1231 28% Rate Gain/Loss
(10)   Other Section 1231 Gain/Loss
(11)   Ordinary Property Disposition Gain or Loss
(12)   Short-term Capital Gain/Loss
(13)   28% Rate Capital Gain/Loss
(14)   Other Long-term Capital Gain/Loss
(15)   Unrecaptured § 1250 Casualty Gain
(16)   Other Casualty Gain/Loss
(17) **Losses Carried to Next Yr**

Caution! At the date of publication of the program, complete guidance with respect to the treatment of publicly traded partnerships was not available from the Treasury or the IRS. This manual explains how the income and loss from these activities is treated by the program for AMT purposes. You are cautioned to carefully examine this manual, particularly the row descriptions and notes for this worksheet, to determine how the program handles particular aspects of the law. Contact Bloomberg Tax Technology if you have any questions. You should rely upon our interpretations only to the extent you agree with them.

(1) Individual Activities

You must access the **Individual Activity** worksheets to make entries. Publicly traded partnerships can be entered only as individual activities.

(2) Total Gain Activities (Calculated)

The sum of all net passive gains for alternative minimum purposes from publicly traded partnerships that have a net passive gain. The program computes the net passive income or loss for each partnership for AMT purposes by combining the total net passive income or loss for the year as computed for AMT purposes for all activities in the partnership. This computa-tion includes AMT prior year unallowed losses. If the net is a gain it will be included in this row. If it is a loss, it will be included on row 3 "Total Loss Activities (Calculated)", below.

(3) Total Loss Activities (Calculated)

The sum of all net passive losses for AMT purposes from publicly traded partnerships that have a net passive loss. The program computes the net passive income or loss for each partnership for AMT purposes by combining the total net passive income or loss for the year as computed for AMT purposes for all activities in the partnership. This computation includes AMT prior year unallowed losses. If the net is a loss it will be included in this row. If it is a gain, it will be included on row 2 "Total Gain Activities (Calculated)", above.

(4) Year of Sale Loss Allowed (Calculated)

The sum of all passive income and loss including prior year unallowed losses computed with AMT preferences and adjustments for all publicly traded partnership loss activities sold during the year in excess of any net passive gain from such activities held by the same partnership. See **NOTE 2** on page 216 and **NOTE 3** on page 217 to the regular tax **Publicly Traded Partnerships** worksheet.

(5) Total Income or Loss Allowed (Calculated)

The sum of row 2 "Total Gain Activities (Calculated)" and row 4 "Year of Sale Loss Allowed (Calculated)", above.

(6) Allocated to

Heading for rows 7 through 16, below.

No entry may be made on these rows. If you've entered information for one (or more) of these rows through the **Individual Activities** worksheets (accessed from row 1 above), you can view the summary worksheet for the row (showing the amount of the item allowed for each PTP activity) by pressing W (or double-clicking on the amount). To access the **Individual Activities** screen, press W (or double click) on the summary worksheet row for a particular activity. To access the worksheet for the activity, press W (or double click) on the activity's row on the **Individual Activities** screen.

Note. For information on how the program computes the allowed amount for each activity, see **NOTE 1** on page 500.

(7) Ordinary Income or Loss (Calculated)

Total ordinary income or loss from PTP activities allowed for AMT purposes. This amount plus the amount on the "Ordinary Property Disposition Gain or Loss" row, below, is posted to the **Alternative Minimum Tax** worksheet. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(8) Section 1231 Unrecaptured Section 1250 Gain (25%) (Calculated)

Total Section 1231 unrecaptured section 1250 gain from PTP activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(9) Section 1231 28% Rate Gain or Loss (Calculated)

Total Section 1231 28% rate gain or loss from PTP activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. For information on how the program computes the allowed amount for each activity, see **NOTE 1** on page 500.

(10) Other Section 1231 Gain or Loss (Calculated)

Total Section 1231 gain or loss (other than unrecaptured section 1250 gain) from PTP activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(11) Ordinary Property Disposition Gain or Loss (Calculated)

Total allowed depreciation recapture and other ordinary gain or loss from dispositions of property from PTP activities allowed for AMT purposes. This amount plus the amount on the "Ordinary Income or Loss" row above is posted to the **Alternative Minimum Tax** worksheet. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(12) Short-Term Capital Gain or Loss (Calculated)

Total short-term capital gain or loss from PTP activities allowed for AMT purposes. This amount is posted to the **Capital Gains and Losses – Alt Min** worksheet where it may be further limited if it is a loss. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(13) 28% Rate Capital Gain or Loss (Calculated)

Total 28% rate capital gain/loss from PTP activities allowed for AMT purposes. This amount is posted to the **28% Rate Capital Gain/Loss – Alt Min** worksheet. where it may be further limited if it is a loss. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(14) Other Long-Term Capital Gain or Loss (Calculated)

Total long-term capital gain or loss (other than 28% rate gain or loss) from PTP activities allowed for AMT purposes. This amount is posted to the **Capital**

Gains and Losses – Alt Min worksheet where it may be further limited if it is a loss. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(15) Unrecaptured Section 1250 Casualty Gain (Calculated)

Total unrecaptured section 1250 casualty gain from PTP activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. See the description for row 6 "Allocated to", above, and **NOTE 1** on page 500.

(16) Other Casualty Gain or Loss (Calculated)

Total casualty gain or loss (other than unrecaptured section 1250 casualty gain) from PTP activities allowed for AMT purposes. This amount is posted to the **Section 1231 & Casualty Gain/Loss – Alt Min** worksheet. For information on how the program computes the allowed amount for each activity, see **NOTE 1** on page 500. See also the description for row 6 "Allocated to", above.

(17) Losses Carried to Next Year (Calculated)

The amount from row 3 "Total Loss Activities (Calculated)", above.

NOTE 1

The allocation among income categories for PTPs for AMT purposes is done on the same basis as the allocation for regular tax purposes except that for AMT purposes, the program does not attempt to isolate the gain from PTP gain activities or AMT investment income. The program does not perform a complete recomputation of investment income for AMT investment interest limitation purposes. Instead, the program uses regular tax investment income subject to user adjustment and, as a result, does not require the elements necessary to reconstruct investment income, e.g., the elements of PTP net gain partnerships. See the **Investment Interest – AMT** worksheet's **NOTE 2** on page 464.

In all other respects, the breakdown of income and loss items among the various categories follows the regular tax computation for PTPs. This, in turn, follows the passive activity computations, except that each PTP is treated as if it held the taxpayer's only passive activities. See generally "NOTE 2" for the **Passive & MAPRRA Income/Loss** worksheet on page 199.

INDIVIDUAL PUBLICLY TRADED PARTNERSHIP ACTIVITIES

See **Individual Activities** beginning on page 25 for a description of how to enter data for publicly traded partnerships for both regular and alternative minimum tax purposes.

MINOR CHILD TAX

Minor Child Tax

(1)	Elect Income on Parent's Return
(2)	**Child's Unearned AGI**
(3)	Adjustments to Child's Unearned
(4)	**Net After Adjustments**
(5)	Total Related Deductions
(6)	Capital Gain Related Deductions
(7)	**Standard Deduction Limit Amount**
(8)	**Total Exemption**
(9)	**Child's Net Unearned**
(10)	**Parent's Taxable Income**
(11)	**Child's Regular Tax Alone**
(12)	**Child's Tax @ Parent Rate**
(13)	**Higher Regular Tax**
(14)	**Marginal Tax Rate**
(15)	**Child's Net Capital Gain Taxed to Parent**
(16)	**Child's Qualified Dividends Taxed to Parent**
(17)	**Child's Unrecaptured § 1250 Gain Taxed to Parent**
(18)	**Child's 28% Rate Taxed to Parent**
(19)	**Child's 5-Year Taxed to Parent**
(20)	**Child's Post 5/5/03 Taxed to Parent**
(21)	**Child's Post 5/5/03 Taxed to Parent**
(22)	Elect pre-Tax Cut and Jobs Act 2017 Law

Caution! The Tax Reform Act of 1986, the TAMRA of 1988, the Revenue Reconciliation Act of 1990, the Taxpayer Relief Act of 1997, the Jobs and Growth Reconciliation Act of 2003, the Tax Increase Prevention and Reconciliation Act of 2005 and the Tax Technical Corrections Act of 2007 have raised numerous questions of interpretation, especially with regard to the minor child computations. At the date of this publication, complete guidance from the Treasury or the IRS was not available with regard to some of these questions. This portion of the manual explains how questions relating to the minor child computations have been resolved. You are cautioned to carefully examine the row descriptions for this worksheet and the Notes following those descriptions. You should rely on our interpretations only to the extent you agree with them.

Note. The minor child computations are performed only if Minor Child has been selected on the **Assumptions** dialog. When this computation is selected, the **Minor Child Tax** worksheet is automatically activated and the following defaults are set:
1) The parent's filing status defaults to Joint, the children's to Single;
2) The "Must Itemize Supported" row on the **Filing Status** worksheet defaults to Yes in the Children's columns.
These defaults can be overridden. Also, see the Notes starting on page 507 for assumptions made by the program and calculation methods used.

For years 2018 and 2019, all rows except the first and last row will be N/A unless taxpayer has elected to apply pre-Tax Cut and Jobs Act law to the calculation.

(1) Elect Income on Parent's Return

The taxpayer is making the election with respect to this child to have the child's income included in the parent's gross income for the taxable year. See IRC § 1(g)(7). Answer Yes or No in the Child's column.

To qualify for the election, the child's income must consist only of interest and dividends and must be between $500 and $5,000.

For years after 1995, these amounts are the minimum standard deduction of a dependent taxpayer and ten times such amount respectively. See IRC § 1(g)(7)(A)(ii). Therefore, for 1996 and 1997, the child's income must be between $650 and $6,500.

For 2000, amounts are $700 and $7,000.

For 2001, 2002, and 2003, the amounts are $750 and $7,500.

For 2004 and 2005, the amounts are $800 and $8,000.

For 2006 and 2007, the amounts are $850 and $8,500.

For 2008, the amounts are $900 and $9,000.

For 2009 through 2012, the amounts are $950 and $9,500.

For 2013 through 2014, the amounts are $1000 and $10,000.

For 2015 through 2018, the amounts are $1050 and $10,500.

For 2019 through 2020, the amounts are $1100 and $11000.

For 2021 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4).

See "Inflation Adjustments" in Help.

In addition, no estimated or withholding may have been paid for the child. In conjunction with this election, you should use the **Interest and Dividends** worksheet and/or the **Capital Gains and Losses** worksheet for the child's interest and dividends (including capital gain distributions). The program will automatically adjust the child's interest and dividends out of the child's and into the parent's column, if the child qualifies for the election and you answered Yes here.

Note. The program does not test for the presence of withholding or estimated tax payments in the Child's column. In addition, when making this election, you should include any private activity bond interest of the child in the parent's column on the **Interest and Dividends** worksheet instead of in the Child's column.

(2) Child's Unearned Adjusted Gross Income (Calculated)

The child's unearned income computed as follows:

	The child's adjusted gross income
Less:	Child's self-employment income if greater than 0
Plus:	Child's self-employment income if less than zero
Less:	Child's wages
Plus:	Child's total adjustments
Plus:	Child's NOL

The child's wages are the amount on the "Wages" row of the **Ordinary Income** worksheet. The child's self-employment income is taken from the "Self-employment Income" row of the **Ordinary Income** worksheet. Total adjustments are the amount on the "Total Adjustments" row of the **Ordinary Income** worksheet. The NOL is the amount on the "Net Operating Loss Deduction" row of the **Other Ordinary Income** worksheet.

See IRS Pub. 929 and IRC § 1(g)(4).

(3) Adjustments to Child's Unearned

Any adjustment to the child's unearned income as computed by the program for regular tax purposes on row 2 "**Child's Unearned AGI**", above. In general, the program computes the amount by subtracting the child's earned income from his or her adjusted gross income. See IRC § 1(g)(4). Use this row to adjust for distributions from a qualified disability trust in years after 2005. See IRC § 1(g)(C).

(4) Net After Adjustments (Calculated)

The sum of rows 2 "**Child's Unearned AGI**" and 3 "Adjustments to Child's Unearned", above.

(5) Total Related Deductions

The amount of the child's itemized deductions (in excess of limitations) that are directly connected with the production of the portion of adjusted gross income included on row 3 "Adjustments to Child's Unearned" and row 4 "**Net After**

Adjustments". This item will be taken into account by the program only if the child's itemized deductions exceed his standard deduction. See IRC § 1(g)(4).

(6) Capital Gain Related Deductions

The amount included in row 5 "Total Related Deductions", above, that is directly connected with the production of the child's net capital gain and qualified dividends, if any. If the child has no net capital gain or qualified dividends, or if the year of the calculation is after 1987, and before 1991, enter zero.

(7) Standard Deduction Limit Amount (Calculated)

The amount of the standard deduction limit for taxpayers who are supported adjusted for inflation in post-1990 years. See IRC §§ 1(g)(4) and 63(c)(5)(A). These amounts are:

2000	$700
2001–2003	$750
2004–2005	$800
2006–2007	$850
2008	$900
2009–2012	$950
2013–2014	$1000
2015–2018	$1050
2019–2020	$1100

For 2021 and subsequent years, the program adjusts the amount for inflation in accordance with IRC § 63(c)(4). See "Inflation Adjustments" in Help.

(8) Total Exemption (Calculated)

If the child itemizes, this row will be the sum of $500 plus the higher of row 5 "Total Related Deductions" or $500. If the child does not itemize, this row will be $500 plus $500 or $1,000. For 1991 and subsequent years, these amounts are as follows:

Year	Itemized	Not Itemized
1991	$550	$1100
1992–1994	$600	$1200
1995–1997	$650	$1300
1998–2000	$700	$1400
2001–2003	$750	$1500

Year	Itemized	Not Itemized
2004–2005	$800	$1600
2006–2007	$850	$1700
2008	$900	$1800
2009–2012	$950	$1900
2013–2014	$1000	$2000
2015–2018	$1050	$2100
2019–2020	$1100	$2200

For 2021 and subsequent years, the amounts are adjusted for inflation in accordance with the method described for row 7 "**Standard Deduction Limit Amount**", above. See IRC § 1(g)(4).

(9) Child's Net Unearned Income (Calculated)

Row 4 "**Net After Adjustments**" minus row 8 "**Total Exemption**".

(10) Parent's Taxable Income (Calculated)

The parent's taxable income, but not less than zero. This will only appear in the Parent's column. See **NOTE 2** on page 508.

(11) Child's Regular Tax Alone (Calculated)

The child's tax on his taxable income without regard to the parent's taxable income or tax.

This is the lower of the child's table or schedule tax, or his alternative capital gains tax.

See rows 13 "**Schedule or Table Tax**" and 14 "Alternative Capital Gains Tax" of the **Main Worksheet**.

(12) Child's Tax at Parent Rate (Calculated)

The child's tax is computed as follows:

1. Adding the amounts on row 9 "**Child's Net Unearned**" to the parent's taxable income on row 10 "**Parent's Taxable Income**",

2. computing the parent's tax,

3. subtracting the parent's tax without the child's income,

4. apportioning the result among the children, and

5. for each child, adding the child's tax on the balance of his taxable income.

Steps 2 and 3 use the lower of the parent's table or schedule tax, or his alternative capital gains tax. See **NOTE 1** and **NOTE 2** beginning on page 507. Farm income averaging may apply. See **NOTE 6** on page 508.

For 2000, if the sum of the parent's and children's taxable income is equal to or less than the top of the parent's lowest bracket, the child is taxed without regard to the parent's income and this row will be N/A. See Form 8615, line 6.

See rows 13 "**Schedule or Table Tax**" and 14 "Alternative Capital Gains Tax" of the **Main Worksheet**.

If the parent is subject to the special tax on foreign excluded income, the child's tax at the parent's rate is computed using that calculation. If total net capital gain, including the children's, is greater than taxable income, including the children's but computed without regard to the foreign earned income add back, the adjustments described in IRC § 911(f) are made to the capital gain amounts.

(13) Higher Regular Tax (Calculated)

The higher of row 11 "**Child's Regular Tax Alone**" or row 12 "**Child's Tax @ Parent Rate**", above.

For 2000, if the sum of the parent's and children's taxable income is equal to or less than the top of the parent's lowest bracket, the child is taxed without regard to the parent's income and this row will be the amount on row 11. See Form 8615, line 6.

(14) Marginal Tax Rate (Calculated)

The highest tax rate reached in computing the tax on row 13 "**Higher Regular Tax**", above.

(15) Child's Net Cap Gain Taxed to Parent (Calculated)

The child's net capital gain from sales taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507.

(16) Child's Qualified Dividends Taxed to Parent (Calculated)

The child's qualified dividend income taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507.

(17) Child's Unrecaptured Section 1250 Gain Taxed to Parent (Calculated)

The child's unrecaptured section 1250 gain taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507.

(18) Child's 28% Rate Taxed to Parent (Calculated)

The child's 28% rate gain taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507.

(19) Child's 5-yr Taxed to Parent (Calculated)

The child's total 5-year gain taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507.

(20) Child's Post 5/5/03 Taxed to Parent (Calculated)

The child's 2003 post 5/5 total net capital gain (including qualified dividend income) taxed at the parent's rates in computing the amount on row 12, above. See **NOTE 1** on page 507. For years other than 2003, this row will be N/A.

(21) Child's Post 5/5/03 Taxed to Parent: (Calculated)

The child's 2003, Post 5/5 total capital gain (including qualified dividend income) taxed at the Parent's rates in computing the amount on row 12, above. See Note 1, below. For years other than 2003 this row will be N/A.

(22) Elect pre-2018 Law (Pre-TCJA)

Select Yes to apply pre-Tax Cut and Jobs Act law or either 2018 or 2019 to the minor child tax calculation. Will be N/A for other years or for the children's cases.

NOTE 1

Row 12 "**Child's Tax @ Parent Rate**" is computed in accordance with Form 8615. The capital gain computations are performed for 1987 and 1991 and subsequent years in accordance with the instructions in IRS Publication 929. See page 13-19 of that publication (2003). The program uses the following conventions (some of which were absent in prior year versions of Publication 929) regarding the capital gain computations:

1. All fractions computed according to the Publication 929 instructions are limited to 1.

2. The amount of net capital gain included on line 5 of Form 8615 according to the instructions, i.e., the child's net capital gain (and qualified dividends) taxed at the parent's rate, is limited by the program to the child's total net investment income taxed to the parent.

3. For years after 1996, the program computes the parent's share of the child's 28% rate gain by multiplying such gain by a fraction the numerator of which is the child's net capital gain taxed to the parent and the denominator of which is the child's total net capital gain. The program computes

the parent's share of the child's unrecaptured section 1250 gain, and 5-year gain, in the same manner. For 2003, the program computes the parent's share of the child's post 5/5 net capital gain from sales in the same manner.

NOTE 2

Starting with version 88.2 of the program, in computing the Parent's taxable income for purposes of the minor child computations (see row 10 "**Parent's Taxable Income**", above), the program limits the amount to not less than zero. This is consistent with Form 8615, although not specifically supported by the statutory language.

NOTE 3

If the child's dividend and interest income is included on the parent's return pursuant to the election specified on row 1 "Elect Income on Parent's Return" of this worksheet, the program also includes the child's income in the parent's investment income on the "Interest and Dividends" row of the **Net Investment Income** worksheet for purposes of the parent's investment interest limitation. See IRC § 1(g)(7).

NOTE 4

The program does not handle cases in which the parent has transferred property to a trust which sold or exchanged it during the year at a gain. See IRC § 644.

NOTE 5

If the child's interest and dividend income is included on the parent's return pursuant to the election specified on row 1 "Elect Income on Parent's Return" of this worksheet, the program includes the child's capital gain dividends as entered on the **Interest and Dividends** and **Capital Gains and Losses** worksheets in the parent's net capital gain computation. The program then applies the alternative capital gains tax computation to the net capital gain of the parent as so computed. See IRS Pub. 929. The amount subject to the alternative capital gains tax is reduced by the amount of investment net capital gain, including the child's capital gain dividends, that the parent elects to include in investment income. See the **Net Investment Income** worksheet on page 223 and IRC § 163(d)(4)(B)(iii).

NOTE 6

If the **Farm Income Averaging** worksheet is active and farm income averaging was used for the parent, the tax on row 12 "**Child's Tax @ Parent Rate**" will take farm income averaging into account. That is, in computing the additional

parental tax with the child's unearned income included, the program will compute farm income averaging as an alternative computation.

If the farm income averaging tax turns out to be the lowest tax for the parent's income increased by the children's unearned income (or for years after 1998 if farm income averaging was used for the parent), the program will use the farm income averaging calculation as the amount from which the parent's tax (also computed with farm income averaging as an alternative) is to be subtracted. However, the program does not support farm income averaging for the children, either in computing the Child's Tax at the Parent Rate or in computing the child's regular tax alone. Therefore, the children's columns on the **Farm Income Averaging** worksheet will always contain N/A on every row and no farm income may be elected for the children.

For years after 2003, the child's regular tax for purposes of the AMT will be computed without regard to the parent's farm income averaging tax. See IRC § 55(c)(2).

FARM INCOME AVERAGING

Farm Income Averaging
(1)   Taxable Income (2)   Adjusted Negative Taxable Income (3)   Elected Farm Taxable Income (4)   Elected Farm Net Capital Gain (5)   Elected Farm Post 5/5/03 Net Capital Gain (6)   Elected Farm 28% Rate Gain (7)   Elected Farm Unrecap § 1250 Gain (8)   **Current Year Nonfarm Sched/Table Tax** (9)   **Current Year Nonfarm Alt Cap Gn Tax** (10) **Lower Current Year Nonfarm Tax** (11) Earliest (3rd) Prior Year: (12)   Taxable Income (13)   Adjusted Negative Taxable Income (14)   Net Capital Gain or Capital Loss (15)   Post 5/5/03 Net Capital Gain (16)   Qualified Dividend Income (17)   28% Rate Capital Gain (18)   Unrecaptured Sec 1250 Gain (19)   Elected Farm Taxable Income (20)   Elected Farm Net Capital Gain (21)   Elected Farm 28% Rate Gain (22)   Elected Farm Unrecap Sec 1250 Gain (23) **Schedule Tax with Farm Income** (24) **Alt Cap Gain Tax with Farm Income** (25) **Lower Tax** (26) **Base Tax** (27) **Difference**
Continued on next page

Farm Income Averaging (continued)

(28)   Next (2nd) Prior Year
(29)   Taxable Income
(30)   Adjusted Negative Taxable Income
(31)   Net Capital Gain or Capital Loss
(32)   Post 5/5/03 Net Capital Gain
(33)   Qualified Dividend Income
(34)   28% Rate Capital Gain
(35)   Unrecaptured Sec 1250 Gain
(36)   Elected Farm Taxable Income
(37)   Elected Farm Net Capital Gain
(38)   Elected Farm 28% Rate Gain
(39)   Elected Farm Unrecap Sec 1250 Gain
(40)   **Schedule Tax with Farm Income**
(41)   **Alt Cap Gain Tax with Farm Income**
(42)   **Lower Tax**
(43)   **Base Tax**
(44)   **Difference**
(45)   Most Recent Prior Year:
(46)   Taxable Income
(47)   Adjusted Negative Taxable Income
(48)   Net Capital Gain or Capital Loss
(49)   Post 5/5/03 Net Capital Gain
(50)   Qualified Dividend Income
(51)   28% Rate Capital Gain
(52)   Unrecaptured Sec 1250 Gain
(53)   Elected Farm Taxable Income
(54)   Elected Farm Net Capital Gain
(55)   Elected Farm 28% Rate Gain
(56)   Elected Farm Unrecap Sec 1250 Gain
(57)   **Schedule Tax with Farm Income**
(58)   **Alt Cap Gain Tax with Farm Income**
(59)   **Lower Tax**
(60)   **Base Tax**
(61)   **Difference**
(62)   **Total Farm Income Averaging Tax**
(63)   **Bracket**

Caution! The farm income averaging provisions of the Taxpayer Relief Act of 1997 are poorly drafted and raise numerous questions of interpretation. In addition, the changes in the capital gain rules contained in the Jobs and Growth Tax Relief Reconciliation Act of 2003 have exacerbated these problems of interpretation. At our date of publication, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the manual explains how the program is performing the calculations. Carefully examine the row descriptions for this worksheet and the Notes following the descriptions. Rely on our interpretations only if you agree with them. Contact Bloomberg Tax Technology if you have any questions.

(1) Taxable Income

Taxable income for the current year from the "Taxable Income" row of the **Main Worksheet**.

(2) Adjusted Negative Taxable Income

Negative taxable income (entered as a negative amount) adjusted to remove any losses that are carried to other years. Adjust for any net operating loss generated in the current year and for net operating losses carried to the current year but not used and, therefore, carried to other years. Also adjust for capital losses included in current year taxable income but carried to future years because of negative taxable income. See the instructions for Schedule J for 2000. Do not make any entry unless the amount on the Taxable Income row immediately above this one is zero. If taxable income is positive, this row does not apply. (The amount entered on this row is not used in the computations for the current year, but is used to compute farm income averaging in future years.)

(3) Elected Farm Taxable Income

The amount of current year farm taxable income that is elected farm income and is therefore subject to averaging. Include any elected farm ordinary income and elected farm net capital gain. See IRC § 1301 and the rows below.

(4) Elected Farm Net Capital Gain

The amount of current year farm net capital gain included in elected farm taxable income on the row above. See IRC §§ 1301, 1222, and 1(h).

(5) Elected Farm Post 5/5/03 Net Capital Gain

For 2003, the amount of current year farm post 5/5/03 net capital gain included in elected farm net capital gain on row 4 above.

(6) Elected Farm 28% Rate Gain

The amount of current year farm 28% rate gain included in elected farm net capital gain on row 4 above. See IRC § 1301.

(7) Elected Farm Unrecaptured Section 1250 Gain

The amount of current year farm unrecaptured section 1250 gain included in elected farm net capital gain on row 4 above. See IRC § 1301.

(8) Current Year Nonfarm Schedule/Table Tax (Calculated)

The tax from the rate schedules or tax tables on taxable income reduced by the elected farm income on row 3, above. See the Schedule or Table Tax row on the **Main Worksheet**.

(9) Current Year Nonfarm Alternative Capital Gains Tax (Calculated)

The alternative capital gains tax computed by reducing taxable income, net capital gain, 28% rate gain, post 5/5/03 net capital gain, and unrecaptured section 1250 gain by the amounts on rows 3 through 7, above. See **NOTE 7** on page 525.

(10) Lower Current Year Nonfarm Tax (Calculated)

The lesser of row 8 or row 9, above.

(11) Earliest (3rd) Prior Year

Heading for next 16 rows.

(12) Taxable Income: 3rd Prior Year

Taxable income for the third year prior to the year of analysis. For example, if the year of analysis is 1998, this will be taxable income for 1995. See IRC §§ 1301 and 63.

Enter the taxable income for the third prior year in the first column of each case; the program will compute the other columns. Do **not** enter less than zero. Instead, see row 13, below, for entering adjusted negative taxable income.

(13) Adjusted Negative Taxable Income: 3rd Prior Year

Negative taxable income (entered as a negative amount) for the third year prior to the year of analysis adjusted to remove any losses that are carried to other years. Adjust for any net operating loss generated in the third prior year and for net operating losses carried to the third prior year but not used and therefore carried to other years. Also adjust for capital losses included in third prior year taxable income but carried to future years because of negative taxable income. See the instructions for Schedule J for 2000. Do not make any entry unless the amount on the Taxable Income row immediately above this one is zero. If taxable income for the third prior year is positive, this row does not apply.

Enter adjusted negative taxable income for the third prior year in the first column of each case; the program will compute the other columns.

(14) Net Capital Gain or Capital Loss: 3rd Prior Year

Net capital gain (excess of long-term gain over short-term loss) or absorbed (not carried over) capital loss for the third year prior to the year of analysis. For example, if the year of analysis is 1998, this will be net capital gain or absorbed capital loss for 1995. See IRC Sections 1301, 1222, and 1(h). If this is a loss, it should be entered as a negative and should be limited to the amount not

carried over to the following year. Generally, this means that a capital loss should not exceed $3000 ($1500 in the case of married filing separately), although the loss may be lower if taxable income is at or near zero.

Enter the net capital gain or capital loss for the third prior year in the first column of each case; the program will compute the other columns.

(15) Post 5/5/03 Net Capital Gain: 3rd Prior Year

If the third year prior to the year of the analysis is 2003, the amount of the post 5/5/03 Net Capital Gain from Sales in excess of the portion of such gain included in elected farm taxable income for 2003. Enter the amount in the first column of each case. The program will compute the other columns. See IRC §§ 1301 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

If the third year prior to the analysis is not 2003, this row will be N/A.

For years other than 2006, this row will be N/A.

(16) Qualified Dividend Income: 3rd Prior Year

Qualified dividend income for the third year prior to the analysis. For example, if the year of the analysis is 2007, this will be qualified dividend income for 2004.

Enter the qualified dividend income for the third prior year in the first column of each case; the program will compute the other columns. See IRC §§ 1310 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

For years prior to 2006, this row will be N/A.

(17) 28% Rate Capital Gain: 3rd Prior Year

Twenty-eight percent rate capital gain for the third year prior to the year of analysis. For example, if the year of analysis is 2000, this will be 28% rate capital gain for 1997. See IRC §§ 1301 and 1(h).

If the first year of the analysis is after 1999, enter the 28% rate capital gain for the third prior year in the first column of each case; the program will compute the other columns.

(18) Unrecaptured Section 1250 Gain: 3rd Prior Year

Unrecaptured section 1250 gain for the third year prior to the year of analysis. For example, if the year of analysis is 2000, this will be unrecaptured section 1250 gain for 1997. See IRC §§ 1301 and 1(h).

If the first year of the analysis is after 1999, enter the unrecaptured section 1250 gain for the third prior year in the first column of each case; the program will compute the other columns.

(19) Elected Farm Taxable Income: 3rd Prior Year

Elected farm taxable income for the third year prior to the year of analysis. For example, if the year of analysis is 2001, this will be elected farm taxable income for 1998. See IRC § 1301.

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

If the first year of the analysis is after 2000, enter the amount in the first column of each case only; the program will compute the other columns.

If the first year of the analysis is before 2001, all columns are computed automatically and no entry is required.

For years before 2001, this row will be N/A.

(20) Elected Farm Net Capital Gain: 3rd Prior Year

Elected farm net capital gain for the third year prior to the year of analysis. For example, if the year of analysis is 2001, this will be elected farm net capital gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

If the first year of the analysis is after 2000, enter the amount in the first column of each case only; the program will compute the other columns.

If the first year of the analysis is before 2001, all columns are computed automatically and no entry is required.

For years before 2001, this row will be N/A.

(21) Elected Farm 28% Rate Gain: 3rd Prior Year

Elected farm 28% rate gain for the third year prior to the year of analysis. For example, if the year of analysis is 2001, this will be elected 28% rate gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

If the first year of the analysis is after 2000, enter the amount in the first column of each case only; the program will compute the other columns.

If the first year of the analysis is before 2001, all columns are computed automatically and no entry is required.

For years before 2001, this row will be N/A.

(22) Elected Farm Unrecaptured Section 1250 Gain: 3rd Prior Year

Elected farm unrecaptured section 1250 gain for the third year prior to the year of analysis. For example, if the year of analysis is 2001, this will be elected unrecaptured section 1250 gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

If the first year of the analysis is after 2000, enter the amount in the first column of each case only; the program will compute the other columns.

If the first year of the analysis is before 2001, all columns are computed automatically and no entry is required.

For years before 2001, this row will be N/A.

(23) Schedule Tax with Farm Income: 3rd Prior Year (Calculated)

The tax from the rate schedules for the third prior year on taxable income from row 12 or row 13 decreased by the elected farm income on row 19 and increased by 1/3 of the elected farm income amounts on rows 3, 36, and 53.

(24) Alternative Capital Gain Tax with Farm Income: 3rd Prior Yr (Calculated)

The alternative capital gains tax for the third prior year computed on the amounts on rows 12 through 18 decreased by the elected farm amounts on rows 19 through 22 and increased by 1/3 of the amounts on rows 3 through 7, rows 36 through 39, and rows 53 through 56.

(25) Lower Tax: 3rd Prior Year (Calculated)

The lesser of row 23 or 24, above.

(26) Base Tax: 3rd Prior Year (Calculated)

The lesser of the schedule tax for the third prior year or the alternative capital gains tax for that year computed on the amounts on rows 12 through 18 decreased by the elected farm amounts on rows 19 through 22 and increased by 1/3 of the amounts on rows 36 through 39, and rows 53 through 56.

If rows 36 and 53 both contain zeros or N/A's, the program computes the tax on this row using the tax tables instead of the rate schedules for amounts under $100,000. Otherwise, the program always uses the rate schedules.

(27) Difference: 3rd Prior Year (Calculated)

Row 25, above, minus row 26.

(28) Next (2nd) Prior Year:

Heading for next 16 rows.

(29) Taxable Income: 2nd Prior Year

Taxable income for the second year prior to the year of analysis. For example, if the year of analysis is 1998, this will be taxable income for 1996. See IRC §§ 1301 and 63.

Enter the taxable income for the second prior year in the first column of each case; the program will compute the other columns. Do not enter less than zero. Instead, see row 30, below, for entering adjusted negative taxable income.

(30) Adjusted Negative Taxable Income: 2nd Prior Year

Negative taxable income (entered as a negative amount) for the second year prior to the year of analysis adjusted to remove any losses that are carried to other years. Adjust for any net operating loss generated in the second prior year and for net operating losses carried to the second prior year but not used and therefore carried to other years. Also adjust for capital losses included in second prior year taxable income but carried to future years because of negative taxable income. See the instructions for Schedule J for 2000. Do not make any entry unless the amount on the Taxable Income row immediately above this one is zero. If taxable income for the second prior year is positive, this row does not apply.

Enter adjusted negative taxable income for the second prior year in the first column of each case; the program will compute the other columns.

(31) Net Capital Gain or Capital Loss: 2nd Prior Year

Net capital gain (excess of long-term gain over short-term loss) or absorbed (not carried over) capital loss for the second year prior to the year of analysis. For example, if the year of analysis is 1998, this will be net capital gain or absorbed capital loss for 1996. See IRC Sections 1301, 1222, and 1(h). If this is a loss, it should be entered as a negative and should be limited to the amount not carried over to the following year. Generally, this means that a capital loss should not exceed $3000 ($1500 in the case of married filing separately), although the loss may be lower if taxable income is at or near zero.

Enter the net capital gain or capital loss for the third prior year in the first column of each case; the program will compute the other columns.

(32) Post 5/5/03 Net Capital Gain: 2nd Prior Year

If the second year prior to the year of the analysis is 2003, the amount of the post 5/5/03 net capital gain from sales in excess of the portion of such gain included in elected farm taxable income for 2003. Enter the amount in the first column of each case. The program will compute the other columns. See IRC §§ 1301 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

For years other than 2005, this row will be N/A.

(33) Qualified Dividend Income: 2nd Prior Year

Qualified dividend income for the second year prior to the analysis. For example if the year of the analysis is 2007, this will be qualified dividend income for 2005.

Enter the qualified dividend income for the second prior year in the first column of each case; the program will compute the other columns. See IRC §§ 1310 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

For years prior to 2005, this row will be N/A.

(34) 28% Rate Capital Gain: 2nd Prior Year

The 28% rate capital gain for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be 28% rate capital gain for 1998. See IRC §§ 1301 and 1(h).

Enter the 28% rate capital gain for the second prior year in the first column of each case; the program will compute the other columns.

(35) Unrecaptured Section 1250 Gain: 2nd Prior Year

Unrecaptured section 1250 gain for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be unrecaptured section 1250 gain for 1998. See IRC §§ 1301 and 1(h).

Enter the unrecaptured section 1250 gain for the second prior year in the first column of each case; the program will compute the other columns.

(36) Elected Farm Taxable Income: 2nd Prior Year

Elected farm taxable income for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected farm taxable income for 1998. See IRC § 1301.

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(37) Elected Farm Net Capital Gain: 2nd Prior Year

Elected farm net capital gain for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected farm net capital gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(38) Elected Farm 28% Rate Gain: 2nd Prior Year

Elected farm 28% rate gain for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected 28% rate gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(39) Elected Farm Unrecaptured Section 1250 Gain: 2nd Prior Year

Elected farm unrecaptured section 1250 gain for the second year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected unrecaptured section 1250 gain for 1998. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(40) Schedule Tax with Farm Income: 2nd Prior Year (Calculated)

The tax from the rate schedules for the second prior year on taxable income from row 29 or row 30 above decreased by the elected farm income on row 36 and increased by 1/3 of the amounts on rows 3 and 53.

(41) Alternative Capital Gain Tax with Farm Income: 2nd Prior Yr (Calculated)

The alternative capital gains tax for the second prior year computed on the amounts on rows 29 through 35 decreased by the elected farm amounts on rows 36 through 39 and increased by 1/3 of the amounts on rows 3 through 7, and rows 53 through 56.

(42) Lower Tax: 2nd Prior Year (Calculated)

The lesser of row 40 or 41, above.

(43) Base Tax: 2nd Prior Year (Calculated)

The lesser of the schedule tax for the second prior year or the alternative capital gains tax for that year computed on the amounts on rows 29 through 35 decreased by the elected farm amounts on rows 36 through 39 and increased by 1/3 of the amounts on rows 53 through 56. If row 53 contains a zero or N/A, the program computes the tax on this row using the tax tables instead of the rate schedules for amounts under $100,000. Otherwise, the program always uses the rate schedules.

(44) Difference: 2nd Prior Year (Calculated)

Row 42, above, minus row 43.

(45) Most Recent Prior Year

Heading for next 16 rows.

(46) Taxable Income: Most Recent Prior Year

Taxable income for the most recent year prior to the year of analysis. For example, if the year of analysis is 1998, this will be taxable income for 1997. See IRC §§ 1301 and 63.

Enter the taxable income for the most recent prior year in the first column of each case; the program will compute the other columns. Do **not** enter less than zero. Instead, see row 47, below, for entering adjusted negative taxable income.

(47) Adjusted Negative Taxable Income: Most Recent Prior Year

Negative taxable income (entered as a negative amount) for the most recent year prior to the year of analysis adjusted to remove any losses that are carried to other years. Adjust for any net operating loss generated in the most recent prior year and for net operating losses carried to the most recent prior year but not used and therefore carried to other years. Also adjust for capital losses included most recent prior year taxable income but carried to future years because of negative taxable income. See Schedule J for 2000. Do not make any entry unless the amount on the Taxable Income row immediately above this one is zero. If taxable income for the most recent prior year is positive, this row does not apply.

Enter adjusted negative taxable income for the most recent prior year in the first column of each case; the program will compute the other columns.

(48) Net Capital Gain or Capital Loss: Most Recent Prior Year

Net capital gain (excess of long-term gain over short-term loss) or absorbed (not carried over) capital loss for the most recent year prior to the year of analysis. For example, if the year of analysis is 1998, this will be net capital gain or absorbed capital loss for 1997. See IRC Sections 1301, 1222, and 1(h). If this is a loss, it should be entered as a negative and should be limited to the amount not carried over to the following year. Generally, this means that a capital loss should not exceed $3000 ($1500 in the case of married filing separately), although the loss may be lower if taxable income is at or near zero.

Enter the net capital gain or capital loss for the third prior year in the first column of each case; the program will compute the other columns.

(49) Post 5/5/03 Net Capital Gain: Most Recent Prior Year

If the most recent year prior to the year of the analysis is 2003, the amount of the post 5/5/03 net capital gain from sales in excess of the portion of such gain included in elected farm taxable income for 2003. Enter the amount in the first column of each case. The program will compute the other columns. See IRC Sections 1301 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

For years other than 2004, this row will be N/A.

(50) Qualified Dividend Income: Most Recent Prior Year

Qualified dividend income for the most recent year prior to the analysis. For example, if the year of the analysis is 2007, this will be qualified dividend income for 2006.

Enter the qualified dividend income for the second prior year in the first column of each case; the program will compute the other columns. See IRC §§ 1310 and 1(h).

If the first year of the analysis is after 2002, all columns are computed automatically and no entry is required.

For years prior to 2004, this row will be N/A.

(51) 28% Rate Capital Gain: Most Recent Prior Year

The 28% rate capital gain for the most recent year prior to the year of analysis. For example, if the year of analysis is 2000, this will be 28% rate capital gain for 1999. See IRC §§ 1301 and 1(h).

Enter the 28% rate capital gain for the most recent prior year in the first column of each case; the program will compute the other columns.

(52) Unrecaptured Section 1250 Gain: Most Recent Prior Year

Unrecaptured section 1250 gain for the most recent year prior to the year of analysis. For example, if the year of analysis is 2000, this will be unrecaptured section 1250 gain for 1999. See IRC §§ 1301 and 1(h).

Enter the unrecaptured section 1250 gain for the most recent prior year in the first column of each case; the program will compute the other columns.

(53) Elected Farm Taxable Income: Most Recent Prior Year

Elected farm taxable income for the most recent year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected farm taxable income for 1999. See IRC § 1301.

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(54) Elected Farm Net Capital Gain: Most Recent Prior Year

Elected farm net capital gain for the most recent year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected farm net capital gain for 1999. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(55) Elected Farm 28% Rate Gain: Most Recent Prior Year

Elected farm 28% rate gain for the most recent year prior to the year of analysis. For example, if the year of analysis is 2000, this will be elected farm 28% rate gain for 1999. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(56) Elected Farm Unrecaptured Section 1250 Gain: Most Recent Prior Year

Elected farm unrecaptured section 1250 gain for the most recent year prior to the year of analysis. If the year of analysis is 2000, this will be elected farm unrecaptured section 1250 gain for 1999. See IRC §§ 1301 and 1(h).

If farm income averaging for that year was not the lowest tax when compared to the schedule or table tax and the alternative capital gains tax, enter 0.

Enter the amount in the first column of each case only; the program will compute the other columns.

(57) Schedule Tax with Farm Income: Most Recent Prior Year (Calculated)

The tax from the rate schedules for the most recent prior year on taxable income from row 46 or row 47 decreased by the elected farm income on row 53 and increased by 1/3 of the amount on row 3.

(58) Alternative Capital Gain Tax with Farm Income: Most Recent Prior Year (Calculated)

The alternative capital gains tax for the most recent prior year computed on the amounts on rows 46 through 52 decreased by the elected farm amounts on rows 53 through 56 and increased by 1/3 of the amounts on rows 3 through 7.

(59) Lower Tax: Most Recent Prior Year (Calculated)

The lesser of row 57 or 58, above.

(60) Base Tax: Most Recent Prior Year (Calculated)

The lesser of the schedule or table tax for the most recent prior year or the alternative capital gains tax for that year, computed on the amounts on rows 46 through 52 and decreased by the elected farm amounts on rows 53 through 56.

(61) Difference: Most Recent Prior Year (Calculated)

Row 59, above, minus row 60.

(62) Total Farm Income Averaging Tax (Calculated)

The sum of rows 10, 27, 44, and 61, above.

(63) Bracket (Calculated)

The highest bracket reached in computing the tax on row 62, above.

NOTE 1

As indicated in the row descriptions above, the program computes the tax on elected farm taxable income by adding 1/3 of it to each prior year's taxable income, adjusted for any elected farm income for that year and the intervening years, and recomputing the tax for that prior year. Where there is elected farm capital gain income, the program performs a similar calculation for each category of capital gain income. The program uses the lower of the recomputed schedule tax for the prior year or the recomputed alternative capital gains tax for that year. Then the program subtracts the tax for that prior year computed on taxable income adjusted for any elected farm income for that year and any intervening years. To the amounts thus computed for each of the three prior years, the program adds the schedule or table tax (or, the alternative capital gains tax if lower) computed for the current year on the rest of the income.

The adjustment to taxable income of each prior year for the elected farm income of that year and the intervening years is suggested by the flush language at the end of IRC Section 1301(a) and by the following sentence from the Conference Report accompanying the 1997 Taxpayer Relief Act: "If a taxpayer elects the operation [of] the provision for a taxable year, the allocation of elected farm income among taxable years pursuant to the election shall apply for purposes of any election in a subsequent taxable year." (Conference Report to Accompany H.R. 2014, at page 508.) This computation is also suggested by Schedule J. See also Prop. Treas. Reg. 121063-97, October 8, 1999. However, aside from these references, there was little authority on exactly how these adjustments are to be made at the time the program was published. You should exercise caution in relying on these computations.

The program does not automatically compute base year negative taxable income for farm income averaging purposes. Instead, the program limits any calculated taxable income to zero. However, the program does take into account negative taxable income entered after appropriate adjustments on rows 2, 13, 30 and 47. (The program also takes into account base year capital losses. See **NOTE 4**, below.) Also, the program limits the amount of elected

farm income to total taxable income. A similar rule is applied to each capital gain category of elected farm income. In addition, if there is no elected net capital gain, the program assumes that there can be no elected 28% rate or unrecaptured section 1250 gain. If all of the capital gain is elected, so there is no net capital gain to be taxed in the current year, the program also assumes that there can be no remaining 28% rate or unrecaptured section 1250 gain to be taxed in the current year. As of the date of publication of the program there was little authority on these questions in the current year or the three prior years.

NOTE 2

In computing the farm income averaging tax, the program does not support filing statuses in the prior years that are different from the filing status in the current year. This includes differences on the "Must Itemize Supported" and "2001 Advance Payment Received" rows on the **Filing Status** worksheet between the answers that apply for the current year and those that apply for 2001 (or would apply if 2001 were included in the analysis). All program computations are based on the current year's filing status. For example, if 1998 is the year for which farm income averaging is being computed, and the filing status for 1998 on the **Main Worksheet** is Joint, the program uses Joint filing status to compute all taxes, including 1995, 1996, and 1997 taxes, both with and without farm income.

NOTE 3

For purposes of determining whether there is elected farm taxable income in a prior year, the program determines if the farm income averaging tax was the lowest tax in that year when compared to the schedule or table tax and the alternative capital gains tax. If farm income averaging was not the lowest tax, the program considers elected farm income to be zero. However, in making this determination, the program does not take into account the alternative minimum tax. This is because, even if a taxpayer is subject to the AMT, he may still wish to elect farm income averaging to generate a larger minimum tax credit for such prior year.

NOTE 4

In computing the farm income averaging tax for 2000 and subsequent years, the program applies the rule implied in the instructions for Schedule J for 2000 that, elected farm capital gain is reduced by base year capital losses not carried forward. To keep the calculations consistent for 2000 and subsequent years, solely for purposes of computing the farm income averaging tax in those years, the program recomputes the base year taxes using the new rule. As of the date of publication, there was no authority on this question.

NOTE 5

In computing the prior year taxes, the program zeros out any negative entries, except for adjusted negative taxable income and capital loss. This rule is applied to amounts entered or computed on the taxable income, 28% rate gain and unrecaptured section 1250 gain rows for all prior years. Therefore, the program does not allow offsetting of losses against farm income in capital gain subcategories for purposes of the prior year computations. As of the date of publication, there was no authority on this question.

NOTE 6

For purposes of the alternative capital gains tax computation in years after 1996, if the taxpayer has no net capital gain, the program considers him also to have no 28% rate gain or unrecaptured section 1250 gain. This rule is applied to prior year computations both with and without farm income and the computation of the current year tax on his nonfarm income. As of the date of publication, there was no authority on this question.

NOTE 7

The program has no provision for electing to average qualified 5-year gain (applicable to years after 2000). However, if there is such gain in the current year the program takes it into account in computing the Current Year Nonfarm Alternative Capital Gains Tax on row 9. If there is qualified 5-year gain in a prior year, the program will take it into account in computing the base tax and the alternative capital gains tax with farm income for such year, provided that the program is running a multiple-year analysis that includes such year.

NOTE 8

The program treats as post 5/5/03 net capital gain, all elected farm net capital gain (other than 28% rate and unrecaptured section 1250) effectively being carried back to years 2003 through 2012. Such gain will, therefore, be subject to a maximum rate of 5% or 15% depending on the taxpayer's income bracket. On the other hand, all elected farm net capital gain (other than 28% rate and unrecaptured section 1250) effectively being carried back to years before 2003 or after 2012 is treated by the program as subject to the 10% or 20% rate, since those were the capital gain rates in effect for such years. As of the date of publication of the program, there was no authority on this treatment.

FOREIGN INCOME EXCLUSION TAXES

Foreign Income Exclusion Taxes

(1)	Taxpayer's Income & Housing Exclusion
(2)	Adjustments
(3)	Spouse's Income & Housing Exclusion
(4)	Adjustments
(5)	**Total Income and Housing Exclusion**
(6)	
(7)	Regular Tax:
(8)	**Taxable Income**
(9)	**Income and Housing Exclusion**
(10)	**Total of Taxable Income and Exclusion**
(11)	**Regular Tax**
(12)	**Alternative Capital Gains Tax**
(13)	**Lower Tax**
(14)	**Regular Tax on Exclusion**
(15)	**Net Regular Tax**
(16)	
(17)	Alternative Minimum Tax:
(18)	**Taxable Excess**
(19)	**Income and Housing Exclusion**
(20)	**Total of Taxable Excess and Exclusion**
(21)	**Tentative Minimum Tax from Schedule**
(22)	**Tentative Minimum Alternative Capital Gains Tax**
(23)	**Lower Tax**
(24)	**Tentative Minimum Tax on Exclusion**
(25)	**Net Tentative Minimum Tax**
(26)	
(27)	Minimum Tax Credit
(28)	**Taxable Excess with Only Exclusion Items**
(29)	**Income & Housing Exclusion**
(30)	**Total of Taxable Excess and Exclusion**
(31)	**Tentative Minimum Tax From Schedule**
(32)	**Tentative Minimum Alternative Capital Gains Tax**
(33)	**Lower Tax**
(34)	**Tentative Minimum Tax on Exclusion**
(35)	**Net Tentative Minimum Tax with only Exclusion Items**

Caution! The Tax Increase Prevention and Reconciliation Act of 2005 and the Tax Technical Corrections Act of 2007 have raised numerous questions of interpretation concerning the taxes computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Taxpayer's Income & Housing Exclusion: (Calculated)

The amount from the Total Exclusion After Expenses row of the **Taxpayer's Foreign Income Exclusion** worksheet. See **NOTE 1** below.

(2) Adjustments

Any adjustments applicable to the amount computed by the program on the row above. See IRC § 911(f).

Note. The amount entered on this row affects only the calculation of the taxes below. It does not change the amount of the exclusion from income.

(3) Spouse's Income & Housing Exclusion: (Calculated)

The amount from the Total Exclusion After Expenses row of the **Spouse's Foreign Income Exclusion** worksheet. See **NOTE 1** below.

(4) Adjustments

Any adjustments applicable to the amount computed by the program on the row above. See IRC § 911(f).

Note. The amount entered on this row affects only the calculation of the taxes below. It does not change the amount of the exclusion from income.

(5) Total Income and Housing Exclusion: (Calculated)

The sum of rows 1 through 4 above.

(6) (Blank)

(7) Regular Tax

Heading for rows 8 through 15 below.

(8) Taxable Income: (Calculated)

The amount from the Taxable Income row of the **Main Worksheet**.

(9) Income and Housing Exclusion: (Calculated)

The amount from row 5 above.

(10) Total of Taxable Income and Exclusion: (Calculated)

The sum of rows 8 and 9 above.

(11) Regular Tax: (Calculated)

The tax computed from the rate schedules or tax tables on the amount on row 10 above.

(12) Alternative Capital Gains Tax: (Calculated)

The alternative capital gains tax computed using as taxable income, the amount on row 10 above. See IRC § 911(f) for adjustments to capital gain amounts when net capital gain exceeds taxable income.

(13) Lower Tax: (Calculated)

The lesser of row 11 or row 12, above. If the capital gains tax calculation does not apply this row will be the amount on row 11.

(14) Regular Tax on Exclusion: (Calculated)

The tax computed from the rate schedules or tax tables on the amount on row 5 above.

(15) Net Regular Tax: (Calculated)

The excess, if any, of the amount on row 13 over the amount on row 14. See IRC § 911(f).

(16) (Blank)

(17) Alternative Minimum Tax

Heading for rows 18 through 25 below.

(18) Taxable Excess: (Calculated)

The amount from the Taxable Excess row of the **Alternative Minimum Tax** worksheet.

(19) Income and Housing Exclusion: (Calculated)

The amount from row 5 above.

(20) Total of Taxable Excess and Exclusion: (Calculated)

The sum of rows 18 and 19 above.

(21) Tentative Minimum Tax from Schedule: (Calculated)

The tentative minimum tax computed on the amount on row 20 above.

(22) Tentative Minimum Alternative Capital Gains Tax: (Calculated)

The AMT alternative minimum capital gains tax computed by using as the taxable excess the amount on row 20 above. See IRC § 911(f) for adjustments to capital gain amounts when net capital gain exceeds taxable income.

In computing the Tentative Minimum Alternative Capital Gains in cases described in IRC § 911 (f)(2)(B) tax the program treats the reference in IRC § 55(b)(3)(C) to the excess described in IRC § 1(h)(1)(C)(ii) as a reference to such excess as determined under the rules of subparagraph (A) of IRC § 911(f)(2). See IRC § 911(f)(2)(B)(ii).

(23) Lower Tax: (Calculated)

The lesser of row 21 or 22, above. If the capital gains tax calculation does not apply this row will be the amount on row 21.

(24) Tentative Minimum Tax on Exclusion: (Calculated)

The tentative minimum tax on the amount on row 5 above.

(25) Net Tentative Minimum Tax: (Calculated)

The excess, if any, of the amount on row 23 over the amount on row 24.

(26) (Blank)

(27) Minimum Tax Credit

Heading for rows 28 through 35 below.

(28) Taxable Excess with Only Exclusion Items: (Calculated)

The amount from the Taxable Excess row of the **Minimum Tax Credit** worksheet.

(29) Income & Housing Exclusion: (Calculated)

The amount from row 5 above.

(30) Total of Taxable Excess and Exclusion: (Calculated)

The sum of rows 28 and 29 above.

(31) Tentative Minimum Tax From Schedule: (Calculated)

The tentative minimum tax on the amount on row 30, above.

(32) Tentative Minimum Alternative Capital Gains Tax: (Calculated)

The AMT alternative minimum capital gains tax computed by using as the taxable excess the amount on row 30 above. See IRC § 911(f) for adjustments to capital gain amounts when net capital gain exceeds taxable income.

(33) Lower Tax: (Calculated)

The lesser of row 31 or row 32. If the capital gains tax calculation does not apply this row will be the amount on row 31.

(34) Tentative Minimum Tax on Exclusion: (Calculated)

The tentative minimum tax on the amount on row 5 above.

(35) Net Tentative Minimum Tax with only Exclusion Items: (Calculated)

The excess, if any, of row 33 over row 34.

NOTE 1

The program does not include in the amounts on rows 1 and 3 above, the housing deduction allowed by IRC § 911(c)(4). This may produce a difference between the results produced by the program and the results computed on the IRS worksheet in the 1040 Instructions, since that worksheet appears to include the housing deduction in the gross up amount. We cannot find any statutory or other authority for the IRS's position on this issue which in most, if not all cases appears to be taxpayer adverse.

If you wish the program to follow the IRS approach, you may enter the housing deduction on row 2 or row 4, depending on whether the deduction pertains to the taxpayer or the spouse.

CREDITS

Credits

(1)	Nonrefundable Credits:
(2)	2001 10% Bracket Credit
(3)	Dependent Care Credit
(4)	Adoption Credit
(5)	Child Tax Credit
(6)	Hope Scholarship & Lifetime Credits
(7)	Credit for Elective Deferrals & IRAs
(8)	Nonbusiness Energy Property Credit
(9)	Residential Energy Efficient Property Credit
(10)	D.C. Homebuyer Credit
(11)	Elderly Credit
(12)	Mortgage Interest Credit
(13)	Electric Vehicle Credit
(14)	**Total Personal Credits**
(15)	Foreign Tax Credit
(16)	Individual Activities
(17)	Miscellaneous Nonrefundable Credits
(18)	Empowerment Zone Employment Credit
(19)	New York Liberty Zone Business Employee Credit
(20)	Specified Credits
(21)	2010 Small Business Credits
(22)	Other General Business Credit
(23)	Individual Activities
(24)	**Total**
(25)	Minimum Tax Credit
(26)	**Total Nonrefundable Credits**
(27)	Payments:
(28)	Withhold & Estimated Tax Payments
(29)	Payment With Extension
(30)	Refundable Child Credit
(31)	Refundable Hope Credit
(32)	Making Work Pay Credit
(33)	Refundable Minimum Tax Credit
(34)	Earned Income Credit
(35)	Affordable Care Credit
(36)	2008 Recovery Rebate Credit
(37)	2020 Recovery Rebate Credit
(38)	Self-employed Sick Leave Credit
(39)	Self Employed Family Leave Credit
(40)	First-time Homebuyer Credit
(41)	Refundable Adoption Credit
(42)	Other Refundable Credits
(43)	Federal Fuels Tax Credit
(44)	**Total Payments**
(45)	Other Credits:
(46)	AMT Foreign Tax Credit
(47)	Individual Activities
(48)	AMT FTC w/only Exclusion Preferences and Adjustments

(1) Nonrefundable Credits

Heading for rows 2 through 26, below.

(2) 2001 10% Bracket Credit

The 5% credit allowed in 2001 in lieu of the 10% bracket. Enter the amount after all limitations and after reduction for any refund check received, or press

W for the **2001 10% Bracket Credit** worksheet to have the program compute the credit. In multiple year situations that include years 2000 and 2001, the subworksheet will compute both the credit and the refund check that the taxpayer should receive.

(3) Dependent Care Credit

The credit allowed by IRC § 21 for dependent care expenses. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or use the **Dependent Care Exclusion & Credit** worksheet to have the program compute the credit.

(4) Adoption Credit

The credit allowed by IRC § 23 for adoption expenses. Enter the amount after all limitations except the tax liability limitation in IRC § 26 (IRC § 23(b)(4) for years after 2005). As an alternative, press W to access the **Adoption Exclusion & Credit** worksheet, which computes the exclusion for employer-provided adoption assistance and the credit for adoption expenses.

This row will be N/A for 2010 and 2011 because the credit is refundable in those years. See the Refundable Adoption Credit row, below.

(5) Child Tax Credit

The child tax credit allowed by IRC § 24. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or press W for the **Child Tax Credit** worksheet to have the program compute the credit. Any amount entered directly on this row should be the nonrefundable portion of the credit. The refundable portion should be entered on the "Refundable Child Credit" row, below, or (in certain cases) on the **Earned Income Credit** worksheet.

Because of the unusual way in which this credit is computed, use of the subworksheet is strongly recommended.

(6) Hope Scholarship & Lifetime Learning Credits

The credits allowed by IRC § 25A for education expenses. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or press W for the **Education Expenses** worksheet to have the program compute the credit.

(7) Credit for Elective Deferrals and IRAs

The credit allowed by IRC § 25B for contributions to 401(k)s, IRAs, and other elective deferral plans. Enter the amount after all limitations except the tax liability limitation in IRC § 25B(g) or press W for the **Credit for Elective Deferrals and IRAs** worksheet to have the program compute the credit.

(8) Nonbusiness Energy Property Credit

The credit allowed by IRC § 25C for windows, insulation and qualified energy efficiency improvements. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or press W for the **Nonbusiness Energy Property** worksheet to have the program compute the credit.

(9) Residential Energy Efficient Property Credit

The credit allowed by IRC § 25D for photovoltaic property, solar water heating property, and qualified fuel cells. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or press W for the **Residential Energy Efficient Property Credit** worksheet to have the program compute the credit.

(10) D.C. Homebuyer Credit

The credit allowed by IRC § 1400C to first-time homebuyers of a principal residence in the District of Columbia. Enter the amount after all limitations except the tax liability limitation in IRC § 26 or press W for the **DC Homebuyer Credit** worksheet to have the program compute the credit.

(11) Elderly Credit

The credit for the elderly as specified in IRC § 22. Enter the credit after all limitations except the tax liability limitation in IRC § 26.

(12) Mortgage Interest Credit

The mortgage interest credit as specified in IRC § 25. Enter the credit after all limitations and carryovers except the tax liability limitation in IRC § 26.

(13) Electric Vehicle Credits

The sum of the following credits:

- The nonbusiness portion of the section IRC § 30D Plug-in Electric Vehicle Credit (2009–2014)
- The nonbusiness portion of the IRC § 30 Certain Plug-in Electric Vehicles Credit
- The nonbusiness portion of the IRC § 30B Alternative Motor Vehicle Credit (for years after 2008)

Enter the credits after all limitations, except the tax liability limit in IRC § 26 or the specific credit section.

(14) Total Personal Credits (Calculated)

The sum of the following rows:

- row 2 "2001 10% Bracket Credit"
- row 3 "Dependent Care Credit"
- row 4 "Adoption Credit"
- row 5 "Child Tax Credit"
- row 6 "Hope Scholarship & Lifetime Credits"
- row 7 "Credit for Elective Deferrals & IRAs"
- row 1 "Nonrefundable Credits:"
- row 9 "Residential Energy Efficient Property Credit"
- row 10 "D.C. Homebuyer Credit"
- row 11 "Elderly Credit"
- row 12 "Mortgage Interest Credit"
- row 13 "Electric Vehicle Credit"

(15) Foreign Tax Credit

The credit for taxes imposed by foreign countries and U.S. possessions as provided by IRC § 27(a) for purposes of the regular tax. The amount entered must be after all limitations.

Note. Enter the foreign tax credit as limited for purposes of the alternative minimum tax separately on the "AMT Foreign Tax Credit" row, below.

As an alternative, you may enter the credit described on this row on the **Individual Activity** worksheets accessed from the row below.

(16) Foreign Tax Credit – Individual Activities

Foreign tax credit from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(17) Miscellaneous Nonrefundable Credits

All nonrefundable credits other than those entered above, the minimum tax credit and the general business credit. Enter the total after all limitations. Include here:

- **For years before 2006**, the credit for nonconventional fuels provided by IRC § 29.
- The credit for qualified electric vehicles provided by IRC § 30.

- The nonbusiness portion of the alternative motor vehicle credit provided by IRC § 30B. (For years before 2009). See IRC § 30B(g)(2).

- The nonbusiness portion of the alternative fuel vehicle refueling property credit provided by IRC § 30C. See IRC § 30C(d)(2).

(18) Empowerment Zone Employment Credit

The credit allowed by IRC § 1396 which is subject to special limits as provided by IRC § 38(c)(2). Enter the credit after all limitations other than the limitation of § 38(c)(2). See IRC § 39(d)(4).

(19) New York Liberty Zone Business Employee Credit

The portion of work opportunity credit under IRC § 51 determined under IRC § 1400L(a), which is subject to special limits as provided by IRC § 38(c)(3). Enter the credit after all limitations other than the limitation of § 38(c)(3). For years before 2001, this row will be N/A.

Note. It is not clear that a carryback of the New York Liberty Zone credit from 2002 to 2001 is allowed. If it is allowed, it is not clear whether or not it is entitled to the special limit allowing offset against the tentative minimum tax. This is because the effective date of the special limit is tax years ending after December 31, 2001. Job Creation and Worker Assistance Act of 2002, Section 301(b)(1). IRS Form 8884 for 2002 states that you should use Form 8884 for 2001 for carrybacks and the form for 2001 does contain the special limit, but this may apply only to fiscal year taxpayers. If a carryback to 2001 is allowed, but the special limit does not apply to such carrybacks, such carrybacks should be included on row 22 "Other General Business Credit" and not on this row.

(20) Specified Credits

The credits specified in IRC § 38(c)(4)(B). These are:

- for taxable years beginning after December 31, 2004, the credit determined under section 40 (Alcohol Fuels).

- the credit determined under section 42 (low income housing) to the extent attributable to buildings placed in service after December 31, 2007.

- portions of the credit determined under section 45 (Renewable Sources Electricity).

- the credit determined under section 45B (Employer Taxes on Tips).

- the credit determined under section 45G (Railroad Track Maintenance).

- the credit determined under section 45D (New Markets) (subject to certain limitations).

- the credit determined under section 45R (Employee Health Insurance).

- the credit determined under section 46 (to the extent that such credit is attributable to the energy credit determined under section 48 (Energy).

- the credit determined under section 46 to the extent that such credit is attributable to the rehabilitation credit under section 47, but only with respect to qualified rehabilitation expenditures properly taken into account for periods after December 31, 2007.

- the credit determined under section 51 (Work Opportunity) for 2007 or later.

- the research credit for an eligible small business under section 38(c)(5)) for 2016 or later.

(21) 2010 Small Business Credits:

Current year 2010 General Business credits of eligible small businesses, and carrybacks of such credits. In general an eligible small business is one that has average annual gross receipts for the preceding 3 years not exceeding $50,000,000. See IRC § 38(c)(5).

For years after 2010 and before 2005, this row will be N/A.

(22) Other General Business Credit

The credit provided by IRC § 38. Include the total of the following:

- Investment credit provided by IRC § 46(a)

- Work Opportunity ("targeted jobs" for years before 1995) credit provided by IRC § 51(a) for years 2006 or earlier

- Research credit provided by IRC § 41(a)

- Alcohol Fuels credit provided by IRC § 40(a)

- Low Income Housing credit provided by IRC § 42(a)

- Enhanced Oil Recovery credit provided by IRC § 43(a)

- Disabled Access credit provided by IRC § 44(a)

- Empowerment Zone Employment credit provided by IRC § 1396

- Renewable Electricity Production credit

- Credit for Contributions to Certain Community Development Corporations (§ 13311 of the Revenue Reconciliation Act of 1993)

- Employer Social Security credit (IRC § 45B)

- Indian Employment credit (IRC § 45A(a))

- Orphan Drug credit provided by IRC § 45C

- Employer Provided Child Care credit provided by IRC § 45F
- New Markets credit provided by § 45D(a)
- Small Employer Pension Plan Startup Costs credit provided by IRC § 45E
- Welfare-to-Work credit provided by IRC § 51A(a)
- The railroad track maintenance credit determined under § 45G(a)
- The biodiesel fuels credit determined under § 40A(a)
- The low sulfur diesel fuel production credit determined under § 45H(a)
- The marginal oil and gas well production credit determined under section 451(a)
- The distilled spirits credit determined under section 5011(a)
- The advanced nuclear power facility production credit determined under section 45J(a)
- For years after 2005, the nonconventional source production credit determined under section 45K(a)
- The new energy efficient home credit determined under section 45L(a)
- The energy efficient appliance credit determined under section 45M(a)
- The business portion of the alternative motor vehicle credit determined under section 30B. See IRC § 30B(g)(1)
- The business portion of the alternative fuel vehicle refueling property credit determined Alternative Fuel Vehicle Refueling Property Credit under section 30C. See IRC § 30C(d)(1)).
- The business portion of the New Qualified Plug-In Electric Drive Motor Vehicle Credit determined under section 30D. See IRC § 30D(c)(1) for years before 2010 and IRC § 30D((d)(1) for years after 2009.
- The business portion of the Certain Plug-In Electric Vehicles Credit under section 30. See IRC § 30(c)(1)
- The Hurricane Katrina housing credit determined under IRC § 1400P(b). See IRC § 1400P(b)
- The employee retention credit for employers affected by Hurricanes Katrina, Rita or Wilma. See IRC § 1400R
- The Hurricane Rita employee retention credit determined under IRC § 1400R(b)
- The Hurricane Wilma employee retention credit determined under IRC § 1400R(c)
- The mine rescue team training credit determined under IRC § 46N(a)

- In the case of an eligible agricultural business (as defined in section 45O(e)), the agricultural chemicals security credit determined under section 45O(a)

- The differential wage payment credit determined under section 45P(a)

- The carbon dioxide sequestration credit determined under section 45Q(a)

- The portion of the new qualified plug-in electric drive motor vehicle credit to which section 30D(c)(1) applies

- The small employer health insurance credit determined under section 45R

Generally enter these credits after all limitations. The program automatically applies the limitations in IRC § 38(c)(1), but not other general business credit limitations.

Do not include the Empowerment Zone Employment Credit, the New York Liberty Zone Business Employee Credit, the credits specified in IRC § 38(c)(4)(B), or the 2010 small business credits. Instead use rows 18, 19, 20, and 21, respectively, for those credits.

For married filing separately and estates and trusts, the program uses $25,000 to compute the limitation.

For an estate or trust, the program does not handle the reduction of the $25,000 for the portion allocable to the beneficiaries.

However, when running a taxpayer and spouse analysis, the program uses $12,500 for married filing separately if both the taxpayer and the spouse have a general business credit as indicated by amounts entered on rows 18, 19, 20, 22, or 23. See Form 3800 instructions for line 13. If the other dollar amounts apply, you must compute the limitation on the credit before entering the amount here.

Note. To properly reflect the tax on the return as it should be originally filed, do not include suspended research credits. See the Tax Relief Extension Act of 1999, § 502(d).

As an alternative, you may enter the credit described on this row on the **Individual Activity** worksheets accessed from the row below.

(23) Other General Business Credit – Individual Activities

General business credit from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(24) Total

The sum of the following rows, above:

- row 14 "**Total Personal Credits**"
- row 15 "Foreign Tax Credit"
- row 16 "Individual Activities"
- row 17 "Miscellaneous Nonrefundable Credits"
- row 18 "Empowerment Zone Employment Credit"
- row 19 "New York Liberty Zone Business Employee Credit"
- row 20 "Specified Credits"
- row 21 "2010 Small Business Credits"
- row 22 "Other General Business Credit"
- row 23 "Individual Activities"

(25) Minimum Tax Credit

The credit against the regular tax when the alternative minimum tax exceeds the regular tax due to deferral preferences.

In multiple-year situations, the program calculates this credit automatically. The credit is not available for pre-1988 years. See IRC § 53.

No entry may be made on this row. Instead, access the subworksheet to adjust exclusion preferences computed by the program, and enter the credit in the first year of each case of a multiple-year situation or in all cases of a multiple case or minor child situation.

Note that this credit is applied automatically by the program in multiple-year situations. See **NOTE 1** for the **Minimum Tax Credit** worksheet on page 583.

(26) Total Nonrefundable Credits (Calculated)

The sum of rows 24 "**Total**" and 25 "Minimum Tax Credit".

(27) Payments

Heading for rows 28 through 44, below.

(28) Withholding and Estimated Tax Payments

All payments and refundable credits other than the earned income credit and the credit for Federal tax on fuels. Include the following:

- taxes withheld from wages
- excess FICA payments
- payments of estimated taxes
- overpayments applied from earlier year returns.

Enter the fuels credit as a negative number on the "Tax on IRA and Other Taxes" row on the **Self-employment and Other Taxes** worksheet.

Enter total withholding and estimated taxes here or use the **Withholding, Estimated & Penalty** worksheet if you wish to enter quarterly payments and have the program compute the underpayment penalty.

Note. Activating the **Withholding, Estimated and Penalty** worksheet automatically may cause the program to compute the underpayment penalty. If the penalty has been computed, it will appear on the **Self-Employment & Other Taxes** worksheet. If, after causing the penalty to be computed, you decide you do not want it in the calculations, you may answer "No" on the "Compute Underpayment Penalty" row on the **Withholding, Estimated and Penalty** worksheet and the penalty will be zeroed out. Alternatively, you may kill the worksheet and manually zero out the penalty on the **Self-Employment and Other Taxes** worksheet.

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(29) Payment with Extension

The amount paid with Form 4868. Enter the amount in the year to which it applies, not the year in which it was paid. This row can be used to enter withholding and estimated payments if you do not want the program to compute the underpayment penalty. In such case, you should kill the **Withholding, Estimated & Penalty** worksheet accessed from the preceding row.

(30) Refundable Child Credit

The refundable portion of the child tax credit allowed by IRC § 24 to taxpayers with three or more qualifying children or (for years after 2000) with earned income over a certain amount. Enter the amount here or press W to use the **Child Tax Credit** worksheet to enter the details and have the program compute the limitations, as well as the refundable and nonrefundable portions of the credit.

Because of the unusual way in which this credit is computed, use of the subworksheet is strongly recommended.

(31) Refundable Hope Credit

The portion of the Hope Credit allowed that is refundable. See IRC § 53(e). If you access the **Education Expenses** worksheet, the program will compute the credit and the refundable portion automatically.

(32) Making Work Pay Credit

The Making Work Pay credit allowed in 2009 and 2010. If you access the **Making Work Pay Credit** worksheet, the program will compute the credit automatically. The **Making Work Pay Credit** worksheet must remain active and cannot be killed, but you may specify on it that the taxpayer does not qualify for the credit.

(33) Refundable Minimum Tax Credit

The portion of the Minimum Tax Credit allowed that is refundable. See IRC § 53(e).

No entry may be made on this row. Instead, access the subworksheet to adjust exclusion preferences computed by the program and enter the credit in the first year of each case of a multiple-year situation or in all cases of a multiple case or minor child situation.

(34) Earned Income Credit

Enter the earned income credit provided by IRC § 32. If you access the subworksheet, the program will compute the credit automatically.

Note. The taxpayer's earned income must appear on either the "Wages" row or the "Self-employment Income" row of the **Ordinary Income** worksheet for the earned income credit to be computed.

(35) Affordable Care Credit

The amount of the Affordable Care Credit calculated on the **Affordable Care Credit and Shared Responsibility Payment** worksheet. For years before 2014, this row will be N/A.

(36) 2008 Recovery Rebate Credit

The credit for the rebate allowed in 2008 if the taxpayer did not receive a cash rebate or received one that was less than the proper amount computed on the basis of 2008 income items. Enter the amount after all limitations and after reduction for any refund check received, or press W for the **2008 Recovery Rebate Credit** worksheet to have the program compute the credit. In multiple year situations that include years 2007 and 2008, the subworksheet will compute both the credit and the refund check that the taxpayer should receive.

(37) 2020 Recovery Rebate Credit

For 2020, the recovery rebate credit under the CARES Act, HR748, IRC § 6428. For all other years this amount will equal zero.

(38) Self-employed Sick Leave Credit

For 2020 and later, the Self-employed sick leave credit under the Families First Coronavirus Response Act, § 7002. For all other years this amount will equal zero.

(39) Self Employed Family Leave Credit

For 2020, the Self-employed family leave credit under the Families First Coronavirus Response Act, § 7004. For all other years this amount will equal zero.

(40) First-time Homebuyer Credit

The credit for first-time purchases of a residence allowed in 2008 or 2009. Enter the amount after all limitations or press W for the **First-time Homebuyer Credit** worksheet to have the program compute both the credit and the recapture of the credit in future years.

(41) Refundable Adoption Credit

The adoption credit in years 2010 and 2011. Enter the amount after all limitations or press W for the **Adoption Exclusion and Credit** worksheet to have the program compute the credit.

Do not make any entry on this row for years before 2010 or after 2011.

(42) Other Refundable Credits

The sum of:

- The health insurance credit provided by IRC § 35. Enter 65 percent of the amount paid by the taxpayer for coverage of the taxpayer and qualifying family members under qualified health insurance for eligible coverage months beginning in the taxable year. Until January 1, 2011, the percentage is 80% for coverage months beginning on or after the first day of the first month beginning 60 days after the date of the enactment of the American Recovery and Reinvestment Tax Act of 2009.

- In 2009, the credit for certain government retirees provided by Section 2202 of the American Recovery and Reinvestment Tax Act of 2009. Enter $250 or $500 in the case of a joint return where both spouses are eligible individuals. The credit does not apply to social security or veterans benefits recipients who are receiving direct checks. Note: Any credit entered here must reduce the Making Work Pay credit. See the **Making Work Pay Credit** worksheet.

- For 2016 and later the payroll tax credit portion of the research credit for a qualified small business as defined by IRC § 41(h)(3).

For years before 2002, this row will be N/A.

(43) Federal Fuels Tax Credit

The credit for the federal tax paid on fuels provided by IRC § 34. Enter the total for the year after all limitations. The amount entered on this row is included in the Total Payments row, below, and also reduces the amount of tax to which the underpayment penalty applies.

(44) Total Payments (Calculated)

The sum of the following rows, above:

- row 28 "Withhold & Estimated Tax Payments"
- row 29 "Payment With Extension"
- row 30 "Refundable Child Credit"
- row 31 "Refundable Hope Credit"
- row 32 "Making Work Pay Credit"
- row 33 "Refundable Minimum Tax Credit"
- row 34 "Earned Income Credit"
- row 35 "Affordable Care Credit"
- row 36 "2008 Recovery Rebate Credit"
- row 40 "First-time Homebuyer Credit"
- row 41 "Refundable Adoption Credit"
- row 42 "Other Refundable Credits"
- row 43 "Federal Fuels Tax Credit"

(45) Other Credits

Heading for rows 46 through 48, below.

(46) Alternative Minimum Tax Foreign Tax Credit

The foreign tax credit as limited by IRC § 59(a) for purposes of the alternative minimum tax. Enter the amount after all limitations, except the IRC § 59(a)(2) limit, which the program applies automatically in years before 2005. (The limit no longer applies in years after 2004.) Disregard the fact that the foreign tax credit is also entered on row 15 "Foreign Tax Credit" above since the program treats the two items as separate and distinct. It uses the row 15 amount for purposes of the regular tax as defined in IRC § 55(c)(1), and the amount on this row for purposes of the alternative minimum tax. Include here any carrybacks or carryovers provided by IRC § 59(a)(2)(B) (applicable to years before 2005).

543

As an alternative, you may enter the credit described on this row on the **Individual Activity** worksheets accessed from the row below.

(47) AMT Foreign Tax Credit – Individual Activities

AMT foreign tax credit from individual activities. See the description for the preceding row. No entry may be made on this row. Instead, access the **Individual Activity** worksheets.

(48) Alternative Minimum Tax Foreign Tax Credit computed with onlyExclusion Preferences and Adjustments

The foreign tax credit as limited under IRC § 59(a) computed for alternative minimum tax purposes using only exclusion (permanent difference) items. This item is used in the computation of the minimum tax credit. See IRC § 53.

2001 10% BRACKET CREDIT

2001 10% Bracket Credit
(1) **Credit for 10% Bracket**
(2) Refund Check
(3)   Adjustment to Refund Check
(4) **Net 10% Bracket Credit**

Caution! The Economic Growth and Tax Relief Reconciliation Act of 2001 has raised numerous questions of interpretation concerning the credit computed by this worksheet and the refund checks that will be or have been distributed. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Credit for 10% Bracket (Calculated)

The credit allowed in lieu of the 10% bracket for 2001. The credit is computed as 5% of the first $6,000 ($12,000 for married filing jointly and Qualifying Widow(er), $10,000 for head of household) of the amount on the "Taxable Income" row of the **Main Worksheet**. Estates and Trusts do not qualify. Nor do taxpayers who must itemize because they are supported as indicated on the "Must Itemize Supported" row of the **Filing Status** worksheet. See IRC § 6428. However, supported taxpayers who did not receive an advance tax payment in 2001 are entitled to the benefit of the 10% bracket in 2001, which is incorpo-

rated by the program into the calculation of the tax. See the **Filing Status** worksheet.

(2) Refund Check

The refund check received or receivable by the taxpayer pursuant to IRC § 6428(e). In a multiple-year analysis, if 2001 is **not** the first year in the case, the program will compute this amount on the same basis as row 1 is computed, but using year 2000 amounts and limiting the amount to the excess, if any, of the year 2000 regular tax and alternative minimum tax over the sum of all other nonrefundable year 2000 credits. Otherwise, this amount must be entered. Enter the amount as a positive number.

(3) Adjustment to Refund Check

Any adjustment to the amount entered or computed by the program on row 2, above. If the program computed the amount and the taxpayer did not receive the check that he or she was entitled to, enter the full row 2 amount as a negative number. If the taxpayer received more than the amount on row 2, enter the adjustment as a positive number.

(4) Net 10% Bracket Credit (Calculated)

Row 1 less the sum of rows 2 and 3 (limited to not less than zero). The amount on this row cannot be less than zero and is posted by the program to the "2001 10% Bracket Credit" row of the **Credits** worksheet.

DEPENDENT CARE EXCLUSION & CREDIT

Dependent Care Exclusion & Credit
(1)   # of Qualifying Individuals (2)   MFS Treat as Single (Y/N)? (3)   Current Year Expenses Incurred (4)   Amount Paid Next Year (5)   Taxpayer: (6)   Employer Provided Benefit (7)   **Earned Income** (8)   Earned Income Adjustment (9)   **Taxpayer Benefit Inclusion** (10) Spouse: (11) Employer Provided Benefit (12) **Earned Income** (13) Earned Income Adjustment (14) **Spouse Benefit Inclusion** (15) **Current Year Dependent Care Credit** (16) Prior Year Credit Adjustment (17) Other Dependent Care Credit Adj (18) **Total Dependent Care Credit**

(1) # of Qualifying Individuals

The number of qualifying individuals as defined in IRC § 21(b)(1). Such individuals include:

- A dependent of the taxpayer who is under the age of 13 and with respect to whom the taxpayer is entitled to a deduction under IRC § 151(c),
- A dependent of the taxpayer who is physically or mentally incapable of caring for himself, and
- The spouse of the taxpayer, if he or she is physically or mentally incapable of caring for himself or herself.

(2) Married Filing Separately Treat as Single (Y/N)?

If the taxpayer is married filing separately but is to be treated as a single taxpayer for purposes of the credit and the exclusion, enter "Y" for "Yes". To be treated as single, the taxpayer must have lived apart from his/her spouse during the last six months of the year, the qualifying person must have lived in his/her home for more than half of the year, and the taxpayer must have provided over half of the cost of the home. The answer on this row has no effect unless "Separate" is the filing status on the **Main Worksheet**.

(3) Current Year Expenses Incurred

Total amount of qualified employment related expenses incurred in the current year for the care of the qualifying individuals. Include expenses paid by the taxpayer's employer either directly or in kind. See IRC § 21(b)(2) and the instructions for Form 2441.

(4) Amount Paid Next Year

The amount of the current year expenses entered on the row above that were paid in the following year. The dependent care exclusion is based on expenses incurred, but the credit only applies to expenses incurred and paid in the current year. Amounts paid in the following year form the basis of a possible credit adjustment which is shown on row 16 "Prior Year Credit Adjustment", below, and computed automatically in all years after the first, in multiple-year situations.

(5) Taxpayer:

Heading for rows 6 through 9, below.

(6) Taxpayer's Employer Provided Benefit

The taxpayer's employer-provided dependent care assistance benefits received for the current year. The amount should be reported in box 10 of the

taxpayer's Form(s) W-2. See IRC § 129. Include the fair market value of benefits provided in kind. When running a taxpayer and spouse analysis, enter the taxpayer's employer provided benefit on this row in the Taxpayer column and the spouse's employer provided benefit on the Spouse's Employer Provided Benefit row, below, in the Spouse column.

(7) Taxpayer's Earned Income (Calculated)

The taxpayer's earned income computed as the sum of the taxpayer's wages (other than the dependent care inclusion) from the **Wages** worksheet, computed without regard to the exclusion for employer-provided adoption assistance, and the taxpayer's self-employment income (without regard to statutory employee expenses) from the **Self-Employment Income and Loss** worksheet, minus the taxpayer's self-employment tax deduction. If the **Self-employment Income and Loss** worksheet is not active, then the program uses, as self-employment income, the amount on the "Self-employment Income" row of the **Ordinary Income** worksheet.

(8) Taxpayer's Earned Income Adjustment

Any adjustment required to the amount of taxpayer's earned income computed by the program on the row above. The program computes the amount computed as the sum of the taxpayer's wages (other than the dependent care inclusion) and self-employment income, computed without regard to statutory employee expenses, minus the taxpayer's self-employment deduction.

If the credit and/or exclusion is being computed for the taxpayer's spouse, and the taxpayer was a student or disabled, then his or her income is considered to be at least $250 per month ($500 if there are two or more qualifying individuals cared for). See IRC §§ 21(d)(2) and 129(b)(2). Include on this row any increase in earned income required by this rule.

When running a taxpayer and spouse analysis, enter the taxpayer's earned income adjustment on this row in the Taxpayer column and the spouse's earned income adjustment on the Spouse's Earned Income Adjustment row, below, in the Spouse column. See **NOTE 2**, below.

(9) Taxpayer Benefit Inclusion (Calculated)

The amount of the benefit on row 6 above in excess of the dependent care exclusion, which is computed as follows:

For married taxpayers filing jointly, the amount of the exclusion is computed as the least of the following amounts:

- the expenses on row 3, above,
- the taxpayer's earned income as adjusted by the amount on row 8, above,

- the spouse's earned income as adjusted by the amount on row 13, below,

- the sum of the taxpayer's employer-provided benefit on row 6, above, and the spouse's employer-provided benefit on row 11, below, **or**

- $5000.

For single taxpayers, heads of household, and married filing separately treated as single (see row 2 above), the exclusion is the least of:

- the expenses on row 3, above,

- the taxpayer's earned income as adjusted by the amount on row 8, above,

- the taxpayer's employer-provided benefit on row 6, above, **or**

- $5000.

For married filing separately not treated as single, the amount of the exclusion is the least of:

- the expenses on row 3, above,

- the taxpayer's earned income as adjusted by the amount on row 8, above,

- the spouse's earned income as entered on row 13, below,

- the taxpayer's employer-provided benefit on row 6, above, **or**

- $2500.

For married filing jointly, the program allocates the inclusion between the spouses in proportion to the employer-provided benefits.

The amount on this row is posted automatically to the "Taxpayer's Dependent Care Inclusion" row of the **Wages** subworksheet.

(10) Spouse:

Heading for rows 11 through 14, below.

(11) Spouse's Employer-Provided Benefit

The spouse's employer-provided dependent care assistance benefits received for the current year. The amount should be reported in box 10 of the spouse's Form(s) W-2. See IRC § 129. Include the fair market value of benefits provided in kind. For taxpayers who are single, heads of household, or married filing separately, make no entry on this row. When running a taxpayer and spouse analysis, enter the spouse's employer-provided benefit on this row in the Spouse column and the taxpayer's employer-provided benefit on the Taxpayer's Employer-Provided Benefit row above in the Taxpayer column.

(12) Spouse's Earned Income (Calculated)

The spouse's earned income computed as the sum of the spouse's wages (other than the dependent care inclusion) from the **Wages** worksheet, computed without regard to the exclusion for employer-provided adoption assistance, and the taxpayer's self-employment income (without regard to statutory employee expenses) from the **Self-Employment Income and Loss** worksheet, minus the taxpayer's self-employment tax deduction. For taxpayers other than those married filing jointly, this row should be zero.

(13) Spouse's Earned Income Adjustment

Any adjustment required to the amount of the spouse's earned income computed by the program on the row above. The amount computed by the program is the sum of the spouse's wages (other than the dependent care inclusion) and self-employment income, computed without regard to statutory employee expenses, minus the spouse's self-employment deduction.

If the credit and/or exclusion is being computed for the taxpayer and the spouse was a student or disabled then his or her income is considered to be at least $250 per month ($500 if there are two or more qualifying individuals cared for). See IRC §§ 21(d)(2) and 129(b)(2).

Include on this row any increase in earned income required by this rule. Also for taxpayers who are married filing separately and not treated as single (see the MFS Treat as Single row, above), enter the total amount of the spouse's earned income.

When running a taxpayer and spouse analysis, enter the spouse's earned income adjustment on this row in the Spouse column and the taxpayer's earned income adjustment on the Taxpayer's Earned Income Adjustment row, above, in the Taxpayer column. See **NOTE 2**, below.

(14) Spouse Benefit Inclusion (Calculated)

The amount of the benefit on row 11 above in excess of the dependent care exclusion. For married taxpayers filing jointly, the amount of the exclusion is computed as the least of the following amounts:

- expenses on row 3, above,
- taxpayer's earned income as adjusted by the amount on row 8, above,
- spouse's earned income as adjusted by the amount on row 13, above,
- sum of the taxpayer's employer-provided benefit on row 6, above, and the spouse's employer-provided benefit on row 11, above, **or**
- $5000.

For married filing jointly, the program allocates the inclusion between the spouses in proportion to the employer-provided benefits.

The amount on this row is posted automatically to the "Spouse's Dependent Care Inclusion" row of the **Wages** subworksheet.

(15) Current Year Dependent Care Credit (Calculated)

The dependent care credit computed as a percentage of the least of the qualified expenses, the dependent care credit limit, or earned income. Qualified expenses are the amount on row 3 minus any amount paid next year on row 4, minus any dependent care exclusion as computed by the program.

The dependent care credit limit is $2,400 ($3,000 for years after 2002) if there is one qualifying individual on row 1 or $4,800 ($6,000 for years after 2002) if there are two or more such individuals. The limit is also reduced by any dependent care exclusion as computed by the program.

Earned income for married filing jointly, or married filing separately not treated as single (see row 2 above) is the lesser of the taxpayer's or the spouses earned income. For all others, earned income is the taxpayer's earned income. For purposes of the credit, the program computes the taxpayer's earned income as the sum of rows 6, 7, and 8 above; the spouse's earned income is computed as the sum of rows 11, 12, and 13. The percentage applied varies from 30% (35% for years after 2002) to 20% depending on adjusted gross income. See IRC § 21.

(16) Prior Year Credit Adjustment

The increase in the dependent care credit for expenses paid in the current year but incurred in the prior year. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. See IRS Pub. 503.

(17) Other Dependent Care Credit Adjustment

Any adjustment to the dependent care credit other than the prior year credit adjustment entered on the row above. This row is used primarily to handle entries for the credit when loading files created with versions of the program prior to 96.2.

(18) Total Dependent Care Credit (Calculated)

The sum of rows 15 through 17, above. The amount is posted automatically to the Dependent Care Credit row of the **Credits** subworksheet.

NOTE 1

For purposes of computing the credit, the program automatically reduces the expenses incurred in the current year as entered on row 3 by the total of the employer-provided benefits on rows 6 and 11. Thus, the program assumes that the expenses incurred include any employer-provided benefits regardless of when the benefits were actually paid for. This is consistent with IRC § 129(a)(2)(B), which provides that the excess of employer-provided benefits over the amount of the exclusion limit is to be included in the year the services were provided, even if the payment by the employer occurs in a subsequent year.

Note. For these years, the taxpayer could elect to have the rule of IRC § 129(a)(2)(B) applied, but if he did not, then the rules as stated above applied.

NOTE 2

When running a taxpayer/spouse analysis, the program uses the amounts entered on the taxpayer rows of the **Wages** and **Self-employment Income** worksheets in the Taxpayer column in computing the taxpayer's earned income, and the amounts entered on the spouse rows of these worksheets in the Spouse column in computing the spouse's earned income. The program assumes that the taxpayer and spouse are married to each other. Therefore, if you are examining the effects of a divorce situation, the credit and inclusion produced by the program in the Taxpayer and Spouse columns may need to be adjusted manually, especially if one of the parties is planning on remarrying.

For other analysis types, the program ignores the earned income of the spouse as entered on the **Wages** and **Self-employment Income** worksheets for purposes of the exclusion and credit unless the filing status is Joint. Thus for married filing separately, unless running a taxpayer and spouse analysis, you should enter the taxpayer's earned income on the "Taxpayer" rows of these worksheets (even if the taxpayer is the wife) and the spouse's earned income as an adjustment on row 13 of this worksheet.

ADOPTION EXCLUSION & CREDIT

Adoption Exclusion & Credit
(1) Special Needs Child?
(2) Adoption Final This Year?
(3) MFS Treat as Single?
(4) Current Year Qualified Adoption Expenses
(5) Prior Years Qualified Adoption Expense
(6) Current Year Taxpayer's Employer Provided
(7) Current Year Spouse's Employer Provided
(8) Prior Years Employer Provided
(9) **Taxpayer's Expense Exclusion**
(10) **Spouse's Expense Exclusion**
(11) **Credit Limit**
(12) Less: Allowed in Prior Years
(13) **Net Current Year Expenses**
(14) **Deferred to Next Year**
(15) Deferred from Prior Year
(16) **Adoption Credit**
(17) **Credit Carryover-Computed**
(18) Credit Carryover-Entered
(19) **Total Adoption Credit**

Caution! The Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002 and the Patient, Protection and Affordable Care Act (2010) have raised numerous questions of interpretation affecting the calculation of the exclusion and credit for adoption expenses. At the date of this publication, little guidance from the Treasury or the IRS was available with regard to these questions and with respect to the computation of the adoption exclusion and credit in general. This help topic explains how the program handles these computations. You are cautioned to carefully examine the row descriptions and the Notes below. Contact Bloomberg Tax Technology if you have any questions. You should rely on our interpretations only to the extent you agree with them.

(1) Special Needs Child?

The eligible child with respect to whom the qualified adoption expenses are paid or incurred is a child with special needs. See IRC § 23(d)(3) or IRC § 36C(d)(3). Answer "Y" for Yes or "N" for No. See rows 6 and 7 below for special rules that apply when this question is answered Yes.

(2) Adoption Final this Year?

The adoption of the child with respect to whom the qualified expenses are paid became final in the current year. See IRC § 23(a)(2)(B) or IRC § 36C(a)(2)(B). Answer "Y" for Yes or "N" for No.

If the adoption became final in a prior year, answer "Yes" in the current year column as well as the prior year. Note, however, that the program will treat the

prior year's Yes answer as an indication that the adoption for the current year relates to a different child than the child for whom the expenses were entered in the prior year. The program, therefore, will not carry forward to the current year the amount on row 12 "Less: Allowed in Prior Years". Therefore, if the $5,000 ($6,000 for a special needs child, $10,000 for all children for years after 2001) limit was reached in the prior year or will be exceeded with the current year's expenses, you should start the analysis over with the current year as the first year in the analysis. Then enter the expenses taken into account for the credit in the prior years on row 12 in the current year.

Alternatively, you can simply apply the limit to the expenses before you enter them. In such case, limit the entry so that when the employer-provided portion is subtracted out by the program, the remaining amount does not exceed $5,000 ($6,000 for a special needs child, $10,000 for all children for years after 2001) minus the amount taken into account in prior years.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

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(3) MFS Treat as Single?

If the taxpayer is married filing separately but is to be treated as a single taxpayer for purposes of the credit and the exclusion, enter "Y" for "Yes." To be treated as single, the taxpayer must have lived apart from his/her spouse during the last six months of the year, the qualifying person must have lived in his/her home for more than half of the year, and the taxpayer must have provided over half of the cost of the home. The answer on this row has no effect unless Separate is the filing status on the **Main Worksheet**.

(4) Current Year Qualified Adoption Expenses

Total qualified adoption expenses paid or incurred for the child. See IRC § 23(d)(1) or IRC § 36C(d)(1). Enter the expenses in the year in which they were paid or incurred, except for expenses reimbursed or paid directly by an employer adoption assistance program which should be entered in the year the reimbursement or payment occurs.

Expenses reimbursed or paid directly by an employer adoption assistance program should be included both on this row and on the appropriate Employer Provided row, below. The program reduces the expenses by the employer-provided amounts in computing the credit. For years after 2002, in the case of the adoption of a special needs child that becomes final in the current year, see rows 6 and 7 below.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

See **NOTE 4**, below, for how to handle foreign adoptions.

(5) Prior Years' Qualified Adoption Expenses

Total prior year adoption expenses for the child. In multiple year situations, enter the amount in the first column of each case. The program will compute the other columns. Do not include expenses for children other than the one for whom the expenses are entered on row 4 "Current Year Qualified Adoption Expenses", above.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

(6) Current Year Taxpayer's Employer Provided

Adoption expenses for the child reimbursed or paid directly by the taxpayer's employer's adoption assistance program, which qualifies under IRC § 137. Enter the employer-provided expenses in the year the reimbursement or payment occurs.

For years after 2002, in the case of the adoption of a special needs child that becomes final in the current year, enter the maximum exclusion amount for the year in question regardless of the amount of the employer benefits actually provided. The employer must have a qualified adoption assistance program. See IRS form 8839 and IRC § 137(a)(2). The maximum exclusion is represented by the following table:

Year	Amount
2003	$10,160
2004	$10,390
2005	$10,630
2006	$10,960
2007	$11,390
2008	$11,650
2009	$12,150
2010	$13,170
2011	$13,360
2012	$12,650

Year	Amount
2013	$12,970
2014	$13,190
2015	$13,400
2016	$13,460
2017	$13,570
2018	$13,840
2019	$14,080
2020	$14,300

See IRC § 23(b)(1) or IRC § 36C(b)(1).

For 2021 and subsequent years, the program adjusts the amount for inflation in accordance with IRC § 23(h) as described under Inflation Adjustments.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

(7) Current Year Spouse's Employer Provided

Adoption expenses for the child reimbursed or paid directly by the spouse's employer's adoption assistance program, which qualifies under IRC § 137. Enter the employer-provided expenses in the year the reimbursement or payment occurs.

For years after 2002, in the case of the adoption of a special needs child that becomes final in the current year, enter the maximum exclusion amount for the year in question regardless of the amount of the employer benefits actually provided. The employer must have a qualified adoption assistance program. See IRS form 8839 and IRC § 137(a)(2). See row 6 above for the maximum exclusion allowed.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

(8) Prior Years Employer Provided

Total prior year adoption expenses for the child paid or reimbursed by the taxpayer and spouses' employer(s) in prior years. In multiple-year situations, enter the amount in the first column of each case. The program will compute the other columns. In the case of a special needs child, include all amounts subject to the exclusion in prior years. See rows 6 and 7 above.

Do not include expenses reimbursed or paid for children other than the one for whom the expenses are entered on the "Qualified Adoption Expenses" row, above.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

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(9) Taxpayer's Expense Exclusion (Calculated)

The amount of the taxpayer's employer-provided adoption expenses excludible under IRC § 137. The program computes the exclusion as the least of the following amounts:

- the expenses on row 4, above,

- the sum of the taxpayer's employer-provided benefit on row 6, above, and the spouse's employer-provided benefit on row 7, above, or

- $5,000 ($6,000 in the case of a special needs child as indicated on row 1, above, $10,000 for all children in years after 2001) reduced by the prior year employer-provided expenses on row 8. See the table for row 6 above for the maximum exclusion.

For years after 2002, in the case of the adoption of a special needs child that becomes final in the current year, any amount entered on row 6 will be treated by the program as indicating that the employer has a qualified adoption assistance program. The program will then allow an exclusion for the maximum amount, less any prior year employer provided expenses. See IRS Form 8839 and IRC § 137(a)(2). See row 6 above for the maximum exclusion allowed.

The exclusion is then reduced by the AGI limit of IRC § 137(b)(2). For married filing jointly, the program allocates the inclusion between the spouses in proportion to the employer-provided benefits.

(10) Spouse's Expense Exclusion (Calculated)

The taxpayer's spouse's employer-provided adoption expenses excludible under IRC § 137. See row 9, above, for how the program computes the exclusion and allocates it between the spouses.

(11) Credit Limit (Calculated)

$5,000 except if row 1 "Special Needs Child?" is answered "Yes," in which event this row will be $6,000.

For 2002, the amount on this row will be $10,000. See the table for row 6 above for the credit limit for subsequent years. See IRC § 23(b)(1) or IRC § 36C(b)(1).

(12) Less: Allowed in Prior Years

Total adoption expenses for the child allowed as a credit in prior years. Enter the amount before reduction by the AGI limit. Also do not consider the IRC § 26 limitation or the IRC § 23(b)(4) limitation for years after 2006. See IRC § 23(b)(1) or IRC § 36C(b)(1).

Do not include credit allowed for children other than the one for whom the expenses are entered on the "Qualified Adoption Expenses" row, above.

In multiple-year situations, enter the amount in the first column of each case. The program will compute the other columns.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

(13) Net Current Year Expenses (Calculated)

Row 4 less the sum of rows 6 and 7, but not less than zero.

Note. For years after 2002, in the case of a special needs adoption that becomes final in the current year, this row will be equal to the amount on row 11. See Form 8839 and IRC § 23(a)(3) or IRC § 36C(a)(3).

(14) Deferred to Next Year (Calculated)

If the answer on row 2 "Adoption Final this Year?" is "No," this row will be the amount on row 13 expressed as a negative; otherwise this row will be zero. See IRC § 23(a)(2) or IRC § 36C(a)(2).

(15) Deferred from Prior Year

Adoption expenses (in excess of employer reimbursement) which were paid or incurred in the immediately preceding year for the child, but which are subject to the adoption credit in the current year because the adoption did not become final in the prior year. See **NOTE 5**, below. Do not include expenses paid for children other than the one for whom the expenses are entered on the Qualified Adoption Expenses row, above.

In multiple-year situations, enter the amount in the first column of each case. The program will compute the other columns as the amount on row 14 of the preceding year, expressed as a positive.

Note. The program only handles expenses for one adoption at a time. In the year after an adoption becomes final, the program will handle a second adoption and so on.

(16) Adoption Credit (Calculated)

The lesser of:

1. The sum of
    - row 13 "Net Current Year Expenses (Calculated)",
    - row 14 "**Deferred to Next Year**", and
    - row 15 "Deferred from Prior Year"

or

2. The sum of
    - row 11 "**Credit Limit**" and
    - row 12 "Less: Allowed in Prior Years"

The amount is reduced by the AGI limit of IRC § 23(b)(2) or IRC § 36C(b)(2).

(17) Credit Carryover – Computed (Calculated)

Carryovers of adoption credits computed in prior years on row 16 "**Adoption Credit**" which exceeded the limitations of IRC § 26 (IRC § 23(b)(4) for years after 2009). See IRC § 23(c). For 2010 and 2011, there will be no carryover generated, because the credit is refundable in those years. See IRC § 36B.

(18) Credit Carryover – Entered

Adoption credits carried over to the year(s) being run because they exceeded the IRC § 26 (IRC § 23(b)(4) for years after 2009) limitations in prior years.

In multiple-year situations, enter the carryover in each year to which it can be carried. The program will keep track of how it is used up.

Do not enter carryovers that are generated in the years being run which are computed automatically on row *17*, above. See IRC § 23(c).

(19) Total Adoption Credit (Calculated)

The sum of row 16 "**Adoption Credit**", row 17 (Credit Carryover – Computed), and row 18 "Credit Carryover – Entered". The row 18 amount is included only to the extent it is not used up in prior years.

NOTE 1

Do not use this worksheet unless the taxpayer meets the requirements of IRC §§ 23 or IRC § 36C and 137. This includes, for taxpayers who are married filing separately, the requirements of IRC § 23(f) or IRC § 36C(f). See row 3, above.

NOTE 2

The program does not handle the allocation of the $5,000 ($10,000 for years after 2001) limit on adoption expenses for purposes of the credit in the case of a joint adoption by an unmarried couple.

NOTE 3

For purposes of determining carryovers to future years, the program uses up the carryovers from prior years first in order of time and then the current year credit. See Form 8839 and IRC § 23(c).

NOTE 4

Expenses for foreign adoptions and employer reimbursement thereof should be entered on this worksheet entirely in the year the adoption becomes final, regardless of when the expenses were paid. See IRC Notice 97-9, I.R.B. 1997-2, § H.2. For expenses paid and reimbursements made in years prior to 2002, do not include more than $5000. See instructions for Form 8839.

NOTE 5

Expenses incurred in 2001 that are taken into account for purposes of the adoption credit in 2002 in cases where the adoption did not become final in 2001 are deferred to 2002 on rows 14 and 15 after taking into account the credit limitations that were in effect in 2001. The limit is reduced by the program by the amount taken into account in prior years as indicated on row 12 (Allowed in Prior Years).

CHILD TAX CREDIT

Child Tax Credit
(1) Number of Qualifying Children
(2) **Child Credit Before Tax Limits**
(3) Reduction for 2003 Advance
(4) **Net Child Credit Before Tax Limits**
(5) **Personal Credits**
(6) **Section 26/24(b) Limit**
(7) **Social Security Taxes**
(8) Adjustment to Social Security Taxes
(9) **Earned Income Credit**
(10) **Additional Credit:**
(11)   **Credit(s) Disallowed**
(12)   **Excess of Social Security over Earned Income Credit**
(13)   **Lesser of Disallowed or Excess**
(14)   **Earned Income**
(15)   Adj to Earned Income
(16)   **Floor**
(17)   **Excess of Earned Over Floor**
(18)   **Refundable Child Credit**
(19)   **Non-refundable Child Credit**
(20) **Supplemental Earned Income Credit:**
(21)   **Excess of Credits over Social Security & Regular Taxes**
(22)   **Child Credit Otherwise Allowed**
(23)   **Supplemental Earned Income Credit**
(24)   **Non-refundable Child Credit**

Caution! The Taxpayer Relief Act of 1997, the Tax Technical Corrections Act of 1998, and the Economic Growth and Tax Relief Reconciliation Act of 2001 have raised numerous questions of interpretation concerning the child tax credit computation. At the date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the manual explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTE following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them. See also **NOTE 1**, below.

(1) Number of Qualifying Children

The number of qualifying children as defined in IRC § 24. In general, a qualifying child is a dependent who is under 17 at the close of the year and who is a son, daughter, stepson, stepdaughter, grandchild, or eligible foster child of the taxpayer. See IRC § 24 (c) for further details.

For years after 2017 and before 2026, also enter the personal exemption amounts on the Main worksheet in order to calculate the credit for an additional dependent under IRC § 24(h)(4). For example, a joint filer with 3 personal exemption amounts but zero qualifying children will receive the credit for the additional dependent but not the child tax credit.

(2) Child Credit Before Tax Limits (Calculated)

The amount on row 1, above, times the per child amount reduced by the AGI phaseout.

The per child amount is as follows:

Year	Per Child Amount
2000	$500
2001–2002	$600
2003–2017	$1,000
2018–2025	$2,000

The phaseout is $50 for each $1000 of AGI over the threshold. For married filing jointly the threshold is $110,000, for married filing separately, it is $55,000, and for all other filing statuses it is $75,000.

The program applies the phaseout to the aggregate of all child tax credits, not on a per child basis. Therefore, when the credit is $1000 per child, with 2 children, for example, the credit does not completely phase out until modified AGI exceeds $149,000 on a joint return; with 3 children, the phaseout is complete when AGI exceeds $159,000, and so on.

This computation, while not consistent with the statutory language, appears to be consistent with the intent of Congress. See IRC § 24(b).

(3) Reduction for 2003 Advance

The advance child tax credit payment received in 2003. This amount reduces the child tax credit in 2003. See IRC Sec. 6429.

For all years other than 2003, this row will be N/A.

(4) Net Child Credit Before Tax Limits

The amount on row 2 less the amount on row 3, above.

(5) Personal Credits (Calculated)

The amount on row 4, above, plus the sum of rows 2, 3, 4, 6, 7, 1, 9, 10, 11, 12, and 13 on the **Credits** worksheet.

(6) Section 26/24(b) Limit (Calculated)

For years 2000 and later, this is the sum of the regular tax and the net alternative minimum tax (Section 55 tax) less the foreign tax credit. See IRC § 26.

561

(7) Social Security Taxes (Calculated)

This row is computed as the FICA percentage applied to Taxpayer and Spouses' FICA wages on the **Wages** worksheet plus statutory employee wages on the **Self-employment Income and Loss** worksheet. The FICA percentage is composed of the OASDI percentage and the HI percentage.

For all years after 1990, except 2011 and 2012, the OASDI percentage, which is applied to FICA wages (including statutory employee wages), is 6.2%. For 2011 and 2012 the OASDI percentage is 4.2%. The HI percentage, which is applied to FICA and HI Only wages, is 1.45%. The amount to which the OASDI percentage is applied is limited to the maximum OASDI contribution base which increases each year. See the **Self-employment & Other Taxes** worksheet for further details.

If the **Wages** worksheet is not active, then the program uses the amount entered as Wages on the **Ordinary Income** worksheet, and assumes it is the FICA wages of the taxpayer alone (as opposed to taxpayer and spouse).

(8) Adjustment to Social Security Taxes

Any adjustment to social security taxes computed by the program on the Social Security Taxes row above.

The program uses wages as entered on the **Wages** worksheet and self-employment income as entered on the **Self-employment Income & Loss** worksheet to compute the amount of social security taxes paid by the taxpayer.

Enter any adjustment to this computed amount here, including 50 percent of the taxes imposed by Section 3211(a)(1) on employee representatives of railway labor organizations. See IRC § 24(d).

(9) Earned Income Credit (Calculated)

The amount from the "Total Earned Income Credit" row of the **Earned Income Credit** worksheet.

(10) Additional Credit:

Heading for rows 11 through 19, below.

(11) Credit(s) Disallowed (Calculated)

The excess of the amount on row 5, above, over the limit on row 6.

(12) Excess of Social Security Over Earned Income Credit (Calculated)

The excess of the sum of rows 7 and 8, above, over the amount on row 9. This row applies only to taxpayers with three or more qualifying children as indicated on row 1, above. For other taxpayers, this row will be N/A.

(13) Lesser of Disallowed or Excess (Calculated)

The lesser of rows 11 or 12. This row applies only to taxpayers with three or more qualifying children as indicated on row 1, above. For other taxpayers, this row will be N/A.

(14) Earned Income (Calculated)

The taxpayer's earned income computed as the sum wages and self-employment income on the **Ordinary Income** worksheet, less the self-employment income tax deduction from that worksheet. The program adds back statutory employee expenses, if any, from the Self-employment Income & Loss Worksheet. See IRC § 24(d)(1)(B).

For years before 2001, this row will be N/A.

(15) Adjustment to Earned Income

Any adjustment to earned income as calculated by the program on row 14, above. For years after 2003 include combat zone compensation excluded by IRC § 112. See IRC § 24(d)(1).

In 2005, qualified individuals, whose place of abode was (as of certain dates) in any Hurricane Katrina, Rita or Wilma disaster area may, at the election of the taxpayer, use 2004 earned income (if higher than the 2005 amount) for purposes of the computations on this worksheet, in lieu of the amount of earned income for 2005. The same rule applies for 2008 to qualified individuals whose place of abode was in a Midwestern disaster area. See IRC § 1400S(d). For such taxpayers you may use this row to adjust earned income up to the amount of such earned income for the prior year.

For years before 2001, this row will be N/A.

(16) Floor (Calculated)

The $10,000 floor described in IRC § 24(d)(1)(B)(i) effective for 2001 and subsequent years.

For years after 2001, the amount is represented in the following table:

Year	Amount
2002	$10,350
2003	10,500
2004	10,750
2005	11,000
2006	11,300
2007	11,750
2008	8,500
2009 and later	3,000

For 2008, the amount is reduced to $8,500. For 2009 and later, the amount is reduced to $3,000. See IRC § 24(d)(4).

For years before 2001, this row will be N/A.

(17) Excess of Earned Over Floor (Calculated)

The excess, if any, of the sum of rows 14 and 15 (limited to zero) over the amount on row 16.

For years before 2001, this row will be N/A.

(18) Refundable Child Credit (Calculated)

For years before 2001, the lesser of row 4 or row 13.

For years after 2000, the greater of row 17 multiplied by 10% (15% for years after 2003) or row 12, limited to the lesser of row 4 or row 11. See IRC § 24(d)(1).

(19) Non-refundable Child Credit (Calculated)

Row 4, above, minus row 18.

(20) Supplemental Earned Income Credit:

Heading for rows 21 through 24. For years after 2001, these rows will be N/A. See **NOTE 1**, below.

(21) Excess of Credits Over Social Security and Regular Taxes (Calculated)

The excess (if any) of the sum of total nonrefundable credits (computed without regard to row 24, below) and the earned income credit on row 9, over the sum of:

- the regular tax,

- the lump sum tax, and
- the sum of rows 7 and 8 above.

See **NOTE 1**, below.

(22) Child Credit Otherwise Allowed (Calculated)

The lesser of row 5 or row 6 minus the lesser of:

- row 5 minus row 4, or
- row 6.

See **NOTE 1**, below.

(23) Supplemental Earned Income Credit (Calculated)

The lesser of row 21 or row 22. See **NOTE 1**, below.

(24) Non-refundable Child Credit (Calculated)

The excess of row 4 over row 23, above. See **NOTE 1**, below.

NOTE 1

The computations on rows 20 through 24 reflect the language of IRC Section 32(n), the sole effect of which is to convert an allowable nonrefundable credit into an allowable refundable credit with the resulting amount of total tax liability remaining unchanged. Neither the total child tax credit allowed nor the amount of any other credit or carryover allowed is affected by this computation. The IRS has apparently ignored this computation on the forms and the instructions. The subsection was repealed by the Economic Growth and Tax Relief Reconciliation Act of 2001 effective for years after 2000. For years prior to 2001, in light of the other complex calculations, and to reduce confusion, the program performs the § 32(n) computation only for taxpayers with less than three qualifying children, even though under the statutory language it might also apply to taxpayers with three or more qualifying children in such years.

CREDIT FOR ELECTIVE DEFERRALS AND IRAS

Credit for Elective Deferrals and IRAs

(1)	Taxpayer Qualifies for Credit (Y/N)
(2)	Spouse Qualifies for Credit (Y/N)
(3)	Taxpayer's Contributions:
(4)	**IRA Contributions**
(5)	**Roth Contributions**
(6)	**401(k) Contributions**
(7)	Other Plan Contributions
(8)	**Total Taxpayer Contributions**
(9)	Spouse's Contributions
(10)	**IRA Contributions**
(11)	**Roth Contributions**
(12)	**401(k) Contributions**
(13)	Other Plan Contributions
(14)	**Total Spouse Contributions**
(15)	Distributions:
(16)	**Current Year Distributions**
(17)	Adjustment to Current Year
(18)	1st Prior Year Distributions
(19)	Adjustment to 1st Prior
(20)	2nd Prior Year Distributions
(21)	Adjustment to 2nd Prior
(22)	Other Distributions
(23)	**Total Distributions**
(24)	**Net Taxpayer Contributions**
(25)	Adj To Net Taxpayer Contributions
(26)	**Adjusted Net Taxpayer Contributions**
(27)	**Net Spouse Contributions**
(28)	Adj to Net Spouse Contributions
(29)	**Adjusted Net Spouse Contributions**
(30)	**Credit for Elective Deferrals & IRAs**

Caution! The Economic Growth and Tax Reconciliation Act of 2001 has raised numerous questions of interpretation concerning the credit computed by this worksheet. At the date of this publication, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computation are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTE following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Taxpayer Qualifies for Credit (Y/N)

Specify whether the taxpayer is an eligible individual for purposes of the credit for Elective Deferrals and IRAs. To be eligible, the taxpayer must be 18 years old as of the close of the taxable year and cannot be a full-time student or someone with respect to whom a personal exemption deduction is allowed to another taxpayer. See IRC § 25B(c).

When running a taxpayer and spouse analysis, enter the taxpayer's answer on this row in the Taxpayer column and the spouse's answer on the "Spouse Qualifies for Credit (Y/N)" row, below, in the Spouse column.

(2) Spouse Qualifies for Credit (Y/N)

Specify whether the taxpayer's spouse is an eligible individual for purposes of the credit for Elective Deferrals and IRAs. To be eligible, the spouse must be 18 years old as of the close of the taxable year and cannot be a full-time student or someone with respect to whom a personal exemption deduction is allowed to another taxpayer. See IRC § 25B(c).

When running a taxpayer and spouse analysis, enter the spouse's answer on this row in the Spouse column and the taxpayer's answer on the "Taxpayer Qualifies for Credit (Y/N)" row, above, in the Taxpayer column.

In other situations, if the filing status for the current year is not Joint, enter No.

(3) Taxpayer's Contributions:

Heading for rows 4 through 7, below.

(4) Taxpayer's IRA Contribution (Calculated)

The amount from "Taxpayer's Traditional IRA Contribution" row of the **IRA Deductions** worksheet. If that worksheet is not active then this row will be the amount from the "Taxpayer's IRA" row of the **Ordinary Income** worksheet.

(5) Taxpayer's Roth Contributions (Calculated)

The amount from the "Taxpayer's Roth IRA Contribution" row of the **IRA Deductions** worksheet.

(6) Taxpayer's 401(K) Contributions (Calculated)

The amount from row 2 "Less: Taxpayer's 401(k)/SIMPLE" of the **Wages** worksheet expressed as a positive amount, plus the sum of the amounts on row 23 "Basic 401(k) Contribution" and row 24 "Catch-up 401(k) Contribution" of the **Taxpayer's Keogh and SEP Deductions** worksheet.

(7) Other Plan Contributions

The amount of any qualified retirement savings contributions made by the taxpayer other than those computed by the program on rows 4 through 6, above. See IRC § 25B(d).

When running a taxpayer and spouse analysis, enter the taxpayer's other plan contributions on this row in the Taxpayer column and the spouse's other plan

contributions on row 13 "Spouse's Other Plan Contributions", below, in the Spouse column.

(8) Total Taxpayer Contributions (Calculated)

The sum of rows 4 through 7, above, but not less than zero. If row 1 above is No, this row will be zero.

(9) Spouse's Contributions:

Heading for rows 10 through 13, below.

(10) Spouse's IRA Contributions (Calculated)

The amount from "Spouse's Traditional IRA Contribution" row of the **IRA Deductions** worksheet. If that worksheet is not active then this row will be the amount from the "Spouse's IRA" row of the **Ordinary Income** worksheet.

(11) Spouse's Roth Contributions (Calculated)

The amount from the "Spouse's Roth IRA Contribution" row of the **IRA Deductions** worksheet.

(12) Spouse's 401(k) Contributions (Calculated)

The amount from row 2 "Less: Taxpayer's 401(k)/SIMPLE" of the **Wages** worksheet expressed as a positive amount, plus the sum of the amounts on row 23 "Basic 401(k) Contribution" and row 24 "Catch-up 401(k) Contribution" of the **Spouse's Keogh and SEP Deductions** worksheet.

(13) Spouse's Other Plan Contributions

The amount of any qualified retirement savings contributions made by the spouse other than those computed by the program on rows 10 through 12, above. See IRC § 25B(d).

When running a taxpayer and spouse analysis, enter the spouse's other plan contributions on this row in the Spouse column and the taxpayer's other plan contributions on row 7 "Other Plan Contributions", above, in the Taxpayer column.

(14) Total Spouse Contributions (Calculated)

The sum of rows 10 through 13, above, but not less than zero. If row 2 above is No, this row will be zero.

(15) Distributions:

Heading for rows 16 through 23, below.

(16) Current Year Distributions (Calculated)

The sum of the following rows:

- From the **Other Ordinary Income** worksheet
  - State Exempt Pensions
  - Other Pension & IRA Distributions
- From the **Lump Sum Distributions** worksheet
  - Taxpayer's Distribution: Capital Gain Distribution
  - Taxpayer's Distribution: Ordinary Income Distribution
  - Spouse's Distribution: Capital Gain Distributions
  - Spouse's Distribution: Ordinary Income Distribution

If the **Lump Sum Distributions** worksheet is not active, the "Post '99 Lump Sum Distribution" row of the **Other Ordinary Income** worksheet is used in lieu of the rows on the **Lump Sum Distributions** worksheet.

(17) Adjustment to Current Year Distributions

Any adjustment required to the current year distributions amount computed by the program on the row above. See IRC § 25B(d)(2).

(18) 1st Prior Year Distributions

Distributions that were made in the first taxable year immediately preceding the current year. For example, if the current year is 2006, enter amounts distributed in 2004. See row 16, above.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

(19) Adjustment to 1st Prior Year Distributions

Any adjustment required to the distributions amount entered on the row above or computed by the program.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

(20) 2nd Prior Year Distributions

Distributions that were made in the second taxable year preceding the current year. For example, if the current year is 2002, enter amounts distributed in 2000. See row 16, above.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

(21) Adjustment to 2nd Prior Year Distributions

Any adjustment required to the distributions amount entered on the row above or computed by the program.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

(22) Other Distributions

Any distributions described in IRC Sec 25B(d)(2), other than those computed or entered on the rows above. Include distributions occurring after the current year but before the due date (including extensions) for filing the return for the current year.

(23) Total Distributions (Calculated)

The sum of rows 16 through 22, above, but not less than zero.

(24) Net Taxpayer Contributions (Calculated)

The excess, if any, of row 8 over row 23.

(25) Adjustment to Net Taxpayer Contributions

Any adjustment required to the amount computed by the program on row 24, above. Include (as an addition) the effect on row 24 of any distributions included by the program on row 23 "**Total Distributions**" that apply to the Spouse but not to the taxpayer. Note, however, that any distribution received by the spouse of the taxpayer is treated as received by the taxpayer if the taxpayer and spouse file a joint return for the current year and for the taxable year during which the spouse receives the distribution. See IRC § 25B(d)(2)(D).

(26) Adjusted Net Taxpayer Contributions (Calculated)

The sum of rows 24 and 25, but not less than zero.

(27) Net Spouse Contributions (Calculated)

The excess, if any, of row 14 over row 23.

(28) Adjustment to Net Spouse Contributions

Any adjustment required to the amount computed by the program on row 27, above. Include (as an addition) the effect on row 27 of any distributions included by the program on row 23 "**Total Distributions**" that apply to the taxpayer but not to the spouse. Note, however, that any distribution received by the taxpayer is treated as received by the spouse if the taxpayer and spouse

file a joint return for the current year and for the taxable year during which the taxpayer receives the distribution. See IRC § 25B(d)(2)(D).

(29) Adjusted Net Spouse Contributions (Calculated)

The sum of rows 27 and 28, but not less than zero.

(30) Credit for Elective Deferrals & IRAs (Calculated)

The credit for elective deferrals computed as the sum of:

- The lesser of the amount on row 26 or $2,000, phased out according to adjusted gross income, plus,

- The lesser of the amount on row 29 or $2,000, phased out according to adjusted gross income.

See IRC § 25B(b) and see **NOTE 2** below. For purposes of the phaseout, the program adds back to ABI the IRC § 911 exclusion, but does not take into account the IRC §§ 931 and 933 exclusions. The program posts the amount on this row to the "Credit for Elective Deferrals & IRAs" row of the **Credits** worksheet.

NOTE 1

The credit allowed by this worksheet applies only in years after 2001 and before 2007. In all other years the rows on this worksheet will contain N/A except for rows 16 through 19 in 2000 and 2001, which contain entries used in the 2001 and 2002 computations.

NOTE 2

The phaseout cutoffs and percentage of the maximum credit are as follows:

Year	Joint		Head of Household		All Others	
	Cutoff	Percentage	Cutoff	Percentage	Cutoff	Percentage
2001–2006	$30,000	50	$22,500	20	$15,000	10
	$32,500	20	$24,375	20	$16,250	20
	$50,000	10	$37,500	10	$25,000	10
2007	$31,000	50	$23,250	20	$15,500	10
	$34,000	20	$25,000	20	$17,000	20
	$52,000	10	$39,000	10	$26,000	10
2008	$32,000	50	$24,000	20	$16,000	10
	$34,500	20	$25,875	20	$17,250	20
	$53,000	10	$39,750	10	$26,500	10
2009	$33,000	50	$24,750	20	$16,500	10

Year	Joint		Head of Household		All Others	
	Cutoff	Percentage	Cutoff	Percentage	Cutoff	Percentage
	$36,000	20	$27,000	20	$18,000	20
	$55,500	10	$41,625	10	$27,750	10
2010	$33,500	50	$25,125	20	$16,750	10
	$36,000	20	$27,000	20	$18,000	20
	$55,500	10	$41,625	10	$27,750	10
2011	$34,000	50	$25,500	20	$17,000	10
	$36,500	20	$27,375	20	$18,250	20
	$56,500	10	$42,375	10	$28,250	10
2012	$34,500	50	$25,875	20	$17,250	10
	$37,500	20	$28,125	20	$18,750	20
	$57,500	10	$43,125	10	$28,750	10
2013	$35,500	50	$26,625	20	$17,750	10
	$38,500	20	$28,875	20	$19,250	20
	$59,000	10	$44,250	10	$29,500	10
2014	$36,000	50	$27,000	20	$18,000	10
	$39,000	20	$29,250	20	$19,500	20
	$60,000	10	$45,000	10	$30,000	10
2015	$36,500	50	$27,375	20	$18,250	10
	$39,500	20	$29,250	20	$19,750	20
	$61,000	10	$45,000	10	$30,500	10
2016	$37,000	50	$27,750	20	$18,500	10
	$40,000	20	$30,000	20	$20,000	20
	$61,500	10,	$46,125	10	$30,750	10
2017	$37,000	50	$27,750	20	$18,550	10
	$40,000	20	$30,000	20	$20,000	20
	$62,000	10	$46,500	10	$31,000	10
2018	$38,000	50	$28,500	20	$19,000	10
	$41,000	20	$30,750	20	$20,500	20
	$63,000	10,	$47,250	10	$31,500	10
2019	$38,500	50	$28,875	20	$19,250	10
	$41,500	20	$31,125	20	$20,750	20
	$64,000	10	$48,000	10	$32,000	10
2020	$39,000	50	$29,250	20	$19,500	10
	$42,500	20	$31,875	20	$21,250	20
	$65,000	10	$48,750	10	$32,500	10

If adjusted gross income is in excess of the highest cutoff, the percentage is 0. See IRC § 25B.

For 2021 and subsequent years, the program adjusts the amounts for inflation. See Inflation Adjustments.

NONBUSINESS ENERGY PROPERTY CREDIT

	Nonbusiness Energy Property Credit
(1)	Expenditures for New Windows
(2)	**X 10%**
(3)	**Lifetime Limit for Windows**
(4)	Less: Prior Years Credit for Windows
(5)	**Net Limit for Windows**
(6)	**Current Year Credit for Windows**
(7)	Other Building Envelope Components
(8)	**X 10%**
(9)	Fans, Furnaces, Boilers Etc.
(10)	**Total Expenditures**
(11)	**X 30%**
(12)	**Total Credit**
(13)	**Lifetime Limit**
(14)	Less: Prior Year Credit
(15)	**Net Limit**
(16)	**Current Year Credit**

Caution! The Energy Policy Act of 2005 and the acts extending this credit have raised numerous questions of interpretation concerning the credit computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTE following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Expenditures for New Windows

Amounts paid or incurred for exterior windows (including skylights) meeting the requirements of IRC § 25C(c)(3)(b). For property placed in service after February 17, 2009 and before 2011, the requirements were in IRC § 25C(c)(4). The windows must be installed in or on a dwelling unit located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. See IRC § 25C for further requirements. Do not enter amounts paid or incurred for property placed in service before January 1, 2006, in 2008, or after December 31, 2020. For 2011 through 2020, do not enter any amount that will result in a credit for windows in excess of $200 minus the aggregate credit for windows allowed for all prior years ending after December 31, 2005.

With regard to jointly held property see the **NOTE** on page 576.

For years before 2006, this row will be N/A.

(2) X 10%: (Calculated)

Row 1 multiplied by 10 percent.

For years before 2006, and 2009 through 2010, this row will be N/A.

(3) Lifetime Limit for Windows: (Calculated)

$200, the limit for windows imposed by IRC § 25C(b)(2)

For years before 2006 and after 2008, this row will be N/A.

(4) Less: Prior Years Credit for Windows

The amount (expressed as a negative) of the nonbusiness energy property allowed for windows in prior years. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the amount for other years.

Note. The program considers the credit allowed on row 14, below, to come first from other expenditures for which the credit is allowed and next from expenditures for windows.

For years before 2006 and after 2008, this row will be N/A.

(5) Net Limit for Windows: (Calculated)

Row 3 less row 4, above.

For years before 2006 and after 2008, this row will be N/A.

(6) Current Year Credit for Windows: (Calculated)

The lesser of row 2 or row 5.

For years before 2006 and after 2008, this row will be N/A.

(7) Other Building Envelope Components

Amounts paid or incurred for qualified energy efficiency improvements consisting of energy efficient building envelope components, other than exterior windows, meeting the requirements of IRC § 25C(c)(1). Include insulation, exterior doors, and certain metal roofs. For property placed in service after February 17, 2009, the requirements are in IRC § 25C(c)(4). The component must be installed in or on a dwelling unit located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. See IRC § 25C for further requirements. Do not enter amounts paid or incurred for

property placed in service before January 1, 2006, in 2008, or after December 31, 2020.

With regard to jointly held property, see the **NOTE** on page 576.

For years before 2006, this row will be N/A.

(8) X 10%: (Calculated)

Row 7 multiplied by 10%.

For years before 2006, and 2009 through 2010, this row will be N/A.

(9) Fans, Furnaces, Boilers, etc.

Amounts paid or incurred comprising residential energy property expenditures. For years before 2009, and for 2011 through 2016, such expenditures consist of a maximum of $50 for any advanced main circulating fan, $150 for any qualified natural gas, propane or oil furnace or hot water boiler and, $300 for any item of energy-efficient building property such as an electric heat pump water heater, an electric heat pump, a geothermal heat pump, a central air conditioner or a natural gas, propane or oil water heater. Do not enter amounts for the above items in excess of the limits described above. For years 2009 and 2010, the dollar limits do not apply, but such limits do apply after 2010. In addition, the standards for the type of property that qualifies for the credit were changed for property placed in service after February 17, 2009. The standards changed again for property placed in service after December 31, 2015. See I.R.C. § 25C(c). The property must be installed in or on a dwelling unit located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. See IRC § 25C for further requirements. Do not enter amounts paid or incurred for property placed in service before January 1, 2006, in 2008, or after December 31, 2020.

For years before 2006, this row will be N/A.

With regard to jointly held property, see the **NOTE** on page 576.

(10) Total Expenditures: (Calculated)

For years after 2008, the sum of rows 1, 7 and 9, above.

For years before 2009, and after 2010, this row will be N/A.

(11) X 30%: (Calculated)

For years 2009 and 2010, row 10 times 30%.

For years before 2009 and after 2010, this row will be N/A.

(12) Total Credit: (Calculated)

For years before 2009, the sum of rows 6, 8 and 9, above.

For years 2009 and 2010, the amount on row 11, above.

For years after 2010, the sum of rows 2, 8, and 9, above.

(13) Lifetime Limit: (Calculated)

For years before 2009, the $500 limit imposed by IRC § 25C(b)(1).

For 2009 and 2010, the $1500 limit imposed by IRC § 25C(b).

After 2010, the limit has been reduced to $500 again.

(14) Less: Prior Year Credit: (Calculated)

The amount (expressed as a negative) of the nonbusiness energy property allowed in prior years. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the amount for other years.

(15) Net Limit: (Calculated)

The sum of rows 11 and 12, above.

(16) Current Year Credit: (Calculated)

The lesser of rows 10 and 13.

NOTE

In the case of jointly owned property, the entries on this worksheet must be adjusted to take into account the rules of IRC § 25C(e). However, at date of publication, there was no guidance as to how these rules might operate. See the Note following the row descriptions for the **Residential Energy Efficient Property Credit** worksheet.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

Residential Energy Efficient Property Credit
(1) Solar Electric Expenditures
(2) **X Applicable Percentage**
(3) **Limit for Solar Electric**
(4) **Solar Electric Credit Amount**
(5)
(6) Solar Water Expenditures
(7) **X Applicable Percentage**
(8) **Limit for Solar Water**
(9) **Solar Credit Amount**
(10)
(11) Qualified Fuel Cell Expenditures
(12) **X Applicable Percentage**
(13) KW Capacity
(14) **Limit for Fuel Cell**
(15) **Fuel Cell Credit Amount**
(16)
(17) Qualified Small Wind Expenditures
(18) **X Applicable Percentage**
(19) KW Capacity
(20) **Limit for Small Wind**
(21) **Small Wind Credit Amount**
(22)
(23) Qualified Geothermal Expenditures
(24) **X Applicable Percentage**
(25) **Limit for Geothermal**
(26) **Geothermal Credit Amount**
(27)
(28) **Total Current Year Credit**
(29) Credit Carryover
(30) **Total Residential Energy Credit**

Caution! The Energy Policy Act of 2005 and subsequent amendments to IRS Section 25D have raised numerous questions of interpretation concerning the credit computed by this worksheet. At date of publication of the program, little guidance from the Treasury or the IRS was available with regard to many of these issues. This part of the help file explains how these computations are performed by the program. Carefully examine the row descriptions for this worksheet and the NOTE following the descriptions. Contact Bloomberg Tax Technology if you have questions. Rely on our interpretations only if you agree with them.

(1) Solar Electric Expenditures

Qualified solar electric property expenditures, i.e. expenditures for property which uses solar energy to generate electricity for use in a dwelling unit located in the United States and used as a residence by the taxpayer. See IRC § 25D for further requirements. Do not enter expenditures for property placed in service before January 1, 2006 or after December 31, 2021.

With regard to jointly held property see **NOTE 1** at the end of the row descriptions, on page 581.

For years before 2006, this row will be N/A.

(2) X Applicable Percentage (Calculated)

Row1 multiplied by the applicable percentage. **For years before 2020**, the percentage is 30%. **For 2020**, it is 26%. **For 2021**, it is 22%. The credit expires in 2022.

For years before 2006, this row will be N/A.

(3) Limit for Solar Electric (Calculated)

For years before 2009, $2000 is the limit for solar electric property imposed by IRC § 25D(b)(1). **For years after 2008**, the limit has been removed.

For years before 2006, this row will be N/A.

(4) Solar Electric Credit Amount: (Calculated)

The lesser of rows 2 and 4, above.

(5) (Blank)

(6) Solar Water Expenditures

Qualified solar water heating expenditures, i.e., expenditures for property to heat water for use in a dwelling unit located in the United States and used as a residence by the taxpayer if at least half of the energy used by such property for such purpose is derived from the sun. See IRC § 25D for further requirements. Do not enter expenditures for property placed in service before January 1, 2006 or after December 31, 2016.

With regard to jointly held property, see **NOTE 1** on page 581.

For years before 2006, this row will be N/A.

(7) X Applicable Percentage (Calculated)

Row 6 multiplied by the applicable percentage. **For years before 2020**, the percentage is 30%. **For 2020**, it is 26%. **For 2021**, it is 22%. The credit expires in 2022.

For years before 2006, this row will be N/A.

(8) Limit for Solar Water (Calculated)

$2000, the limit for solar water heating property imposed by IRC § 25D(b)(1). **For years after 2008**, the limit has been removed.

For years before 2006, this row will be N/A.

(9) Solar Credit Amount (Calculated)

The lesser of rows 8 and 6.

For years before 2006, this row will be N/A.

(10) (Blank)

(11) Qualified Fuel Cell Expenditures

Qualified fuel cell property expenditures, i.e., expenditures for qualified fuel cell property (as defined in IRC § 48(c)(1)) installed on or in connection with a dwelling unit located in the United States and used as a residence by the taxpayer. See IRC § 25D for further requirements. Do not enter expenditures for property placed in service before January 1, 2006 or after December 31, 2016.

With regard to jointly held property, see **NOTE 1** on page 581.

For years before 2006, this row will be N/A.

(12) X Applicable Percentage (Calculated)

Row 11 multiplied by the applicable percentage. **For years before 2020**, the percentage is 30%. **For 2020**, it is 26%. **For 2021**, it is 22%. The credit expires in 2022.

For years before 2006, this row will be N/A.

(13) KW Capacity

The kilowatt capacity of the qualified fuel cell property for which the expenditures on row 11 were made. This row will accept decimal entries, so that 1.5, for example may be entered. See row 14, below.

For years before 2006, this row will be N/A.

(14) Limit for Fuel Cell (Calculated)

Row 13 divided by 0.5 and multiplied by $500. See IRC § 25D(b)(1).

For years before 2006, this row will be N/A.

(15) Fuel Cell Credit Amount (Calculated)

The lesser of rows 12 and 14, above.

For years before 2006, this row will be N/A.

(16) (Blank)

(17) Qualified Small Wind Expenditures

Qualified small wind energy property expenditures, i.e., expenditures for property which uses a wind turbine to generate electricity for use in connection with a dwelling unit located in the United Sates and used as a residence by the taxpayer. See IRC § 25D for further requirements. For years before 2008, this row will be N/A. Do not enter expenditures for property placed in service after December 31, 2016.

(18) X Applicable Percentage (Calculated)

Row 17 multiplied by the applicable percentage. **For years before 2020**, the percentage is 30%. **For 2020**, it is 26%. **For 2021**, it is 22%. The credit expires in 2022.

For years before 2008, this row will be N/A.

(19) KW Capacity

The kilowatt capacity of the wind turbines for which the expenditures on row 17 were made. This row will accept decimal entries, so that 1.5, for example may be entered. See row 20, below. **For years after 2008**, the entry on this row has no effect.

For years before 2008, this row will be N/A.

(20) Limit for Small Wind (Calculated)

Row 19 divided by 0.5 and multiplied by $500, but not more than $4,000. See IRC § 25D(b)(1). **For years after 2008**, the limit has been removed.

For years before 2008, this row will be N/A.

(21) Small Wind Credit Amount (Calculated)

The lesser of row 18 or row 20.

For years before 2008, this row will be N/A.

(22) (Blank)

(23) Qualified Geothermal Expenditures:

Qualified geothermal heat pump property expenditures, i.e., expenditures for geothermal heat pump installed on or in connection with a dwelling unit located in the United Sates and used as a residence by the taxpayer. See IRC § 25D for further requirements. **For years before 2008**, this row will be N/A. Do not enter expenditures for property placed in service after December 31, 2016.

(24) X Applicable Percentage (Calculated)

Row 23 multiplied by the applicable percentage. **For years before 2020**, the percentage is 30%. **For 2020**, it is 26%. **For 2021**, it is 22%. The credit expires in 2022. **For years before 2008**, this row will be N/A.

(25) Limit for Geothermal

$2000, the limit for qualified geothermal heat pump property expenditures imposed by IRC § 25D(b)(1). **For years after 2008**, the limit has been removed. **For years before 2008**, this row will be N/A.

(26) Geothermal Credit Amount

The lesser of rows 24 and 25, above. **For years before 2008**, this row will be N/A.

(27) (Blank)

(28) Total Current Year Credit (Calculated)

The sum of rows 4, 9, 15, 21 and 26 above. **For years before 2006**, this row will be N/A.

(29) Credit Carryover

The Residential Energy Efficiency Property credit carried over to the current year being run because it exceeded the IRC § 25D(c)(2) limitations in prior years. In multiple year situations, enter the carryover in the first column. The program will compute the other columns.

For years before 2006, this row will be N/A.

(30) Total Residential Energy Credit (Calculated)

The sum of rows 17 and 18, above.

For years before 2006, this row will be N/A.

NOTE 1

In the case of jointly owned property, the entries on this worksheet must be adjusted to take into account the rules of IRC § 25D(e)(4). **For years before 2009**, the amount entered row 1 for solar energy expenditures should be the amount of such expenditures made by the taxpayer, limited to $6,667 multiplied by the taxpayer's fractional portion of such expenditures. Similarly, the amount for solar water expenditures on row 6 should be the amount of such expenditures made by the taxpayer limited to $6,667 multiplied by the taxpayer's fractional portion of such expenditures. The amount for qualified fuel

cell expenditures should be the amount of such expenditures made by the taxpayer limited to $1,667 for each half kilowatt of capacity multiplied by the taxpayer's portion of such expenditures. The amount for wind energy property expenditures should be the amount of such expenditures made by the taxpayer limited to $1,667 for each half kilowatt of capacity multiplied by the taxpayer's portion of such expenditures. Finally, the amount for qualified geothermal heat pump expenditures, should be the amount of such expenditures made by the taxpayer limited to $6,667 multiplied by the taxpayer's fractional portion of such expenditures. For years after 2008 the maximum amount for fuel cells which may be taken into account by all such individuals with respect to such dwelling unit during such calendar year shall be $1,667 in the case of each half kilowatt of capacity of qualified fuel cell property with respect to which such expenditures relate. See IRC § 25(e)(4)(b) and IRS Notice 2009–41 for further rules.

DC HOMEBUYER CREDIT

DC Homebuyer Credit
(1)   Purchase Price of Residence (2)   **Current Year Credit** (3)   Credit Carryover (4)   **Total DC Homebuyer Credit**

(1) Purchase Price of Residence

The purchase price of a principal residence purchased in the District of Columbia by the taxpayer who is a first-time D.C. homebuyer. See IRC § 1400C. Once an individual is treated as a first-time D.C. homebuyer with respect to any principal residence, such individual may not be treated as a first-time D.C. homebuyer with respect to any other principal residence. For purchases made in 2009, do not enter any amount on this worksheet for which the taxpayer is allowed the credit computed on the **First-time Homebuyer** worksheet.

The credit is allowed for purchases made after 8/4/97 and before 1/1/12. Although the credit does not apply to purchases after 2011, the program allows entries for later years to allow for the possibility that the credit will be extended.

(2) Current Year Credit (Calculated)

The lesser of row 1 or $5,000.

(3) Credit Carryover

The D.C. Homebuyer Credit carried over to the year(s) being run because it exceeded the IRC § 26 limitations in prior years. See IRC § 1400C(d).

In multiple-year situations, enter the carryover in the first column of each case. The program will compute the other columns.

(4) Total D.C. Homebuyer Credit (Calculated)

The sum of rows 2 and 3, above.

MINIMUM TAX CREDIT

Minimum Tax Credit
(1) **Taxable Income**
(2) **Exclusion Preferences & Adjustments**
(3) Adjustments to Exclusion Preferences & Adjustments
(4) **Total Exclusion Preferences & Adjustments**
(5) **AMTI with Only Exclusion Preferences & Adjustments**
(6) **Exemption**
(7) **Taxable Excess**
(8) **Tentative Minimum Tax from Schedule**
(9) **Tentative Minimum Alternative Capital Gains Tax**
(10) **Foreign Earned Income Tentative Minimum Tax**
(11) **Tentative Minimum Tax with Only Exclusion Preferences**
(12) **Regular Tax**
(13) **Net Minimum Tax with Only Exclusion Preferences**
(14)
(15) **Net Minimum Tax**
(16) **Net Minimum Tax With Only**
(17) **Exclusion Preferences**
(18) **Credit Generated**
(19) Credit Attributable – 1st Prior Year
(20) Credit Attributable – 2nd Prior Year
(21) Credit Attributable – 3rd Prior Year
(22) Credit Attributable – 4th & Prior Years
(23) **Total Credit**
(24) Adjustment for Prior Year ISO Interest & Penalty
(25) **Total Credit After Adjustment**
(26) **AMT Refundable Credit Amount**
(27) **Credit Attributable to 4th & Prior**
(28) **x 50% (20% for 2007)**
(29) **$5000 Minimum (2007 only)**
(30) Prior Year Long-term Credit Amount
(31) **Tentative Refundable Credit Amount**
(32) **Refundable Credit Amount**
(33) **Adjustment for Prior Year ISO Interest & Penalty**
(34) **Total Refundable Credit Amount**
(35) **Nonrefundable Credit Allowed**
(36) **Refundable Credit Allowed**
(37) **Carryovers to future years:**
(38) **Credits Attributable - 3rd & 4th Pr**
(39) **Less: Credit Allowed**
(40) **Carried to Next Year**
(41) **Credit Attributable to 2nd Prior Yr**
(42) **Less: Credit Allowed**
(43) **Carried to Next Year**
(44) **Credit Attributable to 1st Prior Yr**
(45) **Less: Credit Allowed**
(46) **Carried to Next Year**
(47) **Credit Generated in Current Year**
(48) **Total Carried to Future Years**
(49)
(50) Apply 2004 Technical Correction?

Caution! At the date of this publication, complete guidance from the Treasury or the IRS was not available with regard to the computation of the minimum tax credit. This was especially true with regard to computations affected by the Taxpayer Relief Act of 1997, the Tax Technical Corrections Act of 1998, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Tax Increase Prevention and Reconciliation Act of 2005, and the Tax Relief and Health Care Act of 2006. This manual explains how the program handles the computation. You are cautioned to carefully examine the row descriptions and Notes below. You should rely on our interpretations only to the extent you agree with them.

Note. At the date of this publication, complete guidance from the Treasury or the IRS was not available with regard to the computation of the minimum tax credit. This was especially true with regard to computations affected by the Taxpayer Relief Act of 1997, the Tax Technical Corrections Act of 1998, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Tax Increase Prevention and Reconciliation Act of 2005, the Tax Relief and Health Care Act of 2006, the Tax Technical Corrections Act of 2007, and the Tax Extenders and AMT Relief Act of 2008. This help topic explains how the program handles the computation. You are cautioned to carefully examine the row descriptions and Notes below. You should rely on our interpretations only to the extent you agree with them.

(1) Taxable Income (Calculated)

Regular tax taxable income from the "Taxable Income" row of the **Main Worksheet**.

(2) Exclusion Preferences & Adjustments (Calculated)

Sum of the following rows on the **Alternative Minimum Tax** worksheet:

- Standard Deduction
- Personal Exemptions
- Medical Exp Adjustment
- Miscellaneous Itemized
- Taxes
- Tax Refunds
- Regular Tax Investment Interest
- AMT Investment Interest
- Housing Interest Adjustment
- Charitable Contributions Adjustment

- Itemized Deduction Floor
- Private Activity Bond Interest
- Section 1202 Exclusion Preference
- Exclusion Adjustment to Qualified Dividends
- Other Exclusion Preferences
- Other Exclusion Adjustments

Note that the program includes the adjustment for the 3% itemized deduction floor as an exclusion preference. See IRC § 53(d)(1)(B)(ii)(I).

(3) Adjustments to Exclusion Preferences & Adjustments

Any adjustments to exclusion preferences and adjustments for the year as computed by the program on row 2 "**Exclusion Preferences & Adjustments**", above. The program considers the following adjustments to be non-exclusion adjustments:

- the adjustment for capital gains and losses;
- the adjustment for ordinary Section 1231 gain and loss;
- the adjustment for ordinary passive activity income and loss; and
- the adjustment for ordinary PTP income and loss.

If any of these adjustments contain exclusion items, such as depletion, enter the amount of the exclusion items (as a positive number) on this row to adjust the total exclusion preferences and adjustments computed by the program on row 2, above.

Similarly, certain items considered by the program effectively to be exclusion adjustments, such as the charitable contribution adjustment, may contain deferral items. If so, an adjustment for such items should also be included on this row.

Include on this row also the difference between the regular tax NOL deduction and the minimum tax credit NOL deduction. For a fiduciary, include also on this row the difference between the regular tax distribution deduction and the deduction recomputed on a minimum tax basis excluding deferral items.

See also the description for the "Exclusion Adjustment to Qualified Dividends" row on the **Alternative Minimum Tax** worksheet.

(4) Total Exclusion Preferences and Adjustments (Calculated)

The sum of row 2 "**Exclusion Preferences & Adjustments**" and row 3 "Adjustments to Exclusion Preferences & Adjustments", above.

(5) AMTI with only Exclusion Preferences and Adjustments (Calculated)

The sum of row 1 "**Taxable Income**" and row 4 (Total Exclusion Preferences and Adjustments), above.

(6) Exemption (Calculated)

The alternative minimum tax exemption amount for the appropriate filing status. See the "Exemption" row of the **Alternative Minimum Tax** worksheet. For purposes of this row, the phaseout specified by IRC § 55(d)(1) and (3) is computed on the basis of row 5 (AMTI with only Exclusion Preferences and Adjustments), above.

(7) Taxable Excess (Calculated)

The excess (if any) of row 5 over row 6, above.

(8) Tentative Minimum Tax from Schedule (Calculated)

The tentative minimum tax on the amount on row 7 computed on the basis of the rate schedule in IRC § 55(b)(1)(A)(i).

For 1999 and subsequent years, the tax is computed as 26% on the first $175,000 ($87,500 for married filing separately) of the AMTI amount on row 7 "**Taxable Excess**" and 28% on the balance.

(9) Tentative Minimum Alternative Capital Gains Tax (Calculated)

The alternative capital gains tax as computed for AMT purposes as defined by IRC § 55(b).

(10) Foreign Earned Income Tentative Minimum Tax (Calculated)

The foreign earned income tentative minimum tax computed in accordance with IRC § 911(f). See the **Foreign Income Exclusion Taxes** worksheet.

(11) Tentative Minimum Tax with only Exclusion Preferences and Adjustments (Calculated)

The lesser of the amount on row 8 or the amount on row 9, or, if applicable, the amount on row 10, minus the amount of any AMT FTC w/ only Exclusion Preferences that has been entered on the **Credits** worksheet.

(12) Regular Tax (Calculated)

The amount from the appropriate regular tax row of the **Main Worksheet** minus the amount on the regular tax Foreign Tax Credit rows of the **Credits** worksheet.

(13) Net Minimum Tax with only Exclusion Preferences and Adjustments (Calculated)

The excess (if any) of row 11 over row 12, above.

(14) Blank

(15) Net Minimum Tax (Calculated)

The amount from the "Alternative Minimum Tax" row of the **Alternative Minimum Tax** worksheet. See IRC § 55.

(16–17) Net Minimum Tax with only Exclusion Preferences and Adjustments (Calculated)

The amount from row 13, above.

(18) Credit Generated (Calculated)

Row 15 "**Net Minimum Tax**" minus row 16–17/16–17 (Net Minimum Tax with only Exclusion Preferences and Adjustments), above. This is the adjusted net minimum tax as defined by IRC § 53(b).

(19) Credit Attributable – 1st Prior Year

The minimum credit generated in the first year preceding the current year.

In multiple-year situations, enter the amount in the first column of each case only; for the other years, the program will automatically use the amount in row 47 "**Credit Generated in Current Year**", below, of the previous year.

(20) Credit Attributable – 2nd Prior Year

The minimum credit generated in the second year preceding the current year in excess of such credit used in intervening years.

In multiple-year situations, enter the amount in the first column of each case only; for the other years the program will automatically use the amount on row 46 "**Carried to Next Year**", below, of the previous year.

(21) Credit Attributable – 3rd Prior Year

The minimum credit generated in the third year preceding the current year in excess of such credit used in intervening years.

In multiple-year situations, enter the amount in the first column of each case only; for the other years the program will automatically use the amount on row 43 "**Carried to Next Year**", below, of the previous year.

(22) Credit Attributable – 4th & Prior Years

The minimum credit generated in the fourth and prior years preceding the current year in excess of such credit used in intervening years.

In multiple-year situations, enter the amount in the first column of each case only; for the other years the program will automatically use the amount on row 40 "**Carried to Next Year**", below, of the previous year.

(23) Total Credit: (Calculated)

The sum of rows 19 through 22, above.

(24) Adjustment for Prior Year ISO Interest & Penalty

Fifty percent of the aggregate amount of the interest and penalties which were paid by the taxpayer before the date of enactment of subsection (f) of IRC § 53, and which would (but for such payment) have been abated under paragraph (1) (relating to incentive stock options) of such subsection. Enter the 50% amount in 2008 and 2009. For other years, this row will be N/A. See IRC § 53(f).

(25) Total Credit After Adjustment: (Calculated)

The sum of rows 23 and 24, above.

(26) AMT Refundable Credit Amount

Heading for rows 27 through 32, below. These rows apply only to years after 2007 and before 2013. For all other years, these rows will contain zeros.

(27) Credit Attributable to 4th & Prior Year: (Calculated)

The amount from row 22, above. **For years before 2007 or after 2012**, or for trusts or estates, this row will contain zero.

(28) x 50% (20% for 2007)

Fifty percent (20 percent for 2007) of the amount on row 27, above. **For years before 2007 or after 2012**, or for trusts or estates, this row will contain zero.

(29) $5000 Minimum (2007 only): (Calculated)

The $5,000 amount from IRC § 53(e)(2)(A)(i). **For years after 2007**, the row will be N/A.

(30) Prior Year Long-term Credit Amount

The amount from row 31 in the prior year. In multiple-year situations, enter the amount in the first column of each case only; for the other years the program will automatically use the amount on row 31 of the previous year.

No entry will be accepted for any year prior to 2008 or after 2012. See IRC § 53(e)(2)(A).

(31) Tentative Refundable Credit Amount: (Calculated)

The greater of the amounts on rows 28 or 30, but not more than the amount on row 27. **For 2007 only**, this row will be the greatest of the amounts on rows 28, 29 or 30, but not more than the amount on row 27.

(32) Refundable Credit Amount: (Calculated)

For 2007 only, the amount on row 31, phased out based on adjusted gross income, in accordance with IRC § 53(e)(2)(B). For this purpose, the program adds to AGI on the **Main Worksheet** the amounts on the following rows of the **Ordinary Income** worksheet.

- Taxpayer's Foreign Income Exclusion
- Spouse's Foreign Income Exclusion
- Taxpayer's Foreign Housing Deduction
- Spouse's Foreign Housing Deduction

For 2008 and subsequent years this row will be the same as row 31.

(33) Adjustment for Prior Year ISO Interest & Penalty: (Calculated)

The amount from row 24, above.

(34) Total Refundable Credit Amount: (Calculated)

The sum of rows 32 and 33, above.

(35) Nonrefundable Credit Allowed: (Calculated)

The nonrefundable amount of the credit allowed against the regular tax.

(36) Refundable Credit Allowed: (Calculated)

The amount on row 34 less the amount on row 35.

(37) Carryovers to future years: (Calculated)

Heading for rows 38 through 48, below.

(38) Credits Attributable – 3rd & 4th Prior (Calculated)

The sum of the amounts on rows 21 and 22, above.

(39) Less: Credit Allowed: (Calculated)

The lesser of the amount on row 38, above or the sum of the amounts on rows 35 and 36 less the amount on row 24. If row 18 shows a negative amount, it is included in the amount on this row. See **NOTE 1**, below. The amount on this row is expressed by the program as a negative.

(40) Carried to Next Year: (Calculated)

The sum of rows 38 and 39.

(41) Credit Attributable to 2nd Prior Year: (Calculated)

The amount on row 20, above.

(42) Less: Credit Allowed: (Calculated)

The lesser of the amount on row 41, above or the sum of the amounts on rows 35 and 36 less the amount on row 24, reduced by any negative amounts on rows 18 and 39.

(43) Carried to Next Year: (Calculated)

The sum of rows 41 and 42.

(44) Credit Attributable to 1st Prior Year: (Calculated)

The amount on row 19, above.

(45) Less: Credit Allowed: (Calculated)

The lesser of the amount on row 44, above or the or the sum of the amounts on rows 35 and 36 less the amount on row 24, reduced by any negative amounts on rows 18, 39 and 42.

(46) Carried to Next Year

The sum of rows 44 and 45.

(47) Credit Generated in Current Year

The amount on row 18 above, if positive. If row 18 is negative this row will be zero.

(48) Total Carried to Future Years

The sum of rows 40, 43, 46 and 47, above.

(49) (Blank)

(50) Apply 2004 Technical Correction?

In performing the calculation of the AMT Alternative Capital Gains Tax for purposes of computing the amount on row 13 (Net Minimum Tax with only Exclusion Preferences and Adjustments), apply the technical correction contained in § 406(d) of the Working Families Tax Relief Act of 2004. Answer Y for Yes or N for No.

The correction changes the amount that appears on the Section 1(h)(1)(B) Regular Tax Amount Row of the **AMT Alternative Capital Gain Tax** worksheet when that worksheet is computing the tax with only exclusion items. Prior to the correction, the amount on that row was limited to the taxpayer's regular tax taxable income. As a result of the correction, according to the Explanatory Statement of the Committee of the Conference for the Act at page 71, the amount is not so limited and is instead limited to the amount in the regular tax rate schedules that is taxed at a rate below 25% (28% for years before 2001) regardless of the taxpayer's actual taxable income. This interpretation of the correction may not be supported by the statutory language of the correction. However, the Committee Report is entitled to considerable weight. The technical correction applies, by its terms, to all years after 1996.

This row is provided to allow you to disregard the technical correction so that the program's results are consistent with returns that have been filed, some of which may be for years that are barred by the statute of limitations. It is not clear that the correction may be so disregarded in computing the minimum tax credit carried to open years, or in making other such calculations.

For years after 2003, this row will be N/A.

For years before 2004, the program allows you to apply the technical correction independently for purposes of the Minimum Tax Credit and the actual AMT alternative capital gain tax computation. This treatment appears to be suggested by IRS Form 8801 for 2004, though it appears to have no support in the statute. The effect of applying the technical correction for purposes of the credit but not for purposes of the actual AMT calculation, in cases in which the technical correction makes a difference, will be to increase the credit, and may be a rough substitute for filing amended returns for years prior to 2004. It should be noted, however, that this approach is entirely unsupported by any authority, other than the implication of IRS Form 8801 for 2004.

NOTE 1

It is apparently possible to have a negative minimum tax credit or to have a positive credit offset by a subsequent reversal of timing differences without the credit being actually applied in reduction of tax. See General Explanation of the Tax Reform Act of 1986, Joint Committee of Taxation, pp. 463-64. However, where such an offset occurs in a given year, it is apparently applied after any use of the credit against the tax for that year. See IRC § 53. The program follows this approach.

It also appears from Form 8801 that under the IRS's interpretation of IRC § 53, the negative credit does not carry forward from year to year. The program follows this rule as well.

NOTE 2

Do not use this subworksheet in multiple-year situations unless you have the same taxpayer in all columns. Carryovers generated by one taxpayer cannot be used by another.

When running a taxpayer and spouse analysis, carryovers generated in the spouse's column will be carried to the following years in the spouse's column; those generated in the taxpayer's column will be carried to subsequent years' taxpayer's columns; and those generated in the combined column will be carried to subsequent years' combined columns. Similar rules are applied when running other types of analyses such as adjustment and difference.

NOTE 3

The program does not handle the increase in the minimum tax credit for the carryover of the unallowed nonconventional fuel credit. See IRC § 53(d)(1)(B)(iii).

NOTE 4

At the date of publication of the program complete authority was not available dealing with the question of how to compute and allocate the unused parental minimum tax exemption for purposes of a child's minimum tax credit.

See IRC §§ 53(d) and 59(j)(1)(B).

NOTE 5

The program computes the Tentative Minimum Alternative Capital Gains Tax on row 9 using the following amounts:

1. AMT Taxable Excess (row 1 of the **Alternative Capital Gains Tax** worksheet) is computed using alternative minimum taxable income with only exclusion preferences, i.e., row 5 of this worksheet.

2. Then rows 2 "Net Capital Gain From Sales", 3 "Qualified Dividend Income", 5 "Unrecaptured Section 1250 Gain", 6 "28% Rate Gain", 19 "Total AMT Qualified 5-Year Gain", and 34 "Adjusted Net Capital Gain Taxed at 15% <(R33, R25)" of the **AMT Alternative Capital Gains Tax** worksheet are taken from the regular tax **Alternative Capital Gains Tax** worksheet. For 2003, row 16 "**Total Post 5/5/03 Capital Gain or Loss**" is computed as the amount on the regular tax **2003 Post 5/5 Capital Gains and Losses** worksheet plus regular tax qualified dividend income.

    This is because the adjustments on the **Capital Gain/Loss – Alt Min**, **28% Rate Capital Gain/Loss – Alt Min**, and **Section 1231 & Casualty Gain or Loss – Alt Min**, and **2003 Post 5/5 Capital Gains and Losses – Alt Min** worksheets are assumed by the program to be deferral adjustments and not exclusion items. Therefore, such adjustments should not enter into the computation of the AMT alternative capital gains tax when such computation is being done with only exclusion items.

    Stated another way, the starting point of the computation, regular taxable income, is assumed to carry with it the regular tax capital gain items. It is further assumed that these items are to be used in the Tentative Minimum Alternative Capital Gains Tax computation for purposes of the minimum tax credit.

As of the date of publication of the program there was little authority on the question of how the alternative capital gains tax computation is to be done for purposes of the minimum tax credit. See, however, Form 8801. Until there is adequate authority on this question, please exercise caution in relying on the results produced by the program in this regard.

WITHHOLDING, ESTIMATED & PENALTY

Withholding, Estimated & Penalty

(1)	Compute Underpayment Penalty
(2)	
(3)	Special Disaster Due Dates (Y/N):
(4)	1st Payment Due Date:
(5)	2nd Payment Due Date:
(6)	3rd Payment Due Date:
(7)	4th Payment Due Date:
(8)	Final Payment Due Date:
(9)	Prior Year AGI
(10)	Qualified Small Business Individual?
(11)	
(12)	
(13)	Prior Year Tax
(14)	**Prior Year Safe Harbor Amount**
(15)	**90% of Current Year Actual Tax**
(16)	**Required Annual Payment**
(17)	Withholding from Wages Worksheet
(18)	Other Withholding
(19)	Refund for Prior Year
(20)	Apply Refund to Estimated
(21)	If No: Portion to Apply
(22)	**Current Year 1st Required Payment**
(23)	**1st Quarter Withholding Applied**
(24)	**Prior Year Refund Applied**
(25)	**Net Current Year 1st Payment Due**
(26)	Current Year 1st Payment Made
(27)	Current Year 1st Payment Date
(28)	**Current Year 2nd Required Payment**
(29)	**2nd Quarter Withholding Applied**
(30)	**Previous Period Under (Over) Payment**
(31)	**Net Current Year 2nd Payment Due**
(32)	Current Year 2nd Payment Made
(33)	Current Year 2nd Payment Date
(34)	**Current Year 3rd Required Payment**
(35)	**3rd Quarter Withholding Applied**
(36)	**Previous Period Under (Over) Payment**
(37)	**Net Current Year 3rd Payment Due**
(38)	Current Year 3rd Payment Made
(39)	Current Year 3rd Payment Date
(40)	**Next Year Required Payment**
(41)	**4th Quarter Withholding Applied**
(42)	**Previous Period Under (Over) Payment**
(43)	**Net Next Year Payment Due**
(44)	Next Year Payment Made
(45)	Next Year Payment Date
(46)	Final Payment Date
(47)	**Total Estimated & Withholding**
(48)	**Underpayment Penalty**
(49)	Penalty Adjustment
(50)	**Total Underpayment Penalty**

Note. Use of this worksheet enables the Form 1040-ES Vouchers item on the Worksheets menu. This item supports automatic generation of Form 1040-ES for the current year.

> **Note.** For a complete discussion of the Annualization analysis, see **Annualization** on page 613. The Annualization analysis is significant only for computations on this worksheet.

(1) Compute Underpayment Penalty

Indicate whether you want the program to compute the underpayment penalty on this worksheet. Answer "Y" for "Yes" or "N" for "No." If you answer "No" the program will use this worksheet to compute total federal withholding and estimated tax payments and to apply a prior year federal refund to the current year's estimated tax, but will not compute the penalty for underpayment on row 48 "**Underpayment Penalty**". In either event, the program allows you to adjust the penalty on row 49 "Penalty Adjustment", subject to limiting any negative penalty as so adjusted to zero.

(2) (Blank)

(3) Special Disaster Due Dates (Y/N)

Special due dates have been allowed by the IRS as a result of a disaster. Answer Yes and the program will allow the special due dates to be entered on rows 4 through 8 below. Otherwise the program will only allow the regular due dates of April 15, June 15, September 15 and January 15 of the following year to be entered on rows 4 through 8 below.

(4) 1st Payment Due Date

Unless the answer on row 3 above is Yes, this row defaults to 04/15 of the current year. If you answer Yes on row 3 then you should enter the due date of the first payment as allowed by the IRS due to a disaster.

For 2001, the due dates for all taxpayers are 4/15, 6/15, 9/24 and 1/15 of 2002. These are the dates automatically supplied by the program. However, if the taxpayer was **directly** affected by the events of 9/11 you should enter 4/15/2001, 6/15/2001, 01/15/2002 and 01/15/2002 as the payment due dates on rows 4 through 7. Directly affected taxpayers include victims of the attacks, relief workers, and all taxpayers whose principal residence or place of employment is located in five New York counties: Bronx, Kings, New York (borough of Brooklyn and Manhattan), Queens and Richmond, or Arlington County, Virginia. Taxpayers whose records were maintained in these areas are also considered directly affected. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2001, if the taxpayer was **indirectly** affected by the events of 9/11, the due dates for rows 4 through 7 are 04/15/2001, 06/15/2001, 11/15/2001 and 01/15/2002. Indirectly affected taxpayers are those who were not directly

affected but had difficulty in meeting his or her federal tax obligations because of disruption in the transportation and delivery of documents resulting from the terrorist attack. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2005 if the taxpayer was affected by Hurricane Katrina in areas of Louisiana, Mississippi, Alabama and Florida, the due dates for rows 4 through 7 are 04/15/2005, 06/15/2005, 02/28/2006 and 02/28/2006. See IRS News Release 2005–112, September 28, 2005, for the areas eligible for such relief. See also the Katrina Emergency Tax Relief Act of 2005, § 403. Also for **2005** for taxpayers affected by Hurricane **Rita** in areas of Texas and Louisiana or by Hurricane **Wilma** in areas of Florida, the due dates are 04/15/2005, 06/15/2005, 09/15/2005 and 02/28/2006. See IRS News Release 2005–110, September 26, 2005, News Release 2005–128, October 27, 2005 (updated 11/18/05) and the Katrina Emergency Tax Relief Act of 2005, § 403.

For 2005 and 2006, if the taxpayer was affected by Hurricane Katrina in certain parishes and counties in Alabama, Louisiana and Mississippi the due dates for **2005** are 4/15/2005, 06/15/2005, 08/28/2006, and 08/28/2006. **For 2006** the due dates are 10/16/2006, 10/16/2006, 10/16/2006 and 01/15/2007. Such taxpayers also have until 10/16/ 2006, to pay their final 2005 tax liability. See IRS Notice 2006–20, February 17, 2006, IRS Notice 2006–56, June 19, 2006, and IRS News Release IR–2006–135, August 25, 2006.

For 2020, the due date for rows 4 and 5 will be 07/15/20. See IRS Notices 2020-18 and 2020-23.

For other years and other taxpayers affected by disasters see the appropriate IRS notices and announcements. **For 2007** see the IRS Web Page listing the announcements.

(5) 2nd Payment Due Date

Unless the answer on row 3 above is Yes, this row defaults to 06/15 of the current year. If you answer Yes on row 3 then you should enter the due date of the first payment as allowed by the IRS due to a disaster.

For 2001, the due dates for all taxpayers are 4/15, 6/15, 9/24 and 1/15 of 2002. These are the dates automatically supplied by the program. However, if the taxpayer was **directly** affected by the events of 9/11 you should enter 4/15/2001, 6/15/2001, 01/15/2002 and 01/15/2002 as the payment due dates on rows 4 through 7. Directly affected taxpayers include victims of the attacks, relief workers, and all taxpayers whose principal residence or place of employment is located in five New York counties: Bronx, Kings, New York (borough of Brooklyn and Manhattan), Queens and Richmond, or Arlington County, Virginia. Taxpayers whose records were maintained in these areas are also

considered directly affected. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2001, if the taxpayer was **indirectly** affected by the events of 9/11, the due dates for rows 4 through 7 are 04/15/2001, 06/15/2001, 11/15/2001 and 01/15/2002. Indirectly affected taxpayers are those who were not directly affected but had difficulty in meeting his or her federal tax obligations because of disruption in the transportation and delivery of documents resulting from the terrorist attack. See Notice 2001–61, 2001-40 I.R.B. And see Form 2210 instructions for 2001.

For 2005 if the taxpayer was affected by Hurricane Katrina in areas of Louisiana, Mississippi, Alabama and Florida, the due dates for rows 4 through 7 are 04/15/2005, 06/15/2005, 02/28/2006 and 02/28/2006. See IRS News Release 2005–112, September 28, 2005, for the areas eligible for such relief. See also the Katrina Emergency Tax Relief Act of 2005, § 403. Also for **2005** for taxpayers affected by Hurricane **Rita** in areas of Texas and Louisiana or by Hurricane **Wilma** in areas of Florida, the due dates are 04/15/2005, 06/15/2005, 09/15/2005 and 02/28/2006. See IRS News Release 2005–110, September 26, 2005, News Release 2005–128, October 27, 2005 (updated 11/18/05) and the Katrina Emergency Tax Relief Act of 2005, § 403.

For 2005 and 2006, if the taxpayer was affected by Hurricane Katrina in certain parishes and counties in Alabama, Louisiana and Mississippi the due dates for **2005** are 4/15/2005, 06/15/2005, 08/28/2006, and 08/28/2006. For **2006** the due dates are 10/16/2006, 10/16/2006, 10/16/2006 and 01/15/2007. Such taxpayers also have until 10/16/ 2006, to pay their final 2005 tax liability. See IRS Notice 2006–20, February 17, 2006, IRS Notice 2006–56, June 19, 2006, and IRS News Release IR–2006–135, August 25, 2006.

For 2020, the due date for rows 4 and 5 will be 07/15/20. See IRS Notices 2020-18 and 2020-23.

For other years and other taxpayers affected by disasters see the appropriate IRS notices and announcements. For **2007** see the IRS Web Page listing the announcements.

(6) 3rd Payment Due Date

Unless the answer on row 3 above is Yes, this row defaults to 09/15 of the current year. If you answer Yes on row 3 then you should enter the due date of the first payment as allowed by the IRS due to a disaster.

For 2001, the due dates for all taxpayers are 4/15, 6/15, 9/24 and 1/15 of 2002. These are the dates automatically supplied by the program. However, if the taxpayer was **directly** affected by the events of 9/11 you should enter 4/15/2001, 6/15/2001, 01/15/2002 and 01/15/2002 as the payment due dates on rows 4 through 7. Directly affected taxpayers include victims of the attacks,

relief workers, and all taxpayers whose principal residence or place of employment is located in five New York counties: Bronx, Kings, New York (borough of Brooklyn and Manhattan), Queens and Richmond, or Arlington County, Virginia. Taxpayers whose records were maintained in these areas are also considered directly affected. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2001, if the taxpayer was **indirectly** affected by the events of 9/11, the due dates for rows 4 through 7 are 04/15/2001, 06/15/2001, 11/15/2001 and 01/15/2002. Indirectly affected taxpayers are those who were not directly affected but had difficulty in meeting his or her federal tax obligations because of disruption in the transportation and delivery of documents resulting from the terrorist attack. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2005 if the taxpayer was affected by Hurricane Katrina in areas of Louisiana, Mississippi, Alabama and Florida, the due dates for rows 4 through 7 are 04/15/2005, 06/15/2005, 02/28/2006 and 02/28/2006. See IRS News Release 2005–112, September 28, 2005, for the areas eligible for such relief. See also the Katrina Emergency Tax Relief Act of 2005, § 403. Also for **2005** for taxpayers affected by Hurricane **Rita** in areas of Texas and Louisiana or by Hurricane **Wilma** in areas of Florida, the due dates are 04/15/2005, 06/15/2005, 09/15/2005 and 02/28/2006. See IRS News Release 2005–110, September 26, 2005, News Release 2005–128, October 27, 2005 (updated 11/18/05) and the Katrina Emergency Tax Relief Act of 2005, § 403.

For 2005 and 2006, if the taxpayer was affected by Hurricane Katrina in certain parishes and counties in Alabama, Louisiana and Mississippi the due dates for **2005** are 4/15/2005, 06/15/2005, 08/28/2006, and 08/28/2006. For **2006** the due dates are 10/16/2006, 10/16/2006, 10/16/2006 and 01/15/2007. Such taxpayers also have until 10/16/ 2006, to pay their final 2005 tax liability. See IRS Notice 2006–20, February 17, 2006, IRS Notice 2006–56, June 19, 2006, and IRS News Release IR–2006–135, August 25, 2006.

For other years and other taxpayers affected by disasters see the appropriate IRS notices and announcements. **For 2007**, see the IRS Web Page listing the announcements.

(7) 4th Payment Due Date

Unless the answer on row 3 above is Yes, this row defaults to 01/15 of the next year. If you answer Yes on row 3 then you should enter the due date of the first payment as allowed by the IRS due to a disaster.

For 2001, the due dates for all taxpayers are 4/15, 6/15, 9/24 and 1/15 of 2002. These are the dates automatically supplied by the program. However, if the taxpayer was **directly** affected by the events of 9/11 you should enter

4/15/2001, 6/15/2001, 01/15/2002 and 01/15/2002 as the payment due dates on rows 4 through 7. Directly affected taxpayers include victims of the attacks, relief workers, and all taxpayers whose principal residence or place of employment is located in five New York counties: Bronx, Kings, New York (borough of Brooklyn and Manhattan), Queens and Richmond, or Arlington County, Virginia. Taxpayers whose records were maintained in these areas are also considered directly affected. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2001, if the taxpayer was **indirectly** affected by the events of 9/11, the due dates for rows 4 through 7 are 04/15/2001, 06/15/2001, 11/15/2001 and 01/15/2002. Indirectly affected taxpayers are those who were not directly affected but had difficulty in meeting his or her federal tax obligations because of disruption in the transportation and delivery of documents resulting from the terrorist attack. See Notice 2001–61, 2001–40 I.R.B. And see Form 2210 instructions for 2001.

For 2005 if the taxpayer was affected by Hurricane Katrina in areas of Louisiana, Mississippi, Alabama and Florida, the due dates for rows 4 through 7 are 04/15/2005, 06/15/2005, 02/28/2006 and 02/28/2006. See IRS News Release 2005–112, September 28, 2005, for the areas eligible for such relief. See also the Katrina Emergency Tax Relief Act of 2005, § 403. Also for **2005** for taxpayers affected by Hurricane **Rita** in areas of Texas and Louisiana or by Hurricane **Wilma** in areas of Florida, the due dates are 04/15/2005, 06/15/2005, 09/15/2005 and 02/28/2006. See IRS News Release 2005–110, September 26, 2005, News Release 2005–128, October 27, 2005 (updated 11/18/05) and the Katrina Emergency Tax Relief Act of 2005, § 403.

For 2005 and 2006, if the taxpayer was affected by Hurricane Katrina in certain parishes and counties in Alabama, Louisiana and Mississippi the due dates for **2005** are 4/15/2005, 06/15/2005, 08/28/2006, and 08/28/2006. For **2006** the due dates are 10/16/2006, 10/16/2006, 10/16/2006 and 01/15/2007. Such taxpayers also have until 10/16/2006, to pay their final 2005 tax liability. See IRS Notice 2006–20, February 17, 2006, IRS Notice 2006–56, June 19, 2006, and IRS News Release IR–2006–135, August 25, 2006.

For other years and other taxpayers affected by disasters see the appropriate IRS notices and announcements. For 2007 see the IRS Web Page listing the announcements.

(8) Final Payment Due Date

Unless the answer to on row 3 above is Yes, this row defaults to 04/15 of the next year. If you answer Yes on row 3 then you should enter the due date of the final payment as allowed by the IRS due to a disaster.

For 2006, if the taxpayer was affected by Hurricane Katrina in certain parishes and counties in Alabama, Louisiana and Mississippi the final due date is 10/16/2006. See IRS Notice 2006–20, February 17, 2006, IRS Notice 2006–56, June 19, 2006, and IRS News Release IR–2006–135, August 25, 2006.

For other years and other taxpayers affected by disasters see the appropriate IRS notices and announcements.

(9) Prior Year AGI

The taxpayer's adjusted gross income shown on the return for the preceding year. See IRC § 6654(d)(1)(C)(ii)(I) prior to the 1993 amendments and IRC § 6654(d)(1)(C) after such amendments.

In multiple year situations enter the amount in the first column of each case only. The program will compute the other columns.

This row is relevant to the underpayment computation in years after 1999.

(10) Qualified Small Business Individual?

The taxpayer is a qualified small business individual, i.e., one who is willing to certify that more than 50 percent of the gross income of such individual for 2008 was from income from a small business. Income from a small business means, with respect to any individual income from a trade or business the average number of employees of which was less than 500 for 2008. See IRC § 6654(d)(1)(D). If you answer yes in this row, and if the amount on row 9 above is less than $500,000 ($250,000 for married filing separately), then in computing the amount on row 14 "**Prior Year Safe Harbor Amount**" the program will use 90% of the prior year tax, instead of 100% or 110% as the case might otherwise be.

This row only applies to 2009 and will be N/A in all other years.

(11) (Blank)

(12) (Blank)

(13) Prior Year Tax

The prior year's federal tax after credits. Include the regular tax, the self-employment tax, the alternative minimum tax, recapture of ITC, tax on distributions, and all other taxes subject to the underpayment penalty. Reduce the amount by the prior year's allowable nonrefundable credits, the earned income credit, the refundable child credit, the health insurance credit, the Affordable Care Credit provided by IRC § 36B, and the credit for tax on fuels. For 1999 and subsequent years, include the prior year's domestic employment taxes. **For 2013 and subsequent years**, include the high-income health insurance

tax and the Medicare investment income tax. **For 2014 and subsequent years**, include the Affordable Care Credit Recapture tax.

In multiple-year situations, enter the amount in the first column of each case only. The program will compute the other columns.

If you enter zero, the program will ignore the entry. Generally this means that the required installments will be computed on the basis of the current year tax alone.

If the prior year tax was actually zero and was for a full 12-month taxable year, enter –1 on this row. The program will compute the penalty as if the prior year tax were actually zero. See **NOTE 4** on page 611.

(14) Prior Year Safe Harbor Amount (Calculated)

For years after 1999, it will be the following percentage of the prior year tax if prior year AGI is more than $150,000 ($75,000 for married filing separately):

2000	108.6%
2001	110%
2002	112%
2003 and thereafter	110%

For lesser amounts of AGI it will always be 1000% of the prior year tax.

If the taxpayer is a qualified small business individual as indicated on row 10 above, and adjusted gross income on row 9 above is less than $500,000 ($250,000 for married filing separately) then the percentage in 90%. See IRC § 6654(c)(1)(C) and (D).

(15) 90% of Current Year Actual Tax (Calculated)

90% of the current year's federal tax liability. The program adds together the following rows:

- the Regular Tax row on the **Main Worksheet**;

- the Alternative Minimum Tax row on the **Alternative Minimum Tax** worksheet;

- the Self-employment Tax, Lump-sum Tax, Investment Credit Recapture, First-time Homebuyer Credit Recapture, Tax on IRA and Other Taxes, and (for 1998 and subsequent years) Domestic Employment Taxes rows on the **Self-Employment & Other Taxes** worksheet. For 2013 and subsequent years, the program includes the high-income health insurance tax and the Medicare investment income tax. For 2015and subsequent years, the program includes the Affordable Care Credit Recapture tax.

The program then subtracts these items:

- allowable nonrefundable credits, and

- the refundable child tax credit, the refundable minimum tax credit, the earned income credit, the first-time homebuyer credit, the health insurance credit, the affordable care credit, and the federal fuels tax credit.

and **multiplies the total by 90%**.

For 2020 only, the program will reduce the amount by 50% of the OASDI portion of the self-employment tax. See CARES Act (Pub. L. No. 116-136), § 2302(b)(2).

(16) Required Annual Payment (Calculated)

Generally, the lesser of row 14 "**Prior Year Safe Harbor Amount**" or row 15 "**90% of Current Year Actual Tax**". See IRC § 6654(d)(1)(B) and (C).

(17) Withholding from Wages Worksheet

Current year federal taxes withheld, including any excess social security and Medicare taxes withheld, as entered on the **Wages** worksheet. **No entry may be made on this row.** To enter withholding, press W for the **Wages** worksheet.

For analyses other than annualization, the program treats withholding as being paid in four even payments on the due dates for estimated taxes, i.e., April 15, June 15, September 15, and January 15 of the following year. See **NOTE 12** on page 613. With regard to annualization, see **NOTE 11 – Annualization** on page 613.

(18) Other Withholding

Current year federal taxes withheld, including any excess social security and RRTA tax, other than amounts entered on the **Wages** worksheet.

For analyses other than annualization, the program treats withholding as being paid in four even payments on the due dates for estimated taxes, i.e., April 15, June 15, September 15, and January 15 of the following year. See **NOTE 12** on page 613. With regard to annualization, see **NOTE 11 – Annualization** on page 613.

(19) Refund for Prior Year

Any federal tax received or applied in the current year on account of an overpayment for the prior year. In multiple-year situations, enter the amount in the first column of each case only; the program will compute the other columns. Use row 20 "Apply Refund to Estimated" and row 21 "If No: Portion to Apply" below to specify the extent to which the overpayment is applied to the current year's estimate.

(20) Apply Refund to Estimated

Indicate whether the entire overpayment on the row above is to be applied to the current year's estimated tax due. Answer "Y" for "Yes" or "N" for "No."

If you answer "No", the program will apply the amount on row 21 "If No: Portion to Apply" below, up to the amount of the overpayment. If no amount is entered on row 21, the program considers the entire overpayment to have been actually refunded.

If you specify that the prior year's overpayment is to be applied (in whole by answering "Y" on this row or in part by entering an amount on row 21) to the current year's estimated tax, the program applies such overpayment first to the April 15 required payment and then, if any excess applied refund remains, to the others in chronological order.

(21) If No: Portion to Apply

If you answer "No" on the previous row, enter here the overpayment amount for the prior year to be applied to the current year's estimated tax. If the amount entered exceeds the overpayment, the program ignores the excess. If you answer "Yes" on the previous row, the amount on this row will be ignored. See the description for the previous row for the way the program applies the overpayment.

(22) Current Year 1st Required Payment (Calculated)

The first required installment due April 15 of the current year. The amount is computed as the lesser of row 14 "**Prior Year Safe Harbor Amount**" or row 15 "**90% of Current Year Actual Tax**", divided by 4.

See the description for row 13 "Prior Year Tax" above for how the program treats a prior year tax of 0.

When running the annualization analysis, the amount on this row is computed in the first period as 25% of the amount on row 16 "**Required Annual Payment**". This amount is repeated in all columns except the full year. In the full year column, the amount on this row is computed as the lesser of the amount on row 16 in the first period or the amount on row 16 in the full year column, times 25%.

(23) First Quarter Withholding Applied (Calculated)

25% of row 17 "Withholding from Wages Worksheet" and row 18 "Other Withholding" above shown as a negative amount.

(24) Prior Year Refund Applied (Calculated)

The prior year refund applied as specified on row 20 "Apply Refund to Estimated" and row 21 "If No: Portion to Apply" above, shown as a negative amount.

(25) Net Current Year First Payment Due (Calculated)

The sum of rows 22 through 24 above. If the amount is negative, no payment is due for the first period for estimated taxes.

(26) Current Year 1st Payment Made

Amount of the first estimated tax payment made during the current year.

(27) Current Year 1st Payment Date

The date of the first estimated payment made during the current year. Note that the program defaults to 415 (April 15) for this payment.

Enter the date in the format of "MM/DD/YYYY". If the number of dollar digits is only 7 and you are not displaying cents then use the format "MM/DD/YY" See the Calculation Options Dialog.

Generally, the program defaults to 4/15 of the current year for the date on this row. This default does not change when enter a different date on row 4, but the program computes the penalty on the basis of the due date entered. To have the program supply the date entered on row 4, enter 0 on this row. When you enter the actual date of the third payment, the default on this row is overridden.

You cannot eliminate this entry, but if there is no amount on the previous row, this date will have no effect on the computations (other than to cause the penalty to be rounded one additional time).

(28) Current Year 2nd Required Payment (Calculated)

The second required installment due June 15 of the current year.

The amount on this row will be row 16 "**Required Annual Payment**" divided by 4.

When running the annualization analysis, the amount on this row is computed in the second period as 50% of the amount on row 16 for that period minus the amount on row 22. This amount is repeated in all columns except the full year.

In the full year column, the amount on this row is computed as the lesser of the amount on row 16 in the second period or the amount on row 16 in the full year column times 50%. From this amount is subtracted the amount on row 22 for the full year.

Note. The amount entered as paid for the previous periods' installment on row 26 above **does not** affect the computation of the second or subsequent required payments as shown on this row and rows 34 and 40 below. It does, of course, enter into the computation of the net payments due on rows 31, 37, and 43, as well as the penalty on row 48.

(29) Second Quarter Withholding Applied (Calculated)

25% of the sum of row 17 "Withholding from Wages Worksheet" and row 18 "Other Withholding" above shown as a negative amount.

When you are running the annualization analysis, the amount on this row in the second column is computed as the sum of rows 17 and 18 in the second column minus the sum of rows 17 and 18 in the first column, shown as a negative amount. This amount is repeated in all subsequent columns.

(30) Previous Period Under (Over) Payment (Calculated)

Row 25 "**Net Current Year 1st Payment Due**" minus row 26 "Current Year 1st Payment Made", above.

(31) Net Current Year Second Payment Due (Calculated)

The sum of rows 28 through 30, above. If the amount is negative, no payment is due for the second period for estimated taxes.

(32) Current Year 2nd Payment Made

The amount of the second estimated tax payment made during the current year.

(33) Current Year 2nd Payment Date

The date of the current year second payment made during the current year.

Enter the date in the format of "MM/DD/YYYY". If the number of dollar digits is only 7 and you are not displaying cents then use the format "MM/DD/YY". See the Calculation Options Dialog.

Generally, the program defaults to 6/15 of the current year for the date on this row. This default does not change when enter a different date on row 5, but the program computes the penalty on the basis of the due date entered. To have the program supply the date entered on row 5, enter 0 on this row. When you enter the actual date of the third payment, the default on this row is overridden.

(34) Current Year 3rd Required Payment (Calculated)

Row 16 "**Required Annual Payment**" divided by 4.

When running the annualization analysis, the amount on this row is computed in the third period as 75% of the amount on row 16 for that period minus the amounts on rows 22 and 28 (current year 1st and 2nd required payments). For estates and trusts, this amount is repeated in all columns except the full year.

In the full year column, the amount on this row is computed as the lesser of the amount on row 16 in the third period or the amount on row 16 in the full year column times 75%. From this amount is subtracted the amounts on rows 22 and 28 in the full year column.

Note. The amounts entered as paid for the previous periods' installments on rows 26 and 32 above **do not** affect the computation of the third or subsequent required payments as shown on this row and row 40 below. They do, of course, enter into the computation of the net payments due on rows 37 and 43, as well as the penalty on row 48.

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(35) Third Quarter Withholding Applied (Calculated)

25% of the sum of row 17 "Withholding from Wages Worksheet" and row 18 "Other Withholding" above shown as a negative amount.

When you are running the annualization analysis, the amount on this row in the third column is computed as the sum of rows 17 and 18 in the third column minus sum of rows 17 and 18 in the second column, shown as a negative amount. This amount is repeated in all subsequent columns.

(36) Previous Period Under (Over) Payment (Calculated)

Row 31 "**Net Current Year 2nd Payment Due**" minus row 32 "Current Year 2nd Payment Made", above.

(37) Net Current Year Third Payment Due (Calculated)

The sum of rows 34 "**Current Year 3rd Required Payment**" through 36 "**Previous Period Under (Over) Payment**", above. If the amount is negative, no payment is due for the third period for estimated taxes.

(38) Current Year 3rd Payment Made

The amount of the third estimated tax payment made during the current year.

(39) Current Year 3rd Payment Date

The date of the third estimated payment made during the current year. Enter the date in the format of "MM/DD/YYYY". If the number of dollar digits is only 7 and you are not displaying cents then use the format "MM/DD/YY" See the **Calculation Options** dialog.

Generally, the program defaults to 9/15 of the current year for the date on this row.

Note. For 2001, the program defaults to 9/24/2001. This default does not change when you enter a different date on row 6, but the program computes the penalty based on the due date entered. When you enter the actual date of the third payment, the default on this row is overridden. To have the program supply the date entered on row 6, enter 0 on this row.

(40) Next Year Required Payment (Calculated)

Row 16 "**Required Annual Payment**" divided by 4.

When running the annualization analysis, in the full year column for all taxpayers except estates and trusts, the amount on this row is computed as the amount on row 16 in the full year column. From this amount is subtracted the amounts on rows 22, 28, and 34 in the full year column.

When running the annualization analysis for estates and trusts, the amount on this row is computed in the fourth period as the amount on row 16 for that period minus the amounts on rows 22, 28, and 34. In the full year column, the amount on this row is the lesser of the amount on row 16 row in the fourth period or the amount on row 16 in the full year column. From this amount is subtracted the amounts on rows 22, 28, and 34 in the full year column.

Note. The amounts entered as paid for the previous records' installments on rows 26, 32, and 38 above, **do not** affect the computation of the fourth required payment as shown on this row. They do, of course, enter the computation of the net payment due on row 43, as well as the penalty on row 48.

(41) Fourth Quarter Withholding Applied (Calculated)

Twenty-five percent of the sum of row 17 "Withholding from Wages Worksheet" and row 18 "Other Withholding" above shown as a negative amount.

When running the annualization analysis, the amount on this row in the fourth column is computed as the sum of rows 17 and 18 in the fourth column minus the sum of rows 17 and 18 in the third column, shown as a negative amount.

For an estate or trust this amount is repeated in the fifth column.

Note. For an estate or trust that has withholding, the sum of the amounts on rows 17 and 18 in the fourth period should be the full year amount, since withholding is entered cumulatively through the payment date, not the dates at the top of the worksheet.

(42) Previous Period Under (Over) Payment (Calculated)

Row 37 "**Net Current Year 3rd Payment Due**" minus row 38 "Current Year 3rd Payment Made", above.

(43) Net Next Year Fourth Payment Due (Calculated)

The sum of rows 40 through 42, above. If the amount is negative, no payment is due for the fourth period for estimated taxes.

(44) Next Year Payment Made

The amount of the payment made in the next year (the payment that is due on January 15th). Do not include the amount paid with the return or the extension request.

(45) Next Year Payment Date

The date of the payment made in the next year, (the payment due Jan. 15.).

Enter the date in the format of "MM/DD/YYYY". If the number of dollar digits is only 7 and you are not displaying cents then use the format "MM/DD/YY". See the **Calculation Options** dialog.

Do **not** enter the date of the payment with the return or the extension request.

Generally, the program defaults to 1/15 of the following year for the date on this row. This default does not change when enter a different date on row 7, but the program computes the penalty on the basis of the due date entered. To have the program supply the date entered on row 7, enter 0 on this row. When you enter the actual date of the fourth payment, the default on this row is overridden.

You cannot eliminate this entry, but if there is no amount on row 44, this date will have no effect on the computations (other than to cause the penalty to be rounded one additional time).

(46) Final Payment Date

The date of the payment of the amount due, usually the date of filing the return or the request for extension. The date should not be after April 15 of the year following the year for which the underpayment penalty is being computed. However for certain Hurricane victims in 2005, the final payment date can be as late as October 16, 2006.

Generally, the program defaults to 4/15/2006 for the date on this row. This default does not change when enter a different date on row 7, but the program computes the penalty on the basis of the due date entered. To have the program supply the date entered on row 7, enter 0 on this row. When you enter the actual date of the third payment, the default on this row is overridden.

Enter the date in the format of "MM/DD/YYYY". If the number of dollar digits is only 7 and you are not displaying cents then use the format "MM/DD/YY". See the **Calculation Options** dialog.

(47) Total Estimated & Withholding (Calculated)

The sum of rows 17, 18, 26, 32, 38, and 44, above, plus the refund applied pursuant to rows 19, 20, and 21. This amount is posted to the "Withhold & Estimated Tax Payments" row of the **Credits** worksheet.

(48) Underpayment Penalty (Calculated)

The penalty for underpayment of estimated taxes. See the NOTES starting on page 609 for the methodology used and the limitations.

Per Notice 2019-11 the program will reduce the penalty to zero in 2018 if the taxpayer's pay at least 85% of the amount due on or before January 15, 2019.

(49) Penalty Adjustment

Any adjustment required to the underpayment penalty as computed by the program. Such adjustment may be required where part or all of the penalty is waived due to a casualty or other circumstances, or the taxpayer is entitled to use the annualized installment method. This row may also be used to zero out the penalty, by entering a negative amount greater than the penalty computed by the program. See **NOTE 2**, **NOTE 3**, and **NOTE 5**, below, for other circumstances in which such an adjustment may be required.

(50) Total Underpayment Penalty (Calculated)

The sum of row 48 "**Underpayment Penalty**" and row 49 "Penalty Adjustment", above. This amount is posted to row 18 "Underpayment Penalty" of the **Self-Employment & Other Taxes** worksheet.

NOTE 1

The program computes the penalty by computing a running balance due and applying each payment to the amount due on a first-in-first-out basis. See IRC § 6654(b)(3). The program then computes each period's penalty, with the periods determined by the payment dates, the due dates, and the interest change dates. The program rounds the penalty to two decimal places after each such computation. Due to rounding differences, the program's results may vary slightly from the results produced by Form 2210 or other acceptable methods.

For example, assume that 90% of the taxpayer's tax in 1989 was $10,000 and that the taxpayer made four payments as follows:

April 15	$1,000		
June 22	$1,300		
September 9	$500		
January 22	$1,250		

Assume further that the taxpayer made the final payment of tax liability on April 10, 1990.

The program computes the taxpayer's penalty like this:

From	To	Balance	Rate	Penalty Outstanding
4/15/89	6/15/89	1,500	12	30.08
6/15/89	6/22/89	4,000	12	9.21
6/22/89	6/30/89	2,700	12	7.10
6/30/89	9/9/89	2,700	12	63.02
9/9/89	9/15/89	2,200	12	4.34
9/15/89	9/30/89	4,700	12	23.18
9/30/89	12/31/89	4,700	11	130.31
12/31/89	1/15/90	4,700	11	21.25
1/15/90	1/22/90	7,200	11	15.19
1/22/90	4/10/90	5,950	11	139.87
Total Penalty				443.55

The computation of each period's penalty is rounded to two decimal places with the final penalty rounded to the number of places shown on the screen. In general, see Form 2210 instructions for a discussion of the methods allowed.

NOTE 2

Except when running the annualization analysis, the program does **not** take into account the annualized installment method for computing the underpayment penalty. To adjust the penalty as computed by the program, use row 49 "Penalty Adjustment". If you enter a negative adjustment on this row that is larger than the penalty computed by the program, the program will zero out the penalty entirely. See also **NOTE 11 – Annualization** on page 613 for use of the program to compute installments using annualized amounts.

NOTE 3

Except for certain disasters in 2001 and 2005, as described in the descriptions for rows 4 through 7 above, the program does **not** take into account a waiver of the penalty for any reason, including the following:

- Casualty or disaster or other circumstances in which it would be inequitable to impose the penalty.

- Retirement after age 62 or disability in circumstances in which the underpayment was due to reasonable cause.

- Mid-year law changes.

You may use row 49 "Penalty Adjustment" to adjust the penalty for any such circumstances. If you enter a negative adjustment on this row larger than the penalty computed by the program, the program will zero out the penalty entirely.

NOTE 4

The program disregards a prior year tax of 0 (row 13) in the first year of a multiple-year situation, in all cases of a multiple case situation, and when running the annualization analysis. See the description for row 13 above. In such situations, be sure to enter the prior year tax on row 13 to have the program properly take it into account. If the prior year tax is actually 0, and was based on a full 12 month taxable year, enter –1 and the program will compute the penalty as if the prior year tax were actually 0.

Also, in multiple-year situations in which the program computes the prior year tax itself, the program does not take into account changes in filing status. Thus, if the first year of a multiple-year situation has Joint filing status and the second year has Single filing status, the penalty computed by the program in the second year may not be correct, because the program does not apportion the prior year's tax (see IRS Pub. 505). In such case, you should answer "No" on row 1 and enter the penalty on row 49 "Penalty Adjustment".

When running a taxpayer and spouse analysis, the prior year's tax in the spouse's column is used for the current year's spouse's column, the prior year's tax in the taxpayer's column is used for the current year's taxpayer's column, and the prior year tax in the combined column is used in the current year's combined column. The program does not take into account the possibility that the couple filed jointly in one year and separately in the next or vice versa. Similar rules are applied when running other types of analyses such as adjustment and difference.

NOTE 5

The program does not automatically take into account the possibility that the return is filed before January 31st, that full payment of the amount due is made with the return, and that, therefore, no penalty is due with respect to the fourth required installment. This is so even though the date of final payment is before January 31. In such event, you should use row 49 "Penalty Adjustment" to adjust the penalty computed by the program.

611

NOTE 6

Generally, the program allows for three payments of estimated tax in the current year and one in the following year. For victims of disasters, some dates may be equal.

The current year payments on rows 26, 32, 38, and 44 need not be entered in order. In other words, the "first" payment could be the June 15th payment and the second the April 15th payment, and the program would order the dates itself. However, the payment associated with the payment date must be entered on the row above the date it was made or the program will produce an incorrect result.

NOTE 7

The program uses the penalty rates published by the IRS for all quarters for which a rate was available at the time of publication. For all subsequent quarters, the program uses the most recently available rate, including any rate supplied on the Calculation Options dialog. See "Calculations" in the program's online help.

NOTE 8

When a due date falls on a Saturday, Sunday, or legal holiday, enter payments due and made on the next business day as if they were made on the due date. Thus, enter the "Payment Date" for a payment made on April 16 or 17 of 1989 as "415", since April 15, 1989, was a Saturday. Similarly enter the 1st Payment Due date as 04/15/1989.

NOTE 9

For 2000 through 2013, the program will apply the short method of computing the underpayment penalty if it produces a lower penalty. See Form 2210 (Part III). The method is allowed and is applied by the program only if the taxpayer paid his estimated tax in four equal amounts and the payments were made on the due dates. For 2001, 2005 and 2006, the program allows the short method for the due dates that were extended by the IRS, if you enter them on the due date rows (4 through 8) and the payment rows (26, 32, 38, and 44). Thus, for example, by entering the proper dates for Hurricane Katrina victims, you can cause the program to apply the short method if the payments are equal. If, in such case, you wish for any reason to force the program to apply the long method, enter the last payment as 0.01 different from the others. Note, the program does not apply the short method when running an annualization analysis regardless of whether the required payments come out equal or the actual payments are equal. See Form 2210.

NOTE 10

The program does not automatically take into account the suspension of the research credit for 1999, 2000, and 2001. See the Tax Relief Extension Act of 1999, Section 502(d). See also Form 2210.

NOTE 11 – ANNUALIZATION

See the discussion on **Annualization**, beginning on page 613, on how to use the Annualization option to compute periodic tax payments and underpayment penalty for taxpayers whose income and deductions are spread unevenly over the year.

NOTE 12

The program applies withholding entered on rows 17 and 18 to the payments due in accordance with the presumption of IRC § 6654(g)(1), i.e., ¼ on each due date. If the taxpayer can establish the dates on which all amounts were actually withheld, those dates apparently can be used in the computation. See IRC § 6654(g)(1). To apply the withholding other than ¼ on each due date, you can combine the withholding with any estimated payments on the payment rows: 26, 32, 38, and 44, instead of entering it on both the withholding rows (17 and 18). (Do not enter it on both the withholding rows (17 and 18) and the payment rows or it will be double counted.) Handling withholding this way may be especially advantageous in 2001 to taxpayers who were affected by the terrorist attack of September 11, 2001, since the normal rule of § 6654(g) would count ¼ of the withholding as paid on the due date of each payment, the third of which may be as late as 1/15/02. Similarly, handling withholding this way may be advantageous in 2005 to taxpayers who were affected by Hurricane Katrina, since the third payment date may be as late as 2/28/06. Note, however, that similar to Form 2210, the program only allows for four payments into which the withholding would have to be grouped. It is not clear whether the statute allows for such grouping instead of accounting for the withholding on each payroll date. Furthermore, in extreme cases it may be to the taxpayer's advantage to account for the withholding as actually made, in which case you should use the Penalty Adjustment row (49) to adjust the penalty computed by the program.

ANNUALIZATION

When you select Annualization on the Assumptions dialog, the program uses the annualized income installments method to calculate the quarterly estimated tax payments and underpayment penalty for taxpayers whose income and deductions are not evenly spread throughout the year.
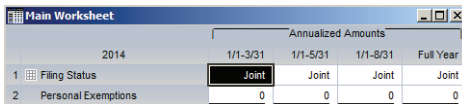
Caution! It should be noted that the computations involving annualization are not clearly defined by either statute or regulation and there are many unanswered questions regarding the details. Further, the regulations are in many respects out of date. Special care should be taken in examining the computations performed by the program in conjunction with the discussion on the following pages. You should rely on our interpretations only to the extent you agree with them.

WHERE ARE ITEMS ENTERED?

Four columns will appear for the designated year (only one year at a time may be analyzed). These columns, labeled 1/1–3/31, 1/1–5/31, 1/1–8/31, and Full Year, represent the periods for which income and deductions are computed to determine each period's payment. (For Trusts and Estates, five columns appear labeled 1/1–2/28 (1/1–2/29 in leap years), 1/1–4/30, 1/1–7/31, 1/1–11/30, and Full Year.)

On the **Main Worksheet** and the regular subworksheets for income and deduction items these columns are headed "Annualized Amounts." On custom worksheets for income and deductions they are headed "Cumulative Periodic Amounts."

USING CUSTOM WORKSHEETS TO ANNUALIZE AUTOMATICALLY

Annualized amounts for income and deduction items are posted to these columns from the custom worksheets, which are specially designed to automatically annualize the cumulative amounts entered for each period. (Amounts earned evenly throughout the year can be entered directly on the regular worksheets, rather than on custom worksheets. In such cases, enter the same (annualized) amount in each cumulative period, reflecting the assumption that the amount is received (or paid) evenly throughout the year.)

When custom worksheets are used, the annualization computation is performed on two additional rows at the bottom of the custom worksheets for income and deduction items. These rows are: the Annualization Factor row and the Annualized Amounts row. The Annualization Factor amounts for individuals are: 4, 2.4, 1.5, and 1; the factors for Trust or Estate are 6, 3, 1.71429, 1.09091, and 1. The Annualized Amount row is the amount on the Total row multiplied by the amount on the Annualization Factor row.

USING THE SECURITY TRANSACTION ANALYZER TO ANNUALIZE AUTOMATICALLY

Transactions entered on the security transaction analyzer are automatically annualized by accumulating the gains and losses in each period and applying the annualization factors described above.

WHERE DO REQUIRED PAYMENTS AND PENALTY APPEAR?

Once the annualized amounts are entered, the program calculates (on the **Withholding, Estimated and Penalty** worksheet) the required payments for each period and the underpayment penalty for the year.

The required payment for each period appears in that period based on the annualized income and deductions for that period, taking into account the required payments for prior periods, also based on annualized income and deductions for such periods. In other words, the required payments appearing in the first three columns (four for estates and trusts) are based solely on the entries in those columns and do not take into account the full year amounts. The full year column shows the actual required periodic payments based on a comparison of the full year amounts with the periodic amounts. Of course, at the end of each period, but before the end of the year, you may not know the full year amounts, and will have to rely on the periodic amounts.

Caution! The annualization analysis is significant only for purposes of computations on the **Withholding, Estimated and Penalty** worksheet. Annualization amounts appearing on other worksheets should not be used for any other purpose.

RUNNING THE ANNUALIZATION ANALYSIS

You can use this analysis in two principal ways:

1. Switch to the Annualization analysis after creating and saving a full year analysis (using cases/years); or

2. Create an Annualization analysis from the start.

Caution! Before you change an Annualization analysis to a multi-year or multi-case analysis, you should save the file containing the quarterly amounts. The program **does not retain** the results of the annualization analysis when you switch from an Annualization analysis. Therefore, you should note the penalty amounts before making the switch so that you can adjust the program's

computed penalty amounts accordingly. In general, we suggest that you do not simply change the Annualization analysis to a multiple-year analysis, but instead keep a separate file with the full year amounts. In particular, you should not switch back and forth between Annualization and full year analysis when you have created custom worksheets for carryovers.

SWITCHING FROM A SAVED FILE

When you switch to the Annualization analysis, the program will "de-annualize" each item's amount on an income or deduction custom worksheet. Therefore, if you have 100,000 entered on a custom worksheet for a taxpayer's 2004 FICA Wages and you select annualization, the program will enter 25,000 in the first period (1/1-3/31), 41,667 in the second period (1/1-5/31), and 66,667 in the third period (1/1-8/31), and 100,000 in the fourth period (Full Year). Then the program will annualize each amount so that the amounts appear the same in each worksheet column. You may then adjust the amounts on the custom worksheets to reflect the amounts actually received in the period and the program will annualize your entries. In this way, the program initially assumes that all amounts are earned evenly throughout the year.

For income or deduction amounts entered directly, i.e., **not** posted from custom worksheets, the program puts the same amount into each cumulative period reflecting the assumption that the amount is received (or paid) evenly throughout the year. You may overcome this assumption either by entering the annualized amount for each period directly on the income or deduction row or by entering the unannualized cumulative period's amount on a custom worksheet (which the custom worksheet will then annualize).

CREATING AN ANNUALIZATION ANALYSIS FROM THE START

For income and deduction amounts earned evenly throughout the year, you can simply enter the full annual amount in each worksheet column without using the custom worksheets (by pressing A after the entry in the first column). Then use the custom worksheets to enter amounts earned unevenly throughout the year.

The example below shows how you might use a custom worksheet to enter a combination of amounts earned both evenly and unevenly throughout the year. In the top part of the example, a separate row has been created for each periodic amount earned (unevenly) from ABC Corp. and the amounts were entered separately, rather than as cumulative amounts. The program calculated the cumulative amounts for each period and applied the annualization factor.

The second part of the example shows how the evenly earned amounts from XYZ Corp were entered. A special shortcut key, S (for Spread), is available for such entries (see the description below). Note that a title row was also created for each earnings source.

Title Rows

Other Self-employment Income				_ □ ×
		Cumulative Periodic Amounts		
2014	1/1-3/31	1/1-5/31	1/1-8/31	Full Year
Consulting - ABC Corp				
1st Payment Received 1/31	10,000	10,000	10,000	10,000
2nd Payment Received 5/1	0	50,000	50,000	50,000
3rd Payment Received 7/15	0	0	20,000	20,000
4th Payment Received 10/15	0	0	0	0
Retainer - XYZ Corp				
$4,000 per Month	12,000	20,000	32,000	48,000
Total	22,000	80,000	112,000	128,000
Annualization Factor	4	2.4	1.5	1
Annualized Amounts	88,000	192,000	168,000	128,000

Enter 12000 S here to spread the entries over the year

SPREAD KEY (S) When running an annualization analysis, an additional shortcut key is available on the custom worksheets for income and deduction items. By pressing S rather than Enter to complete an entry, you can easily enter evenly received amounts.

If you make an entry in any period **except** the full year and press S, the program will automatically enter a grossed-up amount in the subsequent columns.

If you make an entry in the full year column and press S, the program will allocate the amount **back** to all the earlier periods.

Thus, in the example above, you could have entered the income from XYZ Corp either by entering 12,000 in the first period and pressing S or by entering 48,000 in the Full Year column and pressing S.

If you do not wish to use the automatically entered amounts, simply type a corrected amount over the entered number.

ITEMS NOT ANNUALIZED

For certain items, annualization is not appropriate and the custom worksheets for such items do not automatically annualize. These items are as follows:

CREDITS AND OTHER TAXES The program does **not** annualize amounts on credit or other taxes rows although the program allocates these amounts to each cumulative period both on the custom worksheet and on the regular worksheets. This reflects the assumption that these amounts accrue or are paid evenly throughout the year, but are not to be annualized when calculating the period's tax. See Form 2210. Note, however, that you may enter annualized amounts for credits and other taxes when appropriate. See Form 2210, Pub. 505, and Treas. Reg. § 1.6654.

An exception to this rule is the credit from prior years on the **Minimum Tax Credit** worksheet. This amount is not annualized but the full amount of the credit appears in all four periods. You may change the amount if you do not agree with this assumption. A second exception to this rule is for the prior year and carryover items on the **Adoption Exclusion and Credit** worksheet, the **Dependent Care Exclusion and Credit** worksheet, the **DC Homebuyer Credit** worksheet, the **Residential Energy Efficient Property Credit** worksheet and the **Nonbusiness Energy Property Credit** worksheet. These amounts are also not annualized with the full amount appearing in all four periods. A third exception to this rule is for domestic employment taxes on the **Self-Employment & Other Taxes** worksheet. See § 3510(b)(3) of the Social Security Domestic Employment Reform Act of 1994 (HR 4278), suggesting that regulations will be forthcoming prescribing annualization of this tax. The tax enters into the computation of estimated taxes for years after 1997.

Finally, certain credits depend on items of income and expense. These items are annualized by the program and, therefore, the credit effectively is annualized as well. Included in this category are the Earned Income credit, the Adoption credit, and the Dependent Care credit. HOPE and Lifetime learning expenses are not annualized by the program, unless they are being used for a deduction instead of a credit, nor is the purchase price of the residence for purposes of the D.C. Homebuyer credit. See the instructions to Form 2210. The amounts entered on the **Nonbusiness Energy Property Credit** and **Residential Energy Efficient Property Credit** worksheets are not annualized.

WITHHOLDING   Enter withholding on the **Wages** worksheet and row 18 "Other Withholding" of the **Withholding, Estimated & Penalty** worksheet spread by quarters instead of in proportion to the months in each cumulative period. Therefore, if the taxpayer paid $100,000 in withholding for the year and you wish to apply the statutory presumption of even quarterly withholding, you should enter $25,000 in the first cumulative period, $50,000 in the second, $75,000 in the third, and $100,000 in the fourth (when you switch from a full year to annualization, the program allocates the annual amount this way automatically).

The amount applied by the program to the first installment will be the withholding entered in the first period. The amount applied to each subsequent installment will be the difference between the withholding entered in the column for that installment and the withholding entered in the preceding installment's column.

If you wish to overcome the statutory presumption, you may enter the cumulative withholding paid prior to each required payment date. In this way, you can group the withholding for each period and have it applied to the payment for that period. The program, however, does not support taking into account the actual date of payment of each of the withholding amounts. See IRC § 6654(g).

LUMP SUM   For lump sum distribution amounts, the program initially puts the full year amount into each period, thus assuming that the distribution was received in the first period. You may adjust the entries either on the **Lump Sum Distributions** worksheet or its custom worksheets to reflect the actual period(s) of receipt.

Rows that involve elections such as lump sum Yes/No rows are also treated this way.

OTHER ITEMS NOT ANNUALIZED

Personal exemptions, self-employment and other taxes, and withholding are not annualized. Also, the prior year amounts on the **Farm Income Averaging** worksheet are not annualized.

With respect to all the non-annualizing items listed above, you may enter annualized amounts and thus override the program's assumptions.

PRINCIPLES OF ANNUALIZATION

AGI AND ITEMIZED DEDUCTIONS   In general, the program uses annualized amounts for each item that goes into adjusted gross income and itemized deductions rather than annualizing AGI and total itemized. This methodology raises certain issues which are discussed below.

LIMITATIONS   Limitations that depend on AGI (such as the social security income inclusion or the medical expense deduction) are computed on the basis of annualized AGI rather than actual AGI for the period. They are then applied to the annualized amounts for the period. In addition, the program applies limitations that are defined in terms of fixed annual amounts in each period **after** the income and expense amounts have been annualized. The program does not annualize these limitations. For example, the passive rental real estate allowance of $25,000 is applied in each period after the real estate losses for the period have been annualized. This seems consistent with the treatment of other fixed dollar amounts such as personal exemptions, the standard deduction, and the self-employment tax OASDI limitation (see Form 2210).

CARRYOVERS   The program treats income and expense carryover rows the same way as other income and expense rows. The custom worksheets for these rows automatically annualize their entries. When switching from a full year analysis to annualization, entries on these custom worksheets are allocated to their respective periods. There is conflicting authority on whether the full amount of a carryover should be annualized in each period. Compare Rev. Rul 67-93, 1967-1 CB 366, which suggests that the entire amount of a net operating loss carryover should be deducted from the income for the appropriate period prior to annualization of the income for such period, with Treas. Reg. § 1.6655-2T, which suggests the opposite. The program takes no position on this issue. To have the program apply the position of Rev. Rul 67-93, enter the full amount of

the carryover in all periods on the custom worksheet. To have the program apply the position of Treas. Reg. § 1.6655-2T, enter the proportionate amounts on the custom worksheet or don't use the custom worksheet and enter the full amount on the regular worksheets in all periods.

STATE TAX PAYMENTS AND REFUNDS
When running annualization, special attention should be given to the entries on the **State Estimated and Withholding** worksheet. The auto prepay (or deduct) current year tax options on the **Resident**, **NY Nonresident**, and **Other Nonresident State Estimated & W/H Payments** worksheets should not be used unless the proportionate part of the tax computed by the program in each period will in fact be paid in that period. When switching from a full year analysis to annualization, the payment and refund rows on these worksheets should be carefully examined, since it is unlikely that these amounts are paid or received evenly throughout the year. Finally, certain rows require annualization on these worksheets solely because they are being used in conjunction with other amounts that are annualized, and therefore must be "grossed up" to yield the proper result. These rows include row 20 "Total Prior Year State Credit" on the **Resident**, **New York Nonresident**, and **Other Nonresident State Estimated & W/H Payments** worksheets as well as row 18 "Tax Benefit Reduction" on the **State Estimated and Withholding** worksheet.

SUBPART F & § 936 INCOME
The program does not handle the prior year safe harbor for Subpart F and § 936 income provided by IRC § 6654(d)(2)(D)(ii).

NOTE 1

Section 1204(f)(3) of the Small Business Job Protection Act of 1996 provides that the extension of the research credit into the period July 1, 1996, to May 31, 1997, does not apply for purposes of computing the estimated tax penalty for 1997. Therefore, amounts entered for purposes of annualization in 1997 should not include this credit extension. See also **NOTE 12** on page 613 for the **Withholding, Estimated and Penalty** worksheet.

EARNED INCOME CREDIT

Earned Income Credit

   (1)   Qualifies for Earned Income Credit
   (2)   Number of Qualifying Children
   (3)   **Adjusted Gross Income**
   (4)   **Capital Loss Adjustment**
   (5)   **Business Loss Adjustment**
   (6)   Exempt Interest Adjustment
   (7)   Other Adjustments
   (8)   **Modified AGI**
   (9)   Earned Income (Calculated)
 (10)   Adjustment to Earned Income
 (11)   Adjusted Earned Income (Calculated)
 (12)   Interest and Dividends
 (13)   **Capital Gain Net Income**
 (14)   **Net Passive Income**
 (15)   Other Disqualified Income
 (16)   **Total Disqualified Income**
 (17)   **Earned Income Credit**
 (18)   Supplemental Child Credit
 (19)   **Total Earned Income & Supplemental Child Credits**

Caution! At the date of this publication, complete guidance from the Treasury or the IRS was not available with regard to the changes made to the earned income credit computation by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the Taxpayer Relief Act of 1997, and the Economic Growth and Tax Relief Reconciliation Act of 2001. This manual explains how the program handles these computations. You are cautioned to carefully examine the row descriptions and **NOTE 1**, below. You should rely on our interpretations only to the extent you agree with them.

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(1) Qualifies for Earned Income Credit

Taxpayer qualifies for the earned income credit. Answer Y for Yes or N for No.

The taxpayer must be an "eligible individual" with one or more qualifying children. In order to be a qualifying child, the child must satisfy a relationship test, a residency test, and an age test. See IRC § 32. Married individuals must file a joint return.

The taxpayer may qualify for the earned income credit without regard to whether he or she has a qualifying child. See IRC § 32(c)(1)(A).

To have the program compute the earned income credit, you must enter the taxpayer's earned income on the **Wages** and **Self-employment Income** worksheets. For purposes of computing the credit, the program assumes earned income to be the sum of wages and self employment income on the **Ordinary Income** worksheet, less the self-employment income tax deduction from that worksheet.

(2) Number of Qualifying Children

Enter the number of qualifying children for purposes of the earned income credit.

(3) Adjusted Gross Income (Calculated)

Taxpayer's adjusted gross income from the "Adjusted Gross Income" row of the **Main Worksheet**.

(4) Capital Loss Adjustment (Calculated)

Total net capital loss for the year limited to $3000 ($1500 for married filing separately).

For years after 2001, this row will be N/A.

(5) Business Loss Adjustment (Calculated)

Fifty percent (75% for years after 1997) of the sum of the following rows on the following worksheets if said sum is a negative amount:

- Ordinary Income:
    - Self-employment Income
    - Passive Activity Income or Loss
    - Publicly Traded Partnerships
- Other Ordinary Income
    - Ordinary Nonpassive Income and Loss
        - Individual Activities

See **NOTE 1**, below.

For years after 2001, this row will be N/A.

(6) Exempt Interest Adjustment (Calculated)

The sum of the following rows on the **Interest and Dividends** worksheet:

- Private Activity Bond Interest
    - Individual Activities
- Other Exempt Interest
    - Individual Activities

For years after 2001, this row will be N/A.

(7) Other Adjustments

Adjustments, other than those computed by the program on the rows above, necessary for the computation of modified AGI for purposes of the earned income credit.

Enter the sum of net losses from estates and trusts, and the excess of (a) the deductions (other than interest) which are clearly and directly allocable to rents or royalties not derived in the ordinary course of a trade or business, plus (b) interest deductions properly allocable to such gross income over (c) gross income from such rents or royalties.

Include certain amounts received as a pension or annuity or distribution from an IRA to the extent not included in gross income. See IRC Sec.32(c)(5)(C)(ii) as amended by the Tax Technical Corrections Act of 1998.

Further adjustment may be necessary on this row if the taxpayer has net gain in one of the following trade or business categories coupled with net loss in another: (a) nonfarm sole proprietorships; (b) farm sole proprietorships; (c) other trades or businesses. See **NOTE 1**, below for further explanation and see IRC § 32(c)(5).

For years after 2001, this row will be N/A.

(8) Modified AGI (Calculated)

For years after 2001, the amount from row 5, above.

For years before 2002, the sum of the following rows, above:

- row 3 "**Adjusted Gross Income**"
- row 4 "**Capital Loss Adjustment**"
- row 5 "**Business Loss Adjustment**"
- row 6 "Exempt Interest Adjustment"
- row 7 "Other Adjustments"

(9) Earned Income: (Calculated)

The taxpayer's earned income computed as the sum of wages and self-employment income on the **Ordinary Income** worksheet, less the self-employment income tax deduction from that worksheet. The program adds back statutory employee expenses, if any, from the **Self-employment Income & Loss** worksheet.

(10) Adjustment to Earned Income

Any adjustment to earned income as calculated by the program on row 9 above. **For years after 2003**, combat zone compensation earned after the date of enactment of the Working Families Tax Relief Act of 2004 and excluded

623

by IRC § 112, may be treated as earned income at the election of the taxpayer. See IRC § 32(c)(2).

Caution! Electing to include combat zone compensation in earned income may, in some cases, actually reduce the amount of the earned income credit because of the phaseout rule of IRC § 32(b).

In 2005, qualified individuals, whose place of abode was (as of certain dates) in any Hurricane Katrina, Rita or Wilma disaster area may, at the election of the taxpayer, use 2004 earned income (if higher than the 2005 amount) for purposes of the computations on this worksheet, in lieu of the amount of earned income for 2005. The same rule applies for 2008 to qualified individuals whose place of abode was in a Midwestern disaster area. See IRC § 1400S(d). For such taxpayers you may use this row to adjust earned income up to the amount of such earned income for the prior year.

(11) Adjusted Earned Income: (Calculated)

The sum of rows 9 and 10 above.

(12) Interest and Dividends (Calculated)

Total interest and dividends computed as the sum of the following rows:

- Interest and Dividends on the **Ordinary Income** worksheet
- On the **Interest and Dividends** worksheet:
  - Private Activity Bond Interest
    - Individual Activities
  - Other Exempt Interest
    - Individual Activities
- On the **Capital Gains and Losses** worksheet:
  - Unrecaptured § 1250 Capital Gain Dividnds (25%)
  - 5-Year Capital Gain Dividends Purchased Pre-2001
  - Other Capital Gain Dividends
  - Child's Capital Gain Dividends: Parent's Return

(13) Capital Gain Net Income (Calculated)

The sum of the "Net Short-term Gain or Loss" and "Net Long-term Gain or Loss" rows on the **Main Worksheet** less the sum of the following rows:

Capital Gains and Losses worksheet:

- Section 1231 Unrecaptured Section 1250 Gain(25%) From Investment
- Other Section 1231 Gain or Loss from Investment
- Section 1231 Unrecaptured Section 1250 Gain(25%) - Trade or Business

- Section 1231 Unrecaptured Section 1250 Gain(25%) - Passive
- Other Passive Section 1231 Gain or Loss
- Other Section 1231 Trade or Business Gain or Loss

28% Rate Capital Gains and Losses worksheet:

- Section 1231 Gain or Loss Investment
- Section 1231 Trade or Business Gain/Loss
- Section 1231 Passive Gain/Loss

Any negative amount resulting from the above computation is limited to zero. With regard to the exclusion of Section 1231 gains for purposes of disqualified income see Rev. Rul. 98-56, 1998-47 I.R.B. 5.

(14) Net Passive Income (Calculated)

Net Passive Income (but not loss) computed as follows:

The "Other Ordinary Income/Loss" row on the **Passive & MAPRRA Income/Loss** worksheet to the extent not attributable to MAPRRA activities.

Plus the following row on the **Publicly Traded Partnerships** worksheet to the extent not attributable to PTPs sold at a loss:

- Other Income and Loss:
    - Ordinary Income/Loss

See IRC § 32(i)(2). As of the date of this publication, there was little authority on this computation.

(15) Other Disqualified Income

Disqualified income as defined in IRC § 32(i)(2) other than interest or dividends, capital gain net income, and net passive income computed by the program on the rows above this one. Other disqualified income includes the excess (if any) of:

1. gross income from rents or royalties not derived in the ordinary course of a trade or business, over

2. the sum of:

    a. the deductions (other than interest) which are clearly and directly allocable to such gross income, plus

    b. interest deductions properly allocable to such gross income. See IRC § 32(i)(2)(C).

(16) Total Disqualified Income (Calculated)

The sum of rows 12 through 15, above. If this amount is more than $2400, the taxpayer does not qualify for the earned income credit. The program uses the following amounts:

2000	$2,400
2001	$2,450
2002	$2,550
2003	$2,600
2004	$2,650
2005	$2,700
2006	$2,800
2007	$2,900
2008	$2,950
2009–2010	$3,100
2011	$3,150
2012	$3,200
2013	$3,300
2014	$3,350
2015–2016	$3,400
2017	$3,450
2018	$3,500
2019	$3,600
2020	$3,650

For 2021 and subsequent years, the program adjusts the amount for inflation in accordance with IRC § 32(j) as described under "Inflation Adjustments" in the program's help.

(17) Earned Income Credit (Calculated)

The basic Earned Income Credit provided by IRC § 32.

To have the program calculate the credit, you must indicate that the taxpayer qualifies for it on row 1 "Qualifies for Earned Income Credit" above, and you must enter the amount of the earned income on the **Wages** worksheet and **Self-employment & Other Taxes** worksheet.

The program computes the credit in accordance with the statutory formula. **Beginning in 2000**, the program applies the following inflation factors:

	Inflation Factor	Rev. Proc.
2000	1.0931104860	Rev. Proc. 99–42, I.R.B. 1999–46
2001	1.1273098351	Rev. Proc. 2001–13, I.R.B. 2001–3
2002	1.1641568757	Rev. Proc. 2001–59, I.R.B. 2001–52
2003	1.1826907165	Rev. Proc. 2002–70, I.R.B. 2002–46
2004	1.2096640741	Rev. Proc. 2003–85, I.R.B. 2003–49
2005	1.2375199956	Rev. Proc. 2004–71, I.R.B. 2004–50
2006	1.2759666832	Rev. Proc. 2005–70, I.R.B. 2005–47
2007	1.3257763804	Rev. Proc. 2006–53, I.R.B. 2006–48
2008	1.3560979646	Rev. Proc. 2007–66, I.R.B. 2007–45
2009	1.4139003806	Rev. Proc. 2008–66, I.R.B. 2008–45
2010	1.4165304209	Rev. Proc. 2009–50, I.R.B. 2009–45
2011	1.43745325172	Rev. Proc. 2011–12, I.R.B. 2011–2
2012	1.47233162338	Rev. Proc. 2011–52, I.R.B. 2011–45
2013	1.5101732032	Rev. Proc. 2013–15, I.R.B. 2013–5
2014	1.5357813448	Rev. Proc. 2013-35, I.R.B. 2013–47
2015	1.5600529538	Rev. Proc. 2014-61, I.R.B. 2014-47
2016	1.5670952618	Rev. Proc. 2015-53, I.R.B. 2015-44
2017	1.5796723482	Rev. Proc. 2016-55, I.R.B. 2016-44
2018	1.6110662474	Rev. Proc. 2017-58, I.R.B. 2017-45
2019	1.6388366395	Rev. Proc. 2018-57, I.R.B. 2018-49

For 2020 and subsequent years, the earned income amounts and phaseout amounts are computed in accordance with the statutory formula and the Inflation Percent entered in the Calculation Options dialog. For a description of the Inflation Percent, see "Calculations" in the program's help.

The amount of the credit for 2000 and subsequent years depends on family size indicated on row 2 "Number of Qualifying Children", above.

If the amount on row 16 "**Total Disqualified Income**" is more than the allowable amount, the taxpayer does not qualify for the earned income credit and this row will be zero.

For years before 2002, if the taxpayer has an alternative minimum tax liability for the year, the credit on this row will have been reduced by the amount of such liability. See IRC § 32(h). In such case, the amount will be the sum of rows 17, 18, and 19 as so reduced.

The amount is posted to the "Earned Income Credit" row of the **Credits** worksheet.

(18) Supplemental Child Credit

The supplemental child credit arising when total credits (including the earned income credit) exceed the sum of the regular tax and social security taxes. See IRC §§ 24(d) and 32(n) as amended by the Tax Technical Corrections Act of 1998.

Enter the amount of the supplemental credit here or press W to access the **Child Tax Credit** worksheet to enter the details and have the program compute the child tax credit and the supplemental child credit portion thereof. Because of the unusual way in which this credit is computed, use of the subworksheet is strongly recommended.

(19) Total Earned Income and Supplemental Child Credits (Calculated)

The sum of rows 17 and 18, above.

NOTE 1

In computing modified AGI applicable to years before 2002, the program does not recompute AGI from the top on down with the adjustments specified, as it does in other cases of modified AGI (passive real estate exemption, IRA limitations, Social Security inclusion, etc.). Instead, the program starts with actual AGI and makes the adjustments indicated on "adjustment" rows 4 through 7, above. Based on the statutory language of IRC § 32(c)(5), which refers to net items that for the most part are found on the face of Form 1040, and the fact that the computation is being made for purposes of a credit, as opposed to an inclusion or deduction from income, this appears to have been the intent of the draftsman. See the instructions to Form 1040.

In addition, the program does not support the breakdown of business losses into the categories required by IRC § 32(c)(5)(b)(iv) (nonfarm sole proprietorships, farm sole proprietorships, and other trade or businesses). Therefore, if the taxpayer has a net gain in one of these categories coupled with a net loss in one or more of the others, an adjustment will be required on row 7 "Other Adjustments" to properly reflect modified AGI.

MAKING WORK PAY CREDIT

Making Work Pay Credit
(1)   Taxpayer Qualifies for Credit? (2)   **Earned Income** (3)   Adjustment to Earned Income (4)   **Total Earned Income** (5)   **Credit Before Phaseout** (6)   **Credit After Phaseout** (7)   Adjustment for Social Security Etc Payment (8)   **Total Credit**

(1)   Taxpayer Qualifies for Credit?

The taxpayer qualifies for the credit. Enter Y for Yes or N for No. Nonresident alien individuals and estates and trusts do not qualify. Taxpayers who must itemize because they are supported as indicated on the "Must Itemize Supported" row of the **Filing Status** worksheet. also do not qualify but the program automatically disqualifies such taxpayers without your specifying it on this row. See IRC § 36A. If you answer No on this row, no credit will be generated. This row will be N/A in years before 2009 or after 2010.

(2)   Earned Income: (Calculated)

The taxpayer's earned income computed as the sum of the following rows on the **Ordinary Income** worksheet

- Wages
- Self-Employment Income
- Taxpayer's Foreign Income Exclusion
- Spouse's Foreign Income Exclusion
- The Self-employment income tax deduction (subtracted)

Earned income is reduced by the taxpayer's statutory employee expenses on the **Self-employment** worksheet. See IRC § 36A(d)(2) and 32(c)(2).

This row will be N/A in years before 2009 or after 2010.

(3)   Adjustment to Earned Income

Any adjustment to earned income as calculated by the program on row 2 above. Combat zone compensation excluded by IRC § 112, is treated as earned income and should be included on this row. See IRC § 36A(c)(2).

This row will be N/A in years before 2009 or after 2010.

(4)   Total Earned Income: (Calculated)

The sum of rows 2 and 3, above.

This row will be N/A in years before 2009 or after 2010.

(5) Credit Before Phaseout: (Calculated)

6.2 percent of row 4 above limited to $400 ($800 for married filing jointly).

This row will be N/A in years before 2009 or after 2010.

(6) Credit After Phaseout: (Calculated)

Row 5 reduced (but not below zero) by 2% of modified adjusted gross income in excess of $75,000 ($150,000 in case of a joint return). See IRC § 36(A)(b)(2) for the definition of modified adjusted gross income.

This row will be N/A in years before 2009 or after 2010.

(7) Adjustment for Social Security Etc Payment

Any adjustment required to the amount on row 6 for payments to social security and other retirees pursuant to Section 2201 of the American Recovery and Reinvestment Tax act of 2009. See IRC § 39A(c). The amount entered here will be automatically made negative by the program so that it will be subtracted in computing the credit on row 8 below.

(8) Total Credit: (Calculated)

The sum of rows 6 and 7 above, but not less than zero.

2008 RECOVERY REBATE CREDIT

2008 Recovery Rebate Credit	
(1)	Taxpayer Qualifies for Rebate?
(2)	Basic Credit:
(3)	**Net Income Tax Liability**
(4)	**Maximum Credit**
(5)	**Lesser**
(6)	
(7)	Minimum Credit:
(8)	**Qualifying Income**
(9)	Adj to Qualifying Income
(10)	**Total Qualifying Income**
(11)	**Gross Income**
(12)	Adj to Gross Income
(13)	**Gross Income Adjusted**
(14)	**Basic Standard Deduction**
(15)	**Exemption Amount**
(16)	**Total Basic + Exemption**
(17)	**Excess Gross Income**
(18)	**Minimum Credit Bef Child Addition**
(19)	**Number of Qualifying Children**
(20)	**Additional Credit for Children**
(21)	**Total Minimum Credit**
(22)	
(23)	**Total Credit Before Phaseout**
(24)	**Phased Out Credit**
(25)	Refund Check
(26)	Adjustment to Refund Check
(27)	**Net Credit Allowed**

(1) Taxpayer Qualifies for Rebate?

The taxpayer qualifies for the rebate. Enter Y for Yes or N for No. Nonresident alien individuals and estates and trusts do not qualify. A taxpayer who does not include on the return a valid identification number does not qualify. Taxpayers who must itemize because they are supported as indicated on the "Must Itemize Supported" row of the **Filing Status** worksheet. also do not qualify but the program automatically disqualifies such taxpayers without your specifying it on this row. See IRC § 6428. If you answer No on this row in 2007, no rebate will be generated. If you enter No on this row in 2008, no credit will be computed.

(2) Basic Credit

Heading for rows 3 through 5 below.

(3) Net Income Tax Liability: (Calculated)

The sum of the regular tax, the alternative minimum tax and the lump sum tax minus all nonrefundable credits except the child tax credit. See IRC § 6428(e)(2). The program considers the child tax credit to have been allowed

631

after the dependent care, elderly, education, elective deferral (IRA), nonbusiness energy property, and foreign tax credits. See Pub 972 for 2007.

(4) Maximum Credit: (Calculated)

For married filing jointly, $1200, for all others $600. See IRC § 6428(a)(2).

(5) Lesser: (Calculated)

The lesser of row 3 or row 4, above.

(6) (Blank)

(7) Minimum Credit

Heading for rows 8 through 21 below.

(8) Qualifying Income: (Calculated)

The taxpayer's earned income computed as the sum of wages and self-employment income on the **Ordinary Income** worksheet, less the self-employment income tax deduction from that worksheet. The program adds back statutory employee expenses, if any, from the **Self-employment Income & Loss** worksheet. To this amount is added any amount on the "Adjustment to Earned Income" row of the **Earned Income Credit** worksheet and the amount on the "Social Security Benefits" row of the **Other Ordinary Income** worksheet. See IRC § 6428(e)(1).

(9) Adjustment to Qualifying Income

Any adjustment to Qualifying Income as computed by the program on the row above. Include any compensation or pension received under chapter 11, chapter 13, or chapter 15 of title 38, United States Code (veteran's benefits).

(10) Total Qualifying Income: (Calculated)

The sum of rows 8 and 9 above.

(11) Gross Income: (Calculated)

The amount from the "Adjusted Gross Income" row of the **Main Worksheet**, plus total adjustments on the "Total Adjustments" row of the **Ordinary Income** worksheet.

(12) Adjustment to Gross Income

Any adjustment to Gross Income as computed by the program on row 11 above.

(13) Gross Income Adjusted: (Calculated)

The sum of rows 11 and 12.

(14) Basic Standard Deduction: (Calculated)

The basic standard deduction for the taxpayer's filing status as specified in IRC §§ 6012(a) and 63(c). See IRC §§ 6428(b)(2) and 6428(e)(5).

(15) Exemption Amount: (Calculated)

The exemption amount for the year as specified in IRC § 6012(a) and IRC § 151(d). For married filing jointly, the amount is doubled.

(16) Total Basic + Exemption: (Calculated)

The sum of rows 14 and 15, above.

(17) Excess Gross Income: (Calculated)

The excess, if any of row 13 over row 16, above.

(18) Minimum Credit Before Child Addition: (Calculated)

If row 10 is greater than or equal to $3,000, or rows 3 and 17 are both greater than zero, the amount on this row will be $300 ($600 for married filing jointly), or the amount on row 5, if greater. Otherwise this row will be zero.
See IRC § 6428(b)(2).

(19) Number of Qualified Children: (Calculated)

The number on the "Number of Qualifying Children" row of the **Child Tax Credit** worksheet.

(20) Additional Credit for Children: (Calculated)

If row 10 is greater than or equal to $3,000, or rows 3 and 17 are both greater than zero, the amount on this row will be $300 multiplied by the number of children on row 19. Otherwise this row will be zero.

(21) Total Minimum Credit: (Calculated)

The sum of rows 18 and 20, above.

(22) (Blank)

(23) Total Credit Before Phaseout: (Calculated)

The greater of row 5 or 21, above.

(24) Phased Out Credit: (Calculated)

The amount on row 23, reduced by 5 percent of the taxpayer's adjusted gross income in excess of $75,000 ($150,000 on a joint return).

(25) Refund Check

The refund check received or receivable by the taxpayer pursuant to IRC § 6428(e). In a multiple year analysis, if the case includes 2007 and 2008, the program will compute this amount using the 2007 amounts on the rows above. See IRC § 6428(g). The amount will appear in the 2008 column. Otherwise, this amount must be entered. Enter the amount as a positive number. This row will contain N/A in all years except 2008.

(26) Adjustment to Refund Check

Any adjustment to the amount entered or computed by the program on row 25 above. If the program computed the amount, and the taxpayer did not receive the check that he or she was entitled to, enter the full row 25 amount as a negative number. If the taxpayer received more than the amount on row 25, enter the adjustment as a positive number. If the taxpayer received less than the amount he or she was entitled to, enter the difference as a negative amount. This row will contain N/A in all years except 2008.

(27) Net Credit Allowed: (Calculated)

Row 24 less the sum of rows 25 and 26, but not less than zero. The amount on this row is posted by the program to the "2008 Recovery Rebate Credit" row of the **Credits** worksheet. This row will contain N/A in all years except 2008.

2020 RECOVERY REBATE CREDIT

2020 Recovery Rebate Credit

(1)	Taxpayer Qualifies for Rebate?
(2)	(Blank)
(3)	Rebate Before Phase Out
(4)	**Taxpayer and Spouse Credit**
(5)	**Number of Qualifying Children**
(6)	**Additional Credit for Children**
(7)	**Total Credit Before Phase Out**
(8)	**Phased Out Credit**
(9)	Refund Check
(10)	Adjustment to Refund Check
(11)	**Net Credit Allowed**

---

(1) Taxpayer Qualifies for Rebate?

Choose Yes if the Taxpayer Qualifies for the Rebate, N if the taxpayer does not See IRC § 6428(d).

For years other than 2019 or 2020, this row will be n/a.

(2) (Blank)

(3) Rebate Before Phase Out

The caption for the following rows.

For years other than 2019 or 2020 this row will be n/a.

(4) Taxpayer and Spouse Credit (Calculated)

If married filing joint, 2400, otherwise 1200.

For years other than 2019 or 2020 this row will be n/a.

(5) Number of Qualifying Children (Calculated)

The number of qualifying children on the **Child Tax Credit** worksheet.

For years other than 2019 or 2020 this row will be n/a.

(6) Additional Credit for Children (Calculated)

$500 times the number of qualifying children on row 5 above.

For years other than 2019 or 2020 this row will be n/a.

(7) Total Credit Before Phase Out (Calculated)

The sum of rows 5 and 6 above.

For years other than 2019 or 2020 this row will be n/a.

(8) Phased Out Credit (Calculated)

The amount of the credit on row 7 above after the appropriate phaseout. The credit is phased about by 5% of the adjusted gross income in excess of $150,000 for married filing joint, $112,500 for head of household, and $75,000 for other filing statuses.

For years other than 2019 or 2020 this row will be n/a.

(9) Refund Check

In 2020, for an analysis including 2019, the amount of the credit on row 8 above in 2019.

In 2020, for an analysis not including 2020, enter the amount of the refund check.

For years other than 2020 this row will be n/a.

(10) Adjustment to Refund Check

In 2020 enter any required adjustments to the refund check.

For years other than 2020 this row will be n/a.

(11) Net Credit Allowed (Calculated)

In 2020, the amount on row 8 less the amounts on rows 9 and 10.

For years other than 2020 this row will be n/a.

2020 SELF-EMPLOYED FAMILY LEAVE CREDIT

2020 Self-Employed Family Leave Credit
(1)   Taxpayer's Family Leave Credit
(2)   **Self-employment Income**
(3)   **Average Daily SE Income**
(4)   **Family Leave Limit**
(5)
(6)   **Days Limit**
(7)   Family Leave Days
(8)   **Lesser of Days or Limit**
(9)   **Family Leave Credit**
(10) Less Employee Family Leave
(11) **Total**
(12) **Family Leave Credit Limit**
(13) **Taxpayer's Family Leave Credit**
(14)
(15) Spouse's Family Leave Credit
(16) **Self-employment Income**
(17) **Average Daily SE Income**
(18) **Family Leave Limit**
(19)
(20) **Days Limit**
(21) Family Leave Days
(22) **Lesser of Days or Limit**
(23) **Family Leave Credit**
(24) Less Employee Family Leave
(25) **Total**
(26) **Family Leave Credit Limit**
(27) **Spouse's Family Leave Credit**
(28)
(29) **Total Self-employed Family Leave Credit**

(1) Taxpayer's Family Leave Credit

Caption for rows 2 through 13 below.

(2) Self-employment Income (Calculated)

The amount of the taxpayer's net self-employment income if the **Self-employment Income and Loss** worksheet is active. If not, the amount of Self-employment Income on the **Ordinary Income** worksheet times 0.9235.

Amount less than $400 will be reduced to zero.

This row will equal n/a **for all years other than 2020**.

(3) Average Daily SE Income (Calculated)

The amount on row 3 divided by 260.

This row will equal n/a **for all years other than 2020**.

(4) Family Leave Limit (Calculated)

0.67 times the lesser of row 3 or 200.

This row will equal n/a **for all years other than 2020**.

(5) (Blank)

(6) Days Limit (Calculated)

50.

This row will equal n/a **for all years other than 2020**.

(7) Family Leave Days

Enter the number of family leave days taken by the Taxpayer.

This row will equal n/a **for all years other than 2020**.

(8) Lesser of Days or Limit (Calculated)

The lesser of rows 6 or 7.

This row will equal n/a **for all years other than 2020**.

(9) Family Leave Credit (Calculated)

Row 4 times row 8.

This row will equal n/a **for all years other than 2020**.

(10) Less Employee Family Leave

Enter the number of family leave days from another employer taken due to Covid-19.

This row will equal n/a **for all years other than 2020**.

(11) Total (Calculated)

Row 9 less row 10.

This row will equal n/a **for all years other than 2020**.

(12) Family Leave Credit Limit (Calculated)

10,000

This row will equal n/a **for all years other than 2020**.

(13) Taxpayer's Family Leave Credit (Calculated)

The lesser of row 11 or 12.

This row will equal n/a **for all years other than 2020**.

(14) (Blank)

(15) Spouse's Family Leave Credit

Caption for rows 16 through 27 below.

(16) Self-employment Income (Calculated)

The amount of the spouse's net self-employment income if the **Self-employment Income and Loss** worksheet is active. If not, zero.

Amount less than $400 will be reduced to zero.

This row will equal n/a **for all years before 2020**.

(17) Average Daily SE Income (Calculated)

The amount on row 3 divided by 260.

This row will equal n/a **for all years other than 2020**.

(18) Family Leave Limit (Calculated)

0.67 times the lesser of row 17 or 200.

This row will equal n/a **for all years other than 2020**.

(19) (Blank)

(20) Days Limit (Calculated)

50.

This row will equal n/a **for all years other than 2020**.

(21) Family Leave Days (Calculated)

Enter the number of family leave days taken by the Spouse.

This row will equal n/a **for all years other than 2020**.

(22) Lesser of Days or Limit (Calculated)

The lesser of rows 20 or 21.

This row will equal n/a **for all years other than 2020**.

(23) Family Leave Credit (Calculated)

Row 18 times row 22.

This row will equal n/a **for all years other than 2020**.

(24) Less Employee Family Leave

Enter the number of family leave days from another employer taken due to Covid-19.

This row will equal n/a **for all years other than 2020**.

(25) Total (Calculated)

Row 23 less row 24.

This row will equal n/a **for all years other than 2020**.

(26) Family Leave Credit Limit (Calculated)

10,000

This row will equal n/a **for all years other than 2020**.

(27) Spouse's Family Leave Credit (Calculated)

The lesser of row 25 or 16.

This row will equal n/a **for all years other than 2020**.

(28) (Blank)

(29) Total Self-employed Family Leave Credit (Calculated)

The sum of rows 13 and 27.

This row will equal n/a **for all years other than 2020**.

2020 SELF-EMPLOYED SICK LEAVE CREDIT

2020 Self-Employed Sick Leave Credit

(1)   Taxpayer's Sick Leave Credit
(2)   **Self-employment Income**
(3)   **Average Daily SE Income**
(4)   **Covid-19 Limit**
(5)   **Other Illness Limit**
(6)
(7)   **Days Limit**
(8)   Less Used in Prior Years
(9)   **Remaining Days Limit**
(10) Covid-19 Sick Days
(11) **Lesser of Days or Limit**
(12) **Covid-19 Credit**
(13) Less Employee Covid-19 Sick Leave
(14) **Total**
(15) **Covid-19 Credit Limit**
(16) **Covid-19 Credit**
(17)
(18) Other Sick Days
(19) **Remaining Days Limit**
(20) **Lesser of Days or Limit**
(21) **Other Sick Days Credit**
(22) Less Employee Other Sick Leave
(23) **Total**
(24) **Other Illness Credit Limit**
(25) **Other Illness Credit**
(26)
(27) **Total Taxpayer Credit**
(28)
(29) Spouse's Sick Leave Credit
(30) **Self-employment Income**
(31) **Average Daily SE Income**
(32) **Covid-19 Limit**
(33) **Other Illness Limit**
(34)
(35) **Days Limit**
(36) Less Used in Prior Years
(37) **Remaining Days Limit**
(38) Covid-19 Sick Days
(39) **Lesser of Days or Limit**
(40) **Covid-19 Credit**
(41) Less Employee Covid-19 Sick Leave
(42) **Total**
(43) **Covid-19 Credit Limit**
(44) **Covid-19 Credit**
(45)
(46) Other Sick Days
(47) **Remaining Days Limit**
(48) **Lesser of Days or Limit**
(49) **Other Sick Days Credit**
(50) Less Employee Other Sick Leave
(51) **Total**
(52) **Other Illness Credit Limit**
(53) **Other Illness Credit**
(54)
(55) **Total Spouse's Credit**
(56)
(57) **Total Self-employed Sick Leave Credit**

(1) Taxpayer's Sick Leave Credit

Caption for rows 2 through 27 below.

(2) Self-employment Income (Calculated)

The amount of the taxpayer's net self-employment income if the **Self-employment Income and Loss** worksheet is active. If not, the amount of Self-employment Income on the **Ordinary Income** worksheet times 0.9235.

Amount less than $400 will be reduced to zero.

This row will equal n/a **for all years before 2020**.

(3) Average Daily SE Income (Calculated)

The amount on row 3 divided by 260.

This row will equal n/a **for all years before 2020**.

(4) Covid-19 Limit (Calculated)

$355.

This row will equal n/a **for all years before 2020**.

(5) Other Illness Limit (Calculated)

$200.

This row will equal n/a **for all years before 2020**.

(6) (Blank)

(7) Days Limit (Calculated)

10.

This row will equal n/a **for all years before 2020**.

(8) (8) Less Used in Prior Years:

The amount on rows 8, 11, and 20 of the prior year.

For initial years beginning after 2020 enter the amount.

For years prior to 2021 this row will be n/a.

(9) Remaining Days Limit (Calculated)

Row 7 less row 8.

For years prior to 2020 this row will be n/a.

(10) Covid-19 Sick Days:

Enter the amount of sick days claimed due to Covid-19.

For years prior to 2020 this row will be n/a.

(11) Lesser of Days or Limit (Calculated)

The lesser of rows 9 or 10 above.

For years prior to 2020 this row will be n/a.

(12) Covid-19 Credit (Calculated)

Row 4 times row 11.

For years prior to 2020 this row will be n/a.

(13) Less Employee Covid-19 Sick Leave:

Enter the amount of sick leave the taxpayer has claimed due to Covid-19 from another employer.

For years prior to 2020 this row will be n/a.

(14) Total (Calculated)

Row 12 less row 13.

For years prior to 2020 this row will be n/a.

(15) Covid-19 Credit Limit (Calculated)

$5110.

For years prior to 2020 this row will be n/a.

(16) Covid-19 Credit (Calculated)

The lesser of row 14 or row 15.

For years prior to 2020 this row will be n/a.

(17) (Blank)

(18) Other Sick Days

Enter the sick days due to other illnesses than Covid-19.

For years prior to 2020 this row will be n/a.

(19) Remaining Days Limit (Calculated)

Row 9 minus row 10.

For years prior to 2020 this row will be n/a.

(20) Lesser of Days or Limit (Calculated)

The lesser of row 18 or row 19.

For years prior to 2020 this row will be n/a.

(21) Other Sick Days Credit (Calculated)

Row 20 times row 5.

For years prior to 2020 this row will be n/a.

(22) Less Employee Other Sick Leave:

Enter the amount of sick leave the taxpayer has claimed due to other than Covid-19 from another employer.

For years prior to 2020 this row will be n/a.

(23) Total (Calculated)

Row 21 plus row 22.

For years prior to 2020 this row will be n/a.

(24) Other Illness Credit Limit (Calculated)

$2000.

For years prior to 2020 this row will be n/a.

(25) Other Illness Credit (Calculated)

Row 23 times row 24.

For years prior to 2020 this row will be n/a.

(26) (Blank)

(27) Total Taxpayer Credit (Calculated)

Row 16 plus row 25.

For years prior to 2020 this row will be n/a.

(28) (Blank)

(29) Spouse's Sick Leave Credit:

Caption for rows 30 through 55 below.

(30) Self-employment Income (Calculated)

The amount of the spouse's net self-employment income if the **Self-employment Income and Loss** worksheet is active. If not, zero.

Amount less than $400 will be reduced to zero.

This row will equal n/a **for all years before 2020**.

(31) Average Daily SE Income (Calculated)

The amount on row 30 divided by 260.

This row will equal n/a **for all years before 2020**.

(32) Covid-19 Limit (Calculated)

$355.

This row will equal n/a **for all years before 2020**.

(33) Other Illness Limit (Calculated)

$200.

This row will equal n/a **for all years before 2020**.

(34) (Blank)

(35) Days Limit (Calculated)

10.

This row will equal n/a **for all years before 2020**.

(36) Less Used in Prior Years

The amount on rows 36, 39, and 48 of the prior year.

For initial years beginning after 2020 enter the amount.

For years prior to 2021 this row will be n/a.

(37) Remaining Days Limit (Calculated)

Row 35 less row 36.

For years prior to 2020 this row will be n/a.

(38) Covid-19 Sick Days

Enter the amount of sick days claimed due to Covid-19.

For years prior to 2020 this row will be n/a.

(39) Lesser of Days or Limit (Calculated)

The lesser of rows 9 or 10 above.

For years prior to 2020 this row will be n/a.

(40) Covid-19 Credit (Calculated)

Row 38 times row 39.

For years prior to 2020 this row will be n/a.

(41) Less Employee Covid-19 Sick Leave:

Enter the amount of sick leave the taxpayer has claimed due to Covid-19 from another employer.

For years prior to 2020 this row will be n/a.

(42) Total (Calculated)

Row 40 less row 41.

For years prior to 2020 this row will be n/a.

(43) Covid-19 Credit Limit (Calculated)

$5110.

For years prior to 2020 this row will be n/a.

(44) Covid-19 Credit (Calculated)

The lesser of row 42 or row 43.

For years prior to 2020 this row will be n/a.

(45) (Blank)

(46) Other Sick Days

Enter the sick days due to other illnesses than Covid-19.

For years prior to 2020 this row will be n/a.

(47) Remaining Days Limit (Calculated)

Row 37 less row 38.

For years prior to 2020 this row will be n/a.

(48) Lesser of Days or Limit (Calculated)

Row 46 minus row 47.

For years prior to 2020 this row will be n/a.

(49) Other Sick Days Credit (Calculated)

Row 48 times row 33.

For years prior to 2020 this row will be n/a.

(50) Less Employee Other Sick Leave:

Enter the amount of sick leave the spouse has claimed due to other than Covid-19 from another employer.

For years prior to 2020 this row will be n/a.

(51) Total (Calculated)

Row 49 plus row 50.

For years prior to 2020 this row will be n/a.

(52) Other Illness Credit Limit (Calculated)

$2000.

For years prior to 2020 this row will be n/a.

(53) Other Illness Credit (Calculated)

Row 51 times row 52.

For years prior to 2020 this row will be n/a.

(54) (Blank)

(55) Total Spouse's Credit (Calculated)

Row 44 plus row 53.

For years prior to 2020 this row will be n/a.

(56) (Blank)

(57) Total Self-employed Sick Leave Credit (Calculated)

The sum of rows 27 and 55.

For years prior to 2020 this row will be n/a.

FIRST-TIME HOMEBUYER CREDIT

First-time Homebuyer Credit

(1)   Purchase Price of Residence
(2)   Next Year Purchase Elected This Year?
(3)   2009 Purchase After November 6?
(4)   Long-time Existing Home Owner?
(5)   **Preliminary Credit**
(6)   Adjustment to Credit
(7)   **Total Credit before Phaseout**
(8)   **Credit Allowed**
(9)
(10) Prior Year Credit Allowed
(11) Year of Credit
(12) **Recapture of Credit**
(13) Adjustment to Recapture
(14) **Total Recapture**

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(1) Purchase Price of Residence

The purchase price of the principal residence acquired by a first-time homebuyer. The purchase must be made on or after April 9, 2008 and before May 1, 2010. For, individuals on qualified official extended duty outside the United States the deadline is May 1, 2011. See IRC § 36 for definitions and other rules. The taxpayer may treat any purchase as made in the prior year, in which case enter the amount in the prior year, and answer yes on row 2, below. For a purchase made in 2008, do not enter any amount for which the DC homebuyer credit is being claimed in the current or any prior year. For purchases made after 2008, do not enter any amount on the **DC Homebuyer Credit** worksheet for which the taxpayer is allowed the credit computed on this worksheet. The program will not allow an amount on this row in two years, and will zero out the later year's entry.

For years before 2008 and after 2011, this row will be N/A.

(2) Next Year Purchase Elected This Year?

The purchase on row 1, was made in the next year but the taxpayer wishes to elect to treat it as having been made in the current year. See IRC § 36(g). For purchases in 2009 that are elected in 2008, see Note 1, below.

For years before 2008 and after 2010, this row will be N/A.

(3) 2009 Purchase After November 6?

The purchase was made in 2009, after November 6. Such purchases are subject to increased AGI limits and certain restrictions. See IRC § 36. For years before 2008 and after 2009, this row will be N/A. For purchases in 2009 that are elected in 2008, see **NOTE 1** on page 649.

(4) Long-time Existing Home Owner?

The purchaser was not an actual first-time home buyer but is instead someone who has owned and used the same residence as such individual's principal residence for any 5-consecutive-year period during the 8-year period ending on the date of the purchase of a subsequent principal residence. Such individuals are treated as first-time homebuyers for purposes of the credit with respect to the purchase of the subsequent residence, but the credit is limited to $6500 ($3250 for married filing separately). For purchases in 2009 that are elected in 2008, see **NOTE 1** on page 649.

(5) Preliminary Credit: (Calculated)

The amount on row 1 multiplied by 10%, but limited to $7500 ($3750 if married filing separately). For 2009 the limit is $8000 ($4000 if married filing separately). For long-time home owners, the credit is limited $6500 ($3250 if married filing separately).

For years before 2008 and after 2011, this row will be N/A.

(6) Adjustment to Credit

Any adjustment to the amount on row 5 for multiple owners. See IRC § 36(b)(1)(c). And see IRS Notice 2009–12, I.R.B. 2009–6, Feb. 9, 2009.

For years before 2008 and after 2011, this row will be N/A.

(7) Total Credit before Phaseout: (Calculated)

The sum of rows 5 and 6, limited to $7500. For purchases made in 2009, including those elected to be treated as made in 2008 on row 2 above, the limit is $8000.

For years before 2008 and after 2011, this row will be N/A.

(8) Credit Allowed: (Calculated)

The amount on row 7, phased out in accordance with the formula in IRC § 36(b)(2).

For years before 2008 and after 2011, this row will be N/A.

(9) (Blank)

(10) Prior Year Credit Allowed

The amount of the first-time homebuyer credit allowed in 2008 or 2009. In multiple year situations, enter the amount in the first column of each case only. The program will compute the other columns, based on the amount on this row in the previous year. If you make an entry on this row, the program will not allow

the taxpayer to take the credit again and will zero out any amount entered on row 1 above.

For years before 2009, this row will be N/A.

(11) Year of Credit

The year the first-time homebuyer credit was taken. For purchases made in 2009, but elected to be treated as having been made in 2008, enter 2009. In multiple year situations, enter the year in the first column of each case only. The program will fill in the other columns, based on the amount on this row in the previous year.

For years before 2009, this row will be N/A.

(12) Recapture of Credit: (Calculated)

For a year occurring during the recapture period, the amount on row 10 divided by 15. The recapture period begins in the second year after the year entered or computed on row 11, above. For purchases made after 2008, there is no automatic recapture.

For years before 2009, this row will be N/A.

(13) Adjustment to Recapture

Any adjustment of the recapture amount computed by the program on row 12 above. Enter any amount of accelerated recapture due to sale of the residence or other such event. See IRC § 36(f).

Note. The program does not take into account prior years recapture in computing the recapture amount on row 12. Therefore, if recapture is accelerated, you must adjust the recapture amount both for the year of acceleration and for future years.

For years before 2009, this row will be N/A.

(14) Total Recapture: (Calculated)

The sum of row 12 and row 13 but not less than zero. This amount is posted by the program to the First-time homebuyer credit recapture row of the **Self-employment and Other Taxes** worksheet.

For years before 2009, this row will be N/A.

NOTE 1

For 2009 purchases after November 6, the credit for which is elected in 2008, the program assumes that:

- The AGI limits for 2009 apply and are applied to 2008 AGI.

- The $800,000 limit on the purchase price applies.

- The 2009 limits for long-time existing home owners apply.

- The denial of the credit to supported taxpayers applies.

As of the date of the publication of the program there was no authority dealing with these questions.

SELF-EMPLOYMENT & OTHER TAXES

Self-Employment & Other Taxes
(1) **Taxpayer's Self-Employment Tax**
(2) **Spouse's Self-Employment Tax**
(3) **Total Self-employment tax**
(4) Defer 2020 to 2021 and 2022 (Y/N)
(5) Deferral
(6) Adjustment
(7) **Total SE Tax Due After Deferral**
(8) High-Income Hospital Insurance Tax
(9) Medicare Investment Income Tax
(10) Shared Responsibility Payment
(11) Affordable Care Credit Recapture Tax
(12) Investment Credit Recapture
(13) First-time Homebuyer Credit Recapture
(14) Social Security Tip & Excess Plan Taxes
(15) Tax on IRA & Other Taxes
(16) Domestic Employment Taxes
(17) 5/10-year Tax on Lump Sum
(18) Underpayment Penalty
(19) **Total Self-Employment & Other Taxes**

(1) Taxpayer's Self-Employment Tax (Calculated)

The self-employment tax of the taxpayer based on the taxpayer's self-employment income as entered on the **Self-employment Income** worksheet. If the worksheet is not active, the program uses the amount on the "Self-employment Income" row of the **Ordinary Income** worksheet and considers it to be the taxpayer's (and not the spouse's) income. Similarly the taxpayer's FICA wages are taken from the **Wages** worksheet. If this worksheet is not active, then the amount on the "Wages" row of the **Ordinary Income** worksheet is used and is considered to be the taxpayer's (and not the spouse's) wages.

For purposes of the self-employment tax, the self-employment income of the taxpayer does not include the amount on the "Taxpayer's Statutory Employee Wages" row of the **Self-employment Income and Loss** worksheet. Instead, the amount on that row is included in FICA wages. The amount on the "Taxpayer's Statutory Employee Expenses" row of the **Self-employment Income and Loss** worksheet does not enter into the computation of the self-employment tax.

For Years...	The Program Uses an OASDI Contribution and Benefit Base of...
2000	$76,200
2001	$80,400
2002	$84,900
2003	$87,000
2004	$87,900
2005	$90,000
2006	$94,200
2007	$97,500
2008	$102,000
2009–2011	$106,800
2012	$110,100
2013	$113,700
2014	$117,000
2015–2016	$118,500
2017	$127,200
2018	$128,400
2019	$132,900

For subsequent years, see "Inflation Adjustments" in Help. The Hospital Insurance portion of the tax (the 2.9% portion) is computed without regard to any limitation for 1994 and subsequent years.

To compute the OASDI element of the self-employment tax, the program reduces the OASDI limit by FICA wages and multiplies the OASDI rate times the lesser of the remaining limit or self-employment income.

To compute the HI element of the tax for pre-1994 years, the program reduces the HI limit by the total of FICA and HI Only wages and multiplies the HI rate times the lesser of the remaining HI limit or self-employment income.

The HI element of the tax is simply 2.9% multiplied by self-employment income. The self-employment tax is the sum of these two computations.

In computing the self-employment tax, the program does not take into account the non-farm optional method or the farm optional method.

(2) Spouse's Self-Employment Tax (Calculated)

The self-employment tax of the spouse based on the spouse's self-employment income as entered on the **Self-employment Income** worksheet. If the worksheet is not active, the Self-employment Tax of the Spouse is not

computed. Similarly the spouse's FICA and HI wages are taken from the **Wages** worksheet. If this worksheet is inactive, then the spouse's wages are considered to be zero.

For purposes of the self-employment tax, the self-employment income of the spouse does not include the amount on the "Spouse's Statutory Employee Wages" row of the **Self-employment Income and Loss** worksheet. Instead, the amount on that row is included in FICA wages. The amount on the "Spouse's Statutory Employee Expenses" row of the **Self-employment Income and Loss** worksheet does not enter into the computation of the self-employment tax.

See the description for row 1 "**Taxpayer's Self-Employment Tax**" above for an explanation of how the program handles these computations.

(3) Total Self-employment tax (Calculated)

The sum of rows 1 and 2 above.

(4) Defer 2020 to 2021 and 2022 (Y/N)

Set to yes to defer 50% of the OASDI portion of the Self-employment tax, 25% to 2021, 25% to 2022. See CARES Act (Pub. L. No. 116-136), Act Sec 2302.

The row will be N/A **for all years other than 2020**.

(5) Deferral

The amount of self-employment tax deferred from 2020.

The row will be N/A **for all years other than 2020, 2021 and 2022**.

(6) Adjustment

Any adjustment to row 5 above.

The row will be N/A **for all years other than 2020, 2021 and 2022**.

(7) Total SE Tax Due After Deferral

For 2020, 2021, and 2022, the sum of rows 3, 5, and 6 above.

For other years the amount on row 3 above.

(8) High-Income Hospital Insurance Tax

The High-Income Hospital Insurance Tax described in IRC § 3101(b)(2) and IRC § 1401(b)(2), applicable to years after 2012. No entry may be made on this row. Instead press W or double click to access the **High-Income Hospital Insurance Tax** worksheet and the computation thereon. The subworksheet is always active and cannot be killed.

For years before 2013, this row will be N/A.

(9) Medicare Investment Income Tax

The Medicare Investment Tax described in IRC § 1411 applicable to **years after 2012**. No entry may be made on this row. Instead press W or double click to access the **Medicare Investment Income Tax** worksheet and the computation thereon. The subworksheet is always active and cannot be killed.

For years before 2013, this row will be N/A.

(10) Shared Responsibility Payment

The amount of the penalty calculated on the **Affordable Care Credit and Shared Responsibility Payment** worksheet. For years before 2014, this row will be N/A.

(11) Affordable Care Credit Recapture Tax

The amount of any Affordable Care Credit required to be paid back calculated on the **Affordable Care Credit and Shared Responsibility Payment** worksheet. For years before 2014, this row will be N/A.

(12) Investment Credit Recapture

Any recapture of the investment credit, including the energy investment credit, under IRC § 47. Include also any recapture of the low income housing credit under IRC § 42(j).

(13) First-time Homebuyer Credit Recapture

Any recapture of the First-time homebuyer credit allowed in 2008 or 2009. Enter the amount here or press W to access the **First-time Homebuyer Credit** worksheet to compute the recapture tax automatically.

(14) Social Security Tip & Excess Plan Taxes

Social security tax on tip income not reported to the taxpayer's employer plus excise taxes on excess contributions, accumulations and distributions with regard to qualified plans. See IRC §§ 4973, 4974 and 4980A.

Do not include the tax on early distributions from an IRA nor advanced earned income credit payments. Instead, see row 15 "Tax on IRA & Other Taxes" below. Include on this row only taxes (other than those computed by the program) to which the underpayment of estimated tax penalty does **not** apply.

For 2006, include on this row, as a negative amount, the credit of federal telephone excise tax paid. See Form 1040 for 2006, line 71.

(15) Tax on IRA & Other Taxes

Total taxes imposed for early distributions from an IRA plus other taxes subject to the underpayment penalty (such as the taxes on withdrawals from education and medical savings accounts not used for qualified purposes). Include advance earned income credit payments. Include also the credit for federal tax on fuels as a negative amount.

Do not include taxes for excess contributions, accumulations, or distributions with regard to qualified plans. Instead, see row 14 "Social Security Tip & Excess Plan Taxes" above.

In general, include on this row only taxes (other than those computed by the program) to which the underpayment of estimated tax penalty applies. See the instructions to Form 2210.

(16) Domestic Employment Taxes

Total domestic service employment taxes subject to Section 3510 of the Social Security Domestic Employment Reform Act of 1994 which are payable annually and subject to the estimated tax provisions beginning in 1998.

For 1999 and subsequent years, the program includes the amount entered here for both purposes. See Section 3510 of the Social Security Domestic Employment Reform Act of 1994.

(17) 5/10-Year Tax on Lump Sum

The 5- or 10-year averaging tax on a lump sum distribution from a qualified retirement plan. Enter the amount here or access the **Lump Sum Distribution** worksheet and have the program compute the tax automatically. The averaging tax for this purpose should include the special 20% tax elected by taxpayers who were over 50 on 1/1/86.

(18) Underpayment Penalty

The penalty for underpayment of estimated tax. Enter the amount here or access the **Withholding, Estimated & Penalty** worksheet and have the program compute the penalty automatically.

(19) Total Self-Employment and Other Taxes (Calculated)

The sum of rows 7 through 18, above. This item is posted to the "Self-Employment and Other Taxes" row of the **Main Worksheet**.

HIGH-INCOME HOSPITAL INSURANCE TAX

High-Income Hospital Insurance Tax
(1) **Taxpayer's HI Wages** (2) **Spouse's HI Wages** (3) **Total Wages** (4) **Exemption** (5) **Net Taxable Wages** (6) **Tax** (7) **(Blank)** (8) **Taxpayers Self-employment** (9) **Spouse's Self-employment** (10) **Total Self-employment** (11) **Exemption** (12) **Reduction for Wages** (13) **Net Exemption** (14) **Taxable Self-employment** (15) **Net Tax on Self-employment** (16) **(Blank)** (17) **Total High-Income HI Tax**

Caution! The Patient Protection and Affordable Care Act which added IRC §§ 3101(b)(2) and 1401(b)(2) to the Code, together with the Health Care and Education Reconciliation Act of 2010, have raised numerous questions of interpretation with regard to the computation of the high-income hospital insurance tax. At date of publication, no guidance from the Treasury or the IRS was available with regard to these issues. This help topic describes how the program computes the tax. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

(1) Taxpayer's HI Wages: (Calculated)

Taxpayer's HI Wages computed as the sum of the following rows on the **Wages** worksheet:

- Taxpayer's FICA Wages
- Taxpayer's HI Only Wages

If the **Wages** worksheet is not active this row is the amount on the Wages row of the **Ordinary Income** worksheet.

To the above amount is added:

- Taxpayer's Statutory Employee Wages from the **Self-employment Income & Loss** worksheet, if it is active.

(2) Spouse's HI Wages: (Calculated)

Taxpayer's Spouse's HI Wages computed as the sum of the following rows on the **Wages** worksheet:

- Spouse's FICA Wages
- Spouse's HI Only Wages

If the **Wages** worksheet is not active this row is zero.

To the above amount is added:

- Spouse's Statutory Employee Wages from the **Self-employment Income & Loss** worksheet, if it is active.

(3) Total Wages: (Calculated)

The sum of rows 1 and 2 above.

(4) Exemption: (Calculated)

The exemption amount for purposes of the High-Income Hospital Insurance Tax. The amount depends on the taxpayer's filing status:

Married Filing Jointly	$250,000
Married Filing Separately	$125,000
All Others	$200,000

See IRC § 3101(b)(2).

(5) Net Taxable Wages: (Calculated)

Row 3 minus row 4, above, but not less than zero.

(6) Tax: (Calculated)

Row 5, above, multiplied by 0.9%

(7) (Blank)

(8) Taxpayer's Self-employment: (Calculated)

The sum of the following rows on the **Self-employment Income & Loss** worksheet multiplied by 0.9235:

Taxpayer's Self-employment Income:

- Domestic Production Inc/Loss
- Individual Activities
- Other Self-employment Income
- Individual Activities
- Passive Activities

▪ T/P's Self-employment Tax Income Adjustment

If the **Self-employment Income & Loss** worksheet is not active, this row is the amount on the Self-employment Income row of the **Ordinary Income** worksheet.

If the amount is less than $400, it is set to zero.

See IRC § 1402(a)(12).

(9) Spouse's Self-employment: (Calculated)

The sum of the following rows on the **Self-employment Income & Loss** worksheet multiplied by 0.9235:

Spouse's Self-employment Income:

▪ Domestic Production Inc/Loss

▪ Individual Activities

▪ Other Self-employment Income

▪ Individual Activities

▪ Passive Activities

▪ T/P's Self-employment Tax Income Adjustment

If the **Self-employment Income & Loss** worksheet is not active, this row is set to zero.

If the amount is less than $400, it is also set to zero.

See IRC § 1402(a)(12).

(10) Total Self-employment: (Calculated)

The sum of rows 8 and 9, above.

(11) Exemption: (Calculated)

The exemption amount for purposes of the High-Income Hospital Insurance Tax. The amount depends on the taxpayer's filing status:

Married Filing Jointly	$250,000
Married Filing Separately	$125,000
All Others	$200,000

See IRC § 1401(b)(2).

(12) Reduction for Wages: (Calculated)

The amount from row 3 (Total Wages) above.

(13) Net Exemption: (Calculated)

Row 11 minus row 12, but not less than zero.

(14) Taxable Self-employment: (Calculated)

Row 10 minus row 13, but not less than zero.

(15) Net Tax on Self-employment: (Calculated)

Row 14 multiplied by 0.9%

(16) (Blank)

(17) Total High-Income HI Tax: (Calculated)

The sum of rows 6 and 15, above. This amount is posted by the program to the High-Income Hosp Ins Tax row of the **Self-employment & Other Taxes** worksheet.

NOTE

When running an annualization analysis, the program uses annualized amounts on this worksheet. As of the date of publication there was no authority on how to apply annualization to this tax.

MEDICARE INVESTMENT INCOME TAX

Medicare Investment Income Tax
(1)   **Interest and Dividends**
(2)   **Ordinary Passive Activity Income or Loss**
(3)   **Ordinary Nonpassive Rental Income or Loss**:
(4)   **Other Investment Income**
(5)   Adjustments to Investment Income
(6)   **Total Gross Investment Income**
(7)   Net Disposition Gain:
(8)   **Nonbusiness Net Capital Gain or Loss**
(9)   **§ 1231 Ordinary & Casualty Gain or Loss**
(10)   **Passive Activity Ordinary Property Gain or Loss**
(11)   **Other Ordinary Nonbusiness Gain or Loss**
(12)   **Itemized Personal Casualty Loss**
(13)   **Itemized Investment Casualty Loss**
(14)   Adjustment for Active Business Gain or Loss
(15)   Other Adjustments to Disposition Gain or Loss
(16)   **Net Gain From Dispositions**
(17)   (Blank)
(18)   **Investment Domestic Production Deduction**
(19)   **Total Income & Net Gain**
(20)   **Net Loss from Dispositions**
(21)   **Investment Expenses: Ordinary**
(22)   **Investment Expenses: Itemized**
(23)   Tax Preparation Expenses
(24)   **2% of AGI Floor Applicable**
(25)   **Net Itemized Investment Expenses**
(26)   State Income Taxes: Investment
(27)   **Property Taxes: Investment**
(28)   **Total Itemized & Taxes Before 3% AGI Floor**
(29)   **3% of AGI Floor Applicable**
(30)   **Net Itemized and Taxes After Floor**
(31)   **Investment Interest Expense**
(32)   **Total Investment Expenses**
(33)   State Tax Refund: Investment
(34)   Other Adjustments to Expenses
(35)   **Total Expenses Adjusted**
(36)   **Net Investment Income**
(37)   **Modified AGI**
(38)   **Threshold Amount**
(39)   **Excess Over Threshold**
(40)   **Lesser of Investment Income or Threshold**
(41)   **Medicare Investment Income Tax**

Caution! The Patient Protection and Affordable Care Act together with the Health Care and Education Reconciliation Act of 2010, which added IRC § 1411 to the Code, have raised numerous questions of interpretation with regard to the computation of the Medicare tax. At date of publication, questions remain with regard to these issues. This help topic describes how the program computes the tax. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

This worksheet is activated automatically and amounts are carried here from the following worksheets:

- Ordinary Income

- Other Ordinary Income
- Capital Gains and Losses
- Itemized Deductions
- Allocable State Income Tax Deduction

Certain adjustments may be necessary for these amounts, especially for disposition gains and losses from active business interests held as S corporations and partnerships. See IRC § 1411(c) and see the adjustment rows below.

With regard to annualization, see NOTE 4, below.

(1) Interest and Dividends (Calculated)

The amount from the Interest and Dividends row of the **Ordinary Income** worksheet.

(2) Ordinary Passive Activity Income or Loss (Calculated)

The sum of the following rows on the **Ordinary Income** worksheet:

- Passive Activity Income or Loss
- Publicly Traded Partnerships

Minus the following row on the **Passive & MAPRRA Income & Loss** worksheet

- Ordinary Property Disposition Gain/Loss but less any portion attributable to trade or business MAPRRA activities.

Minus the following rows on the **Publicly Traded Partnerships** worksheet:

- Gain Partnerships: Ordinary Property Disposition Gain/Loss
- Other Income and Loss: Ordinary Property Disposition Gain/Loss

The ordinary disposition rows are include on the Passive Activity Ordinary Property Gain/Loss row below.

With regard to MAPRRA activities, see **NOTE 3**, below. See also **NOTE 2**, below.

(3) Ordinary Nonpassive Rental Income or Loss (Calculated)

The amount entered as the Nonpassive Nonbusiness Rental Income or Loss on the **Other Ordinary Income** worksheet.

(4) Other Investment Income (Calculated)

The sum of the following rows on the **Other Ordinary Income** worksheet:

- Royalties

- Other Investment Income
- Other Investment Income: Individual Activities

(5) Adjustments to Investment Income

Any adjustment to gross investment income as computed on the rows above.

- Include (as a negative amount) any income (or as a positive amount, any loss), included above, which is derived in the ordinary course of a trade or business (other than a passive activity with respect to the taxpayer or a trade or business of trading in financial instruments). See IRC § 1411(c).

- Include, (as a positive amount) any income (or as a negative amount, any loss), not included above, derived from a trade or business of trading in financial instruments. See IRC § 1411(c)(1)(A)(iii). Do not include self-employment income.

- Include (as a negative amount) any gain (or as a positive amount, any loss), included above, which is attributable to the disposition of property. See rows 14 and 15, below, for adjustments to Disposition Gain for such gains and losses.

- Include (as a negative amount) any income (or as a positive amount, any loss), included above, to the extent such income or loss is not includible in the computation of gross investment income for purposes of the Medicare Investment Tax. Include (as a positive amount) any income or (as a negative amount) any loss, not included above, to the extent such income or loss is properly taken into account in the computation of the Medicare Investment Tax.

See also the description for rows 14 "Adjustment for Active Business Gain or Loss" and 15 "Other Adjustments to Disposition Gain or Loss".

(6) Total Gross Investment Income (Calculated)

The sum of rows 1 through 5, above.

(7) Net Disposition Gain

Heading for rows 8 through 16 below.

(8) Nonbusiness Net Capital Gain or Loss (Calculated)

The sum of the following rows from the **Capital Gains and Losses** worksheet:

- Short and Long Term Investment Capital Gains or Losses
- Securities Transaction Analyzer Gains and Losses
- Short and Long Term Passive Capital Gains or Losses

- PTP Gain Activities: Short and Long Term Gains
- Other PTP: Short and Long Term Gains or Losses
- Section 1250 Investment Gains
- Section 1231 Investment Gains
- Section 1250 Passive Gains
- Section 1231 Passive Gains
- Section 1250 Capital Gain Dividends
- 5 Year Capital Gain Dividends Purchased Pre-2001
- Other Capital Gain Dividends
- 5-Year Investment Gains Purchased Pre-2001
- 5-Year Investment Gains Purchased Post-2000
- Child's Capital Gain Dividends: Parent's Return
- Long-term Gain from the Sale of a Residence
- Other Short and Long Term Gains or Losses
- Short Term Capital Loss Carryforwards: Section 1411

Plus the sum of the following rows from the **28% Rate Capital Gains and Losses** worksheet:

- Section 1231 Investment Gains
- Section 1231 Passive Gains
- 28% Rate Investment Capital Gains or Losses
- Other 28% Rate Long Term Gains or Losses
- Passive Activity Capital Gains or Losses
- Qualified Small Business Stock Gains
- Capital Gain Dividends
- Securities Transaction Analyzer Gains or Losses
- Collectible Gains or Losses
- PTP Gain Activities
- Other PTP Activities
- Child's Capital Gain Dividend: Parent's Return
- Long Term Capital Loss Carryforwards: Section 1411

The program will limit the loss to the amount allowed under IRC § 1211(b).

(9) § 1231 Ordinary & Casualty Gain or Loss (Calculated)

The amount from the § 1231 Ordinary & Casualty Gain/Loss row of the **Ordinary Income** worksheet, less the Ordinary Gain Loss: Trade or Business row of the Section 1231 & Casualty Gain or Loss Worksheet.

(10) Passive Activity Ordinary Property Gain or Loss (Calculated)

The following row on the **Passive & MAPRRA Income & Loss** worksheet:

- Ordinary Property Disposition Gain or Loss

Reduced by any trade or business MAPRRA ordinary income recapture,

Plus the sum of the following rows on the **Publicly Traded Partnerships** worksheet.

- Gain Partnerships: Ordinary Property Disposition Gain/Loss
- Other Income and Loss: Ordinary Property Disposition Gain/Loss

(11) Other Ordinary Nonbusiness Gain or Loss (Calculated)

The sum of the following rows on the **Other Ordinary Income** worksheet:

- Ordinary Property Disposition Gain or Loss: Investment
- Ordinary Property Disposition Gain or Loss Individual Activities
- Section 1033 Gain
- Section 1033-Individual Activities
- Ordinary Property Ordinary Disposition Gain or Loss

(12) Itemized Personal Casualty Loss (Calculated)

The amount calculated as the Net Deductible Casualty on the **Itemized Deductions** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(13) Itemized Investment Casualty Loss (Calculated)

The sum of the following rows of the **Itemized Deductions** worksheet:

- Investment Casualty Loss
- Short-term Investment Casualty Loss
- Short-term Investment Casualty Loss: Individual Activities

If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(14) Adjustment for Active Business Gain or Loss

Any adjustment required to the amounts computed by the program as disposition gain or loss on rows 8 through 13, above.

- Include as, a negative amount, any gain, (or as a positive amount, any loss) included by the program on rows 7 through 11 above, which is attributable to disposition of property held in a trade or business which is not a passive activity with respect to the taxpayer and is not a trade or business of trading in financial instruments. See IRC §§ 1411(c)(1)(a)(iii) and 1411(c)(4).

(15) Other Adjustments to Disposition Gain/Loss

Any adjustment required to the amounts included by the program on rows 8 through 13, or entered on row 14.

- Include, as a positive amount, any gain (or as a negative amount any loss) from the disposition of property held in a trade or business of trading in financial instruments or commodities, unless such gains and losses have been included on rows 8 through 13, above. See IRC § 1411(c).

- Include (as a negative amount) any disposition gain (or as a positive amount, any disposition loss), included above, to the extent such gain or loss is not includible in the computation of net gain from disposition for purpose of the Medicare Investment tax. Include (as a positive amount) any disposition gain or (as a negative amount) any disposition loss, not included above, to the extent such gain or loss is properly taken into account in the computation of the net gain from disposition for purpose of the Medicare Investment Tax. For example, gain on the disposition of a partnership or S corporation interest that holds an active business MAPRRA may have been entered on the Passive and MAPRRA worksheets, and therefore not included here. To the extent such gain exceeds the gain that would be taken into account if the property of the partnership or S corporation were sold for its fair market value immediately before the disposition of such interest, a positive adjustment should be entered here. See IRC § 1411(c)(4)(A) and Treas. Reg. § 1.411-7.

(16) Net Gain From Dispositions (Calculated)

The sum of rows 8 through 15 above, but not less than zero.

(17) (Blank)

(18) Investment Domestic Production Deduction (Calculated)

The Domestic Production Deduction attributable to § 1411 trades or businesses from the **Domestic Production Activities Deduction for Investment** worksheet.

(19) Total Income & Net Gain (Calculated)

The sum of rows 6, 16, and 18, above.

(20) Net Loss from Dispositions (Calculated)

If the sum of rows 8 through 15, above, is a loss, the loss amount expressed as a positive amount is computed on this row. The loss is included as part of Investment Expenses. See Treas. Reg. 1.1411-4(f)(4).

(21) Investment Expenses: Ordinary (Calculated)

The amount on the Investment Expenses rows of the **Other Ordinary Income** worksheet.

(22) Investment Expenses: Itemized (Calculated)

The amount on the Miscellaneous Investment Expenses rows of the **Itemized Deductions** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(23) Tax Preparation Expenses

Tax preparation expenses allocable to Investment Income. Enter the amount of tax preparation expenses (and other such expenses) included in Other Miscellaneous Expense on the Itemized Deductions worksheet. Include all amounts described in IRC § 212(3) and Treas. Reg. § 1.212-1(l) to the extent they are allocable to net investment income. See Treas. Reg. 1.1411-4(f)(3)(vi). If the amount of "Other Miscellaneous Expense" on the **Itemized Deductions** worksheet is less than the amount entered here, the program will generate an error message.

(24) 2% of AGI Floor Applicable (Calculated)

The sum of rows 22 through 23, above, minus the amount on row 25, below, (expressed as a negative). See Treas. Reg. 1.1411-4(f)(7)(i). If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(25) Net Itemized Investment Expenses (Calculated)

The lesser of the sum of rows 22 and 23, above, or the amount on the "Net Deductible Miscellaneous Expense" row of the **Itemized Deductions** worksheet. See Treas. Reg. 1.1411-4(f)(7)(i). If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(26) State Income Taxes: Investment

The Net Adjusted State Income Tax row from the Allocable State Income Tax Deduction Worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(27) Property Taxes: Investment (Calculated)

The amount on the Property Taxes: Investment row of the **Itemized Deductions** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(28) Total Itemized & Taxes Before the 3% Floor (Calculated)

The sum of rows 25, 26, and 27, above. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(29) 3% AGI Floor Applicable (Calculated)

Row 28, above, minus row 30, below (expressed as a negative). See Treas Reg. 1.1411-4(f)(7)(ii). If the filing status is for a trust or an estate, this row will equal zero. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(30) Net Itemized and Taxes After Floor (Calculated)

The lesser of row 28, above, or the amount on the "Itemized After Floor" row of the **Itemized Deductions** worksheet. See Treas. Reg. 1.1411-4(f)(7)(ii). If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(31) Investment Interest Expense (Calculated)

The amount on the Investment Interest Expense row of the **Other Ordinary Income** worksheet (expressed as a positive amount) plus the amount on the Investment Interest Expense row of the **Itemized Deductions** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be zero.

(32) Total Investment Expenses (Calculated)

The sum of rows 20, 21, 30, and 31, above, but not less than zero.

(33) State Tax Refund: Investment

The "Total Refund Inclusion" row from the **State Tax Refund: Investment** worksheet. This amount reduces the Investment Expenses. See Treas. Reg. § 1.1411-4(g)(2).

(34) Other Adjustments to Expenses

Any other adjustments required to total investment expenses computed by the program on row 32, above. See IRC § 1411(c)(1)(B).

(35) Total Expenses Adjusted (Calculated)

The sum of rows 32, 33, and 34, above. The program will allow this amount to be less than zero. See **NOTE 5**, below.

(36) Net Investment Income (Calculated)

Row 19 minus row 35, above, but not less than zero.

(37) Modified AGI (Calculated)

The **Adjusted Gross Income** (row 6) from the **Main Worksheet** minus the following rows on the **Taxpayer's Foreign Earned Income Exclusion** worksheet:

- row 22 "**Foreign Earned Income Exclusion**" net of
    - the exclusion's proportionate share of the expenses on row 25 "Related AGI Expenses"

(38) Threshold Amount (Calculated)

The threshold amount for purposes of the Medicare Investment Income Tax. The amount depends on the taxpayer's filing status:

Married Filing Jointly or Qualifying Widower	$250,000
Married Filing Separately	$125,000
Estate or Trust	Highest Income Tax Bracket
All Others	$200,000

See IRC § 1411(a)(1) and (2).

(39) Excess Over Threshold (Calculated)

The excess of row 37 over row 38, if any.

(40) Lesser of Investment Income or Threshold (Calculated)

The lesser of row 36 or 39, above

(41) Medicare Investment Income Tax (Calculated)

Row 40 multiplied by 3.8%. This amount is posted to the Medicare Investment Income Tax row of the **Self-employment & Other Taxes** worksheet.

NOTE 1

The program allocates investment, passive, and non-trade or business, or employment income to Medicare Investment Income. Conversely, the program does not allocate trade or business or wage income to Medicare Investment Income. Investment and passive capital loss carryovers are allocated to Medicare Investment Income, but other capital loss carryovers and carryovers resulting from adjustments to the sale of a pass through entity are not allocated to Medicare Investment Income. See IRC § 1411(c)(2) and Treas. Reg. § 1.1411.

NOTE 2

The program treats income or loss from a passive activity as investment income on this worksheet, even for the year of the taxpayer's disposition of his/her entire interest in the activity. The rationale is that the activity is still a passive activity with respect to the taxpayer even though the loss is allowed by IRC § 469(g). See IRC § 1411(c)(2). The program also treats previously suspended income and loss of such activities in accordance with their character for regular income tax purposes rather than as disposition gain or loss.

NOTE 3

The program treats active business MAPRRAs as active trade or businesses and excludes all income and loss from such activities from the computations on this worksheet. MAPRRAs that are not trade or business with respect to the taxpayer (as indicated on the **Individual Activities** worksheet) are treated as passive activities and income and loss from such activities are included on this worksheet.

NOTE 4

When running an annualization analysis, the program uses annualized amounts on this worksheet. As of the date of publication, there was no authority on how to apply annualization to this tax.

NOTE 5

Although Treas. Reg. § 1.1411-4(g)(2) treats the recovery of a deduction from the prior year as a reduction in the following years expenses, which would not normally go below zero, the IRS Form 8960 treats recoveries of deductions as additions to Medicare Investment Income, so the program will allow the amount on this row to be less than zero.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION FOR INVESTMENT

Domestic Production Activities Deduction for Investment
(1) Investment Domestic Production Income or Loss
(2) Investment Passive Activities
(3) Publicly Traded Partnerships
(4) Other Investment Qualified Income/Loss
(5) **Total Investment Domestic Production Inc/loss**
(6) Investment W-2 Wages Paid
(7) **Domestic Production Deduction**
(8) Qualified Investment Oil Related Income
(9) **Oil Related Reduction**
(10) **Investment Domestic Production Deduction**
(11) **Regular Tax Domestic Production Deduction**
(12) Net Investment Domestic Production Deduction < (R10, R11)

Caution! The American Jobs Creation Act of 2004 which added IRC § 199 to the Code has raised numerous questions of interpretation with regard to the computation of the deduction for domestic production activities. In addition, IRC § 1411 has raised additional questions as to the application of the deduction to the Medicare Investment Income computation. At date of publication, no guidance from the Treasury or the IRS was available with regard to these issues. This help topic describes how the program computes the deduction. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

(1) Investment Domestic Production Income or Loss

Heading for rows 2 through 7, below.

(2) Investment Passive Activities

The amount of passive activity qualified production income or loss of the taxpayer for the taxable year. See IRC § 199. This row is computed as the amount on the "Other Domestic Production Income/Loss" row of the **Passive and MAPRRA Income and Loss** worksheet, minus any amount on that row attributable to active trade or business MAPRRAs. All entries for passive and MAPRRA activity items must be made through the "Individual Activity" worksheets, accessed through the **Passive & MAPRRA Income/Loss** worksheet.

(3) Publicly Traded Partnerships

The amount of publicly traded partnership qualified production income or loss of the taxpayer for the taxable year. This row is the amount on the "Publicly Traded Partnerships" row of the **Domestic Production Activities Deduction**

worksheet. See IRC § 199. All entries for such partnerships must be made through the "Individual Activity" worksheets, accessed through the **Publicly Traded Partnerships** worksheet for this row.

(4) Other Investment Qualified Income/Loss

Any qualified production income or loss attributable to § 1411 trades or businesses for the taxable year, other than amounts computed by the program or entered on the rows above. See IRC § 199.

(5) Total Investment Domestic Production Inc/loss (Calculated)

The sum of rows 2 through 4, above.

(6) Investment W–2 Wages Paid

The amount of wages the taxpayer is required to include on W-2s with respect to employment of employees of the section 1411 trades or businesses, See IRC § 199(b)(2).

(7) Domestic Production Deduction (Calculated)

9% of the lesser of:

- The amount on row 5 (Total Domestic Production Income/Loss), or
- The taxpayer's adjusted gross income computed without regard to the deduction on this row.

The amount is further limited to the 50% of the sum of the amount on row 6 (W-2 Wages).

(8) Qualified Investment Oil Related Income

The portion of the amount on row 5 that is oil related qualified production activities income. See IRC § 199(d)(9).

(9) Oil Related Reduction (Calculated)

Three percent (3%) of the least of the following amounts:

- The amount on row 5 (Total Investment Domestic Production Income/Loss),
- The amount on row 8 (Qualified Investment Oil Related Income) or,
- The taxpayer's adjusted gross income computed without regard to the domestic production deduction.

(10) Investment Domestic Production Deduction (Calculated)

The amount on row 7 net of the amount on row 9, above.

(11) Regular Tax Domestic Production Deduction (Calculated)

The regular tax domestic production deduction from row 21 of the **Ordinary Income** worksheet

(12) Net Investment Domestic Production Deduction < (R10, R11) (Calculated)

The lesser of rows 10 or 11.

ALLOCABLE STATE INCOME TAX DEDUCTION

Allocable State Income Tax
(1)   Calculate Deduction?
(2)   **Total Investment Income & Net Gain**
(3)   Adjustment to Investment Income & Gain
(4)   **Adjusted Investment Income & Gain**
(5)   **Adjusted Gross Income**
(6)   **Adjustment to AGI**
(7)   **Total Adjusted AGI**
(8)   **Investment Percentage**
(9)   **Total State Income Tax Deduction**
(10) Adjustment to State Income Tax Deduction
(11) **Adjusted State Income Tax Deduction**
(12) **Allocated Row 8 x 11**
(13) Adjustment to Allocated State Income Tax
(14) **Net Adjusted State Income Tax**

Caution! The Patient Protection and Affordable Care Act together with the Health Care and Education Reconciliation Act of 2010, which added IRC § 1411 to the Internal Revenue Code, have raised numerous questions of interpretation with regard to the computation of the Medicare Tax. At date of publication, questions remain with regard to these issues. This help topic describes how the program computes the tax. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

(1) Calculate Deduction

Select Yes to have the program calculate the state taxes allocable to the **Medicare Investment Income Tax**. Select No to enter the amount on row 14, below, by adjusting row 13. See **NOTE 1**, below, for an explanation of the computation.

(2) Total Investment Income & Net Gain (Calculated)

The amount on the "Total Income & Net Gain" row of the **Medicare Investment Income Tax** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(3) Adjustment to Investment Income & Gain

Enter an amount to adjust row 2, above.

(4) Adjusted Investment Income & Gain (Calculated)

The sum of rows 2 and 3, above. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(5) Adjusted Gross Income (Calculated)

Adjusted Gross Income from the **Main Worksheet**. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(6) Adjustment to AGI

Enter an amount to adjust row 5, above.

(7) Total Adjusted AGI (Calculated)

The sum of rows 5 and 6, above. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(8) Investment Percentage (Calculated)

Row 4 divided by row 7. May not be less than zero. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(9) Total State Income Tax Deduction (Calculated)

The "Total State Income Taxes" row of the **Itemized Deductions** worksheet. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(10) Adjustment to State Income Tax Deduction

Enter an amount to adjust row 9, above.

(11) Adjusted State Income Tax Deduction (Calculated)

The sum of rows 9 and 10. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(12) Allocated Row 8 x 11 (Calculated)

Row 8 times row 11. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

(13) Adjustment to Allocated State Income Tax

Enter an amount to adjust row 12, above.

(14) Net Adjusted State Income Tax (Calculated)

The sum of row 12 and 13, above. If the taxpayer is not itemizing for regular tax purposes, this row will be N/A.

NOTE 1

The program calculates the allocable state income tax by computing a fraction, the numerator of which is investment income and net gain, the denominator of which is adjusted gross income, and multiplying it by the state income tax deduction using the method suggested in Treas. Reg. § 1.1411-4(g)(1), but the regulations permit any reasonable method.

STATE TAX REFUND: INVESTMENT

State Tax Refund: Investment
(1) Compute Refund Inclusion (Y/N)
(2) **State Tax Refund**
(3) Adjustment to State Tax Refund
(4) **Total State Tax Refund**
(5) Prior Year State Tax
(6) **Lesser of Refund or Prior Year Tax**
(7) Prior Year Deduction
(8) **Prior Year Percentage**
(9) Adjustment to Percentage
(10) Percentage Times Refund
(11) Prior Year Deduction for Itemized
(12) **Lesser of Deduction or Percent times Refund**
(13) Tax Benefit Reduction
(14) **Refund Inclusion**
(15) Adjustment to Refund Inclusion
(16) **Total Refund Inclusion**

Caution! The Patient Protection and Affordable Care Act together with the Health Care and Education Reconciliation Act of 2010, which added IRC § 1411 to the Code, have raised numerous questions of interpretation with regard to the computation of the Medicare tax. At date of publication, questions remain with regard to these issues. This help topic describes how the program computes the tax. You are cautioned to carefully examine the row descriptions for this worksheet. Rely upon our interpretations only if you agree with them.

(1) Compute Refund Inclusion (Y/N)

Select Yes to have the program calculate the state taxes refund inclusion allocable to the Medicare Investment Income Tax. Select No to enter an amount on row 16, below, by adjusting row 15. See **NOTE 1**, below, for an explanation of the computation. For years before 2014, all rows on this worksheet will be N/A.

(2) State Tax Refund (Calculated)

The sum of the "Total Net Refund" row on the **State Estimated and Withholding** worksheet and the "Adjustment to Tax Refunds" row of the **Other Ordinary Income** worksheet.

(3) Adjustment to State Tax Refund

Any adjustments needed to properly reflect the total state tax refund to be taken into account in computing the inclusion for purposes of the Net Investment Income tax.

(4) Total State Tax Refund (Calculated)

The sum of rows 2 and 3, above.

(5) Prior Year State Tax

The total prior year state income tax deduction for regular tax purposes. In multiple year analyses enter the amount in the first column only. The program will compute the other columns as the amount in the prior year on the "Adjusted State Income Tax Deduction" row of the **Allocable State Income Tax Deduction** worksheet.

(6) Lesser of Refund or Prior Year Tax (Calculated)

The lesser of rows 4 and 5, above.

(7) Prior Year Deduction

The amount of the prior year state income tax deduction for purposes of the Investment Income Tax. In multiple year analyses enter the amount in the first column only. The program will compute the other columns as the amount in the prior year on the "Net Adjusted State Income" row of the **Allocable State Income Tax Deduction** worksheet.

(8) Prior Year Percentage (Calculated)

Row 7, above, divided by row 5. If no adjustments were made in the prior year to the deduction as computed using the prior year percentage on the Investment Percentage row of the **Allocable State Income Tax Deduction** worksheet, this amount will be the amount on the Investment Percentage row of that worksheet. If there was no prior year state tax, the amount will equal zero. In multiple year analyses enter the amount in the first column only.

(9) Adjustment to Percentage

Any adjustment necessary to have the percentage properly reflect the percentage of the refund to be included for purposes of the Investment Income Tax.

(10) Percentage Times Refund

Row 8 plus row 9, above, (limited to 100%) multiplied by row 6.

(11) Prior Year Deduction After 3% Floor (Calculated)

The prior year state income tax deduction after application of the 3% floor. The program computes the portion of the Net Itemized and Taxes After the Floor allocated to the State Income Tax deduction by dividing the prior year "State Income Taxes: Investment" row by the prior year Total Itemized and Taxes Before 3% Floor row and multiplying the quotient by the prior year Net Itemized and Taxes After Floor on the **Medicare Investment Income Tax** worksheet. If the amount of the prior year Net Itemized and Taxes After the Floor equals zero this row shall equal zero. In multiple year analyses enter the amount in the first column only. The program will compute the remaining columns.

(12) Lesser of % x Refund or Deduction After Floor

The lesser of row 10 and row 11, above.

(13) Tax Benefit Reduction (Calculated)

The amount of the refund on row 12 that did not reduce the investment income tax in the prior year. To calculate this amount, the program simulates the amount of Investment Income that would have been taxed if the amount refunded had not been deducted in the prior year. Then the program compares that result to the actual amount subject to tax in the prior year. The difference between these amounts is the tax benefit from the deduction and the rest of the amount on row 12 is considered to have not produced a tax benefit. In multiple year analyses enter the amount in the first column only. The program will compute the other columns. See Note 2, below.

(14) Refund Inclusion (Calculated)

The sum of rows 12, and 13, above, but not less than zero.

(15) Adjustment to Refund Inclusion

Any adjustment necessary to properly reflect the total amount of the refund to be included for purposes of Investment Income Tax.

(16) Total Refund Inclusion (Calculated)

The sum of rows 14 and 15, above. The amount on this row is posted (as a negative amount) to the "State Tax Refund: Investment" row of the **Medicare Investment Income Tax** worksheet.

NOTE 1

The program calculates the state income tax refund inclusion by computing a fraction, the numerator of which is the state tax deduction for the prior year and, the denominator of which is the total state tax paid in the prior year, and multiplying it by the state tax refund using the method prescribed in Treas. Reg. § 1.1411-4(g)(2).

NOTE 2

In computing the tax benefit reduction on row 13, the program takes the following steps:

1. The program recomputes itemized deductions in the prior year without the amount on row 4 in order to determine the amount that would have been allowed for regular tax purposes after application of the 3% floor. This amount is needed for the computation on the 3% of AGI Floor Applicable row of the **Medicare Investment Income Tax (MIIT)** worksheet.

2. The program subtracts the amount on row 12 of this worksheet from the amount on row 7, to get the reduced deduction for purposes of the MIIT computation. If total itemized as computed in step 1 is less than the standard deduction for the prior year or the taxpayer elected to take the standard deduction for the prior year, the program zeros out the deduction for purposes of this computation.

3. The program recomputes the amount subject to the tax in the prior year using the amount in step 2 in place of the amount of the prior year MIIT state tax deduction.

4. This result of step 3 is then compared with the actual amount subject to the tax in the prior year, to determine the amount of the benefit.

Note. This method goes beyond the examples in the regulations but is consistent with the general statement, "For purposes of this paragraph (g)(2), section 111 applies to reduce the amount of any reduction required by paragraph (g)(2)(i) of this section to the extent that such previously deducted amount did not reduce the tax imposed by section 1411." See Treasury Regulation Section 1.1411-4(g)(2).

AFFORDABLE CARE CREDIT AND SHARED RESPONSIBILITY PAYMENT

Affordable Care Credit and Shared Responsibility Payment

(1) **Family Size**
(2) Family Members 65 or Over
(3) (Blank)
(4) **HOUSEHOLD INCOME**
(5) **Adjusted Gross Income**
(6) **Section 911 Exclusion**
(7) **Tax Exempt Interest**
(8) Salary Reduction Arrangements
(9) Other Family Members Adjusted Gross Income or Adjustments
(10) **Total Income for Penalty**
(11) **Social Security Exclusion**
(12) **Salary Reduction Arrangements**
(13) Other Adjustments for Credit
(14) **Total Income for Credit**
(15) (Blank)
(16) State of Residence?
(17) **Federal Poverty Line for Family**
(18) (Blank)
(19) Taxpayer Eligible for Employer Plan?
(20) Taxpayer Annualized Cost of Self Only Coverage
(21) Family Coverage Available To Taxpayer?
(22) Spouse Included in Family Coverage?
(23) Annualized Cost of Taxpayer Family Coverage
(24) Spouse Eligible for Employer Plan?
(25) Spouse Annualized Cost of Self Only Coverage
(26) Family Coverage Available to Spouse?
(27) Taxpayer Included in Family Coverage?
(28) Annualized Cost of Spouse's Family Coverage
(29) **Total Eligible for Affordable Coverage for Credit**
(30) **Number of Credit Eligibles**
(31) Adjustment to Credit Eligibles
(32) **Total Credit Eligibles**
(33) (Blank)
(34) **CREDIT CALCULATION**
(35) Months of Exchange Coverage
(36) Total Exchange Premiums Paid
(37) Total Silver Benchmark Premiums
(38) **Household Income**
(39) **Applicable Percentage**
(40) **Contribution Amount (R38 x R39)**
(41) **Contribution Amount x Months /12 (R35*R40/12)**
(42) **Benchmark Less Contribution Amount (R37 - R41)**
(43) **Lesser Exchange Premiums, Excess <(R36,R42)**
(44) Adjustment to Credit
(45) Advance Credit Payments
(46) **Credit or Additional Tax**
(47) **Limit on Additional Tax**
(48) **Net Credit or Additional Tax**
(49) (Blank)
(50) **PENALTY**
(51) Number of Employee Eligibles
(52) Adjustment to Employee Eligibles
(53) **Number of Exempt Employees**
(54) **Exempt Family Members**
(55) **Exempt Employees and Family Members (R53+R54)**

Affordable Care Credit and Shared Responsibility Payment (Continued)
(56) (Blank)
(57) **Number of Exchange Only Eligibles**
(58) Annualized Exchange Only Silver Benchmark Premiums
(59) Annualized Exchange Only Bronze Benchmark Premiums
(60) **Less Annualized Credit**
(61) **Net Benchmark Bronze Plan (R59-R60)**
(62) **Number of Exempt Exchange Only Eligibles**
(63) (Blank)
(64) Otherwise Exempt or Enrolled
(65) **Total Number of Exempt**
(66) **Total Number of Non-Exempt**
(67) Non-Exempt Under 18
(68) (Blank)
(69) Months of Non-Coverage
(70) **Household Income**
(71) **Less 6012(a) Amount**
(72) **Excess Household Income**
(73) **Penalty Percentage**
(74) **Percentage x Excess (R72 x R73)**
(75) **Total Individual Applicable Amounts**
(76) **300% of Applicable Amount**
(77) **Lesser of Applicable Amounts <(R75,R76)**
(78) **Greater of Applicable Dollar or Percentage >(R74,R77)**
(79) **Row 69 Above /12 Times Months(R69/12xR78)**
(80) **National Benchmark Bronze Premiums for Uncovered Months**
(81) **Penalty Before Adjustment <(R79,R80)**
(82) Adjustment to Penalty
(83) **Penalty (R80+R81)**

Note. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which added IRC §§ 36B and 5000A to the Code, have raised numerous questions of interpretation with regard to the computation of the Affordable Care Credit and Shared Responsibility Payment. At date of publication, questions remain with regard to these issues. You are cautioned to carefully examine the row descriptions for this worksheet. The reader is encouraged to verify all items by reviewing the original sources, accordingly, rely upon our interpretations only if you agree with them.

(1) Family Size (computed)

Equals the personal exemptions row of the **Main Worksheet**. See Treas. Reg. § 1.36B-1(d).

(2) Family Members 65 or Over

Enter the number of family members over 65 as of the end of the year. The program uses this amount to compute the IRC § 6012(a)(1) amount on row 65, below.

(3) (Blank)

(4) HOUSEHOLD INCOME (heading)

(5) Adjusted Gross Income (computed)

Equals the Adjusted Gross Income row from the **Main Worksheet**.

(6) Section 911 Exclusion (computed)

Equals the sum of the Taxpayer's and Spouse's Foreign Income Exclusions on the **Ordinary Income** worksheet.

(7) Tax Exempt Interest (computed)

Equals the sum of the "Private Activity Interest" and "Tax Exempt Interest" rows from the **Interest and Dividends** worksheet.

(8) Salary Reduction Arrangements

Enter the amount of any salary reductions used for health insurance premiums. See Treas. Reg. § 1.5000A-3(e)(1).

(9) Other Family Members Adjusted Gross Income or Adjustments

Enter the adjusted gross income for any family members required to file a tax return or any other adjustments to family income.

(10) Total Income for Penalty (computed)

The sum of rows 4 through 9 above, the amount of income used to calculate the Shared Responsibility Payment under IRC § 5000A. See Treas. Reg. § 1.5000A-1(d)(10).

(11) Social Security Exclusion (computed)

The amount from the "Less Exclusion" row of the **Other Ordinary Income** worksheet.

(12) Salary Reduction Arrangements (computed)

The negative of the amount from row 8 above. See Treas. Reg. § 1.36B-2(c)(3)(v)(A)(1).

(13) Other Adjustments for Credit

Enter any adjustments necessary to compute the taxable income for purposes of the Affordable Care Credit under IRC § 36B.

(14) Total Income for Credit (computed)

The sum of rows 10 through 13 above, the amount of Income used to compute the Affordable Care Credit under IRC § 36B. See Treas. Reg. § 1.36B-1(e).

(15) (Blank)

(16) State of Residence?

Select either the continental US, Alaska, or Hawaii. The selection is used to determine the correct federal poverty level used for determining the Affordable Care Credit under IRC § 36B.

(17) Federal Poverty Line for Family (computed)

The federal poverty line computed based on the family size calculated on row 1 and the state of residence selected on row 16. These amounts will be adjusted for inflation every year. See Treas. Reg. § 1.36B-1(h) and the table below. For years after 2019, future updates to the program will reflect further updates to the poverty level.

Year	Federal Register
2014	Volume 78, No. 16, Page 582
2015	Volume 79, No. 15, Page 3594
2016	Volume 80, No. 14, Page 3236
2017	Volume 81, No 15, Page 4036
2018	Volume 82, No. 19, Page 8832
2019	Volume 83, No. 12, Page 2642
2020	Volume 84, No. 22, Page 1167

(18) (Blank)

(19) Taxpayer Eligible for Employer Plan?

Set to yes if the taxpayer is eligible for an employer plan than that provides minimum value. Otherwise set to No. See Treas. Reg. § 1.36B-2(c)(3)(vi).

(20) Taxpayer Annualized Cost of Self Only Coverage

Enter the annualized amount of the employee's cost of self only coverage offered by the employer. If the coverage is for less than 12 months, annualize the cost by multiplying the monthly amount by 12 and dividing by the number of full months of coverage. To be affordable for purposes of the credit, the cost of the premiums may not exceed 9.5% of household income in 2014. See

Treas. Reg. § 1.36B-2(c)(3)(v)(c). For years after 2014 the program will use an amount based on the following table:

Year	Affordability Percentage	Revenue Procedure
2015	9.56%	2014-37
2016	9.66%	2014-62
2017	9.69%	2016-24
2018	9.56%	2017-36
2019 and later	9.86%	2018-34

The program will use the last published rate for any later years.

(21) Family Coverage Available To Taxpayer?

Set to Yes if family coverage is available that provides minimum value under the taxpayer's employer's plan. Otherwise set to No.

(22) Spouse Included in Family Coverage?

Set to Yes if family coverage is available under the taxpayer's employer's plan and such coverage includes the taxpayer's spouse. Otherwise set to No. If row 21 is Yes and this row is No, the program assumes that family coverage is available only to the taxpayer and his dependents but not including the taxpayer's spouse.

(23) Annualized Cost of Taxpayer Family Coverage

The annualized cost to the Taxpayer of family coverage that includes the taxpayer and the taxpayer's family. This amount should not be less than the amount for self-only coverage entered on row 20, above.

(24) Spouse Eligible for Employer Plan?

Set to yes if the spouse is eligible for an employer plan than provides minimum value. Otherwise set to No.

(25) Spouse Annualized Cost of Self Only Coverage

Enter the annualized amount of the spouse's cost of self only coverage offered by the employer. If the coverage is for less than 12 months, annualize the cost by multiplying the monthly amount by 12 and dividing by the number of full months of coverage. To be affordable for purposes of the credit, the cost of the premiums may not exceed 9.5% of household income in 2014. See Treas. Reg. § 1.36B-2(c)(3)(v)(C). For years after 2014 the program will use an amount based on the following table:

Year	Affordability Percentage	Revenue Procedure
2015	9.56%	2014-37
2016	9.66%	2014-62
2017	9.69%	2016-24
2018	9.56%	2017.36
2019 and later	9.86%	2018-34

The program will use the last published rate for any later years.

(26) Family Coverage Available to Spouse?

Set to Yes if family coverage is available that provides minimum value under the spouse's employer's plan. Otherwise set to no.

(27) Taxpayer Included in Family Coverage?

Set to Yes if family coverage is available under the spouse's employer's plan and such coverage includes the taxpayer's. Otherwise set to No. If row 26 is Yes and this row is No, the program assumes that family coverage is available only to the spouse and the spouse's dependents but not including the taxpayer.

(28) Annualized Cost of Spouse's Family Coverage

The annualized cost to the Spouse of family coverage that includes the spouse and the spouse's family. This amount should not be less than the amount for Self-only coverage entered on row 20, above.

(29) Total Eligible for Affordable Coverage for Credit (calculated)

The taxpayer if the taxpayer's coverage is available and affordable, plus the spouse if the spouse's coverage is available and affordable plus the family members if either spouse has family coverage and it is affordable. For purposes of the credit, only the cost of self-only coverage is tested for affordability. If self-only employer coverage is affordable and the taxpayer's (or the spouse's) family coverage is available, the family does not qualify for the credit, regardless of the cost of family coverage. See Treas. Reg. § 1.36B-2(c)(3)(v)(A)(2).

(30) Number of Credit Eligibles (calculated)

The amount on row 1 less than the amount on row 29.

(31) Adjustment to Credit Eligibles

Enter any adjustments to the number of credit eligibles, e.g., dependents who are not eligible for the taxpayer's or spouse's family coverage because they are not members of the taxpayer's immediate family, e.g., a dependent niece or mother. Also enter persons who are not eligible for affordable employer coverage but are eligible for other affordable minimum essential coverage, e.g., CHIP, Medicare, Medicaid, and Tricare.

(32) Total Credit Eligibles (calculated)

The sum of rows 30 and 31. The number on this row should not exceed total family size on row 1, above.

(33) (Blank)

(34) CREDIT CALCULATION (heading)

(35) Months of Exchange Coverage

Enter the number of months of exchange coverage, measured as of the first day of the month. See Treas. Reg. § 1.36B-3(c).

(36) Total Exchange Premiums Paid

Enter the total amount of premiums paid for bronze, silver, gold, or platinum health insurance plans on the exchange for the months designated on row 31.

(37) Total Silver Benchmark Premiums

Enter the total amount of premiums that would be paid for the second lowest cost silver plan for the rating are for the months designated on row 31. See Treas. Reg. § 1.36B-3(f)(3).

(38) Household Income (calculated)

The amount computed on row 14, above, but not less than zero. See **NOTE 1** on page 690.

(39) Applicable Percentage (calculated)

The applicable percentage, based on the household income and federal poverty level. See IRC § 36B(b)(3)(A), Treas. Reg. § 1.36B-3(g). This amount is current through 2020, and will be adjusted in future updates to the program to reflect premium growth after 2020.

(40) Contribution Amount (R38 x R39) (calculated)

Row 38 times row 39.

(41) Contribution Amount x Months / 12 (R35 x R40 ÷ 12) (calculated)

The pro-rated contribution amount, row 35 times 40 divided by 12.

(42) Benchmark Less Contribution Amount (R37 − R41) (calculated)

Row 37 less row 41.

(43) Lesser Exchange Premiums, Excess < (R36, R42) (calculated)

The lesser of rows 36 or 42. See Treas. Reg. § 1.36B-3(d)(2).

(44) Adjustment to Credit

Enter any necessary adjustments to the premium credit. To compute the Alternative Marriage Credit enter only the number of months of exchange coverage during the marriage on row 35 and enter the total amount of the advance payment credits allocable to the months before the marriage on this row. See Treas. Reg. § 1.36B-4(b)(2). If the taxpayer was found to have unaffordable employer coverage by the exchange but the coverage later turns out to have been affordable, the taxpayer may qualify for a safe harbor under Treas. Reg. § 1.36B-2(c)(3)(v)(A)(3). If the taxpayer qualifies for this safe harbor enter the amounts received as an advance credit as a positive adjustment. If the taxpayer may be claimed as a dependent on another's return, see **NOTE 2** on page 690.

Under limited circumstances a taxpayer may qualify if married but filing separate. The program does not perform this calculation. In such situations enter the amount of the credit on this row.

(45) Advance Credit Payments

Enter the amount of the advance payment credits received through the exchange. If the taxpayer may be claimed as a dependent on another's return, see **NOTE 2** on page 690.

(46) Credit or Additional Tax (calculated)

The sum of row 43, 44, and 45, above. If the taxpayer may be claimed as a dependent on another's return, see **NOTE 2** on page 690.

(47) Limit on Additional Tax (calculated)

Any limit to the recapture of the advance Affordable Care Credits. See Treas. Reg. § 1.36B-4(a)(3), which limits the amount of credit that must be paid back if household income is less than 400% of the federal poverty line. If the tax payer may be claimed as a dependent on another's return, see **NOTE 1** on page 690. These amounts are current through 2020, and will be adjusted after 2020 in future updates to the program to reflect changes in the consumer price index. See Rev. Proc. 2014-61 for the 2015 year, Rev. Proc. 2015-53 for the 2016 year, Rev. Proc. 2016-55 for the 2017 year, Rev. Proc. 2017-58 for the 2018 year, Rev. Proc. 2018-57 for 2019, and Rev. Proc. 2019-44 for 2020.

(48) Net Credit or Additional Tax (calculated)

The sum of rows 46 and 47. If positive, the amount is posted to the **Credits** worksheet. If negative, the amount is posted to the **Self Employment and Other Taxes** worksheet. If the taxpayer may be claimed as a dependent on another's return, see **NOTE 1** on page 690.

(49) (Blank)

(50) PENALTY (heading)

(51) Number of Employee Eligibles

The number of employees eligible for employer coverage. If row 19 (TP Eligible for Employer Plan) is Yes, this row includes the taxpayer. If row 24 (Sp Eligible for Employer Plan) is Yes, this row includes the spouse. If either of rows 21 (Family Coverage Available to Tp) or 26 (Family Coverage Available to Sp) is Yes, this row includes all the dependents other than the taxpayer and spouse. If the taxpayer or spouse is included in family coverage of the other, this row includes that person, even if that person does not have his/her own employer coverage.

(52) Adjustment to Employee Eligibles

Employee dependents and other members of the household who are not eligible for employee coverage, even though the employee has family coverage available. For example, a niece or parent who is a dependent but is not eligible under the employer plan. Include also family members who due to having other coverage are excluded from the employer plan. Do not include the taxpayer or spouse in the adjustment. Instead, indicate their eligibility on rows 22 and 27, above. The entry on this row must be negative.

(53) Number of Exempt Employees (calculated)

The number of exempt employees (not including family members). An employee is exempt if coverage is available but not affordable. For the taxpayer or the spouse covered by his/her own employer plan the employee is not exempt from the penalty if the cost of the cost of self only coverage does not exceeds 8% of household income in 2014. See Treas. Reg. § 1.5000A-3(e)(2)(ii). The program will aggregate the costs of spouse's self-only coverage in order to calculate affordability according to the form 8965 instructions. Coverage through the other spouse's coverage is not considered for purposes of this row. **For years after 2014**, the program will use an inflated amount based on the following table.

Year	Affordability Percentage	Revenue Procedure
2015	8.05%	2014-37
2016	8.13%	2014-62
2017	8.16%	2016-24
2018	8.05%	2017-36

(54) Exempt Family Members (calculated)

If the cost of family coverage on the lower of rows 23 and 28 exceeds 8% of household income on row 10, the family members who are eligible for employer coverage are exempt. For this purpose a spouse who does not have his/her own employer coverage, but who is eligible for coverage through his or her spouse is considered to be a family member.

(55) Exempt Employees and Family Members (R53 + R54) (calculated)

The sum of rows 53 and 54.

(56) (Blank)

(57) Number of Exchange Only Eligibles (calculated)

Row 1 less the sum of rows 51 and 52.

(58) Annualized Exchange Only Silver Benchmark Premiums

Enter the cost of the second lowest cost silver plan (or plans) within the rating area necessary to cover the exchange only eligibles referenced on row 57. To compute the annualized amount multiply the premiums paid by 12 and divide by the number of uncovered months. The amount is used to recompute the credit for purposes of the penalty.

(59) Annualized Exchange Only Bronze Benchmark Premiums

Enter the cost of the lowest cost bronze plan (or plans) within the rating area necessary to cover the exchange only eligibles referenced on row 57. To compute the annualized amount multiply the premiums paid by 12 and divide by the number of uncovered months.

(60) Less Annualized Credit (calculated)

The Affordable Care Credit, recomputed for purposes of the penalty, using the amount on row 58. This amount may be different than the amount on row 43.

(61) Net Benchmark Bronze Plan (R59 – R60) (calculated)

Row 59 less row 60.

(62) Number of Exempt Exchange Only Eligibles (calculated)

The number of exempt exchange only eligibles. An exchange only eligible is exempt if the cost of coverage on row 61 exceeds 8% of the household income on row 10. The 8% amount will be increased to reflect premium growth for years after 2014 in future updates to the program. See Treas. Reg. 1.5000A-3(e)(2)(ii) and row 53 above.

(63) (Blank)

(64) Otherwise Exempt or Enrolled

Enter the number of individuals who are either not exempt but have either enrolled in minimum essential coverage or are exempt from the penalty for reasons other than affordability. See Treas. Reg. § 1.5000A-2-3, e.g., CHIP, Medicare, Medicaid, Tricare, religious sects, health sharing ministries, non-citizens, and incarcerated persons.

(65) Total Number of Exempt (calculated)

The sum of rows 55, 62, and 64.

(66) Total Number of Non-Exempt (calculated)

Row 1 less row 65.

(67) Non-Exempt Under 18

Enter the number of non-exempt individuals under 18 for the part of any month. See Treas. Reg. § 1.5000A-4(b)(2)(iii). Used to compute the applicable amounts on row 75, below. The program does not handle a situation in which months of non-coverage span the 18th birthday.

(68) (Blank)

(69) Months of Non-Coverage

Enter the number of months in which the non-exempt persons do not have minimum essential coverage. A person has coverage for the month if they have coverage for any portion of the month. See Treas. Reg. § 1.5000A-1(b)(1). Do not enter short gaps of less than 3 months. See Treas. Reg. § 1.5000A-3(j)(2).

(70) Household Income (calculated)

The amount on row 10, above.

(71) Less 6012(a) Amount (calculated)

The IRC § 6012(a) amount, used to determine the exemption based on household income being below the filing threshold and the amount subject to the penalty percentage on row 72 below. See Treas. Reg. §§ 1.5000A-3(f)(2)(i) and 1.5000A-4(b)(3)(i)(A).

(72) Excess Household Income (calculated)

Row 70 less row 71, above.

(73) Penalty Percentage (calculated)

The income percentage described in Treas. Reg. § 1.5000A-4(b)(3)(ii).

For 2014, the amount equals 1%.

For 2015, the amount equals 2%.

For 2016 and later, the amount equals 2.5%.

(74) Percentage x Excess (R72 x R73) (calculated)

Row 72 times row 73.

(75) Total Individual Applicable Amounts (calculated)

The total applicable amounts for the non-exempt persons on row 66, above. See Treas. Reg. § 1.5000A-4(b)(2)(ii).

For 2014, the amount equals $95.

For 2015, the amount equals $325.

For 2016 and 2017, the amount equals $695.

For 2017, see Rev. Proc. 2016-55.

The amounts are halved for persons under 18. See Treas. Reg. § 1.5000A-4(b)(2)(iii)

The 2016 amount will be adjusted for years after 2016 in future updates to the program to reflect changes in the consumer price index. See Treas. Reg. § 1.5000A-4(b)(2)(iv).

(76) 300% of Applicable Amount (calculated)

300% of the applicable amount. See Treas. Reg. § 1.5000A-4(b)(2)(i)(B).

(77) Lesser of Applicable Amounts < (R75, R76) (calculated)

The lesser of rows 75 and 76, the "Flat Dollar Amount." See Treas. Reg. § 1.5000A-4(b)(2)(i).

(78) Greater of Applicable Dollar or Percentage > (R74, R77) (calculated)

The greater of rows 74 or 77. See Treas. Reg. § 1.5000A-4(b)(1).

(79) Row 69 Above ÷ 12 Times Months (R69 ÷ 12 x R78) (calculated)

In order to prorate the penalty amounts according to the number of months, multiply the penalty on row 78 by the months of non-coverage and divide by 12. See Treas. Reg. § 1.5000A-4(b)(1).

(80) National Benchmark Bronze Premiums for Uncovered Months (calculated)

The national benchmark bronze premiums for any uncovered months. See Treas. Reg. § 1.5000A-4(c).

The program will use the amounts from the following table, multiplied by the number of non-exempt months on rows 66.

Year	Amount	Revenue Procedure
2014	$204	2014-46
2015	$207	2015-15
2016	$223	2016-43
2017	$272	2018-48
2018	$283	2018-43

The amount may not exceed 5 times the amount times the number of non-exempt months.

(81) Penalty Before Adjustment < (R79, R80) (calculated)

The lesser of rows 79 and 80. See Treas. Reg. § 1.5000A-4(a)(2). If row 80 is zero, this row will be the amount on row 79.

(82) Adjustment to Penalty

Enter any adjustments to the penalty computed on row 81, above.

(83) Penalty (R80+R81)

The sum of rows 81 and 82, above.

NOTE 1

To allow a negative household income would create a negative contribution amount, potentially allowing a credit in excess of the benchmark plan, a result not contemplated by the statute.

NOTE 2

This row will be N/A if the taxpayer can be claimed as a dependent on another taxpayer's return as indicated by the "Must Itemized Supported" row on the **Filing Status** worksheet. In such case, the credit and advance credit should be taken into account by the taxpayer with respect to whom the supported taxpayer is claimed as a dependent. See Treas. Reg. § 1.36B-4(a)(1).

OUTPUT WORKSHEETS

The following line-by-line descriptions of output items are provided as an aid to interpreting the information displayed. IRC sections are cited where appropriate.

SUMMARY REPORT

Summary Report
(1)   Income:
(2)   Wages
(3)   Interest & Dividends
(4)   Self-employment Income
(5)   § 1231 Ordinary & Casualty Gain or Loss
(6)   Passive Activity Income or Loss
(7)   Publicly Traded Partnerships
(8)   Social Security Benefits
(9)   Capital Gains & Losses
(10)   Investment Interest Expense
(11)   Other Income
(12)   Total Income
Continued on next page

Summary Report (continued)

(13)   Adjustments:
(14)   Keogh & SEP Contributions
(15)   IRA Contributions
(16)   Self-employment Tax & Other Adjustments
(17)   Total Adjustments
(18)   Adjusted Gross Income
(19)   Personal Exemptions
(20)   Itemized Deductions:
(21)   Medical Expense
(22)   Casualty Loss
(23)   Charitable Contributions
(24)   Taxes
(25)   Interest Expense
(26)   Miscellaneous & Employee Business Expense
(27)   Gambling & Other Itemized
(28)   3% AGI Floor
(29)   Total Itemized
(30)   Standard Deduction
(31)   Qualified Income Deduction
(32)   Total Deductions from AGI
(33)   Taxable Income
(34)   Regular Tax:
(35)   Schedule or Table Tax
(36)   Alternative Capital Gains Tax
(37)   Farm Income Averaging Tax
(38)   Foreign Earned Income Tax
(39)   Minor Child Tax
(40)   Appropriate Regular Tax
(41)   5/10 Year Lump Sum Tax
(42)   Nonrefundable Credits
(43)   Self-employment Tax
(44)   Net Alternative Minimum Tax
(45)   High Income HI, Medicare & Other Taxes
(46)   Total Federal Taxes
(47)   Withholding & Estimated Tax Payments
(48)   Other Refundable Credits
(49)   Total Payments
(50)   Underpayment Penalty
(51)   Net Federal Tax Due
(52)   Resident State Tax
(53)   Resident State Estimated & W/H
(54)   Net Resident State Tax Due
(55)   New York Nonresident State Tax
(56)   New York Nonresident Estimated & W/H
(57)   Net New York Nonresident Tax Due
(58)   Other Nonresident State Tax
(59)   Other Nonresident Estimated & W/H
(60)   Net Other Nonresident Tax Due
(61)   Total Net Tax Due
(62)   Marginal Nominal Federal Rate
(63)   Marginal Federal Rate with Phaseouts
(64)   Marginal Resident State Rate

(1) Income

Heading for the following 11 rows (Wages through Total Income rows).

(2) Wages

The amount from row 1 (Wages) of the **Ordinary Income** worksheet.

(3) Interest and Dividends

The amount from row 2 (Interest and Dividends) on the **Ordinary Income** worksheet.

(4) Self-employment Income

The amount from row 3 (Self-employment Income) on the **Ordinary Income** worksheet.

(5) Section 1231 Ordinary and Casualty Gain or Loss

The amount from row 4 (Section 1231 and Casualty Ordinary Gain or Loss) on the **Ordinary Income** worksheet.

(6) Passive Activity Income or Loss

The amount from row 5 (Passive Activity Income and Loss) on the **Ordinary Income** worksheet.

(7) Publicly Traded Partnerships

The amount from row 6 (Publicly Traded Partnerships) on the **Ordinary Income** worksheet.

(8) Social Security Benefits

The amount from row 3 (Includible Social Security Benefits) on the **Other Ordinary Income** worksheet.

(9) Capital Gains and Losses

Total long-term capital gain or loss. The loss, if any, is after the limitations of IRC § 1211.

(10) Investment Interest Expense

The amount from row 7 (Investment Interest Expense) on the **Ordinary Income** worksheet.

(11) Other Income

All other items that make up federal adjusted gross income except those listed above and the adjustments listed below.

If the **Ordinary Income** worksheet is not active, this amount is taken from row 3 (Ordinary Income) of the **Main Worksheet**.

(12) Total Income

The sum of the following rows above:

- row 2 "Wages"
- row 3 "Interest & Dividends"
- row 4 "Self-employment Income"
- row 5 "§ 1231 Ordinary & Casualty Gain or Loss"
- row 6 "Passive Activity Income or Loss"
- row 7 "Publicly Traded Partnerships"
- row 8 "Social Security Benefits"
- row 9 "Capital Gains & Losses"
- row 10 "Investment Interest Expense"
- row 11 "Other Income"

(13) Adjustments:

Heading for the following four rows (Keogh Contributions row through the Total Adjustments row).

(14) Keogh Contributions

The sum of rows 13 and 14 (Taxpayer's and Spouse's Keogh) of the **Ordinary Income** worksheet.

(15) IRA Contributions

The sum of rows 11 and 12 (Taxpayer's and Spouse's IRA) of the **Ordinary Income** worksheet.

(16) Self-employment Tax & Other Adjustments

The sum of the following rows on the **Ordinary Income** worksheet:

- Self-employment Tax Deduction (row 15)
- Educational Loan Interest (row 16)
- Other Adjustments (row 19)

(17) Total Adjustments

The sum of the following rows above:

- 14 "Keogh & SEP Contributions"
- 15 "IRA Contributions"

- 16 "Self-employment Tax & Other Adjustments"

(18) Adjusted Gross Income

Row 12 "Total Income" less row 17 "Total Adjustments", above.

(19) Personal Exemptions

The number of personal exemptions, from the **Main Worksheet**, multiplied by the exemption amount. The exemption amounts are:

Year	Amount
2000	$2,800
2001	$2,900
2002	$3,000
2003	$3,050
2004	$3,100
2005	$3,200
2006	$3,300
2007	$3,400
2008	$3,500
2009–2010	$3,650
2011	$3,700
2012	$3,800
2013	$3,900
2014	$3,950
2015	$4,000
2016-2017	$4,050
2018-2025	0

For 2026 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 151(d)(4)(A) as described under "Inflation Adjustments."

For years after 1999, the program phases out the personal exemption amount in accordance with IRC § 151(d) for taxpayers with adjusted gross income in excess of specified threshold amounts. The amounts are:

Year	Filing Status			
	Married Filing Jointly	Head of Household	Single	Married Filing Separately
2000	$193,400	$161,150	$128,950	$96,700
2001	$199,450	$166,200	$132,950	$99,725
2002	$206,000	$171,650	$137,300	$103,000
2003	$209,250	$174,400	$139,500	$104,625
2004	$214,050	$178,350	$142,700	$107,025
2005	$218,950	$182,450	$145,950	$109,475
2006	$225,750	$188,150	$150,500	$112,875
2007	$234,600	$195,500	$156,400	$117,300
2008	$239,950	$199,950	$159,950	$119,975
2009	$250,200	$208,500	$166,800	$125,100
2010–2012	N/A	N/A	N/A	N/A
2013	$300,000	$275,000	$250,000	$150,000
2014	$305,050	$279,650	$254,200	$152,525
2015	$309,900	$284,050	$258,250	$154,950
2016	$311,300	$285,350	$259,400	$155,650
2017	$313,800	$287,650	$261,500	$156,900
2018-2025	N/A	N/A	N/A	N/A

For 2026 and subsequent years, the program adjusts the amounts for inflation in accordance with IRC § 151(d)(4)(B) as described under "Inflation Adjustments."

For 2006 and 2007, the phaseout is reduced by 1/3.

For 2008 and 2009, the phaseout is reduced by 2/3. See IRC § 151(d)(3)(E).

For 2010 through 2012, the phaseout no longer applies. However, for 2013 and subsequent years, the phaseout is restored.

For 2005 and 2006, this row includes the reduction in taxable income afforded to taxpayers who provide housing to Hurricane Katrina displaced individuals. See the **Filing Status** worksheet.

(20) Itemized Deductions

Heading for the following nine rows (Medical Expense row through Total Itemized row).

(21) Medical Expense

Net deductible medical expense from row 3 (Net Deductible Medical) of the **Itemized Deductions** worksheet.

(22) Casualty Loss

Net deductible casualty loss from row 6 (Net Deductible Casualty) of the **Itemized Deductions** worksheet.

(23) Charitable Contributions

The sum of the amounts on the Charitable Contributions and the 2005 Qualified Contributions rows of the **Itemized Deductions** worksheet.

(24) Taxes

For years before 2025 and after 2017, the sum of the following rows on the **Itemized Deductions** worksheet:

- Limited Personal Taxes
- Property Taxes: Investment

For all other years, the sum of the following rows on the **Itemized Deductions** worksheet:

- Higher Tax Amount (Calculated) (row 12) (state income taxes or the higher of state income or state and local sales taxes for years to which such computation applies)
- Property Taxes: Residential (row 13)
- Property Taxes: Investment (row 14)
- Other State & Local Taxes (row 15)

(25) Interest Expense

The sum of the following rows on the **Itemized Deductions** worksheet:

- Qualified Housing Interest (row 17)
- Other Qualified Residence Interest (row 18)
- Investment Interest Expense (row 20)

(26) Miscellaneous and Employee Business Expense

Net deductible miscellaneous and employee business expenses from row 31 (Net Deductible Miscellaneous Expense) of the **Itemized Deductions** worksheet.

(27) Gambling & Other Itemized

The sum of rows 32 (Gambling Losses) and 33 (Other Itemized) of the **Itemized Deductions** worksheet. If row 21 (Apply 1998 Technical Correction Casualty Rule) is "Yes," this row also includes the following rows:

- Investment Casualty Loss (row 22)
- Short-Term Investment Casualty Loss (row 23)
- Short-Term Investment Casualty Loss — Individual Activities (row 24)

(28) 3% AGI Floor

The amount from row 37 (3% AGI Floor Post-1990) of the **Itemized Deductions** worksheet.

For years after 2017 and before 2026, the amount on this row will equal zero.

(29) Total Itemized

The sum of these rows above, including the negative amount on row 28 (3% AGI Floor):

- Medical Expense (row 21)
- Casualty Loss (row 22)
- Charitable Contributions (row 23)
- Taxes (row 24)
- Interest Expense (row 25)
- Miscellaneous and Employee Business Expense (row 26)
- Gambling & Other Itemized (row 27)
- 3% AGI Floor (row 28)

If the **Itemized Deductions** worksheet is not active, this amount is taken from row 7 (Itemized Deductions) of the **Main Worksheet**.

If Optimize Standard Deduction vs. Itemized on the **Filing Status** worksheet is Yes, and the program has determined that electing the standard deduction produces a lower total tax, then this row will be N/A, even total itemized deductions are greater than the standard deduction.

(30) Standard Deduction (Calculated)

The standard deduction for the filing status selected.

For the years 2000 through 2020, the program uses the amount published by the Treasury.

For years after 2017 and before 2026, the program uses the amounts in IRC § 63(c)(7) and any inflation adjustments.

For 2021 and later years, the program adjusts the amounts for inflation in accordance with IRC § 63(c)(4) as described under Inflation Adjustments.

For 2003 and later years, for married filing jointly and qualifying widower filing statuses, the program uses 200% of the standard deduction for single taxpayers. See IRC § 63(c)(2)(A).

If Optimize Standard Deduction vs. Itemized on the **Filing Status** worksheet is Yes, and the program has determined that electing to itemize produces a lower total tax, then this row will be N/A even though the standard deduction is greater than total itemized.

(31) Qualified Income Deduction

The amount of the Qualified Business Income Deduction. See IRC § 199A.

(32) Total Deductions from AGI

The sum of row 19 "Personal Exemptions" and the higher of row 29 "Total Itemized" or row 30 "Standard Deduction" and row 31 "Qualified Income Deduction". If Optimize Standard Deduction vs. Itemized on the **Filing Status** worksheet is Yes, and the program has determined that electing the lower amount produces a lower total tax, then this row will be the sum of the "Personal Exemptions" row and the amount on the row that does not contain N/A.

(33) Taxable Income

Row 18 (Adjusted Gross Income) minus row 31 (Total Deductions from AGI), above.

(34) Regular Tax:

Heading for the following five rows.

- row 35 "Schedule or Table Tax"
- row 36 "Alternative Capital Gains Tax"
- row 37 "Farm Income Averaging Tax"
- row 38 "Foreign Earned Income Tax (Calculated)"
- row 39 "Minor Child Tax"
- row 40 "Appropriate Regular Tax"

(35) Schedule or Table Tax

The tax on taxable income from the rate schedules or from the tax tables for incomes less than $100,000 ($50,000 before 1992). See row 11 (Schedule or Table Tax) of the **Main Worksheet**.

(36) Alternative Capital Gains Tax

The alternative capital gains tax. See the expanded output worksheet for this item.

(37) Farm Income Averaging Tax

The Farm Income Averaging tax from row 62 (Total Farm Income Averaging Tax) of the **Farm Income Averaging Tax** worksheet.

(38) Foreign Earned Income Tax (Calculated)

The Foreign Earned Income Tax from the Net Regular Tax row of the **Foreign Income Exclusion Taxes** worksheet.

(39) Minor Child Tax

The amount from row 10 (Minor Child Tax) of the **Main Worksheet**.

(40) Appropriate Regular Tax

The lesser of the Schedule or Table Tax, the Alternative Capital Gains Tax, or the Farm Income Averaging Tax row.

For years after 2005, if the Foreign Earned Income tax applies then this will be the amount on row 38 above.

However, in any year, if you have selected the Minor Child analysis, then in the children's columns this will be the amount on the Minor Child Tax row.

(41) 5/10 Year Lump Sum Tax

The 10-year averaging tax from row 7 (5/10-Year Tax on Lump Sum) of the **Self-Employment & Other Taxes** worksheet.

(42) Nonrefundable Credits

Total allowable nonrefundable credits.

(43) Self-employment Tax

The self-employment tax of the taxpayer and spouse from row 1 (Taxpayer's Self-Employment Tax) and row 2 (Spouse's Self-Employment Tax) of the **Self-Employment & Other Taxes** worksheet.

(44) Net Alternative Minimum Tax

The amount from the Alternative Minimum Tax row of the **Alternative Minimum Tax** worksheet.

(45) High Income HI, Medicare & Other Taxes

The sum of the following rows on the **Self-Employment & Other Taxes** worksheet:

- "High-Income Hospital Insurance Tax"
- "Medicare Investment Income Tax"
- "Investment Credit Recapture"
- "First-time Homebuyer Credit Recapture"
- "Social Security Tip & Excess Plan Taxes"
- "Tax on IRA & Other Taxes"
- "Domestic Employment Taxes"

(46) Total Federal Taxes

The sum of these rows above:

- "Appropriate Regular Tax"
- "5/10 Year Lump Sum Tax"
- "Nonrefundable Credits"
- "Self-employment Tax"
- "Net Alternative Minimum Tax"
- "High Income HI, Medicare & Other Taxes"

(47) Withholding and Estimated Tax Payments

The sum of the following rows on the **Credits** worksheet:

- "Withhold & Estimated Tax Payments"
- "Payment With Extension"
- "Federal Fuels Tax Credit"

(48) Other Refundable Credits

The sum of the following rows on the **Credits** worksheet:

- "Refundable Child Credit"
- "Refundable Hope Credit"

- "Making Work Pay Credit"
- "Refundable Minimum Tax Credit"
- "Earned Income Credit"
- "Affordable Care Credit"
- "2008 Recovery Rebate Credit"
- 2020 Recovery Rebate Credit
- Self-employed Sick Leave Credit
- Self-employed Family Leave Credit
- "First-time Homebuyer Credit"
- "Refundable Adoption Credit"
- "Other Refundable Credits"

(49) Total Payments

The sum of the following rows, above:

- "Withholding & Estimated Tax Payments"
- Earned Income & Refundable Child Credits

(50) Underpayment Penalty

The amount from row 8 (Underpayment Penalty) on the **Self-Employment & Other Taxes** worksheet.

(51) Net Federal Tax Due

The result of the following calculation:

	row 46 "Total Federal Taxes"
less	row 49 "Total Payments"
plus	row 50 "Underpayment Penalty"

(52) Resident State Tax

The amount from row 19 (State Tax) of the **Main Worksheet**.

If New York Nonresident calculations are selected (see the Assumptions dialog accessed from the Main Menu) and the **New York Nonresident State Estimated & Withholding Payments** worksheet is active (or if no state estimated and withholding subworksheets are active), the amount on this row will exclude the amount on the "New York Nonresident Tax" row of the **State Tax — Main Worksheet**, which will be shown instead on row 55, below.

Similarly, if other nonresident state calculations are selected and the **Other Nonresident State Estimated & Withholding Payments** worksheet is active (or if no state estimated and withholding subworksheets are active), the amount on this row will exclude the amount on the "Other Nonresident Tax" row of the **State Tax — Main Worksheet**, which will be shown instead on row 58, below.

(53)   Resident State Estimated & Withholding

The amount from row 20 (State Estimated Tax and Withholding) of the **Main Worksheet**.

Fifty States program edition only: If New York Nonresident calculations are selected (see the **Assumptions** dialog accessed from the Main Menu) and the **New York Nonresident State Estimated & Withholding Payments** worksheet is active, the amount on this row will exclude the amount on the "State Credits: New York Nonresident" row of the **State Estimated and Withholding** worksheet, which will be shown instead on row 56, below.

Similarly, if other nonresident state calculations are selected and the **Other Nonresident State Estimated & Withholding Payments** worksheet is active, the amount on this row will exclude the amount on the "State Credits: Other Nonresident State" row of the **State Estimated and Withholding** worksheet, which will be shown instead on row 59, below.

(54) Net Resident State Tax Due

The amount on row 51 (Resident State Tax) less the amount on row 52 (Resident State Estimated & Withholding).

(55) New York Nonresident State Tax:

The amount from the "New York Nonresident Tax" row of the **State Tax — Main Worksheet**.

(56) New York Nonresident Estimated & Withholding

The amount from the "State Credits: New York Nonresident" row of the **State Estimated and Withholding** worksheet.

(57) Net New York Nonresident Tax Due

Row 55 minus row 56, above.

(58) Other Nonresident State Tax

The amount from the "Other Nonresident Tax" row of the **State Tax — Main Worksheet**.

(59) Other Nonresident Estimated & Withholding

The amount from the "State Credits: Other Nonresident State" row of the State Estimated and Withholding Worksheet.

(60) Net Other Nonresident Tax Due

Row 58 minus row 59, above.

(61) Total Net Tax Due

The sum of the following rows above:

- row 50 (Net Federal Tax Due)
- row 53 (Net Resident State Tax Due)
- row 56 (Net New York Nonresident Tax Due)
- row 59 (Net Other Nonresident Tax Due)

(62) Marginal Nominal Federal Rate

The highest marginal tax rate reached in the computation of the applicable federal tax not including the effect of any phaseouts. The rate shown is the rate applied to ordinary income, and does not reflect the reduced rates applied to net capital gain. Therefore, if the alternative capital gain tax applies and none of the income is taxed at ordinary rates under that computation, the rate on this row will be zero. For taxpayers subject to the alternative minimum tax, the rate shown will be the AMT rate. For the marginal rate including the effect of certain phaseouts, see the row below.

(63) Marginal Federal Rate with Phaseouts

The highest marginal tax rate reached in the computation of the applicable federal tax including the effect of certain phaseouts. The rate shown is the rate applied to ordinary income, and does not reflect the reduced rates applied to net capital gain. Therefore, if the alternative capital gain tax applies and none of the income is taxed at ordinary rates under that computation, the rate on this row will be zero.

The rate includes the effect of the phaseout of personal exemptions and the 3% floor under itemized deductions. For taxpayers at the income levels that result in personal exemption phaseout, the effect is to increase the rate by 2 times the number of exemptions times the exemption amount divided by $2500. This increase, expressed as a percentage, is multiplied by the bracket the taxpayer would otherwise be in. For example, in 2000 for a taxpayer in the 36% bracket, each exemption increases the rate by 2 × 2800 ÷ 2500 ÷ 100 × 36% or 0.8064%. Thus, for a taxpayer with two exemptions, the rate is increased by 1.6128%.

The floor under itemized increases the rate by 3% times the bracket the taxpayer would otherwise be in. For a taxpayer in the 36% bracket, for example, the increase is 3% × 36% or 1.08%. The combined effect for a taxpayer with two exemptions who is subject to both phaseouts is an increase from 36% to 38.69% (36% + 1.6128% + 1.08%), which may show as 39% due to rounding.

For 2006 and 2007, the phaseout of the personal exemptions and the floor under itemized deductions are both reduced by 1/3. For 2008 and 2009, they are reduced by 2/3. These reductions are reflected in the bracket increases as well. For example, assuming the personal exemption amount for 2006 is $3350, a taxpayer in the 33% bracket with two personal exemptions will have a bracket increase computed as 2 × 2 × 3350 ÷ 2500 ÷ 100 × 33% × 2/3 or 1.18%. If the taxpayer also has itemized deductions subject to the floor, there will be an additional rate increase of 3% × 33% × 2/3 or 0.66%. The total rate will be 34.84% (33% + 1.18% + 0.66%) which may show as 35% due to rounding.

Note. The program does not include in the marginal rate computation the effect of other, less common, phaseouts even though the phaseouts themselves are computed by the program. These phaseouts include the passive activity rental real estate exemption, social security income inclusion, etc.

Note. If the foreign earned income tax applies (in years after 2005) the effect of the phaseouts as computed by the program may not be exact, because the phaseouts are applied to a different amount than the amount on which the final tax is computed.

For taxpayers subject to the alternative minimum tax, the rate shown will be the AMT rate. The rate includes the effect of the phaseout of the alternative minimum tax exemption for taxpayers with alternative minimum taxable income in excess of the amounts listed in IRC Section 55(d)(3). This effect adds an additional 25% multiplied by the AMT rate. Therefore, for a taxpayer in the 28% AMT bracket, the phaseout adds 7% to the rate (25% times 28%).

(64) Marginal Resident State Rate

The highest tax bracket reached in the computation of the applicable resident state tax. If the state tax was not computed by the program, this row will be 0. The state rate does not take into account the fact that the state tax is deductible for federal purposes. It represents the highest bracket reached in the computation of the state regular tax plus the highest bracket reached in the computation of the state supplementary tax.

If the resident state has an add-on minimum tax, the highest bracket reached in the computation of that tax is added in. If the state has an alternative

minimum tax, and it applies, then its highest bracket becomes the state marginal rate.

ALTERNATIVE CAPITAL GAINS TAX

Alternative Capital Gains Tax

(1)	Taxable Income
(2)	Net Capital Gain From Sales
(3)	Qualified Dividend Income
(4)	Total Net Capital Gain
(5)	Unrecaptured § 1250 Gain
(6)	28% Rate Gain
(7)	Total Adjustments (R5+R6)
(8)	Adjusted Net Cap Gain (R2-R7+R3)
(9)	Taxable Less Adjusted Net Capital Gain (R1-R8)
(10)	Taxable Below 25%
(11)	Lesser of Row 9 or Row 10
(12)	Taxable Less Net Capital Gain (R1-R4)
(13)	Greater of Row 11 or Row 12
(14)	Tax on Row 13
(15)	Lesser: Adjusted Net Capital Gain or Taxable (R1,R8)
(16)	Maximum Zero Rate Amount
(17)	Taxable Less Adjusted Net Capital Gain (R1-R8)
(18)	Excess Over Zero Rate Amount (R16-R17)
(19)	Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)
(20)	Post 5/5/03 Adjusted Net Capital Gain
(21)	Post 5/5/03 Adjusted Net Capital Gain below Zero Rate Amount <(R19, R20)
(22)	0% Tax (R21 X 0%)(% after 2008)
(23)	Total Qualified 5-Year Gain
(24)	Remaining Adjusted Net Capital Gain below Zero Rate Amount (R19-R21)
(25)	5-Year Gain in 15% Bracket <(R23,R24)
(26)	8% Tax (R25 X 8%)
(27)	Remaining Adjusted Net Capital Gain below Zero Rate Amount (R24-R25)
(28)	10% Tax (R27 X 10%)
(29)	Remaining Adjusted Net Capital Gain (R15-R19)
(30)	Pre-2013 Calculations:
(31)	Remaining Post 5/5/03 Adjusted Net Capital Gain (R20-R21)
(32)	Post 5/5/03 in Higher Brackets <(29, 31)
(33)	15% Tax (R32 X 15%)
(34)	Remaining Adjusted Net Capital Gain (R29-R32)
(35)	20% Tax (R34 X 20%)
(36)	Post-2012 Calculations
(37)	Maximum 15% Rate Amount
(38)	Amounts Taxed Above (R13+R19)
(39)	Remaining Under 15% Rate Amount (R37-R38)
(40)	Adjusted Net Capital Gain Taxed at 15% <(R29, R39)
(41)	Adjusted Net Capital Gain Taxed at 20% (R29-R40)

Note. The Alternative Capital Gains Tax applies to 1987 and 1991 and subsequent years. For other years, this worksheet will show N/As. All references to the Internal Revenue Code are to the statute as amended by the IRS Restructuring and Reform Act of 1998 as contained in H.R. 2676, and further amended by the Jobs and Growth Tax Relief Reconciliation Act of 2003, unless otherwise indicated.

Caution! The American Taxpayer Relief Act of 2012 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 has raised numerous questions of interpretation affecting the calculation of the alternative capital gains tax and the AMT alternative capital gains tax. As of the date of this publication, little guidance from the Treasury or the IRS was available with regard to these calculations. This help topic explains how the program handles these computations. You are cautioned to carefully examine the row descriptions and the Notes below. Contact Bloomberg Tax Technology if you have any questions. You should rely on our interpretations only to the extent you agree with them.

(1) Taxable Income (Calculated)

The amount from row 10 "**Taxable Income**" of the **Main Worksheet**.

(2) Net Capital Gain From Sales (Calculated)

The excess of long-term capital gain over short-term capital loss reduced by the amount of investment net capital gain elected for investment interest deduction purposes — the sum of row 20 "Auto Elected Net Capital Gain Addition" and row 21 "Adjustment to Elected Net Capital Gain Addition" on the **Net Investment Income** worksheet. See IRC §§ 1222(11) and 1(h).

(3) Qualified Dividend Income (Calculated)

For years after 2003, the sum of the Qualifying Dividend rows of the **Interest and Dividends** worksheet reduced by the Amount Elected as Investment

Income row of the **Net Investment Income** worksheet. For years before 2003, this row will be zero. See IRC § 1(h).

(4) Total Net Capital Gain (Calculated)

The sum of rows 2 "Net Capital Gain From Sales" and 3 "Qualified Dividend Income", above.

(5) Unrecaptured Section 1250 Gain (Calculated)

The amount from row 58 "Net Unrecaptured Section 1250 Gain" of the **Capital Gains and Losses** worksheet. See IRC §§ 1(h)(3)(A) and 1(h)(6).

(6) 28% Rate Gain (Calculated)

The amount from row 54 "Net 28% Rate Gain"of the **Capital Gains and Losses** worksheet. See IRC § 1(h)(4).

(7) Total Adjustments (R5 + R6) (Calculated)

The sum of rows 5 "Unrecaptured § 1250 Gain" and 6 "28% Rate Gain", above.

(8) Adjusted Net Capital Gain (R2 – R7 + R3) (Calculated)

Row 2 "Net Capital Gain From Sales" minus row 7 "Total Adjustments (R5+R6)", above, but not less than zero, plus row 3 "Qualified Dividend Income". See IRC § 1(h)(3).

(9) Taxable Less Adjusted Net Capital Gain (R1 – R8) (Calculated)

Row 1 "Taxable Income"minus row 8 "Adjusted Net Cap Gain (R2-R7+R3)". See IRC § 1(h)(1)(A)(ii)(II).

(10) Taxable Below 25% (Calculated)

The amount of row 1 "Taxable Income", above, that is taxed at a rate below 25% (28% for years before 2001). See IRC § 1(h)(1)(A)(ii)(I).

For years 2018 and 2019, if the "Child Tased at Fiduciary Rates" row on the **Filing Status** worksheet is set to Yes, this amount will be limited per IRC § 1(j)(4)(B)(ii). But if the "Elect pre-TCJA 2017 Law" row of the **Minor Child Tax** worksheet is set to Yes, then the program will use the IRC § 1(h)(1)(A)(ii)(I) amount.

(11) Lesser of Row 9 or Row 10 (Calculated)

The smaller of the amount on row 9 "Taxable Less Adjusted Net Capital Gain (R1-R8)" or the amount on row 10 "Taxable Below 25%", above. See IRC § 1(h)(1)(A)(ii).

(12) Taxable Income Less Net Capital Gain (R1 – R4) (Calculated)

Row 1 "Taxable Income" minus row 4 "Total Net Capital Gain", above, but not less than zero. See IRC § 1(h)(1)(A)(i). See IRC § 1(h)(1)(A)(i).

(13) Greater of Row 11 or Row 12 (Calculated)

The greater of row 11 "Lesser of Row 9 or Row 10" or row 12 "Taxable Less Net Capital Gain (R1-R4)". See IRC § 1(h)(1)(A).

(14) Tax on Row 13 (Calculated)

The tax from the rate schedules or tax tables on the amount on row 13, above. See IRC § 1(h)(1)(A). And see row 13 "**Schedule or Table Tax**" on the **Main Worksheet**. For years 2018-2025 the program will compute the amount based on then schedules in IRC § 1(j)(2), as adjusted for inflation.

(15) Lesser: Adjusted Net Capital Gain or Taxable (R1, R8) (Calculated)

The smaller of the amount on row 1 "Taxable Income" or the amount on row 8 "Adjusted Net Cap Gain (R2-R7+R3)", above. See IRC § 1(h)(1)(B).

(16) Maximum Zero Rate Amount (Calculated)

For years 2018-2025 the maximum zero rate amount. See IRC § 1(j)(5)(B)(i).

For 2018-2019, if the "Child Tased at Fiduciary Rates" row on the **Filing Status** worksheet is set to Yes, the amount will not exceed the amount described in IRC § 1(j)(4)(C)(i), but if the "Elect pre-Tax Cut and Jobs Act 2017 Law" row of the **Minor Child Tax** worksheet is set to Yes, the program will compute the maximum zero rate amount per IRC § 1(j)(5)(B)(i).

For other years, the amount from row 10 (Taxable Below 25%), above. See IRC § 1(h)(1)(B)(i).

(17) Taxable Less Adjusted Net Capital Gain (R1 – R8) (Calculated)

Row 1 "Taxable Income" minus row 8 "Adjusted Net Cap Gain (R2-R7+R3)", above, but not less than zero. See IRC § 1(h)(1)(B)(ii).

(18) Excess Over Zero Rate Amount (R16 – R17) (Calculated)

The excess (if any) of the amount on row 16 "Maximum Zero Rate Amount" over the amount on row 17 "Taxable Less Adjusted Net Capital Gain (R1-R8)", above. See IRC § 1(h)(1)(B), and for years 2018-2025 see IRC § 1(j)(5)(A)(i).

(19) Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18) (Calculated)

The smaller of the amount on row 15 "Lesser: Adjusted Net Capital Gain or Taxable (R1,R8)" or the amount on row 18 "Excess Over Zero Rate Amount (R16-R17)", above. See IRC § 1(h)(1)(B), and for years 2018-2025 see IRC § 1(j)(5)(A)(i).

(20) Post 5/5/03 Adjusted Net Capital Gain (Calculated)

For 2003, the amount from row 21 "**Post 5/5/03 Net Capital Gain Adjusted**" of the **2003 Post 5/5 Capital Gains and Losses** worksheet plus the amount on row 3 above. For 2004 through 2012, the amount from row 8 above. For all other years, the amount on this row will be zero.

(21) Post 5/5/03 Adjusted Net Capital Gain below Zero Rate Amount <(R19, R20) (Calculated)

The smaller of the amount on row 19 "Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)" or the amount on row 20 "Post 5/5/03 Adjusted Net Capital Gain", above. See IRC § 1(h)(1)(B) and Section 301(c) of the Jobs Growth Tax Relief Reconciliation Act of 2003.

(22) 0% Tax (R21 x 0%)(% after 2008) (Calculated)

Row 21 times 0% (before 2008). See IRC § 1(h)(1)(B).

(23) Total Qualified 5-Year Gain (Calculated)

The amount from row 67 "Total Qualified 5-Year Gain" of the **Capital Gains and Losses** worksheet. See IRC § 1(h)(2)(A). For years after 2003, this row will be zero.

(24) Remaining Adjusted Net Capital Gain below Zero Rate Amount (R19 – R21) (Calculated)

Row 19 "Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)" minus row 21 "Post 5/5/03 Adjusted Net Capital Gain below Zero Rate Amount <(R19, R20)", above.

(25) 5-Year Gain in 15% Bracket <(R23, R24) (Calculated)

The smaller of the amount on row 23 or row 24, above. See IRC § 1(h)(2)(A) prior to amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(26) 8% Tax (R25 × 8%) (Calculated)

Row 25 multiplied by eight percent. See IRC § 1(h)(2)(A) prior to amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(27) Remaining Adjusted Net Capital Gain below Zero Rate Amount (R24 – R25) (Calculated)

Row 24 minus row 25, above.

(28) 10% Tax (R27 × 10%) (Calculated)

The amount on row 27 multiplied by 10 percent. See IRC § 1(h)(2)(A) before amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(29) Remaining Adjusted Net Capital Gain (R15 – R19) (Calculated)

The excess of the amount on row 15 "Lesser: Adjusted Net Capital Gain or Taxable (R1,R8)" over the amount on row 19 "Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)", above. See IRC § 1(h)(1)(C)(i).

(30) Pre-2013 Calculations (Calculated)

Heading for rows 31 through 35, below.

(31) Remaining Post 5/5/03 Adjusted Net Capital Gain (R20 – R21) (Calculated)

Row 20 minus row 21, above. For years after 2012, this row will be N/A.

(32) Post 5/5/03 in Higher Brackets <(R29, R31) (Calculated)

The lesser of the amount on row 29 or the amount on row 31. For years after 2012, this row will be N/A.

(33) 15% Tax (R32 x 15%) (Calculated)

The amount on 32 multiplied by 15%. See IRC § 1(h)(1)(C) and § 301(c) of the Jobs and Growth Tax Relief Reconciliation Act of 2003. For years after 2012, this row will be N/A.

(34) Remaining Adjusted Net Capital Gain (R29–R32) (Calculated)

Row 29 minus 32, above. For years after 2012, this row will be N/A.

(35) 20% Tax (R34 × 20%) (Calculated)

The amount on 34 multiplied by 20 percent. See IRC § 1(h)(2)(B) before amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act. For years after 2012, this row will be N/A.

(36) Post 2012 Calculations (Calculated)

Heading for rows 37 through 41, below.

(37) Maximum 15% Rate Amount (Calculated)

The amount of income taxed at the highest bracket, adjusted for inflation. **For years before 2013**, this row will be N/A. See IRC § 1(h)(1)(C)(ii)(I).

For 2018-2025, see IRC § 1(j)(5)(B)(ii).

For 2018-2019, if the "Child Tased at Fiduciary Rates" row on the **Filing Status** worksheet is set to Yes, the amount will not exceed the amount described in IRC § 1(j)(4)(C)(ii), but if the "Elect pre-Tax Cut and Jobs Act 2017 Law" row of the **Minor Child Tax** worksheet is set to Yes, the program will compute the maximum 15% rate amount per IRC § 1(j)(5)(B)(ii).

(38) Amounts Taxed Above (R13 + R19) (Calculated)

The sum of rows 13 and 19 above. For years before 2013, this row will be N/A. See IRC § 1(h)(1)(C)(ii)(II).

(39) Remaining Under 15% Rate Amount (R37 – R38) (Calculated)

Row 37 less row 38, above. For years before 2013, this row will be N/A. See IRC § 1(h)(1)(C)(ii).

(40) ANCG Taxed at 15% <(R29, R39) (Calculated)

The lesser of row 29 or 39, above. For years before 2013, this row will be N/A. See IRC § 1(h)(1)(C).

(41) ANCG Taxed at 20% (R29 – R40) (Calculated)

The excess of the amount on row 29 "Remaining Adjusted Net Capital Gain (R15-R19)" over the amount on row 40 "Adjusted Net Capital Gain Taxed at 15% <(R29, R39)", above. For years before 2013, this row will be N/A. See IRC § 1(h)(1)(D).

(42) 15% Tax (R40 x 15%) (Calculated)

Row 40 times 15%. For years before 2013 this row will be N/A. See IRC § 1(h)(1)(C).

(43) 20% Tax (R41 X 20%) (Calculated)

Row 41 times 20%. For years before 2013, this row will be N/A. See IRC § 1(h)(1)(D).

(44) Lesser: Net Capital Gain or Section 1250 Gain <(R2, R5) (Calculated)

The smaller of the amount on row 2 "Net Capital Gain From Sales" or the amount on row 5 "Unrecaptured § 1250 Gain", above. See IRC § 1(h)(1)(E)(i).

(45) Amount Taxed Above + Net Capital Gain (R13 + R4) (Calculated)

The sum of rows 13 and 4, above. See IRC § 1(h)(1)(E)(ii)(I).

(46) Taxable Income (R1) (Calculated)

The amount from row 1, above. See IRC § 1(h)(1)(E)(ii)(II).

(47) Net Capital Gain Taxed Above (R45 – R46) (Calculated)

The excess (if any) of the amount on row 45 over the amount on row 46, above. See IRC § 1(h)(1)(E)(ii).

(48) Remaining Section 1250 Gain (R44 – R47) (Calculated)

The excess (if any) of the amount on row 44 over the amount on row 47, above. See IRC § 1(h)(1)(E).

(49) 25% Tax (R48 × 25%) (Calculated)

Row 48, above, multiplied by 25%. See IRC § 1(h)(1)(E).

(50) Amounts Taxed Above (R13 + R19 + R29 + R48) (Calculated)

The sum of the following rows above:

- row 13 "Greater of Row 11 or Row 12"
- row 19 "Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)"
- row 29 "Remaining Adjusted Net Capital Gain (R15-R19)"
- row 48 "Remaining § 1250 Gain (R44-R47)"

See IRC § 1(h)(1)(E).

(51) Balance of Taxable (R1 – R50) (Calculated)

The amount on row 1 "Taxable Income" in excess of the amount on row 50, above. See IRC § 1(h)(1)(F).

(52) 28% Tax on Balance (R51 × 28%) (Calculated)

Twenty-eight percent of the amount on row 51, above. See IRC § 1(h)(1)(F).

(53–54) Alternative Capital Gain Tax (R14 + R22 + R26 + R28 + R33 + R35 + R42 + R43 + R49 + R52) (Calculated)

The sum of the following rows, above:

- row 14 "Tax on Row 13"
- row 22 "0% Tax (R21 X 0%)(% after 2008)"
- row 26 "8% Tax (R25 X 8%)"
- row 28 "10% Tax (R27 X 10%)"
- row 33 "15% Tax (R32 X 15%)"
- row 35 "20% Tax (R34 X 20%)"
- row 42 "15% Tax (R40 X 15%)"
- row 43 "20% Tax (R41 X 20%)"
- row 49 "25% Tax (R48 X 25%)"
- row 52 "28% Tax on Balance (R51 X 28%)"

See IRC § 1(h)(1).

(55) Marginal Rate for Ordinary (Calculated)

The highest marginal rate reached in calculating row 14 "Tax on Row 13", above. See row 63 "Marginal Federal Rate with Phaseouts" of the **Summary Report**.

AMT ALTERNATIVE CAPITAL GAINS TAX

AMT Alternative Capital Gains Tax

(1)	AMT Taxable Excess
(2)	Net Capital Gain From Sales
(3)	Qualified Dividend Income
(4)	Total Net Capital Gain
(5)	Unrecaptured Section 1250 Gain
(6)	28% Rate Gain
(7)	Total Adjustments (R5+R6)
(8)	Adjusted Net Capital Gain (R2-R7+R3)
(9)	Adjusted Net Capital Gain + § 1250 Gain (R5+R8)
(10)	Lesser of Above or Net Capital Gain (R4,R9)
(11)	Taxable Less Above (R1-R10)
(12)	Tax on Row 11 from AMT Schedule
(13)	Lesser: Adjusted Net Capital Gain or Taxable (R8, R1)
(14)	Section 1(h)(1)(B) Regular Tax Amount
(15)	Adjusted Net Capital Gain in below Zero Rate Amount <(R13, R14)
(16)	Post 5/5/03 Adjusted Net Capital Gain
(17)	>5/5/03 Adjusted Net Capital Gain below Zero Rate Amount <(R15, R16)
(18)	0% Tax (R17 X 0%)(5% before 2008)
(19)	Total AMT Qualified 5-Year Gain
(20)	Remaining Adjusted Net Capital Gain below Zero Rate Amount (R15-R17)
(21)	AMT 5-Year in 15% Bracket <(R19,R20)
(22)	8% Tax (R21 X 8%)
(23)	Remaining Adjusted Net Capital Gain below Zero Rate Amount (R20-R21)
(24)	10% Tax ((R23 X 10%)
(25)	Remaining Adjusted Net Capital Gain (R13-R15)
(26)	Pre-2013 Calculations:
(27)	Remaining >5/5/03 Adjusted Net Capital Gain (R16-R17)
(28)	>5/5/03 in Higher Brackets <(25, 27)
(29)	15% Tax (R28 X 15%)
(30)	Remaining Adjusted Net Capital Gain (R25-R28)
(31)	20% Tax (R30 X 20%)
(32)	Post 2012 Calculations:
(33)	Section 1(h)(1)(C)(ii) Regular Tax Amount
(34)	Adjusted Net Capital Gain Taxed at 15% <(R33, R25)
(35)	Adjusted Net Capital Gain Taxed at 20% <(R25-R34)
(36)	15% Tax (R34 x 15%)
(37)	20% Tax (R35 X 20%)
(38)	Amounts Taxed Above (R11+R15+R25)
(39)	Remaining Taxable (R1-R38)
(40)	25% Tax on Remaining (R39 X 25%)
(41)	AMT Alternative Capital Gains Tax (R12+R18+
(42)	+R22+R24+R29+R31+R36+R37+R40)
(43)	AMT Marginal Rate for Ordinary
(44)	Apply 2004 Technical Correction

Note. The AMT Alternative Capital Gains Tax applies to 1997 and subsequent years. For other years, this worksheet will show N/As. All references to the Internal Revenue Code are to the statute as amended by the IRS Restructuring and Reform Act of 1998 as contained in H.R. 2676, further amended by the Jobs and Growth Tax Relief Reconciliation Act of 2003 and further amended by the Working Families Tax Relief Act of 2004.

Caution! The American Taxpayer Relief Act of 2012, the Jobs and Growth Tax Relief Reconciliation Act of 2003, and the Working Families Tax Relief Act of 2004 have raised numerous questions of interpretation affecting the calculation of the alternative capital gains tax and the AMT alternative capital gains tax. As of the date of this publication, little guidance from the Treasury or the IRS was available with regard to these calculations. This help topic explains how the program handles these computations. You are cautioned to carefully examine the row descriptions and the Notes below. Contact Bloomberg Tax Technology if you have any questions. You should rely on our interpretations only to the extent you agree with them.

(1) AMT Taxable Excess (Calculated)

The amount from row **47 "Taxable Excess"** of the **Alternative Minimum Tax** worksheet.

(2) Net Capital Gain From Sales (Calculated)

The amount from row 25 "**Net Capital Gain**" of the **Capital Gain/Loss – Alt Min** worksheet reduced by the sum of row **20 "Auto Elected Net Capital Gain Addition"** and row **21 "Adjustment to Elected Net Capital Gain Addition"** on the regular tax **Net Investment Income** worksheet.

(3) Qualified Dividend Income (Calculated)

For years after 2003, the sum of the Qualifying Dividends rows of the **Interest and Dividends** worksheet reduced by row **3 "Amount Elected as Investment Income"** of the **Net Investment Income** worksheet and increased or decreased by the adjustments on rows **18 "Exclusion Adjustment to Qualified Dividends"** and **31 "Deferral Adjustment to Qualified Dividends"** of the **Alternative Minimum Tax** worksheet. For years before 2003, this row will be zero. See IRC § 1(h).

(4) Total Net Capital Gain From Sales (Calculated)

The sum of rows 2 and 3, above.

(5) Unrecaptured Section 1250 Gain (Calculated)

The amount from row 31 "**Net Unrecaptured Section 1250 Gain**" of the **Capital Gain/Loss – Alt Min** worksheet. See IRC §§ 1(h)(3)(A), 1(h)(6), and 55(b)(3).

(6) 28% Rate Gain (Calculated)

The amount from row 28 "**Net 28% Rate Gain**" of the **Capital Gain/Loss – Alt Min** worksheet. See IRC §§ 1(h)(4) and 55(b)(3).

(7) Total Adjustments (R5 + R6) (Calculated)

The sum of rows 5 and 6, above.

(8) Adjusted Net Capital Gain (R2 – R7 + R3) (Calculated)

Row 2 minus row 7, above, but not less than zero, plus row 3. See IRC §§ 1(h)(3) and 55(b)(3).

(9) Adjusted Net Capital Gain Plus Section 1250 Gain (R5 + R8) (Calculated)

The sum of rows 5 "Unrecaptured Section 1250 Gain" and 8 "Adjusted Net Capital Gain (R2-R7+R3)", above. See IRC § 55(b)(3)(A)(ii).

(10) Lesser of Above or Net Capital Gain (R4, R9) (Calculated)

The smaller of the amount on row 4 "Total Net Capital Gain" or row 9 "Adjusted Net Capital Gain + § 1250 Gain (R5+R8)", above. See IRC § 55(b)(3)(A).

(11) Taxable Less Above (R1 – R10) (Calculated)

The amount on row 1 "AMT Taxable Excess" reduced by the amount on row 10 "Lesser of Above or Net Capital Gain (R4,R9)". See IRC § 55(b)(3)(A).

(12) Tax on Row 11 from AMT Schedule (Calculated)

The tax on row 11 computed as 26% of the first $175,000 ($87,500 for married filing separately) and 28% of the balance. See IRC §§ 55(b)(3)(A) and 55(b)(1)(A)(i). For years after 2012, these amounts are inflated in accordance with IRC § 55(d)(4).

(13) Lesser: Adjusted Net Capital Gain or Taxable (R8, R1) (Calculated)

The smaller of row 8 "Adjusted Net Capital Gain (R2-R7+R3)" or row 1 "AMT Taxable Excess", above. See IRC § 55(b)(3)(C).

(14) Section 1(h)(1)(B) Regular Tax Amount (Calculated)

If the answer on row 44 "Apply 2004 Technical Correction" is Yes or N/A this is excess of the amount in the regular tax rate schedules that is taxed at a rate below 25% (28% for years before 2001) over the amount on row 9 "Taxable Less Adjusted Net Capital Gain (R1-R8)" of the regular tax **Alternative Capital Gains Tax** worksheet. See IRC § 55(b)(3)(B) after amendment by § 406(d) of the Working Families Tax Relief Act of 2004 and IRC § 1(h)(B). For years 2018-2025, the program will use as IRC § 1(h)(1)(B) amounts the amounts in IRC § 1(j)(5)(b)(i), i.e., 77,200 for joint and surviving spouse, 51,700 for head of

household, 38,600 for other individuals, and 2,600 for fiduciaries. The program will adjust these amounts for inflation for years after 2018.

Notwithstanding the above paragraph, for years after 2012, if the taxpayer was not subject to the alternative capital gains tax, the amount equals the excess, if any, of the amount in the regular tax rate schedules that is taxed at a rate below 25% over the amount of taxable income (but not less than zero) on the **Main Worksheet**.

For 2018 and 2019, if the "Child with Unearned Income" row is set to Yes on the **Filing Status** worksheet, then the program will limit the IRC § 1(j)(5)(b)(i) amount to the child's earned income and the amount of the lowest fiduciary tax bracket, unless the "Elect Pre-Tax Cut and Jobs Act 2017 Law" row on the **Minor Child Tax** worksheet is set to Yes.

If the answer on row 44 "Apply 2004 Technical Correction" is No, this is the amount on row 19 "Adjusted Net Capital Gain below Zero Rate Amount <(R15, R18)" of the regular tax **Alternative Capital Gains Tax** worksheet. See IRC §§ 55(b)(3)(B) and 1(h)(1)(B). In such event this is the amount taxed at 5% (before 2003, 10% or 8% for qualified 5-year)) for regular tax purposes.

See the description for row 44 "Apply 2004 Technical Correction" below.

(15) Adjusted Net Capital Gain in below Zero Rate Amount <(R13, R14) (Calculated)

The smaller of row 13 "Lesser: Adjusted Net Capital Gain or Taxable (R8, R1)" or row 14 "Section 1(h)(1)(B) Regular Tax Amount", above.

See IRC § 55(b)(3)(B) and IRC § 1(j)(5)(B)(i).

(16) Post 5/5/03 Adjusted Net Cap Gain (Calculated)

For 2003, the amount from row 14 "**AMT Post 5/5/03 NCG – Adjusted**" of the **2003 Post 5/5 Capital Gain/Loss – AMT** worksheet plus the amount on row 3, above. For 2004 and later, the amount from row 8, above. For all other years, the amount on this row will be zero.

(17) Post 5/5/03 Adjusted Net Capital Gain below Zero Rate Amount <(R15, R16) (Calculated)

The lesser of the amount on row 16 or the amount on row 15, above. See IRC §§ 1(h)(1)(B), 55(b)(3)(B), 1(j)(5)(B)(i), and Section 301(c) of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

(18) 0% Tax (R17 X 0%)(5% before 2008) (Calculated)

Row 17 times 0% (5% before 2008). See IRC §§ 1(h)(1)(B) and 55(b)(3)(B).

(19) Total AMT Qualified 5-Year Gain (Calculated)

The sum of the following rows on the **Capital Gain/Loss — Alt Min** worksheet:

- row 15 "**5-Year Gain <2001: Regular Tax**" (Post-2000 post-2004 years only)
- row 16 "AMT Adjustments to <2001 5-Year" (Post-2000 post-2004 years only)
- row 17 "**5-Year Gain >2000: Regular Tax**" (Post-2012 years only)
- row 18 "AMT Adjustments to >2000 5-Year" (Post-2012 years only)

(20) Remaining Adjusted Net Capital Gain below Zero Rate Amount (R15 – R17) (Calculated)

Row 15 minus row 17, above.

(21) AMT 5-Year in below Zero Rate Amount <(R19, R20) (Calculated)

The smaller of the amounts on row 20 "Remaining Adjusted Net Capital Gain below Zero Rate Amount (R15-R17)" or the amount on row 19 "Total AMT Qualified 5-Year Gain", above. See IRC §§ 55(b)(3) and 1(h)(2)(A) prior to the amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(22) 8% Tax (R21 × 8%) (Calculated)

The amount on row 21, above, multiplied by 8%. See IRC §§ 55(b)(3) and 1(h)(2)(A) prior to amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(23) Remaining Adjusted Net Capital Gain below Zero Rate Amount (R20 – R21) (Calculated)

Row 20 minus row 21, above.

(24) 10% Tax (R23 x 10%) (Calculated)

The amount on row 23, above, multiplied by 10%. See IRC §§ 55(b)(3) and 1(h)(2)(A) prior to amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act.

(25) Remaining Adjusted Net Capital Gain (R13 – R15) (Calculated)

The excess of the amount on row 13 "Lesser: Adjusted Net Capital Gain or Taxable (R8, R1)" over the amount on row 15 "Adjusted Net Capital Gain in below Zero Rate Amount <(R13, R14)", above. See IRC § 55(b)(3)(C)(i).

(26) Pre-2013 Calculations (Calculated)

Heading for rows 27 through 31.

(27) Remaining Post 5/5/03 Adjusted Net Capital Gain (R16 – R17) (Calculated)

Row 16 minus row 17, above. For years after 2012, this row will be N/A.

(28) Post 5/5/03 in Higher Brackets <(25, 27) (Calculated)

The lesser of the amount on row 25 or the amount on row 27. For years after 2012, this row will be N/A.

(29) 15% Tax (R28 x 15%) (Calculated)

The amount on row 28 multiplied by 15%. See IRC §§ 1(h)(1)(C) and 55(b)(3)(C), and § 301(c) of the Jobs and Growth Tax Relief Reconciliation Act of 2003. For years after 2012, this row will be N/A.

(30) Remaining Adjusted Net Capital Gain (R25 – R28) (Calculated)

Row 25 minus row 28, above. For years after 2012, this row will be N/A.

(31) 20% Tax (R30 × 20%) (Calculated)

The amount on row 30 multiplied by 20%. See IRC §§ 1(h)(2)(B) and 55(b)(3)(C) before amendment by the Jobs and Growth Tax Relief Reconciliation Act of 2003. And see § 301(c) of the Act. For years after 2012, this row will be N/A.

(32) Post 2012 Calculations (Calculated)

Heading for rows 33 through 37, below.

(33) Sec 1(h)(1)(C)(ii) Reg Tax Amount (Calculated)

If the taxpayer was subject to the alternative capital gains tax, the amount equals the excess, if any, of the highest scheduled bracket over the sum of row 13 of the **Alternative Capital Gains Tax** worksheet and row 14 above.

If the taxpayer was not subject to the alternative capital gains tax, the amount equals the excess, if any, of the highest scheduled bracket amount over the sum of row 14 above and the taxable income from the **Main Worksheet** (but the taxable income may not be less than zero).

The program follows the principles of the technical correction described in row 44 below, by using the highest regular tax bracket in the computation on this row, regardless of the taxpayer's actual taxable income, because the language of the statute in describing the IRC § 1(h)(1)(C)(ii) regular tax amount is the same as the language of the technical correction to IRC § 55(b)(3)(B) describing the IRC § 1(h)(1)(B) regular tax amount.

For years 2018-2025, the program will use as IRC § 1(h)(1)(C)(ii) amounts the amounts in IRC § 1(j)(5)(b)(ii), i.e., 479,000 for joint and surviving spouse, 452,400 for head of household, 425,800 for other individuals, and 12,700 for fiduciaries. The program will adjust these amounts for inflation for years after 2018.

For 2018 and 2019, if the "Child with Unearned Income" row is set to Yes on the **Filing Status** worksheet, then the program will limit the IRC § 1(j)(5)(b)(ii amount to the child's earned income and the amount of the highest fiduciary tax bracket, unless the "Elect Pre-Tax Cut and Jobs Act 2017 Law" row on the **Minor Child Tax** worksheet is set to Yes.

For years before 2013, this row will be N/A.

(34) ANCG Taxed at 15% <(R33, R25) (Calculated)

The lesser of row 33 or 25. For years before 2013, this row will be N/A. See IRC § 55(b)(3)(C).

(35) ANCG Taxed at 20% (R25 – R34) (Calculated)

Row 25 less row 34, above. For years before 2013, this row will be N/A. See IRC § 55(b)(3)(D).

(36) 15% Tax (R34 X 15%) (Calculated)

Row 34 times 15%. For years before 2013, this row will be N/A.

(37) 20% Tax (R35 X 20%) (Calculated)

Row 35 times 20%. For years before 2013, this row will be N/A.

(38) Amounts Taxed Above (R11 + R15 + R25) (Calculated)

The sum of rows 11 "Taxable Less Above (R1-R10)", 15 "Adjusted Net Capital Gain in below Zero Rate Amount <(R13, R14)", and 25 "Remaining Adjusted Net Capital Gain (R13-R15)", above. See IRC § 55(b)(3)(E).

(39) Remaining Taxable (R1 – R38) (Calculated)

The excess of row 1 "AMT Taxable Excess" over row 38 "Amounts Taxed Above (R11+R15+R25)", above. See IRC § 55(b)(3)(E)

(40) 25% Tax on Remaining (R39 × 25%) (Calculated)

The amount on row 39 "Remaining Taxable (R1-R38)" multiplied by 25%. See IRC § 55(b)(3)(E).

(41–42) AMT Alternative Capital Gain Tax (R12 + R18 + R22 + R24 + R29 + R31 + R36 + R37 + R40) (Calculated)

The sum of the following rows above:

- row 12 "Tax on Row 11 from AMT Schedule"
- row 18 "0% Tax (R17 X 0%)(5% before 2008)"
- row 22 "8% Tax (R21 X 8%)"
- row 24 "10% Tax ((R23 X 10%)"
- row 29 "15% Tax (R28 X 15%)"
- row 31 "20% Tax (R30 X 20%)"
- row 36 "15% Tax (R34 x 15%)"
- row 37 "20% Tax (R35 X 20%)"
- row 40 "25% Tax on Remaining (R39 X 25%)"

See IRC § 55(b)(3).

(43) AMT Marginal Rate for Ordinary (Calculated)

The highest marginal rate reached in calculating row 12 "Tax on Row 11 from AMT Schedule", above.

The rate includes the effect of the phaseout of the alternative minimum tax exemption for taxpayers with alternative minimum taxable income in excess of the amounts listed in IRC § 55(d)(3). This effect adds an additional 25% multiplied by the AMT rate. Therefore, for a taxpayer in the 28% AMT bracket, the phaseout adds 7% to the rate (25% times 28%).

(44) Apply 2004 Technical Correction (Calculated)

In performing the calculation of the AMT Alternative Capital Gains Tax, apply the technical correction contained in § 406(d) of the Working Families Tax Relief Act of 2004. Answer Y for Yes or N for No.

The correction changes the amount that appears on row 14 above (Section 1(h)(1)(B) Regular Tax Amount.) Prior to the correction, the amount on row 14

was limited to the taxpayer's regular tax taxable income. As a result of the correction, according to the Explanatory Statement of the Committee of the Conference for the Act at page 71, the amount is not so limited and is instead limited to the amount in the regular tax rate schedules that is taxed at a rate below 25% (28% for years before 2001) regardless of the taxpayer's actual taxable income. This interpretation of the correction may not be supported by the statutory language of the correction. However, the Committee Report is entitled to considerable weight. The technical correction applies, by its terms, to all years after 1996.

This row is provided to allow you to disregard the technical correction so that the program's results are consistent with returns that have been filed, some of which may be for years that are barred by the statute of limitations. It is not clear that the correction may be so disregarded in computing the minimum tax credit carried to open years, or in making other such calculations.

For years before 1997 and after 2003, this row will be N/A.

For years before 2004, the program allows you to apply the technical correction independently for purposes of the Minimum Tax Credit and the actual AMT alternative capital gain tax computation. This treatment appears to be suggested by IRS Form 8801 for 2004, though it appears to have no support in the statute. The effect of applying the technical correction for purposes of the credit but not for purposes of the actual AMT calculation, in cases in which the technical correction makes a difference, will be to increase the credit, and may be a rough substitute for filing amended returns for years prior to 2004. It should be noted, however, that this approach is unsupported by any authority, other than the implication of IRS Form 8801 for 2004.

2

STATE TAX CALCULATIONS

SECTION 1: INTRODUCTION

Income Tax Planner with Fifty States computes:

- federal income tax
- resident state income taxes for all states and the District of Columbia
- nonresident state income taxes for 41 states:

Alabama	Arizona	Arkansas	California
Colorado	Connecticut	Delaware	Georgia
Hawaii	Idaho	Iowa	Illinois
Indiana	Kansas	Kentucky	Louisiana
Maine	Maryland	Massachusetts	Michigan
Minnesota	Mississippi	Missouri	Montana
Nebraska	New Jersey	New Mexico	New York
North Carolina	North Dakota (2)	Ohio	Oklahoma (2)
Oregon	Pennsylvania	Rhode Island	South Carolina
Utah	Vermont	Virginia	West Virginia
Wisconsin			

The resident state calculations are fully integrated with the federal calculations and include applicable state income taxes (regular, minimum, and supplementary) for 1987 and thereafter.

The nonresident state calculations are fully integrated with the federal calculations. Maine nonresident calculations are for years after 2011. Hawaii, Iowa, Massachusetts, and Missouri nonresident calculations are for years after 2006. New York nonresident calculations are for 1987 and thereafter; other nonresident state calculations are for 1996 and thereafter.

Income Tax Planner with Fifty States is provided with a set of state tax specifications for each state (or jurisdiction) covered by the program and a series of state tax subworksheets for entering a taxpayer's state-specific data.

The state specifications include the rate schedules, exemptions, adjustments, limitations, and other items referenced in the state's taxing statute. The program's flexible operation allows you to modify the specifications in anticipation of pending state tax legislation or to adjust for state tax laws enacted after publication of the program. The state rate schedules and specifications worksheets for resident states are discussed in **Section 3: General State Specifications** on page 733.

The state tax client data subworksheets are similar in operation and appearance to the federal worksheets. These client data subworksheets are described in detail in **Section 2: State Tax Entries & Results** on page 730.

To compute the tax for a resident or nonresident state, the program applies the appropriate state tax specifications to the taxpayer's federal and state tax data. Where applicable, the data entered into the federal program is automatically adjusted in accordance with the specifications for the particular state selected.

SPECIAL FEATURES

- Rate Schedules and filing status are included for every resident state (and some local jurisdictions, including New York City) for 1987 and thereafter. They are included for New York nonresident calculations for 1987 and thereafter. Nonresident calculations for the other 32 states are included for 1996 and thereafter.

- State standard deduction, personal exemptions, and state itemized deductions are calculated automatically for both resident and nonresident state taxes.

- You can have nonresident state taxes calculated for two states in an analysis: New York and another state.

- Certain federal items are automatically adjusted or excluded for state tax purposes where appropriate (for example, state tax refunds; U.S. government interest; social security; deduction for state taxes; unemployment compensation; IRA and Keogh deductions, etc.).

- A special option allows automatic deduction of the state tax as a federal itemized deduction either currently or, in multiple year situations, in the next year. The option works even when circular computations are involved, i.e., where the state tax depends partly on the federal itemized computation.

- Credit for other state taxes is calculated automatically when a nonresident state tax is calculated, once the option is elected on the **Credit for Other**

State Taxes worksheet or the **Credit for New York Nonresident Tax** worksheet.

- You can assign a particular state as the default resident state so that the program will automatically load that state's specifications whenever you call up the program.

- Using the Select Specification Worksheet dialogs, you can open, close, or kill state specifications worksheets by selecting a worksheet from a tree diagram (or optional alphabetical list) of worksheets. This dialog also displays the current status of each worksheet.

- State Specifications menu bar allows direct access to the state schedules. State schedules and specifications are accessed separately.

INSTALLATION

Complete instructions for installing the program and the state specifications files are provided in the Installation Guide. Instructions are provided here for update users and for users loading files from previous versions of the program. Reviewing and changing resident state specifications (using Resident State Specifications on the Options menu) is discussed in **Section 3: General State Specifications** on page 733.

INSTALLING PROGRAM UPDATES

If you are installing into a directory that contains state specifications files from a previous version, the program will update these files automatically. If the specifications file you were using as the default state was a modified version of the original version supplied by Bloomberg Tax Technology — and the Bloomberg Tax Technology version has been updated to reflect changes in state law — the installation program will use the updated Bloomberg Tax Technology version as your default. If your changes reflected local taxes or other specifications that are not included in the new Bloomberg Tax Technology version, you will need to re-enter the changes, file the altered specifications under the name you used previously, and then reassign the file as your default state. See **Reviewing, Changing, and Creating State Specifications** on page 734 for more details.

LOADING FILES FROM PREVIOUS VERSIONS

Income Tax Planner with Fifty States automatically handles files created by all previous Windows versions of the program. These files will be loaded with the state specifications used to create the file. If the specifications have changed since the file was created, the new specifications will be loaded with the file and a message to that effect will appear. If the program cannot find the new specifications (because the installation instructions were not followed or

because the file has been erased), a message will report that state tax calculations may be out of date and the specifications should be updated. To update the specifications, open Windows Explorer, go to the directory where **Income Tax Planner with Fifty States** is installed, then double-click **statewin.exe**.

SELECTING A STATE

Each resident state's specifications are contained in a separate file. Likewise, each nonresident state's specifications are contained in a separate file. For **Income Tax Planner with Fifty States** to apply a state's specifications to a particular tax situation, the specifications must first be loaded into the program. This can be done in any of the following ways:

1. By simply calling up the program after a resident default state has been assigned. The specifications file for the default state is loaded automatically.

2. By retrieving a client data file that was saved with an active state specifications file.

3. By selecting a state. To select a resident state, click **Resident State** on the **Assumptions** dialog and select the file from the list. To select a nonresident state, click **Nonresident State** on the **Assumptions** dialog, then click the check box to select New York and/or select a file from the list. You can also select a state through the **Choose New State Spec** command on the Spec File menu (accessed by selecting **Resident State Specifications** or **Nonresident State Specifications** on the Options menu).

    Once you have retrieved the state specifications for your state(s), the program is set to compute the state tax(es).

The state computation is completely integrated with the federal calculations and uses the federal entries, adjusted in accordance with the state specifications. The first time you use the state program for a particular situation, the federal filing status and personal exemptions are carried over to the state computation. You may then use the state tax subworksheets to adjust these items if necessary. Other state adjustments may be needed as well. Refer to Section 4 for the state you have selected, and to the specification worksheets in Section 3.

Note. The specifications remain in effect until you load a different specifications file (by choosing another state specifications file or by loading a client file that was saved with different specifications) or exit the program. Note that when you save client data files, the state specifications then in use are saved with the file.

CHOOSING A STATE

If you want to use a different resident or nonresident state specifications file, you can make your changes on the **Assumptions** dialog. If you are in the State Spec part of the program, it will be more convenient to use the **Choose New State Spec** command on the Spec File menu. By using either of these methods, you can temporarily load a resident or nonresident state specifications file without changing the default resident state.

Choosing a state in this way is similar to the procedures described below for assigning a default state, except that the state specifications selected will not be loaded automatically the next time you call up the program.

CHOOSING A RESIDENT STATE

1. Click **Assumptions** on the program Menu bar to open the **Assumptions** dialog.

2. Click the **Resident State** button on the **Assumptions** dialog. The **Choose New Resident State Spec** dialog opens.

   Note. Note that there may be more than one state specifications file for your state. For example, New York has a separate file for New York City taxpayers. However, in most states, there is only one file for each state.

3. Choose a state specifications file from the list (double-click the file name). If you know the name of the specifications file, you can type the name of the file in the **State Spec Files** text box, then click **OK** to load the file.

   Note. To move quickly to your selection (with the cursor in the list box), just press the initial letter of the state's name. The first state starting with that letter will appear.

   The specifications file selected will appear in the **State Spec Files** field above the list. The **State Spec Loaded** field in the lower right of the dialog displays the name of the specifications file currently loaded.

4. If you decide not to change the state specifications file, select **Cancel** to cancel the selection and close the dialog. Select **Help** for information on the items in the dialog.

5. Select **OK** to load your selection. A message appears confirming that the specifications file has been loaded. Click **OK** to clear the message. The focus will return to the **Assumptions** dialog. Click **OK** again to return to the client data worksheets.

ASSIGNING A DEFAULT RESIDENT STATE

Note. This information only applies to resident states. You cannot assign a default nonresident state.

The most convenient way to select a resident state is to assign a default state when opening the program for the first time after installing the program, or by clicking **Resident State** on the **Assumptions** dialog, then clicking **Save as Default**. If you are in the States part of the program, you may find it more convenient to use the Spec File menu. Thereafter, each time you start the program, the specifications file for that state will be loaded into the program automatically and used as the resident state specifications.

If you did not assign a default state during the installation procedure or through the **Assumptions** dialog, or you wish to change the default state, select **Assign Default State Spec** from the Spec File menu. Select a state file from the list, then click **OK**.

The program will load the specifications file for the state selected and also save it as the default under the filename **itdefaul.st**. The focus returns to the main part of the program and a message will appear indicating that the specifications file you selected has been loaded. Select **OK** to clear the message.

Note. The **Assign Default State Spec** dialog items operate the same as those on the **Choose New Resident State Spec** dialog. See **Choosing a State** on page 727 for information about items found on this dialog.

The next time you call up the program, it will automatically load the file itdefaul.st (containing the newly selected specifications).

Caution! If you make a change to the specifications in your default state specifications file, you **must** reassign the file as the default after using "File Altered State Spec."

CHANGING THE DEFAULT RESIDENT STATE

You can change the default at any time by simply following the procedures described above and selecting a different state. You can also use a different specifications file temporarily without changing the default. (See **Choosing a State**.)

CHOOSING A NONRESIDENT STATE

1. Click **Assumptions** on the program Menu bar to open the **Assumptions** dialog.

2. Click the **Nonresident State** button on the **Assumptions** dialog. The **Choose Nonresident State Spec** dialog opens.

> **Note.** Note that there may be more than one state specifications file for your state. For example, New York has a separate file for New York City taxpayers. However, in most states, there is only one file for each state.

3. Choose a state specifications file from the list (double-click the file name). To choose New York, click the New York Nonresident check box. You can specify New York and one other state (or no other state by selecting "none"). Click **OK** to load the file(s).

    The **State Spec Loaded** field in the lower right corner of the dialog displays the name of the specifications file currently loaded.

4. If you decide not to change the state specifications file, select **Cancel** to cancel the selection and close the dialog. Select **Help** for information on the items in the dialog.

5. Select **OK** to load your selection. A message appears confirming that the specifications file has been loaded. Click **OK** to clear the message. The focus will return to the **Assumptions** dialog. Click **OK** again to return to the client data worksheets.

STATE SPECIFICATIONS

REVIEWING AND CHANGING STATE SPECIFICATIONS

You may want to change the state specifications provided by Bloomberg Tax Technology. To access state specifications for review or change, you must first load the state's specifications file into the program. You can then save the altered specifications for future use through the **File Altered State Spec** command on the Spec File menu.

If you make changes to a specifications file, you may need to change the beginning year and/or the number of years for the state tax specifications. To do this, select **Spec Assumptions** from the State Specifications menu bar. For details on changing specifications and assumptions items, See **Section 3: General State Specifications** on page 733.

> **Note.** This procedure is the same for resident and nonresident states.

CREATING NEW SPECIFICATIONS

You can revise an existing state specifications file to create a new one at any time (e.g., you might want to run "what-if" analyses if you know of pending legislation in your state that would change the specifications). For instructions and complete descriptions of all resident specifications worksheets, see **Section 3: General State Specifications** on page 733.

CLOSING THE STATE SPECIFICATIONS

After choosing a new state or assigning a new default state using the items on the Spec File menu, you will automatically be returned to the client data worksheets to continue your analysis.

SECTION 2: STATE TAX ENTRIES & RESULTS

OVERVIEW

Client state tax data is entered into the program through a series of worksheets that are similar in operation to the federal worksheets described in Chapter 1 of this guide. This section is divided into topics that address Resident and Nonresident client data worksheets. See "Resident State Worksheets" and "Nonresident State Worksheets".

The first of the resident state tax worksheets for client data is the **State Tax – Main Worksheet**, which is accessed by double-clicking or pressing W on the **State Tax** row of the federal **Main Worksheet**. The **State Tax – Main Worksheet** provides access to the other subworksheets used for entering the details of client resident state tax data.

The first of the client data tax worksheets for all nonresident states (except New York) is the **Nonresident State Tax – Main Worksheet**, which is accessed by double-clicking or pressing W on the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**. The **Nonresident State Tax – Main Worksheet** provides access to the other subworksheets used for entering the details of client nonresident state tax data.

DESIGNATING THE RESIDENT STATE

Select the **Resident State** through the **Assumptions** dialog, accessed from the main program's menu bar. On the **Assumptions** dialog, click the **Resident State** button, then designate the resident state on the **Choose New Resident State Spec** dialog.

DESIGNATING THE NONRESIDENT STATE

As with the **Resident State** selection, select the **Nonresident State** through the **Assumptions** dialog: click the **Nonresident State** button, then designate the nonresident state on the **Choose New Nonresident State Spec** dialog.

(You can select New York State (click the New York Nonresident check box) plus one other nonresident state from the list.)

STATE SPECIFICATIONS WORKSHEETS

The titles of the client data subworksheets correspond to the titles of the state specifications worksheets. (The resident state specifications worksheets are described in Section 3 of this chapter as well as in the online help system. The nonresident state specifications are similar to the resident state specification worksheets, and are described in the online help system.) If a state specifications worksheet is active, its corresponding client data subworksheet is activated automatically and cannot be killed. In such cases, a blue active worksheet icon will appear to the left of the row title on the **State Tax – Main Worksheet**. If there is no blue active worksheet icon, the subworksheet for that row is not relevant to the state currently in use and the subworksheet cannot be accessed. If a state specifications worksheet that is currently inactive subsequently becomes active, the corresponding client data worksheet also becomes active automatically.

REQUIREMENTS FOR RESIDENT STATES

For the program to perform the resident state tax calculations, the **State Tax – Main Worksheet** must be active. This occurs automatically the first time you go to the federal **Main Worksheet**, provided you've designated a default resident state. Then, the program carries the federal filing status that is in effect when you first open the **State Tax – Main Worksheet** to the **State Tax – Main Worksheet**.

The first time you enter federal personal exemptions, the numbers are carried to the resident state computations as class 1 personal exemptions. This carryover of personal exemptions will only occur, however, if the **Carry Fed No to State (Y/N)** row of the resident **State Personal Exemptions** specifications worksheet is "Yes". (For New York residents, the number (less 2 if Joint, or 1 if Single) is carried to class 2.) You may then change these items and make other adjustments as needed for the resident state computation.

If you kill the resident State Tax worksheets by pressing K on the "State Tax" row of the federal **Main Worksheet**, the carryover of federal filing status and personal exemptions, as described above, will occur the next time you activate the **State Tax – Main Worksheet**.

REQUIREMENTS FOR NONRESIDENT STATES

Similar to resident state tax calculations, for the program to perform the nonresident state tax calculations, the **Nonresident State Tax – Main Worksheet** must be active. This occurs after you select a nonresident state specification (from the **Assumptions** dialog). The federal filing status in effect when you first open the **Nonresident State Tax – Main Worksheet** carries to the **Nonresident State Tax – Main Worksheet**.

For certain nonresident states, the first time you enter federal personal exemptions, the program carries the numbers to the nonresident state computations, as applicable. Note that this carryover of personal exemptions only occurs if the **Carry Fed No to State (Y/N)** row of the **Nonresident State Personal Exemptions** specifications worksheet is "Yes". For more information concerning treatment of a particular state, see **Section 4: States** on page 744. You may then change these items and make other adjustments as needed for the nonresident state computation.

If you subsequently change the federal filing status and personal exemptions, these changes to do not automatically carry to the nonresident worksheet. However, if you kill the State Tax worksheets (press K on the **State Tax** row of the federal **Main Worksheet**), the program carries over the federal filing status and personal exemptions (as applicable) to the **Nonresident State Tax – Main Worksheet** the next time you activate the **State Tax – Main Worksheet**.

Custom worksheets can be created for any row on a worksheet that does not have a built-in worksheet.

Note. Altering state specifications or retrieving a different specifications file may cause custom worksheets that do not apply to the new specifications to become inaccessible. However, the program will continue to hold these worksheets and the data they contain and save them with the client files. If different state specifications are then loaded, making the custom worksheets relevant again, they will reappear.

For a description of worksheet and subworksheet operations, see Chapter 2 of the **Operations Guide**.

To help you manage the worksheets within the program workspace, separate commands are provided that display the open worksheets for the resident state (or nonresident state, New York nonresident state, or federal) and minimize all other open worksheets. You can access these commands from the Worksheets menu and the main program toolbar. For more details, see Chapter 6 of the **Operations Guide**.

WORKSHEET ITEMS

The online help system, accessed by pressing F1 when the cursor is on a particular row, describes what to enter for each item on the resident **State Tax – Main Worksheet**, the **Nonresident State Tax – Main Worksheet**, and their subworksheets. It also explains how the program computes the amounts in calculated rows. Cross-references to relevant Internal Revenue Code Sections are provided where appropriate.

Descriptions and help messages for batch input rows are the same, regardless of whether you accessed the row through the batch input worksheet or through

the **Main Worksheet**. For a description of batch input operation, see Chapter 6 of the **Operations Guide.**

SECTION 3: GENERAL STATE SPECIFICATIONS

OVERVIEW

This section describes the contents of the state specifications files, which contain the details of each state's rate schedules, personal exemptions, standard deductions, adjustments, and other items necessary to compute the regular, minimum, and supplementary taxes for the state in question. To access the state specifications, select **Resident State Specifications** or **Nonresident State Specifications** from the Options menu (on the main program menu bar). A State Specifications window will open. Completed specifications files based on current state law are available for each resident state.

Note. The program includes state specifications for all resident states and some nonresident states. This section covers the resident state specifications. For each resident state specifications worksheet (except one) there is an equivalent nonresident state specifications worksheet that works in essentially the same manner. If you need help with the state specifications for residents or nonresidents, refer to the online Help.

Note. There are no accessible specifications for the New York state nonresident portion of the program. The information to compute the New York nonresident tax is fully integrated (hard-coded) into the program and cannot be edited or reviewed.

Once you have loaded a state specifications file for a particular state into the program, state tax calculations are handled automatically as client data is entered into the applicable state tax subworksheets.

You can, however, access the state specifications files for review or change. You can also create new specifications files to handle jurisdictions not covered by the program or to model proposed new state legislation. (Use the F1 or H key for assistance when entering new specifications.)

The first time you use a specifications file for a particular state, you are advised to examine the state specifications carefully to ascertain that they accurately reflect the law of your state as applied to the situations you will be running. As you review the specifications, refer to the section in **Section 4** that covers the state you are using, and to the detailed discussions of state specifications later in this section.

LOADING THE STATE SPECIFICATIONS FILE

In order to access state specifications for review or change, the state's specifications file must first be loaded into the program. If the file you wish to use is not already loaded, click **Choose State** on the **Assumptions** dialog (or select Choose New State Spec on the Spec File menu) and select the file from the list. For more information, see **Choosing a State** on page 727.

REVIEWING, CHANGING, AND CREATING STATE SPECIFICATIONS

Each state specifications file is made up of three items: a set of worksheets containing the state's rate schedules; a series of specifications worksheets containing the details of the state's exemptions, adjustments, limitations, and other items referenced in the state's taxing statute; and a **State Specification Assumptions** dialog specifying the years covered by the specifications worksheets. These three items are accessed on the State Specifications menu bar:

BNA - Resident State Specifications: Ohio
Spec File   Schedules   Spec Assumptions   Spec Worksheets   Close   Help
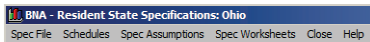
To open a state specifications window so that you can create, review, or edit a specifications file on the program's main menu bar...

1. Select Options on the menu bar.

2. On the Options menu, select **Resident State Specifications** (or **Nonresident State Specifications**).

The program allows you to change any of these items to meet your needs. You may wish to change the state specifications provided by Bloomberg Tax Technology for one of two reasons:

1. Some local jurisdictions have supplementary taxes that are not covered by Bloomberg Tax Technology specifications, or

2. There may be law changes that you wish to incorporate pending Bloomberg Tax Technology's update thereof.

The following discussion describes how to review (and change if necessary) the contents of these three items.

Caution! If you decide to change a state's specifications file, you must save the changed file under a different name through the "File Altered State Spec" item on the Spec File menu. Also, if the specifications file you changed is the one assigned as your default, you must go to the Spec File menu and re-assign it after making the change. See **Assigning a Default Resident State** on page 728.

If, for example, you changed Bloomberg Tax Technology's OHIO file and saved it under the name OHIO2, when the next version of the program is released, your OHIO2 specifications file will be handled as follows:

- If there have been no changes to the Ohio law, there will be no change to Bloomberg Tax Technology's OHIO specifications provided with the previous version of the program. The new version of the program will simply load in client files created with your OHIO2 specifications. You will see the following message:

  Client data and OHIO2 specifications used to create client file have been loaded.

  The program will assume that you changed the specifications for reason 1 above, i.e., to provide for a local tax. Further, since there has been no change to Ohio law, the old specifications with the local tax are up to date and no further action on your part is necessary.

- If, on the other hand, Ohio law has changed, there will be a new Bloomberg Tax Technology OHIO specifications file containing the state law changes. The program has no way of knowing whether your changes to the previous OHIO specifications were made for reason 1 or reason 2, or both. If your changes were made solely for reason 2 (state law changes), the new Bloomberg Tax Technology specifications should handle the law changes you incorporated in your OHIO2 file. Before retrieving any client files, however, you should choose the new OHIO specifications and confirm this. Once you have done so, no further action on your part is necessary and the program will simply use the new Bloomberg Tax Technology file in place of your OHIO2 file. When you load a client file that used the old OHIO2 specifications, you will see one of the following messages:

  The OHIO2 specification just loaded is based on a previous version of the OHIO specification. New version of OHIO2 specification cannot be found. New OHIO specification loaded instead. User changes to previous version of OHIO specification may need to be re-entered.

  Client data and new OHIO specifications have been loaded. User changes to previous version of OHIO specifications may need to be re-entered.

  (The first message appears if the altered specifications were saved under OHIO2. The second message appears if they were not saved. In either event, since the changes you made are now handled by the new Bloomberg Tax Technology provided specifications, you can ignore the message and proceed with your analysis.)

- Finally, if your changes were made for reason 1 (local law), and state law has changed, you should choose the new Bloomberg Tax Technology OHIO specifications and make the changes again. You should then file the altered specifications with the same name you were using previously, i.e.,

OHIO2. When the program loads in a client file created with the old OHIO2 specifications, it will look for the new OHIO2 specifications. If it finds them, it will load them and issue the following message:

Client data and new OHIO2 specifications have been loaded.

If the program cannot find a new OHIO2 specifications file, it will load in the new OHIO specifications file instead so that state law is up to date. You will see the following message:
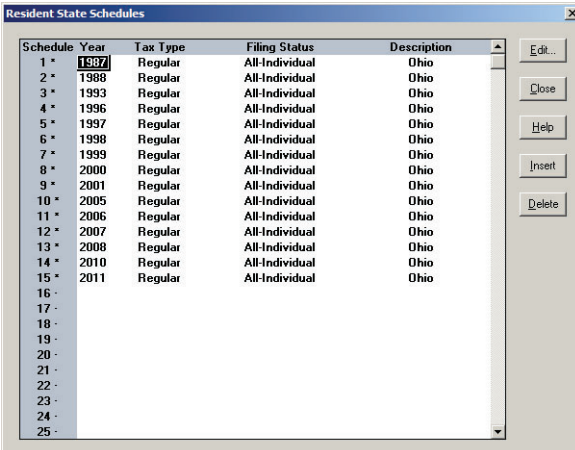
The OHIO2 specification just loaded is based on a previous version of the OHIO specification. New version of OHIO2 specification cannot be found. New OHIO specification loaded instead. User changes to previous version of OHIO specification may need to be re-entered.

Once you follow the procedure described above, i.e., change the new OHIO specifications and file them under the name OHIO2, this message will no longer appear.

STATE TAX SCHEDULES

The **Resident State Schedules** worksheet allows you to enter as many as 45 schedules that are designed to cover regular, minimum, supplementary, or alternate taxes, or to be applied for credit purposes. Each schedule is applied to the type of tax and filing status indicated for the year specified and for all subsequent years for that type of tax and filing status, unless a subsequent year's schedule fitting the same description (tax and filing status) has been entered.

The **Resident State Schedules** worksheet is accessed by selecting **Schedules** from the Resident State Specifications menu bar.

Each state tax rate schedule may be designated as applicable to the state's regular tax, minimum tax, credit, supplementary, or alternate tax. Each schedule may be applicable to a specific filing status only or to all individual filing statuses. Each input column is described below.

YEAR

The year shown here is the first year to which this schedule applies for the type of tax and filing status. The program will apply the schedule to that year and all subsequent years for the type of tax and filing status chosen, until a schedule with a later year is encountered for the same type of tax and filing status. The program does not allow two schedules covering the same year, type of tax, and filing status. The program also does not accept any year prior to 1987 for resident or 1996 for nonresident.

A schedule may also apply a flat rate. See the **Schedule Entry** worksheet described below. The program handles resident calculations for years after 1986 (nonresident calculations after 1995). Therefore, the program ignores all schedules before these years.

If you are entering a new schedule and wish to change the year, you can do so as follows:

- With the current year highlighted, key in the new year, or
- Click in the cell to create an insertion bar and edit the year.

Press Enter to go to the next cell or simply click in the next cell.

TYPE OF TAX

The five types of tax handled by the program are regular (R), minimum (M), credit (C), supplementary (S), and alternate (A). A credit, of course, is not a tax, but some states have credits that have a flat rate or graduated schedule to be applied to a specific base, and this entry allows for schedules that apply in those circumstances. If the state has an alternative minimum tax, as opposed to an add-on minimum tax, the minimum tax schedule is used for that purpose. A supplementary tax is one that is applied in addition to the state regular tax or minimum tax, such as a local tax or state surtax. See the applicable State Supplementary Tax specifications worksheet. The alternate schedule is used only for Massachusetts Class C income, and then only if **Use for Mass Class C (Y/N)** on the **Alternate State Tax Base specifications** worksheet is "Yes." Otherwise, the program applies the regular tax schedule to the alternate state tax base, where the alternate state tax is applicable.

The "Types of Tax" appear in a list when you move the cursor to the cell and click the down scroll arrow. To enter the type of tax, position the cursor on the cell and then do either of the following:

- Press the initial letter of your selection (e.g., press A to select Alternate), or
- Click the down scroll arrow. A list of items appears. Click the appropriate item, or press the initial letter of the item.
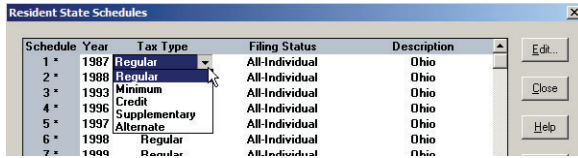
Click the next cell or press Enter. The list disappears and your selected item appears in the cell.

FILING STATUS

The program handles 10 different filing statuses for state schedules. These appear in a list for selection when you move the cursor to the cell and click the down scroll arrow. The first 6 filing statuses match those used on the client data worksheets. The seventh, "All-Indiv," is used when the state has one rate schedule applicable to all individual taxpayers. The eighth, ninth, and tenth are combinations of the first six, used where the state applies the same schedule to more than one filing status.

To enter the filing status, position the cursor on the cell and do either of the following:

- Press the initial letter of your selection (e.g., press J to select Joint), or
- Click the down scroll arrow to drop down the list of filing statuses. Click the appropriate item, or press the initial letter of the item.
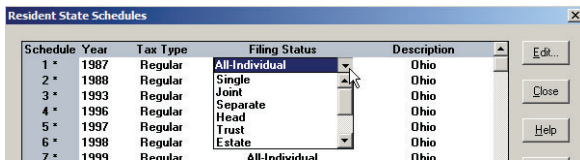
Note. If there are several filing statuses beginning with the same letter, you will need to keep pressing the initial letter until you reach the filing status you want.

Click the next cell or press Enter. The list disappears and the selected item appears in the cell.

Note. The state schedules as shipped do not include entries for Trust or Estate filing statuses but you may enter them yourself.

DESCRIPTION

This column displays a description of the rate schedule. The description appears on the worksheet for that schedule to help you keep track of which schedule you are working on. If you wish to change the description, delete the current text and key in new text or click within the current text and insert new text.

Note. You can also press Enter in this column to access the **Schedule Entry** worksheet.

COMPLETING THE STATE SCHEDULES WORKSHEET

EDIT   Click **Edit** to call up the **Schedule Entry** worksheet.

CLOSE   Click **Close** to close the worksheet.

INSERT   To insert a new schedule, click **Insert**. Use this command if you wish to insert a schedule in between two schedules. To add a schedule, position the cursor on the first empty row and complete the information for each column.

DELETE   To remove a schedule, click **Delete** while the cursor is on the row for the schedule.

HELP   Click **Help** to access information about items on the worksheet.

SCHEDULE ENTRY

This worksheet is accessed from the **State Schedules** dialog:

- Click **Edit**, or

- Double-click or press Enter while in the **Description** cell.

Resident Schedule 1: Regular Tax Ohio

Year: 1987   Filing Status: All-Individual

Tax Bracket	Over	But Not Over	Tax Constant	+ Percent Of	Amount Over
1	0.00	5,000.00	0.00	0.7510	0.00
2	5,000.00	10,000.00	37.55	1.5020	5,000.00
3	10,000.00	15,000.00	112.65	3.0040	10,000.00
4	15,000.00	20,000.00	262.85	3.7550	15,000.00
5	20,000.00	40,000.00	450.60	4.5060	20,000.00
6	40,000.00	80,000.00	1,351.80	5.2570	40,000.00
7	80,000.00	100,000.00	3,454.60	6.0080	80,000.00
8	100,000.00		4,656.20	6.9000	100,000.00

BUT NOT OVER

This is the top of the first bracket. If the schedule is a flat tax schedule, this item will be 0.

If you are entering new schedules, the cursor returns to this column and advances one row after you enter the percentage (next item below). Continue entering the brackets and percentages this way until the last bracket is reached. At that point, enter 0 in this field and the program will know that, when the percentage for this row has been entered, the schedule is complete. The program will only accept brackets in ascending order. Therefore, each bracket must be higher than the preceding bracket.

PERCENT

This is the percentage applicable to the amount between the **Over** and **But Not Over** amounts.

When entering new schedules, for the last bracket enter the top percentage. The program will not accept a zero percentage in any bracket except the first. If you find that you have made an error in preceding brackets and, therefore, do not know the percentage that you want to finally appear in the last bracket, enter any non-zero amount as a temporary measure until you correct the preceding brackets.

Note. In general, if you find you have made a mistake that will be difficult to correct on a bracket-by-bracket basis, enter any number that will be accepted by the program and click **OK** (or press Esc). Then, on the **State Schedules** dialog, delete the schedule by clicking **Delete**, then start over.

Note. If you make a mistake while changing schedule entries and want to go back to the original entries, close without filing the altered specification, re-select the state specifications file and start over (there is no way to cancel or undo entries). Another method is to delete the specification and start over.

NOTE 1

The New York State and New York City regular tax schedules, including the New York City surtax, are built into the program and are not entered here. Any schedules entered here for New York State or New York City residents, as indicated on the **Specific Resident States specifications** worksheet, are ignored by the program.

NOTE 2

For California residents, as indicated on the **Specific Resident States specifications** worksheet, the program automatically applies the Single-MFS

schedules to Joint taxpayers by dividing their taxable income in half, applying the schedule, and doubling the result. Therefore, for California residents, any Joint schedules entered here are ignored. California AMT programs are built into the program and are not entered here.

CLOSING THE STATE SCHEDULES

To exit out of the **Schedule Entry** worksheet, click **OK**. You will be returned to the **State Schedules** dialog. Click **Close** to exit this dialog and return to the **State Specifications** window.

SETTING STATE SPECIFICATIONS ASSUMPTIONS

The assumptions in this dialog control the items on the state tax specifications worksheets discussed later in this chapter. When you click S**pec Assumptions** on the **State Specifications** menu bar, the **Resident State Specification Assumptions** dialog opens:
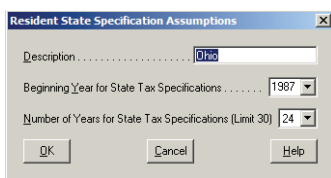
This dialog contains three items of preliminary information about the specifications. To change any of the items in the dialog, refer to the discussion of each item below.

DESCRIPTION

This text box contains a description of the state specifications file currently loaded. The description will appear in the State Specifications title bar and also at the top of the **State Tax – Main Worksheet** which summarizes the state tax computation and is accessed from the "State Tax" row of the **Main Worksheet**.

CHANGING THE DESCRIPTION

To change the Description, you can either type a new description when the current description is highlighted, or click to place an insertion bar and edit the description.

BEGINNING YEAR FOR STATE TAX SPECIFICATIONS

The beginning year displayed here is the first year for which the program will be able to compute state taxes. It controls all state specifications except the rate schedules, for which the applicable year is entered on a schedule-by-schedule basis. Note that while the beginning year for the resident state

specifications can be any year after 1983, the program only handles calculations for years after 1986. Therefore, the program ignores all pre-1987 specifications unless there are no post-1986 specifications, in which case it uses the specifications entered for the last pre-1987 year.

The beginning year for nonresident state specifications can be any year after 1995. If an analysis includes any years before 1996, the program issues a warning stating that the nonresident tax will not be calculated. The New York nonresident state tax calculation is not based on a specification. The program handles this tax calculation for 1987 and thereafter.

Note. The beginning year entered here is unrelated to the first year of analysis specified on the federal **Assumptions** dialog. You will not, generally, need to change this beginning year.

CHANGING THE BEGINNING YEAR

To change the beginning year, you can either key in a new year when the current year is highlighted, or click the down scroll arrow to select a year from the list.

NUMBER OF YEARS FOR STATE TAX SPECIFICATIONS (LIMIT 40)

The number shown here is the number of years covered by the specifications for a particular state. The number of years applies to all items on the specifications worksheets except the rate schedules, i.e., it applies to personal exemptions, itemized deductions, etc. It does not apply to the rate schedules; these are set separately through the Schedules item on the menu bar.

Note. The program allows up to 40 years of state specifications.

If your state law does not have any changes that phase in or become effective in future years, only one year's state specifications will be included. The program applies all specifications to the beginning specification year and to all subsequent years. However, if changes are due to occur in your state's tax structure in future years, these specifications will be included for each year until the changes are phased in. Thereafter, the program will follow the rule that the last year's specifications will be applied to that year and all subsequent years.

CHANGING THE NUMBER OF YEARS

To change the number of years, type the new item when the current item is highlighted, or click the down scroll arrow to select an item from the list.

COMPLETING ASSUMPTIONS

Click **OK** to accept any changes and close the dialog or select **Cancel** to simply close the box. Select **Help** for information on individual items on this dialog.

SELECTING STATE SPEC WORKSHEETS

When **Resident State Specification Worksheets** (or **Nonresident State Specification Worksheets**) is selected from the worksheet list or the Options menu, the **Specification Worksheets List** appears automatically on the left:
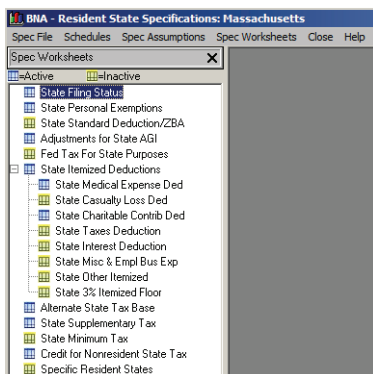
For details on selecting and using worksheets and for information on the other commands found on the Spec Worksheets list, see Chapter 6 of the **Operations Guide**.

Note. When the Spec Worksheet List opens, the program activates only the worksheets that apply to the state you selected. If the worksheets are inactive, they do not apply to your state.

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1. To access a worksheet, simply double-click on any worksheet in the Spec Worksheets List you would like to view. Opening a specifications worksheet causes the corresponding state tax client data worksheet to become active. Thus, if you activate a previously inactive specifications worksheet and do not enter any data for your state, you should kill the worksheet before proceeding further.

    To kill an active worksheet, access the Spec Worksheet List submenu (on the Spec Worksheets menu), and select **Kill Spec Worksheet**.

    A worksheet can also be killed from the **Spec Worksheet List** by right-clicking on the worksheet and selecting **Kill**.

    The **Kill Worksheet** message appears.

Click **OK** to kill the worksheet and clear all data on it. (A message will appear informing you that the worksheet is no longer active.) To cancel the change, click **Cancel**.

2. Add any changed or new data on the individual worksheets as necessary. If you wish to save these changes for future use, select **File Altered State Spec** from the Spec File menu and save the changes under a new filename.

CLOSING THE STATE SPECIFICATIONS

To exit the State Specifications part of the program, click **Close** or select **Exit State Specifications** from the Spec File menu. You will automatically be returned to the client data worksheets to continue your analysis.

SPECIFICATION WORKSHEET ITEMS

The online help system, accessed by pressing F1 when the cursor is on a particular row, describes what to enter for each item on the state specification worksheets. It also explains how the program uses the specifications.

SECTION 4: STATES

OVERVIEW

This section discusses how the program handles the state tax calculations provided for each state. Each state section contains detailed descriptions of the state computations that the program handles automatically using federal data. Descriptions of other state calculations that require you to make an entry or adjustment are also provided. Cross-references to other sections in this chapter are provided for assistance in making such adjusting entries.

RESIDENT AND NONRESIDENT CALCULATIONS

The program supports resident calculations for all states and nonresident calculations for 38 states. If New York is paired with any one of the three other nonresident states, the program can handle state calculations for two nonresident states in addition to the resident state.

YEARS COVERED

For the resident state and New York nonresident calculations, the program covers 1987 and subsequent years. Maine nonresident calculations are for years after 2011. Hawaii, Iowa, Massachusetts, and Missouri nonresident calculations are for years after 2006. For other state nonresident calculations, the program covers 1996 and subsequent years. See the introduction to

Section 3 for information on how the program handles user-created specifications files containing earlier years.

CREDIT FOR OTHER STATE TAX

For residents and nonresidents, the program computes the credit for taxes paid to another state for years after 1995 (1991 for a Connecticut resident and 1987 for a New Jersey resident when calculating the credit for a New York nonresident).

WORKSHEET TYPES

Income Tax Planner with Fifty States uses two separate types of worksheets: "state specifications" worksheets and "client data" worksheets. All references to worksheets in **Section 4** refer to the client data worksheets unless specified otherwise.

You will notice that some of the client data worksheets are inactive for your state (i.e., they cannot be accessed). This occurs because only certain worksheets are used in each state. If a worksheet has no relevance in your state, it is made inaccessible to prevent the confusion that might result if numbers were entered and then ignored by the program.

FILING STATUS AND EXEMPTIONS

The federal filing status and number of federal exemptions are automatically carried to the state worksheets until you make an overriding entry. (The number of personal exemptions is not carried to certain states not using this federal number; see the "Personal Exemptions" section of each state to see how the particular state is handled.) For some states it may be appropriate for you to override these entries. If you change the filing status or exemptions on the federal worksheet, the changes are **not** automatically made on the state worksheets. A message will appear in such cases advising you to review the state entries for these items.

MODIFYING STATE SPECIFICATIONS

Income Tax Planner with Fifty States allows you to enter your own state tax specifications and rate schedules for situations not covered by the program. For example, specifications for trusts or estates may be entered by following the instructions in **Section 3**. If you choose to modify and store your specifications files, you should review such modifications each time you receive an update to **Income Tax Planner with Fifty States**, since such updates may alter your pre-existing specifications files. (See the installation instructions in **Section 1**.

Note. You should review the settings for the state tax specifications to ensure that you agree they conform with current state tax law for the situations you will be running. See **Section 3** for descriptions of the **Tax Specifications** worksheets and instructions for making modifications. You should rely on the assumptions in **Section 4** and in the state specifications files, as well as the computations they produce, only to the extent you agree with them. **Particular caution is advised in working with states that have not specifically adopted federal conformity since it may not be clear to what extent the federal changes will be incorporated into the state's computations under state law. Unless otherwise stated in the descriptions for individual states, it is generally assumed that state conformity with relevant federal law has been or will be adopted.**

INFLATION ADJUSTMENT

The inflation adjustment entered on the **Calculation Options** dialog has no effect on the state calculations. Also, where the state filing status does not match the federal filing status, you should make any adjustments required for your state.

USING ADJUSTMENT ROWS

There may be additional situations applicable to your state that are not specifically addressed in this manual. The program can, in many cases, be made to handle these calculations, since adjustment rows are provided throughout the client data worksheets.

For example, some states limit the amount of the standard deduction or personal exemptions, based upon earned income or the fact that the taxpayer may be claimed as a dependent on another's return. Also, some states do not require that a tax return be filed if the taxpayer's income is below a certain amount. The program does not apply these limits. You can, however, make an adjustment on the "Adjustment" row of the state **Standard Deduction** client data worksheet. When you select the "must itemize" option for federal purposes (i.e., for dependents who are supported or for separate filers where one spouse itemizes), such selection has no effect on state calculations.

"COMBINED" FILING STATUS

Some states allow a **Married Filing Separate** status even when a joint federal return is filed. The **Taxpayer/Spouse** analysis may aid you in this calculation by allowing the data to be entered separately for each spouse to compute the state tax and automatically give you a combined filing for federal purposes. In cases where you need to make adjustments to the combined column (such as an adjustment to the state tax for federal purposes) you can, in effect, override

or adjust the data by switching to the "Cases Within Years" analysis. Once you switch to the "Cases Within Years" analysis the combined column should not change, but it will no longer be protected and will not automatically add the separate columns.

MINOR CHILD CALCULATIONS

For taxpayers electing to include minor child unearned income in the parent's federal AGI, such income is automatically included in state income of the parent. However, the program does not handle the state equivalent of the tax imposed by IRC § 1(g)(7)(B)(ii)(II). If the child's income is not included on the parent's return the program will not calculate the child's tax at the parent's rate for state purposes. Amounts should be adjusted as necessary.

FEDERAL CONFORMITY

In computing state AGI, the program does not always make adjustments for all the changes in the computation of federal AGI introduced as part of new legislation. Be aware that there is always the possibility of a delay in the states implementation of new laws due to state IRC conformity dates. Refer to your specific state to see how the program calculates State AGI.

With respect to these changes (such as the change in the depreciation and subsequent basis adjustment which may affect the capital gain or loss when an asset is sold, the changes in the allowed IRA, Roth IRA, and retirement plan deductions, etc.), the program starts with federal AGI and assumes that the state, if it allows the deduction, will allow the federally computed amount. Please check your state's law for any adjustments that may be required in this regard.

Special attention should be paid to such items as the exemption for the sale of a residence, like-kind exchanges, the inclusion of the IRA rollover in income and other penalty-free distributions from Roth IRAs. There are also deductions such as the education expenses, adoption expenses, and interest on educational loans that your state may or may not allow. When calculating the state tax, the program does not recognize Farm Income Averaging. If the state allows Farm Income Averaging you should make the necessary adjustment on the **Other Taxes** row of the **State Tax Main Worksheet**. If your state tax is based on the federal tax, it should also be considered that the state may not allow some federal credits or that there may be a delay due to state IRC conformity dates. Pay special attention to the two new credits added by the Energy Policy Act of 2005, the Nonbusiness Energy Property Credit and the Residential Energy Efficient Property Credit. Please check your state's law for any adjustment that may be required in this regard.

FORM LINE NUMBERS

Unless otherwise noted, all references to state forms in this manual are to the forms for the year immediately prior to the year of publication.

ALABAMA

OVERVIEW

When the Alabama specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Alabama:

- Automatic calculation of personal exemption deduction

- Automatic calculation of standard deduction

- Applies state adjustments to federal itemized deductions

- Automatic calculation of state deduction for federal income tax

- Performs circular calculation to automatically accrue the state tax liability as a federal deduction

- Automatic reduction of AGI for Alabama income tax refunds, U.S. government interest, social security/railroad benefits, and unemployment income

- Automatic Alabama deduction for passive losses disallowed for federal purposes

- Optimizes between Alabama standard deduction and allowable Alabama itemized deductions

- Automatic addback of the deduction for self-employment tax allowed under IRC § 164(f) for federal AGI, and the domestic production activities deduction

- Calculates credit for other state tax

The following notes are a guide for entering specific items relating to Alabama. For more information on the Alabama tax rates and other state tax matters, refer to Alabama Form 40 and Instructions, as well as other official state publications.

TAX RATES

The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

> **Note.** Because Alabama has not adopted total conformity with federal law, including the Tax Reform Act of 1986, several questions of interpretation may exist. You should rely on the assumptions in these notes and the Alabama specifications file only to the extent you agree with them. You should review the default settings for Alabama state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see **Section 3: General State Specifications** on page 733).

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Alabama does not have a separate filing status for Qualifying Widow(er). Most individuals who filed as Qualifying Widow(er) for federal purposes will qualify as Head of Household for Alabama. The program makes this change automatically. If you feel that this does not properly reflect state treatment, you may change the filing status.

EXEMPTIONS

If the filing status is single or married filing separate, enter "1" on the "Class 2 Exemptions" row of the **State Tax Personal Exemptions** worksheet. Enter "2" if the filing status is joint or head of family. The program multiplies this entry by $1,500 and allows the result as an exemption deduction. On the "Class 3 Exemptions" row, enter the number of qualifying dependents. For years before 2007 (and after 2006, if AGI is greater than $100.000) the program multiplies this entry by $300 and allows the result as an additional exemption deduction. For years after 2006, if AGI is less than or equal to $20,000, the program multiplies this entry by $1,000, and if AGI is greater than $20,000 but less than or equal to $100,000, the program multiplies this entry by $500. Because Alabama does not follow the federal rules for number of personal exemptions, the "Class 1" and "Class 4" Exemptions rows are ignored for Alabama purposes.

NON-FEDERAL TAX BASE

Alabama does not adopt federal AGI, although several components follow the federal rules, including business income (with adjustments), gain on personal residence, and alimony. Alabama apparently has not adopted the federal changes resulting from the Tax Reform Act of 1986, including the passive loss

rules. Therefore, the program automatically allows an Alabama deduction for passive losses disallowed for federal purposes. Make the other adjustments to AGI due to nonconformity with federal law, including depreciation, installment sale amounts, and the reserve for bad debts, to the extent included in federal AGI. You may also need to adjust the IRA deduction since the program uses federal AGI to calculate the IRA limits, while Alabama uses state AGI.

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following adjustments:

- Subtraction of state income tax refunds
- U.S. Government interest
- social security/railroad benefits
- unemployment income
- deduction of passive losses disallowed on the federal return, and
- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program also automatically adds back the deduction for self-employment tax, and the domestic production activities deduction. Enter any adjustment for the IRA deduction, since Alabama bases the IRA limitation on state rather than federal AGI.

If you are running the Minor Child calculation and you have made the federal election to include the child's interest and dividends on the parent's return, you must subtract the included portion from the parent's AGI for state purposes (on the "Other Subtractions" row) and add the appropriate amount to the child's AGI ("Other Additions" row). Enter other Alabama adjustments to AGI on the following rows:

OUT OF STATE INTEREST

Enter the non-Alabama portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Alabama adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- Federal tax refunds (if deducted in a prior year)
- Other additions resulting from differences in treatment of depreciation and § 179 expense, installment sales, NOL deduction, etc.
- Gain/loss adjustments on disposition of property

- Lump sum distributions not included in federal AGI
- Addback of federal capital loss carryovers deducted for federal purposes
- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following subtractions:

- Other subtractions resulting from differences in treatment of depreciation, installment sales, NOL deduction, etc.
- Gain/loss adjustments on disposition of property
- Subtraction of current capital losses not deductible for federal purposes
- Certain adoption expenses not allowed for federal purposes
- Adjustment for qualifying long-term care coverage premiums
- Other subtractions from federal AGI

CAPITAL LOSS ADJUSTMENT

The program carries capital losses to the state worksheet as part of federal AGI, i.e., after applying the federal limit of $3,000 per year and automatically carrying forward the balance. Because Alabama has no limit on capital losses, if the net capital loss exceeds $3,000 for the year, you should enter the balance on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. Likewise, for capital loss carryforwards allowed in future years for federal purposes, you should back out such amounts by entering them on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

TREATMENT OF PASSIVE LOSSES

Because Alabama has not adopted the passive loss rules, the program allows passive losses as follows. For state purposes, the program aggregates all items of income and loss entered on the passive loss worksheets and subtracts from this total the net passive loss allowed as a passive loss deduction for federal purposes (before applying any other limits, such as the capital loss limits) in the particular year. The difference between these two amounts (i.e., the net loss disallowed under the passive loss rules for federal purposes) is allowed in full in Alabama and appears on the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. Generally, this amount will appear as a subtraction for state AGI. However, in some circumstances (especially in the year of disposition of an activity) this amount will appear as an addition, where the federal deduction for passive activities exceeds the state deduction as a result of allowing accumulated losses suspended from prior years.

> **Note.** Because Alabama has no limit on deduction of passive losses, no adjustment at the state level will generally be required, except for passive capital losses (see below).

PASSIVE CAPITAL LOSSES

For passive capital losses, in the first year of the activity the program carries to the state worksheet the portion disallowed for federal purposes, as described above. It will also carry (as part of federal AGI) the balance, up to the $3,000 federal capital loss limitation.

Enter any remaining portion of the passive loss on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. In subsequent years, the program carries to the state (as part of federal AGI) up to $3,000 per year of the passive capital loss carryover. To avoid duplication, add back such loss carry-over (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

In the year the activity is sold, subtract the amount of the capital loss carryover from the amount carried by the program to the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. Enter the result (as a positive number) on the "Other Subtractions" row of this worksheet.

DEDUCTION FOR FEDERAL TAX LIABILITY

The program automatically computes the Alabama deduction for federal taxes paid, using total federal tax liability computed as follows:

- Regular tax **plus**
- Excess advance premium tax credit recapture **plus**
- Alternative minimum tax **plus**
- Lump sum tax **plus**
- ITC recapture tax **plus**
- For years prior to 2009, the tax on IRA and other taxes **plus**
- For years after 2012, the Medicare Investment Income Tax **plus**
- Social Security tip and excess plan taxes **less**
- For years after 2008, the earned income credit **less**
- Nonrefundable credits

Alabama allows the federal tax liability as the deduction, plus an adjustment for federal taxes paid for prior years. The federal tax thus computed may differ from the amount used for the Alabama deduction, which does not allow a deduction for the Social Security tip tax. **For years after 2008**, Alabama

requires a subtraction for federal refundable credits, the program automatically subtracts only the earned income credit. **For years after 2013**, the program adds any excess advance premium tax credit recapture as is required by Alabama. Make any other adjustment using the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet, accessed from the "Federal Tax Deduction from State AGI" row of the **State Tax – Main Worksheet**. **For years after 2012**, also subtract any Health Coverage Tax Credit. **For 2006 only**, you will need to make a positive adjustment to offset any negative entry that was entered for the Credit for Telephone Excise Tax amount on the "Social Sec Tip & Excess Plan Taxes" row of the **Self-Employment and Other Taxes** worksheet, accessed from the Federal **Main Worksheet**. **For 2003 only**, you may also need to make a negative adjustment for the amount on the "Reduction for 2003 Advance" row of the **Child Tax Credit** worksheet, accessed from the **Credits** worksheet. Also, **for 2001 only**, include on this row a negative adjustment for the "Credit for 10% Bracket" row of the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet, that was offset by the Refund Check.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

STANDARD DEDUCTION

The Alabama standard deduction is handled automatically. The program selects the higher of the standard deduction or the Alabama itemized deductions. In years **after 2006**, the program reduces the maximum standard deduction based on State AGI by the Alabama formula until it reaches the minimum amount. In years **before 2007**, when computing the standard deduction, the program allows 20% of Alabama AGI, up to a maximum of $4,000 for joint taxpayers, and $2,000 for all others.

ALABAMA ITEMIZED DEDUCTIONS

The program does not apply the 3% AGI floor. Specific deductions are handled by the program as follows:

MEDICAL

The program allows the medical expense amounts entered on the federal **Itemized Deductions** worksheet to the extent they exceed 4% of Alabama AGI.

TAXES

For years before 2018, all tax expense amounts entered on the federal **Itemized Deductions** worksheet are allowed in full for Alabama purposes, except the deduction for state income taxes paid or for sales taxes elected as a deduction on the taxpayer's federal return. Alabama allows a deduction for other taxes not deductible for federal purposes (e.g., FICA tax, Self-Employment tax, Railroad Retirement tax, etc.). The amount of any such taxes should be added as a positive adjustment to state itemized deductions. (See "Adjustments" below.) Do not enter the amount of the federal income tax expense since this amount is deducted automatically, as described above. **For years after 2017**, Alabama conforms to the limit under IRC § 164(b)(6) for state and local taxes.

INTEREST

The program allows the interest expense deductible for federal purposes, after applying the personal and investment interest limitations. Alabama, however, may allow a different deduction for investment interest expense because net investment income may be different for state purposes. The investment interest deduction for Alabama is computed as if federal passive income limitations did not exist. Thus, net capital gain from the disposition of (passive) investment property is included in investment income for Alabama. Alabama does not appear to require that the federal election to reduce the amount of net capital gain eligible for the 28% maximum capital gains rate be made in order for the gain to be included in net investment income.

If the program limited the interest expense deduction because you did not make the capital gain election on the federal **Net Investment Income** worksheet or because of a passive adjustment, you may need to make an adjustment on the "Adj to Investment Interest" row of the **State Interest Deduction** worksheet. If you make any adjustments, you will also need to adjust the carryover amounts in future years.

CHARITABLE CONTRIBUTIONS

Alabama allows the same amount of charitable deductions as federal, except that federal law calculates the 20%, 30%, and 50% limitations using federal AGI, while Alabama uses state AGI.

The program calculates the Alabama contribution deduction as follows: amounts entered on the federal worksheets for current charitable contributions are allowed in full, up to 50% of Alabama AGI. Therefore, if the taxpayer has made contributions subject to additional Alabama limits for "20%" property or "30%" property, you must review such amounts and manually limit them if they exceed the 20% or 30% limits. Note that the program applies the 50% limit to the "2005 Qualified Contributions" which are allowed up to 100% of federal AGI for federal purposes. To calculate allowable Alabama charitable deductions assuming compliance with the federal disaster relief legislation you must make adjustments for 2005 Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base. Also be sure to adjust allowable Alabama charitable contribution carryovers in future years. (See "Adjustments" below.)

For 2019 and later, the program will automatically applies the 60% limit. Make any necessary adjustments for charitable contributions subject tom the 50%, 30%, or 20% limits.

CASUALTY

Alabama follows the current federal Code for casualty losses using state AGI to compute the 10% floor. Since the amounts entered on the federal worksheet should already have been reduced for any $500 floor per casualty (which reduction was also adopted by Alabama), no adjustments are required. The program automatically applies the 10% limit. **For years after 2018**, the 2017 Tax Reform Act eliminated personal casualty deductions except for federal declared disasters.

For years after 2003, the program will continue to limit 2005 Hurricane Casualty Losses by the 10% floor. To calculate allowable Alabama casualty losses assuming compliance with the federal disaster relief legislation, you should enter an adjustment for the difference between the federal and Alabama casualty deduction. (See "Adjustments" below.)

MISCELLANEOUS ITEMIZED DEDUCTIONS

Alabama follows the current federal Code for miscellaneous itemized deductions, using state AGI to compute the 2% floor **for pre-2018** deductions. The program automatically applies this limit. The 2017 Tax Reform Act eliminated miscellaneous itemized deductions for years **after 2017**.

ADJUSTMENTS

Enter any other adjustments to the total Alabama itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. You also have the option of

entering adjustments on the "Adjustments" row of worksheets for each individual itemized deduction.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For years after 1995, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Alabama credit for taxes paid to a nonresident state **for years prior to 2018**, the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of that worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

▪ **Adjusted Tax at Resident Rates** — the "Adjusted Nonresident Income" multiplied by the Alabama resident tax rates. Adjusted Nonresident Income equals the amount on the Nonresident State Taxable Income row of the **Nonresident State Tax – Main Worksheet** multiplied by the "Ratio" row of that worksheet, plus/minus any adjustments you made. Such an adjustment would include the conversion of the nonresident personal exemption credit into a deduction by using the nonresident state's tax rates. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

▪ **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and for years after 2014, plus any "Nonresident

State Minimum Tax" on that worksheet. **For years after 2017**, the program uses Method 1, the lesser of the two amounts described below from the **Credit for Other State Tax** worksheet.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet. **For years after 2017**, the program uses Method 1, the lesser of the two amounts described below from the **Credit for Other State Tax** worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax - Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

- **Ratio Nonresident Income/Resident Income X Resident Tax** — The adjusted nonresident income divided by the adjusted resident income multiplied by the adjusted resident tax.

CITY AND COUNTY TAXES

The program calculates city and county taxes automatically, where such taxes are based on wages or self-employment income.

You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate and carried to the state worksheets and added to the client's other state taxes.

You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each. (You should remember to update these customized state files when you receive new updates.) For information on changing and saving state specifications files, see **Section 3: General State Specifications** on page 733.

OTHER STATE TAXES

Enter any adjustment to the total state tax liability on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because Alabama allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Alabama.

ALABAMA NONRESIDENT TAX

The following sections describe the calculation of the Alabama nonresident tax for residents of other states who have income from Alabama. In order to calculate the nonresident tax, first choose Alabama as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Alabama, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

ALABAMA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - State income tax refunds,
   - U.S. Government interest,
   - Social Security/Railroad Benefits, and
   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

   The program automatically adds back the federal domestic production activities deduction.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Alabama exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income such as alimony paid or adoption expenses on the "Other Additions" row. Enter any other subtractions from income on the "Other Subtractions" row.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Alabama-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the

taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Alabama-sourced interest, dividends, capital gains, and any other Alabama-sourced income. Also include, as a negative adjustment, any Alabama-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. Entries may be required on the **Deductions for Nonresident State Taxable Income** worksheet for alimony paid and adoption expenses. Enter these amounts on the "Other Deductions Before Allocation" row of this worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see Alabama Itemized Deductions). Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the Nonresident **State Tax – Main Worksheet**. For an Alabama nonresident casualty losses and miscellaneous job related expenses are only allowed if they are related to Alabama income, but are not allocated and may need to be adjusted for this difference.

6. The Alabama nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Alabama nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Alabama.

7. Alabama requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

8. The program calculates Alabama personal exemptions for residents and nonresidents in the same manner. The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. The program calculates Alabama deduction of the federal tax liability for residents and nonresidents in the same manner. The federal tax amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Fed Tax Ded from Nonres State AGI" row on the **Nonresident State Tax – Main Worksheet**.

10. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Alabama tax, based on the amount on the "Nonresident State Taxable Income" row.

11. If the taxpayer is entitled to any Alabama nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

12. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Alabama refundable credits, enter them as a negative number on this row.

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ARIZONA

OVERVIEW

When the Arizona specifications are selected for use, the program handles the following state tax calculations for Arizona:

- Automatic calculation of personal exemption deduction
- Automatic calculation of regular deduction for federal income tax for years before 1990
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Automatic calculation of standard deduction
- Automatic calculation of Arizona itemized deductions
- Automatic adjustment of AGI for U.S. government interest and social security/railroad benefits
- Optimizes between Arizona standard deduction and allowable Arizona itemized deductions
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Arizona. For more information on the Arizona tax rates and other state tax matters, refer to Arizona Form 1 as other official state publications.

You should review the default settings for Arizona state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see **Section 3: General State Specifications** on page 733).

TAX RATES

The Arizona tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

Enter "1" for each qualified dependent on the "No. of Class 4 Exemptions" row of the **State Tax Personal Exemptions** worksheet, to handle the personal exemption for dependents of the taxpayer who are over 65 and require special care (see Arizona § 43–1023C). The program multiplies this number by $10,000. Also note that only one exemption is allowed for each dependent.

Note. The additional exemption allowed for a married taxpayer, filing as head of household or separate with at least one dependent, may be allocated between the spouses. Make any adjustment on the "Adj to Total Exemption Deduction" row of the **State Personal Exemption** worksheet. Enter "1" for this deduction on the "No. of Class 5 Exemptions" row of the **State Tax Personal Exemption** worksheet. The program multiplies this number by $3,150.

The program does not automatically carry the number of federal exemptions to the **State Tax Personal Exemptions** worksheet. Enter the proper number of exemptions for the taxpayer and spouse on the "Class 1 Exemptions" row, including the additional exemptions allowed for the head of household status, joint status with at least one dependent, or being 65 or older. The program multiplies this number by $2,100. Enter the number of dependents on the "Class 2 Exemptions" row. The program multiplies this number by $2,300. For blind taxpayers, enter the number of exemptions on the "Class 3 Exemptions" row. The program multiplies this number by $1,500. Make no entries on the "Class 4 Exemptions" row.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

For 2019 and later, Arizona eliminated the dependent personal exemption deduction. Use the class 2 row instead to enter the number of exemptions for persons 65 or older. Enter the number of dependents under 17 on the class 6 row. Enter the number of dependents over 16 on the class 7 exemption row.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Arizona does not have a separate filing status for Qualifying Widow(er). Most individuals who filed as Qualifying Widow(er) for federal purposes will qualify as Head of Household for Arizona. The program makes this change automati-

cally. If you feel that this does not properly reflect state treatment, you can change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts:

- U.S. Government interest

- social security/railroad benefits

- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and

- the regular deduction for the federal income tax (see "Deduction for Federal Tax")

The other Arizona adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the applicable amount of state municipal bond interest that was not taxed at the federal level. The program adds this amount in calculating Arizona taxable income.

OTHER ADDITIONS

Enter the following adjustments:

- Federal tax refunds (if deducted in a prior year)

- Depreciation adjustments

- Lump sum distributions not included in federal AGI

- Early withdrawals from the Arizona Retirement System

- For years after 2008, any required unemployment insurance income adjustment

- Other Arizona additions to income

OTHER SUBTRACTIONS

Enter the following subtractions:

- Differences in gain/loss on sale of assets due to depreciation differences, also Arizona Capital Gain Deduction for certain assets purchased after 2011 and sold after 2012.

- Depreciation adjustments

- Excludable military pay

- Arizona Lottery winnings (up to $5,000 maximum)

- Medical Savings Account deduction. Not deductible for federal purposes
- Other Arizona subtractions in calculating state AGI

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

STANDARD DEDUCTION

The Arizona Standard Deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount per filing status. The program selects the higher of the standard deduction or the Arizona itemized deductions. For information on the inflation adjustment, see "Inflation Adjustment" below.

For 2019 and later, Arizona has adopted the basic federal standard deduction. **For 2019 and later**, Arizona also allows a 25% of the charitable deduction that would have been allowed if the taxpayer had itemized as an addition to the state standard deduction. Enter such amount on the Adjustment to State ZBA/ZBA row of the **State Standard Deduction** worksheet.

ARIZONA ITEMIZED DEDUCTIONS

For 2018 and later, Arizona conforms to the Tax Reform Act of 2017.

The program starts with total federal itemized deductions before the floor. **For years before 2018**, the program then applies the 3% AGI floor.

Arizona itemized deductions differ from federal itemized deductions. However, the program retrieves much of the required state tax data from the federal entries so that a minimum of adjustment is required. Specific deductions are handled by the program as follows:

MEDICAL

Make any necessary adjustments on the "Adjustments to Federal Medical" row of the State Medical Expense Deduction subworksheet for items such as the adjustment for the amount of Medical Savings Account distributions used to pay qualified medical expenses.

All medical expense amounts entered on the federal **Itemized Deductions** worksheet are allowed in full for Arizona purposes.

TAXES

For years before 2018, all tax expense amounts entered on the federal **Itemized Deductions** worksheet are allowed in full for Arizona purposes, including the deduction for state income taxes or sales taxes paid. **For 2018 and later**, Arizona will limit the deduction for state taxes to the $10,000 (5,000 for married separate) limit of IRC § 164(b)(6). Make any necessary adjustments, such as the adjustment for the amount of property taxes to which the credit applies or for the motor vehicle sales tax, on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

INTEREST

The full amount of all interest expense amounts allowed on the federal **Itemized Deductions** worksheet, including investment interest, personal, and other interest, are carried by the program as Arizona deductions.

CHARITABLE CONTRIBUTIONS

Arizona allows the same amount as allowed for federal purposes. The program carries this number as an Arizona itemized deduction. The program assumes that Arizona would conform to the federal disaster relief legislation which allows qualified charitable contributions entered on federal Schedule A, row 15b, up to 100% of federal AGI. Make all adjustments for the difference between the Arizona and federal charitable contributions deduction, including the adjustment for the amount of charitable contributions to which the credit applies, or for 2010 deductions that were deducted in 2009, on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. Remember to also adjust allowable Arizona charitable contribution carryovers in future years.

CASUALTY

Arizona allows the same amount as allowed for federal purposes. The program carries this number as an Arizona itemized deduction. The program assumes that Arizona will conform to the federal disaster relief legislation which removes the floor under hurricane related casualty losses. Make all adjustments on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

MISCELLANEOUS ITEMIZED DEDUCTIONS

The 2% floor is applied for state purposes. Amounts entered on the "Other Itemized" and "Gambling Losses" rows of the federal **Itemized Deductions** worksheet are also carried to Arizona. Make any necessary adjustments on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

For 2018 and later, Arizona does not recognize miscellaneous itemized deductions subject to the 2% floor.

ADJUSTMENTS

Enter any other adjustments to the total Arizona itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. For example, enter a negative adjustment for federal itemized deductions not allowed in Arizona, including any disallowed portion of charitable contributions, gambling expenses, moving expenses, etc.

INFLATION ADJUSTMENT

Arizona provides for an annual inflation adjustment for the standard deduction, **for years beginning after 2004**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Arizona" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year Arizona tax specifications relating to the standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter the allowable state nonrefundable credits, including the Low Income Family credit, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

In certain cases, Arizona does not give the credit for the nonresident tax. Instead, the nonresident state gives the credit as part of its nonresident computation. For example, when California is the nonresident state, California gives the credit rather than Arizona. In such cases, choose "Nonresident" on the "Cr Allowed by Res or Nonres State" row of this worksheet.

> **Note.** If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Arizona, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident or nonresident **State Nonrefundable Credits** worksheet (depending on whether the credit is given by the resident or nonresident state).

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax"), less any nonrefundable credits (except any credit for resident state tax) and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER STATE TAXES

Enter any adjustment to the total Arizona tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ARIZONA NONRESIDENT TAX

The following sections describe the calculation of the Arizona nonresident tax for residents of other states who have income from Arizona. In order to calculate the nonresident tax, first choose Arizona as the taxpayer's nonresi-

dent state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Arizona, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

For some states (e.g., California), Arizona allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). For such cases, see the "Credit for Other State Tax" section below.

ARIZONA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Arizona-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Arizona-sourced interest, dividends, capital gains, and any other Arizona-sourced income. Also include, as a negative adjustment, any Arizona-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

    The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

4. On the **Deductions for Nonresident State Taxable Income** worksheet, enter any adjustments to Arizona source income allowable when comput-ing nonresident state taxable income. Do **not** include deductions allowed elsewhere on the **Nonresident State Tax – Main Worksheet**, such as itemized deductions, the standard deduction, or personal exemptions (these deductions are discussed below).

On the "Other Deductions Before Allocation" row, enter any deductions that require reduction by the Ratio. Enter deductions that are **not** reduced by the Ratio on the "Other Deductions" row. Note that a negative amount on the "Other Deductions" row increases income. Therefore, if you have any additions to income, such as an early withdrawal of Arizona State Retirement System contributions, enter them as negative amounts on this row.

On the **Nonresident State Tax – Main Worksheet**, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row.

5. The program carries to the **Nonresident State Itemized Deductions** worksheet much of the required state tax data from the federal entries, so few adjustments are required. However, Arizona itemized deductions differ from federal itemized deductions, so be sure to see the Resident section of this chapter to determine how specific deductions are handled by the program. Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The Arizona nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. For years after 2009, the Arizona nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Arizona.

7. Next, the program subtracts the higher of the Arizona nonresident standard deduction (for the selected filing status) or the Arizona nonresident itemized deductions from the amount on the "Nonres State AGI" row to calculate nonresident state taxable income.

8. The program calculates Arizona personal exemptions for residents and nonresidents in the same manner. The program does not carry the federal number of personal exemptions to the state exemptions (see the "Exemptions" section of this chapter). The total exemption amount is multiplied by the Ratio. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Arizona tax, based on the amount on the "Nonresident State Taxable Income" row.

10. If the taxpayer is entitled to any Arizona nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on

the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Arizona refundable credits, enter them as a negative number on this row.

CREDIT FOR OTHER STATE TAX

For some states (e.g., California), Arizona allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). To compute the credit for these states, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Resident State Tax" row of the **Nonresident State Nonrefundable Credits** worksheet). Choose "Nonresident" on the "Cr Allowed by Res or Nonres St" row. Otherwise, the Credit is computed in the same manner as for an Arizona resident except that it uses the tax due to the resident state after all credits including the other state tax credit.

Note. For cases when you must adjust Arizona income in order to compute the credit, you must also adjust the Arizona Nonresident tax. To do this, calculate the ratio of the amount on the "Adjusted Nonresident Income" row over the amount on the "Nonresident Income" row. For cases when this ratio is less than 100%, multiply the "Nonresident Tax" by the ratio. Enter any adjustment as a negative number on the "Adjs to Nonresident Tax" row of this worksheet.

ARKANSAS

OVERVIEW

When the Arkansas specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Arkansas:

- Automatic calculation of personal exemption credit
- Automatic calculation of standard deduction
- Calculates the Arkansas capital gains tax rate
- Automatic calculation of state itemized deductions
- Automatic adjustment for Arkansas tax refunds, U.S. government interest, social security/railroad benefits, unemployment income, the domestic production activities deduction, and the deduction for self-employment tax
- Computes tax reduction for "Married Filing Separately on Same Return"
- Optimizes between Arkansas standard deduction and allowable Arkansas itemized deductions
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Arkansas. For more information on the Arkansas tax rates and other state tax matters, refer to Arkansas Form AR–1000 and Instructions as well as other official state publications.

You should review the default settings for Arkansas state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see **Section 3: General State Specifications** on page 733).

TAX RATES

The Arkansas tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

For 2004, Arkansas applied an income tax surcharge of 3% of the Arkansas income tax before credits. The program will handle the surcharge by incorporating it into the "regular" tax rate schedule.

For years after 2019, the program will compute the tax based on either the low income tax table or the middle income tax tables on the **State Supplementary Tax** worksheet. The program will compute the tax based on the high income tax table on the **State Tax Main worksheet**.

Note. For years prior to 2015, the program does not handle the Arkansas low income tables. Act 95 (signed 2/11/91) expanded the low income tables to affect taxpayers with gross incomes of less than $16,200 ($11,400 if single). For these taxpayers, you can use the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet to make an adjustment (as a positive number) for the difference between the regular tax before credits and the tax from the corresponding low income table. **For years after 2016** the program will use the rate schedule published in the estimated tax form.

FEDERAL CONFORMITY

Although Arkansas does not adopt federal AGI in calculating state income, state legislation has conformed many aspects of the tax law to federal provisions and has updated many references to the I.R.C. The State of Arkansas has adopted most of the provisions contained in the federal tax code, but not all. General areas of federal conformity include the passive loss rules, personal and investment interest limitations, alimony and separate maintenance, "at risk rules," depreciation (including IRC § 179 expense), IRA/SEP provisions, and nearly all of the itemized deductions. The program automatically carries these federal amounts to the **State Tax – Main Worksheet**, and they generally will not require adjustment.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. You may adjust this number on the **State Personal Exemption** worksheet if necessary. The program multiplies this entry by the Arkansas exemption credit amount and allows the result as an exemption credit.

Enter on the "Class 2 Exemptions" row the number of additional exemptions allowed for state purposes for taxpayers who file as head of household or qualified widower; are blind, deaf, or over 65, or are claiming "65 SPECIAL" (an additional exemption credit that is allowed if the taxpayer is 65 and older and not claiming a retirement income exemption). The program multiplies this entry by the additional exemption amount and allows the result as an additional exemption credit.

Enter on the "Class 3 Exemptions" row the number of any retarded or permanently disabled children of the taxpayer. The program multiplies this entry by $500 and allows the result as a further exemption credit. **Make no entry on the "Class 4 Exemptions" row.**

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Separately on Same Return then enter Joint filing status and see below for special filing status instructions.

If you chose "Qualifying Widow(er)" as your federal filing status, the program will automatically change the state filing status to Head of Household, which will properly reflect state treatment within the program. If you feel this is incorrect, you may change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- social security/railroad benefits
- 30% capital gain reduction for years after 1998, 50% up to 10 million and 100% over 10 million for years after 2014
- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and
- unemployment income

The program also automatically adds back the federal deduction for self-employment tax and the domestic production activities deduction.

Enter the other Arkansas adjustments to AGI in the following areas:

MINOR CHILD

If you are running the Minor Child calculation and have made the federal election to include the child's interest and dividends on the parent's return, you

must subtract the included portion from the parent's AGI for state purposes (on the "Other Subtractions" row) and add the appropriate amount to the child's AGI (on the "Other Additions" row).

OUT OF STATE INTEREST

Enter the non-Arkansas portion of municipal interest, which was not taxed at the federal level. The program adds this amount in calculating Arkansas adjusted gross income.

OTHER ADDITIONS

Enter the following additions:

- Differences in gain/loss on sale of assets (including the sale of a principal residence and small business stock)
- Capital gain/loss carryover adjustment
- Depreciation adjustments
- Adjustment for taxable lump-sum distributions
- NOL adjustment
- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following subtractions:

- Military compensation exemption
- Border city exemption
- Differences in gain/loss on sale of assets
- Capital gain/loss carryover adjustment
- Depreciation adjustments
- Other subtractions from federal AGI

DIFFERENCES IN PASSIVE LOSSES

If the Arkansas amount of passive gain or loss differs from the federal amount (e.g., because of a different basis in the property, or the MAPRRA rules), enter the amount of the difference on the "Other Additions" or "Other Subtractions" row, taking into consideration any adjustments to other components of income/loss allowed such as capital gains/losses, etc.

You may need to make adjustments to the Arkansas passive carryforward amounts that were affected by the nonconformity in 1994.

CAPITAL GAINS

Arkansas applies the Arkansas reduction to the net capital gain. The program automatically calculates the reduction to the net long-term capital gains, using federal rules as to holding period, carryovers, and other capital gains rules. **For years after 2014**, Arkansas also applies a reduction of 100% to the net capital gain over ten million in addition to the reduction to gains under that amount. **For years after 1998 and prior to 2015**, Arkansas applies a 30% reduction to the net capital gain, and the program follows that rule. **For January 2015 and after June of 2016**, Arkansas allows a reduction of 50%. **For the remainder of 2015 and prior to July 2016**, Arkansas allows a reduction of 45%. The program will allow a 45% reduction for all of the 2015 and 2016 years. Make any adjustment for the 5% difference in the reduction in capital gains on the "Other Subtractions" or "Other Additions" rows of the **Adjustments for State AGI** worksheet respectively. **For years after 2016**, Arkansas applies a 50% reduction to the net capital gain and the program follows that rule.

STANDARD DEDUCTION

The Arkansas standard deduction is handled automatically.

The program applies the Arkansas standard deduction. The standard deduction is computed as the lower of Arkansas gross income or the standard deduction.

The program selects the higher of the standard deduction or Arkansas itemized deductions.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program automatically carries all federal itemized deductions to Arkansas. However, Arkansas requires that certain modifications be made to these amounts and the program handles this automatically. First, the "state taxes paid" deduction (for the income tax or sales tax) is automatically subtracted from the itemized deduction total. Second, the AGI limits are applied using state, rather than federal AGI as per Arkansas law. (**For years before 2006, and in 2009**, the program applies the 3% AGI floor also based on Arkansas AGI.) **For years after 2005 and before 2009, and after 2012**, Arkansas does not apply the federal reduction of the itemized deductions floor when computing allowable itemized deductions for high income taxpayers. The program follows that rule.

In computing the charitable deduction for state purposes, the program applies only the 50% of state AGI limit. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjustments to Federal Contributions" row of the **State Charitable Contribution Deduction** worksheet. Note that the program applies the 50% limit to "2005

Qualified Contributions" which are allowed up to 100% of federal AGI for federal purposes. Also be sure to adjust allowable Arkansas charitable contribution carryovers in future years. (See "Adjustments" below.)

With regard to casualty losses, for years after 2003, the program will continue to limit 2005 Hurricane Casualty Losses by the 10% floor.

Make any needed adjustments to specific state itemized deductions on the "Adjustments" row of the individual subworksheets for the various types of itemized deductions. The program will apply the appropriate limitations to these adjustments. However, the program will not apply any limitations to an amount entered on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

MARRIED FILING SEPARATELY ON SAME RETURN

The program automatically calculates the tax reduction for taxpayers filing as "Married Filing Separately on Same Return." The program handles this calculation by computing a credit in the amount of the tax reduction that results from using this option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet. (See below for special instructions when there is a net long term capital gain.)

Generally, the federal filing status will be "Joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

SPECIAL INSTRUCTIONS FOR TAXPAYERS WITH ARKANSAS NET CAPITAL GAIN FILING SEPARATELY ON SAME RETURN

The program does not automatically compute the joint filing credit for taxpayers with a federal net capital gain who filed a joint federal return but wish to use Arkansas's "Married Filing Separate on the Same Return" option. For such taxpayers, do **not** enter an amount on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. Instead, you can either manually compute the credit and enter it on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet, or you can use a three-case scenario to compute the appropriate state tax.

To create a three-case scenario, complete the worksheets as described below:

CASE 1

This case will be the "actual" joint case and will contain complete information for both spouses.

CASES 2 AND 3

These cases will be used for the separate information for each spouse and will contain only the few items needed to compute the Arkansas tax on a hypothetical separate basis. In these two cases, use "Married Filing Separately" as the filing status, divide the personal exemptions appropriately between the two spouses, and **enter only the items described below** (use separate cases for each spouse's income and deduction items).

1. On the "Long-term G/L Other" row of the federal **Capital Gains and Losses** worksheet enter the net Arkansas capital gain attributable to each spouse. (Make no other entries on the federal worksheets except personal exemptions and filing status.)

2. On the "Other Additions" row of the **Adjustments for State AGI** worksheet, enter each spouse's Arkansas ordinary income as an adjustment.

3. On the "Additional State Itemized" row of the **State Itemized Deductions** worksheet, enter the appropriate amount of itemized deductions for each spouse. (When the "Married Filing Separate on the Same Return" option on the Arkansas form is used, itemized deductions are divided between the spouses in proportion to their income.)

4. Be sure to be consistent with the Joint case when selecting itemized versus the standard deduction, making any necessary adjustments.

If the combined "Total State Tax" on the **State Tax – Main Worksheet** for **Cases 2 and 3** is lower than the tax in **Case 1**, you should make a negative adjustment on the "Other State Taxes" row of **Case 1** for the difference. The appropriate total state tax will then be shown in **Case 1.**

Note. If you make any changes to the income or deductions of either spouse, the adjustment (above) may need to be recomputed.

INFLATION ADJUSTMENT

Arkansas provides for an annual inflation adjustment for tax rates **beginning in 1999** and the personal exemption **beginning in 2003**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Arkansas" in Help.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Arkansas credit for taxes paid to a nonresident state the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Tax at Resident Rates —** the "Adjusted Nonresident Income" multiplied by the Arkansas resident tax rates. "Adjusted Nonresident Income" equals the amount on the Nonresident State Taxable Income row of the **Nonresident State Tax – Main Worksheet** multiplied by the Ratio row of that worksheet. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and plus any "Nonresident State Minimum Tax" on that worksheet.

- **Adjusted Resident Tax —** the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less

any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

SCHOOL DISTRICT TAXES

The program can calculate the local school district taxes automatically, where such taxes are based on a percentage of the state regular income tax.

You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications: Use the **State Tax Schedules** dialog to set the tax rate and the **State Supplementary Tax** worksheet to specify that the tax is based on the State Regular Tax. The program will use the **State Supplementary Tax** worksheet to multiply the Regular Tax by the applicable tax rate you entered as the Supplementary Tax, carry it to the state worksheets, and add it to the client's other state taxes.

You can set up one or more versions of the state specifications file to handle several local jurisdictions. Be sure to assign a different filename to each state file.. (You should remember to update these customized state files when you receive new updates.) For information on changing and saving state specifications files, see **Section 3: General State Specifications** on page 733. See also **Resident and Nonresident State Specifications Overview** in Help.

OTHER STATE TAXES

Enter any other state taxes, including the Arkansas lump sum tax and IRA withdrawal tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

REGULAR IRA TO ROTH ROLLOVER

The program automatically includes in Arkansas AGI the amount on the federal "IRA to Roth Rollover Inclusion" row of the **Other Ordinary Income** worksheet.

ARKANSAS NONRESIDENT TAX

The following sections describe the calculation of the Arkansas nonresident tax for residents of other states who have income from Arkansas. In order to calculate the nonresident tax, first choose Arkansas as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Arkansas, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

ARKANSAS NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Arkansas rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Arkansas AGI as if the taxpayer were a full-year resident of Arkansas. The program carries to this row the federal AGI after reducing it for the following:

    ▪ State income tax refunds

    ▪ U.S. Government interest

    ▪ 30% capital gain reduction

    ▪ social security/railroad benefits

    ▪ pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and

    ▪ unemployment income

    The program also automatically adds back the federal deduction for self-employment tax and the domestic production activities deduction.

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Arkansas exempt interest and related expenses, depreciation, and any other differences between federal and Arkansas AGI.

2. The program then subtracts the "Nonres State Itemized Deductions" or the "Nonres State Standard Deduction," whichever is larger, from Nonresident State AGI to arrive at Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Arkansas tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Arkansas-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Arkansas-sourced interest, dividends, or capital gains, as well as any other Arkansas-sourced income. Also include, as a negative adjustment, any Arkansas-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI"). For this calculation, the ratio cannot exceed 1.00.

6. The program calculates the personal exemption credit as if the taxpayer were a resident and displays this amount on the "Nonres Personal Exemption Credit" row of the **Nonresident State Tax – Main Worksheet**.

   If the taxpayer is entitled to any other Arkansas nonrefundable credits that are deducted before apportioning the tax, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet**.

   If the taxpayer is entitled to any other Arkansas nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet. Also enter here an adjustment to the joint filing credit by subtracting the ratio from one and multiplying it by the joint filing credit. Enter this amount as a negative on the "Other Nonres Credits and Adjustments" row.

7. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Arkansas refundable credits, enter them on this row as a negative number.

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CALIFORNIA

OVERVIEW

When the California specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for California:

- Automatic calculation of personal exemption credit

- Automatic calculation of California alternative minimum tax

- Automatic calculation of standard deduction

- Automatic calculation of itemized deductions

- Automatic adjustment of AGI for California income tax refunds, U.S. government interest, social security/railroad benefits, unemployment income, and the domestic production activities deduction

- Optimizes between California standard deduction and allowable California itemized deductions

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to California. For more information on the California tax rates and other state tax matters, refer to California Form 540 and Instructions, as well as other official state publications. You should review the default settings for California state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself.

TAX RATES

The California tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

For years after 2004, the program includes the additional 1% surtax (California Mental Health Services Surtax) on incomes over 1 million on the **Supplementary Tax** worksheet.

EXEMPTIONS

The program carries the exemption for the taxpayer and/or spouse to the "Class 1 Exemptions" row of the State Tax Personal Exemptions worksheet and the dependent exemptions to the "Class 3 Exemptions" row of this worksheet.

Enter any additional California exemptions for elderly or blind taxpayers on the "Class 2 Exemptions" row. The program multiplies this entry by the exemption and allows the result as an additional exemption credit. Make no entries for "Class 4" exemptions. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

The program phases out the personal exemption credit in accordance with California rules. If you choose "Married Filing Separately" as the filing status, the program reduces each exemption by $6 for every $2,500 (or $1,250 for Married/Separate) over the applicable California income amounts.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose "Qualifying Widow(er)" as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following adjustments:

- State income tax refunds
- U.S. government interest
- Social security/railroad benefits
- Unemployment income
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet
- The domestic production activities deduction

The other California adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

Note. For **2011 and 2012**, California only allows the deduction of one half of the actual amount of the amount of Self-Employment Tax paid rather then the increased federal amount. The **Self-employment Tax Deduction** row of the **Adjustments for State AGI** worksheet will equal the adjustment for the difference in the Self-Employment tax deduction as follows: The program will add the amounts on the **Taxpayer's Self-Employment Tax** row and **Spouse's Self-Employment Tax** rows on the **Self-Employment and Other Taxes** worksheet, divide the sum by two and subtract the total from the amount on the **Self-employment Tax Deduction** row on the Federal **Ordinary Income** worksheet.

OUT OF STATE INTEREST

Enter the applicable amount of state municipal bond interest that was not taxed at the federal level. The program adds this amount in calculating California taxable income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Depreciation adjustments
- Differences between California and federal computation of gains/losses
- California adjustment for expenses attributable to exempt income
- California NOL adjustment (no NOL carryback is allowed, and only 50% of any current year NOL may be carried forward)
- California NOL adjustment due to California nonrecognition of the NOL carryback under the CARES Act (Pub. L. No. 116-136)
- Federal – California differences due to nonrecognition of the Federal Excess Business Loss Limitation under IRC § 461(l) by California
- Other California additions to federal AGI

OTHER SUBTRACTIONS

Enter the following subtractions:

- Depreciation adjustments
- Subtraction adjustments for differences between California and federal computation of gains/losses, including any small business stock adjustment

- Adjustments to the federal deduction for annuities or life insurance proceeds

- Net interest income received by the taxpayer on debt for a "qualified business" or an "Enterprise Zone" business

- California adjustment for expenses attributable to exempt income

- Retirement or sick pay under the Railroad Unemployment Insurance Act

- Federal – California differences due to nonrecognition of the Federal Excess Business Loss Limitation under IRC § 461(l) by California

- Other subtractions from federal AGI

MINOR CHILD UNEARNED INCOME

For taxpayers electing to include minor child unearned income in the parent's federal AGI, such income is automatically included in state income of the parent. However, the program does not handle the state equivalent of the tax imposed by IRC 1(g)(7)(B)(ii)(II). If the child's income is not included on the parent's return, the program will not calculate the child's tax at the parent's rate for state purposes. Amounts should be adjusted as necessary.

DIFFERENCES IN PASSIVE LOSSES

If the California amount of passive gain or loss differs from the federal amount (e.g., because of a different basis in property or the MAPRRA rules), enter the amount of the difference on the "Other Additions" or "Other Subtractions" row. Take into consideration any adjustments to other components of income/loss allowed, such as capital gains/losses and so on. (The $25,000 real estate allowance should be the same as the federal amount allowed, since California uses federal modified AGI for this calculation.) See the Instructions to California Form FTB 3801.

California did not adopt the federal rules for MAPRRA. Therefore, to properly compute the adjustment for California AGI when MAPRRA activities are involved, you will need to use a second case or file (use a separate case if you will not exceed the 500 activities/items limit; otherwise use a separate file). In the California case/file, enter the activities separately with California passive numbers and answer "No" to the question in the Material Real Estate column (note that MAPRRA activities cannot be combined for California purposes). Differences for California AGI can then be entered on the "Other Additions" or "Other Subtractions" rows.

If you have a California credit allowed (relative to low income housing) that exceeds the amount allowed for federal purposes, enter the excess as an adjustment on the "Other Subtractions" row. A.B. 274 allows a low income

housing credit of up to $75,000 in lieu of the amount specified in IRC § 469(i)(2).

CALIFORNIA ITEMIZED DEDUCTIONS

For years before 2018, the program starts with total federal itemized deductions (before the floor) and then automatically subtracts the state income tax or the sales tax deduction and does not allow the vehicle sales tax deduction.

The program applies the California 6% AGI floor, using the applicable California income amounts. The 6% and 80% limits are computed using Federal AGI. (For a more detailed description, see the help topic for the "California 6% AGI Floor" row of the **State Itemized Deductions** worksheet.)

For 2005 and 2006, the program will make adjustments for 2005 Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base, and (in years after 2003) for 2005 Hurricane Casualty Losses not in excess of 10% of AGI. (For a more detailed description, see the description for the "Calif 2005 Contribution Adj" row" and the "Calif 2005 Casualty Adjustment" row of the **State Itemized Deductions** worksheet.)

For years after 2012, the program will include the adjustment for the difference between the federal and state medical deduction as an addition adjustment. It will be included as part of Total State Itemized on the **State Itemized Deductions** worksheet therefore the worksheet will not foot.

California may allow a larger deduction for investment interest expense because net investment income may be higher for state purposes. This is because California does not require that the federal election to reduce the amount of net capital gain eligible for the 28% maximum capital gains rate be made in order for the gain to be included in net investment income. If the program limited the interest expense deduction because you did not make the capital gain election on the federal **Net Investment Income** worksheet, you may need to make an adjustment. If you make any adjustments, you will also need to adjust the carryover amounts in future years.

Enter any adjustments to federal itemized deductions allowed in California (after any applicable limitations) on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

For years after 2017, the program starts with the federal itemized deduction for each of the following categories. For each type of itemized deduction make any required adjustments.

- **Medical Expenses** – The program uses the gross federal amount from the **Itemized Deduction** worksheet and limits the amount to 7.5% of federal adjusted gross income for 2018 and 10% of federal adjusted gross income for 2019 and later.

- **Personal Casualty Losses** – The program uses the federal amount from the **Itemized Deduction** worksheet after federal limitations have been applied. California does not conform to the federal waiver of limits on personal casualty losses for certain specified casualty losses and will calculate an adjustment on the "California Casualty Adjustment" row of the **State Casualty Loss Deduction** worksheet. California does not limit the deduction of casualty losses to federally declared disaster areas. Enter any necessary adjustments on the "Adjustments to Federal Casualty" row of the **State Casualty Loss Deduction** worksheet.

- **Charitable Contribution Deduction** – The program uses the federal amounts from the federal **Itemized Deduction** worksheet after the federal limitations have been applied. California does not recognize the 60% federal limitation, so enter any necessary adjustment for it on the "Adjustments to Federal Contributions" row of the **State Charitable Contributions Deduction** worksheet.

- **State Taxes Deduction** – The program starts with the amount on the **Total Personal Taxes Row Itemized Deduction** worksheet. California does not conform to the $10,000 limit ($5,000 for married filing separate) for state and local taxes. It then reduces the amount by any state income paid.

- **Interest Deduction** – The program includes the Qualified Housing Interest from the **Qualified Residence Interest** worksheet and the allowed Investment Interest Expense from the **Itemized Deduction** worksheet. California does not conform to the federal limits qualified residence interest, allowing deductions on principal amounts up to $1,000,000. California also does not conform to the Tax Cut and Jobs Act and allows a deduction for Other Qualified Residence Interest on principals amounts of up to $100,000. Enter any necessary adjustments on the "Adjustments to Interest" row of the **State Interest Deduction** worksheet.

- **Miscellaneous Itemized Deductions and Employee Business Expenses** – California does not conform to the repeal of the miscellaneous itemized deductions and employee business expenses in the Tax Reform Act of 2017. Enter any California miscellaneous itemized deductions or employee business expenses on the "Adjustments to Federal and Miscellaneous Employee Business Expense" row on the **State Miscellaneous and Employee Business Expense** worksheet.

- **Other Itemized Deductions** – The program uses the federal amount on the "Other Itemized Deduction" row of the **Itemized Deduction** worksheet. Enter any California differences on the "Adjustments to Other Federal Itemized" row on the **State Other Itemized Deductions** worksheet.

- **Additional State Itemized Deductions** – Enter any itemized deductions not subject to the California itemized deduction floor.

STANDARD DEDUCTION

The California Standard Deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount based on the tax year and filing status. The program selects the higher of the standard deduction or the California itemized deductions. If you chose "Must Itemize Supported" or "Must Itemize Other" for federal purposes, you may need to enter a negative number on the "Adjustments to STD/ZBA" row of the **State Standard Deduction** worksheet. (For information on the inflation adjustment, see "Inflation Adjustment" below.)

INFLATION ADJUSTMENT

California provides for an annual inflation adjustment for tax rates and standard deduction amounts **beginning in 2000**, and for personal exemptions **starting in 1989**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "California" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year California tax specifications relating to rates, exemptions, and standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CAPITAL GAINS

The program treats capital gains for California the same way as for federal purposes. If the property sold qualifies for the California capital gains credit, enter such credit amount on the state **Nonrefundable Credits** worksheet. If the property qualifies for the "Small Business Stock" capital gains deduction, enter the amount as an "Other Subtraction" on the **Adjustments for State AGI** worksheet.

SURTAX

For years after 2004, the program automatically calculates the additional 1% Mental Health Services Surtax on California taxable income in excess of 1 million dollars, on the **State Supplementary Tax** worksheet. The program calculates the surtax by subtracting one million dollars from State Taxable Income and multiplying the result by 1%. The result is entered on the "State Suppl Tax from Rate or Sched" row of that worksheet. No Credits are allowed against this tax.

ALTERNATIVE MINIMUM TAX

The program automatically calculates the California alternative minimum tax by applying the 7 rate from 2000–2008, and for years after 2011 (7.25% AMT rate for 2009 and 2010 to the AMT income base.

The income base is calculated as follows:

For years before 2018:

1. Starting with California taxable income, the program adds total federal preferences and adjustments (except the standard deduction and personal exemption).

   Note. The federal preferences and adjustments include the federal NOL's but do not include the adjustment for the 3% AGI floor under federal itemized deductions. (The program subtracts the California itemized deduction phaseout as a separate item.)

2. The program then subtracts either the state sales tax, or state income tax deduction (net of any refunds).

For years after 2017:

For years after 2017, the program starts with California Taxable Income, adds back the residential property taxes, other state and local taxes, and investment property taxes, the lesser of the federal medical expense deduction or 2.5% of federal adjusted gross income from the Itemized Deductions worksheet, the California miscellaneous itemized deductions from the **State Miscellaneous and Employee Business Expense** worksheet, and subtracts the California itemized deduction floor from the **State Itemized Deductions** worksheet.

If the **standard deduction** was used for state regular tax purposes, the calculation is the same as described above except the program adds back the California standard deduction and excludes the federal preference items related to itemized deductions.

Enter any California adjustments to this amount on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. (Include any adjustments resulting from a difference between the California and federal amounts for AMT purposes, including differences in the amount of passive losses or NOLs or AMT capital gains or other qualified residence interest.) Also, if itemized deductions were used for California regular tax and not for federal tax, make a positive adjustment on the "Adjs to State Minimum Tax Base" row for the portions of the California itemized amounts that should be added back for purposes of California AMTI to follow the applicable federal AMT rules. The program automatically calculates the state exemption amount, including the

California phaseout of this exemption. **For years after 2017**, enter any adjustments needed for California incentive stock options.

The California Minimum tax credit is calculated on the California Minimum Tax Credit client data subworksheet, which will be active for California residents as indicated on the **Specific Resident States specifications** worksheet. See the "California Minimum Tax Credit" section, below.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

The program limits the personal exemption credit to the excess of the regular tax over the tentative minimum tax before applying any other credits.

Certain other nonrefundable credits, such as the credit for tax paid to other states, the low income housing credit, certain solar energy credits, and other credits in Part II, § C, of the California Schedule P, can reduce the tax below the tentative minimum tax. Also, the credits from Part II, § D, of Schedule P (for example, certain other solar energy credits) can reduce the alternative minimum tax (AMT). If the taxpayer has any of these § C or D credits and the program is limiting them to the excess of the regular tax over the tentative minimum tax. You should enter them as a negative number on the "Other Resident State Taxes" row of the **State Tax – Main Worksheet**. Be sure to follow the instructions for limitations of these credits in Part II, §§ C and D of the California Schedule P.

CALIFORNIA MINIMUM TAX CREDIT

The program automatically calculates the California minimum tax credit by recalculating the California net minimum tax with only exclusion items and subtracting it from the net California minimum tax.

To calculate the California net minimum tax with only exclusion items, the program considers the amount entered on the "Adjustments to State Minimum Tax Base" row of the **State Minimum Tax** worksheet to be related to deferral preferences or adjustments, not exclusion preferences or adjustments. Any amount entered on that row that is an exclusion item and any other user adjustments should also be entered on the "Adj to Exclusion Preferences & Adjs" row.

The program recalculates the California AMT exemption based on the amount on the "Calif AMTI W/ Only Excl Prefs & Adjs" to derive the "Taxable Excess".

STATE TAX CALCULATIONS

In multiple-year situations, enter the amount of the net minimum credit generated in prior years in excess of the credit used in intervening years in the first column of each case only; for the other years the program automatically carries the amount to future years.

NOTE 1

It is apparently possible to have a negative minimum tax credit or to have a positive credit offset by a subsequent reversal of timing differences without the credit being actually applied in reduction of tax. See General Explanation of the Tax Reform Act of 1986, Joint Committee of Taxation, pp. 463–64. However, where such an offset occurs in a given year, it is apparently applied after any use of the credit against the tax for that year. See IRC § 53. The program follows this approach. It also appears from federal Form 8801 that under the IRS's interpretation of IRC § 53, the negative credit does not carry forward from year to year. The program follows this rule as well.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

In certain cases, California does not give the credit for the nonresident tax. Instead, the nonresident state gives the credit as part of its nonresident computation. For example, when Arizona is the nonresident state, Arizona gives the credit rather than California. In such cases, choose "Nonresident" on the "Cr Allowed by Res or Nonres State" row of this worksheet.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for California, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident or nonresident **State Nonrefundable Credits** worksheet (depending on whether the credit is given by the resident or nonresident state).

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

▪ **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

▪ **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

▪ **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

▪ **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") and less any nonrefundable credits (except any credit for resident state tax) and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet. Enter any adjustments to this amount on the "Adjs to Nonresident Tax" row. This amount may need to be adjusted if the amount of the double-taxed income is less than the amount of adjusted gross income taxable by the other state.

OTHER STATE TAXES

Enter any other California taxes (other than the alternative minimum tax), including the lump sum tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Since the program does not calculate the additional tax on the unearned income of a minor child, you should enter the incremental increase in tax where such additional tax is applicable. (See also "Other Subtractions" in the "Adjustments for State AGI" section, above.)

CALIFORNIA NONRESIDENT TAX

The following sections describe the calculation of the California nonresident tax for residents of other states who have income from California. In order to calculate the nonresident tax, first choose California as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the Other Nonresident Tax row of the **State Tax – Main Worksheet**.

For years after 2001, California has changed the look of both the regular and AMT nonresident calculations. However, other than for minor rounding differences, the results of the new calculations are the same as those for years before 2002. Therefore, the calculation of the tax in years after 2001 will continue to be done in the same manner as years prior to 2002.

> **Note.** To compute the credit against the taxpayer's resident state tax for tax paid to California, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

CALIFORNIA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the California rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows California AGI as if the taxpayer were a full-year resident of California. The program carries to this row the federal AGI after reducing it for the following items:
   - U.S. Government interest
   - Social Security income
   - Unemployment income
   - State tax refunds
   - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   The program automatically adds back the federal domestic production activities deduction.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-California exempt interest and related expenses, NOL adjustments, and any other differences between federal and California AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the higher of the California standard deduction (for the selected filing status) or California itemized deductions (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the California tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is California-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any California-sourced interest, dividends, or capital gains and any other California-sourced income. Also include, as a negative adjustment, any California-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made and after subtracting the "Nonres Personal Exemption Credit", multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

    Enter any available California nonrefundable credits (other than the exemption credit, which the program calculates automatically) on the "Nonres State Nonrefundable Credits" row of this worksheet.

6. If the taxpayer is allowed any California § C credits, enter them on the "Other Nonresident State Taxes" row as a negative number, as they are allowable against the California AMT. Also enter on this row any other taxes and credit recaptures as a positive number.

CREDIT FOR OTHER STATE TAX—

For some states (e.g., Arizona), California allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). To compute the credit for these states, answer "Yes" on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Resident State Tax" row of the **Nonresident State Nonrefundable Credits** worksheet). Choose "Nonresident" on the "Cr Allowed by Res or Nonres St" row. Otherwise, the Credit is computed in the same manner as for a California resident except that it uses the tax due to the resident state after all credits including the other state tax credit.

CALIFORNIA NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the California nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched" after the exemption.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by a calculated ratio. The ratio is determined by dividing

the "Total Nonres Min Tax Source Income" row by the "Total Nonres State Minimum Tax AGI" row (see the descriptions for these rows, below).

Total Nonres State Minimum Tax AGI — The program starts with the "Total Minimum Tax Base Before the Exemption." Next, it calculates the "Itemized Deduction Adjustment" for California nonresidents who are itemizing both for federal and California purposes. The "Itemized Deduction Adjustment" is computed as the sum of the following federal AMT adjustments expressed as a negative:

- property taxes

- other state and local taxes

- medical expenses

- miscellaneous itemized deductions

- personal interest

- charitable contributions

- housing interest, and

- the interest adjustment related to Sch. A investment interest

Also included as a positive amount is the difference between "Total Nonres State Itemized" and the "California Itemized Deduction Floor." For California nonresidents who are not itemizing, the "Itemized Deduction Adjustment" will be zero. However, if itemized deductions were used for California regular tax and not for federal tax, make a positive adjustment on the "Adjs to State Min Tx AGI" row for this adjustment. Finally, the program adds the "Adjs to State Minimum Tax AGI" to derive "Total Nonres State Minimum Tax AGI."

Total Nonres Min Tax Source Income — The program adds the "Nonresident State Source Income" from the **Nonresident State Tax – Main Worksheet** and your entries on the "Min Tax Adj to Nonres Source Income" and "Nonres State Source Prefs & Adjs" rows on the **Nonresident State Minimum Tax** worksheet to calculate the "Total Nonres Min Tax Source Income."

CALIFORNIA NONRESIDENT MINIMUM TAX CREDIT

The program automatically calculates the California nonresident minimum tax credit by recalculating the California nonresident net minimum tax with only exclusion items and subtracting it from the net California nonresident minimum tax.

To calculate the California net minimum tax with only exclusion items, the program considers the amount entered on the "Adjustments to State Minimum Tax Base" row of the **State Minimum Tax** worksheet to be related to deferral

preferences or adjustments, not exclusion preferences or adjustments. Any amount entered on that row that is an exclusion item and any other user adjustments should also be entered on the "Adj to Exclusion Preferences & Adjs" row.

The program recalculates the California AMT Exemption based on the amount on the "Calif AMTI W/ Only Exl Prefs & Adjs" to derive the "Taxable Excess".

In multiple-year situations, enter the amount of the net minimum credit generated in prior years in excess of the credit used in intervening years in the first column of each case only; for the other years the program automatically carries the amount to future years. No entry will be accepted for any year prior to 1996.

NOTE 1

It is apparently possible to have a negative minimum tax credit or to have a positive credit offset by a subsequent reversal of timing differences without the credit being actually applied in reduction of tax. See General Explanation of the Tax Reform Act of 1986, Joint Committee of Taxation, pp. 463–64. However, where such an offset occurs in a given year, it is apparently applied after any use of the credit against the tax for that year. See IRC § 53. The program follows this approach. It also appears from federal Form 8801 that under the IRS's interpretation of IRC § 53, the negative credit does not carry forward from year to year. The program follows this rule as well.

CALIFORNIA NONRESIDENT SURTAX

For California nonresidents to compute the Mental Health Surtax, in years after 2004, Nonresident State Taxable Income on the **Nonresident State Supplementary Tax** worksheet will equal the amount on the Nonresident State Taxable Income row of the **Nonresident State Tax Main** worksheet multiplied by the percentage on the Ratio:Nonres Income/Resident Income row of that worksheet. The amount on the "Total Nonres State Supp Tax Base" row of that worksheet in excess of one million dollars will then be multiplied by the 1% surtax rate. No Credits are allowed against this tax.

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COLORADO

OVERVIEW

When the Colorado specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Colorado:

- Automatic calculation of alternative minimum tax

- Automatic reduction of AGI for Colorado income tax refunds (1987 only), social security benefits, and U.S. government interest

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Colorado. For more information on the Colorado tax rates and other state tax matters, please refer to Colorado Form 104 and Instructions as well as other official state publications.

You should review the default settings for Colorado state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself.

TAX RATES

The Colorado tax rate is automatically loaded into the program. The other rate schedules built into the program are the alternative minimum tax rate and the schedule for the residential energy credit.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Colorado does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Joint, which will properly reflect state treatment.

FEDERAL TAX BASE

Because the starting point for the Colorado income tax is federal taxable income, the program carries to Colorado the federal amounts for the standard deduction, personal exemptions, and itemized deductions. Any modifications are mentioned in their respective sections. **For years 2018-2025**, the program will include the Qualified Income Deduction under IRC § 199A on the "State Personal Exemption/Qualified Business Deduction" row of the **State Tax – Main Worksheet**.

EXEMPTIONS

On the **State Tax Personal Exemptions** worksheet, the program carries the number of federal exemptions to the "Class 1 Exemptions" row and applies the federal personal exemption amount. The program will apply the federal phase-out percentage to the Class 1 personal exemption amount. No adjustment should be needed.

For years after 2017 and before 2026, the program assumes Colorado conforms to the 2017 tax act (Pub. L. No. 115-97), which eliminates personal exemptions.

Colorado allows the additional $500 exemption in 2005 and 2006 for Hurricane Katrina displaced individuals, and in 2008 and 2009 for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts state income tax refunds in 1987. The program also subtracts social security benefits, pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and U.S. Government interest. The other Colorado adjustments to AGI are handled on the following rows:

Note. The program automatically subtracts all social security income. If this amount exceeds the Colorado pension-annuity exclusion, you should add back the excess on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

OUT OF STATE INTEREST

Enter the non-Colorado portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Colorado adjusted gross income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Gain/loss adjustment due to different basis for federal vs. Colorado purposes
- Lump sum distributions not included in federal AGI
- NOL deduction taken on federal return
- Other additions to federal taxable income

OTHER SUBTRACTIONS

Enter any subtraction adjustments:

- Gain/loss adjustment due to different basis for federal vs. Colorado purposes
- Colorado NOL deduction
- Income previously taxed by Colorado
- Qualified investment interest and dividends (See Colorado Statute 39–22–104 for years after 1989.)
- Net capital gains on certain Colorado property of qualified taxpayers (See Colorado Statute 39–22–518, for years after 7–1–95.)

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2017 and before 2026, the program assumes Colorado conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

The program starts with total federal itemized deductions including the sales tax if elected on the taxpayer's federal return after the 3% AGI floor and automatically subtracts state income taxes deducted for federal itemized. The program automatically reduces the subtraction for state taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes.

The program selects the higher of Colorado itemized deductions or the standard deduction (see below).

STANDARD DEDUCTION

The Colorado Standard Deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount based on the tax year and filing status, including the additional amounts allowed for elderly/blind and the additional deductions for real estate taxes and disaster casualty losses. (In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.)

For years after 2017 and before 2026, the program assumes Colorado conforms to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction.

Note. For 2001 and for years 2006 through 2010, if the taxpayer is allowed a deduction of charitable contributions in excess of $500 in addition to the regular standard deduction, enter the additional amounts on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet.

ALTERNATIVE MINIMUM TAX

The program automatically calculates the Colorado alternative minimum tax. The program computes the Colorado AMT base as the amount of federal alternative minimum taxable income less the federal exemption. The calculated amount on the "Adjustments for State AGI" row (i.e., U.S. Government interest, social security benefits, etc.) is carried to the state AMT base automatically. Enter any other adjustments on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. The program allows the same exemption as allowed for federal purposes.

In computing the net alternative minimum tax, the program subtracts the state regular tax (before credits) from the tentative AMT. The program also allows credits to offset both regular and alternative minimum tax.

Note. Colorado starts with federal AMTI. The program does not recompute the federal numbers; instead, it uses federal law in effect for the taxable year and includes the 3% floor adjustment to compute the state minimum tax.

ALTERNATIVE MINIMUM CREDIT

Colorado allows a credit against the alternative minimum tax. The amount of the credit is equal to 18% of the federal alternative minimum tax credit (IRC § 53). Therefore, if the taxpayer is subjected to the Colorado AMT in a given year and also has a federal AMT credit under IRC § 53, enter 18% of the federal

credit as a positive number on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet. The program applies this amount as a credit against Colorado AMT. The amount of regular tax liability (federal or Colorado) is not affected by this entry.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Colorado, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "State Minimum Tax" on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonres State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER TAXES

Enter any other Colorado taxes or any adjustment to total Colorado taxes owed on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

COLORADO NONRESIDENT TAX

The following sections describe the calculation of the Colorado nonresident tax for residents of other states who have income from Colorado. In order to calculate the nonresident tax, first choose Colorado as the taxpayer's nonresident state then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Colorado, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

COLORADO NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Colorado AGI as if the taxpayer were a full-year resident of Colorado. The program carries to this row the federal AGI after reducing it for the following:

   - U.S. Government interest

   - social security/railroad benefits

   - state tax refunds and

   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Colorado exempt interest and related expenses, NOL adjustments, and any other differences between federal and Colorado AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the Colorado standard deduction (for the selected filing status) or Colorado itemized deductions (if the taxpayer itemized for federal purposes), and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Colorado tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Colorado-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Colorado-sourced interest, dividends, or capital gains, as well as any other Colorado-sourced income. Also include, as a negative adjustment, any Colorado-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

    Enter any available Colorado nonrefundable credits against the apportioned taxes on the "Nonres State Nonrefundable Credits" row of this worksheet.

6. If the taxpayer is allowed any Colorado refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

COLORADO NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the Colorado nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched" after the exemption.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum

Tax from Sched" by a calculated ratio. The ratio is determined by dividing the "Total Nonres Min Tax Source Income" row by the "Total Nonres State Minimum Tax AGI" row (see the descriptions for these rows below).

"Total Nonres State Minimum Tax AGI" — The program calculates this amount as "Federal Alternative Minimum Taxable Income" plus or minus the calculated amount on the "Adjustments for State AGI" row (i.e., U.S. Government interest, social security benefits, etc.). Enter any other adjustments on the "Adjs to Nonres State Min Tax Base" row of the **Nonresident State Minimum Tax** worksheet.

"Total Nonres Min Tax Source Income" — The program adds the "Nonresident State Source Income" from the **Nonresident State Tax – Main Worksheet** and your entries on the "Min Tax Adj to Nonres Source Income" and "Nonres State Source Prefs & Adjs" rows on the **Nonresident State Minimum Tax** worksheet to calculate the "Total Nonres Min Tax Source Income" amount.

CONNECTICUT

OVERVIEW

When the Connecticut specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Connecticut:

- Ordinary income tax rate schedule
- Alternative minimum tax rate schedule
- Automatic adjustment to the income tax rates for the Low Income Credit
- Automatic subtraction and limitation of the standard deduction based on Connecticut AGI
- Automatic reduction of AGI, used in computing the ordinary income tax, for Connecticut income tax refunds and U.S. Government interest
- Automatic calculation of the Connecticut adjustment for Social Security Income under Connecticut Section 12-701(a)(20)(x) for years after 2017
- Calculates Connecticut nonresident tax
- Calculates nonresident New York State and City tax
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Connecticut. For more information on the Connecticut tax rates and other state tax matters, refer to Connecticut Forms and Instructions, as well as other official state publications.

The Connecticut regular tax, dividends/interest tax, and the capital gains tax are handled on separate worksheets. Make adjustments for the regular tax base on the Adjustments to State AGI and State Standard Deduction worksheets. The dividends/interest tax is handled on the **State Supplementary Tax** worksheet. The capital gains tax is handled on the **Alternate State Tax Base** worksheet.

TAX RATES

Regular tax rates are automatically loaded into the program. The program automatically handles the phase-out of the lower brackets for high income tax payers.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If you chose Qualifying Widow(er) as your federal filing status, the program will change the state filing status to Joint, which will properly reflect state treatment.

The filing status must be the same as the federal filing status.

ADJUSTMENTS FOR STATE AGI

For purposes of computing the regular tax, the program automatically subtracts state tax refunds, U.S. Government interest, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. The other Connecticut adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet.

OUT OF STATE INTEREST

Enter the non-Connecticut portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Connecticut adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Ordinary portion of a lump sum distribution excluded from federal AGI pursuant to IRC § 402(e)
- Depreciation adjustments
- Loss on sale of Connecticut bonds
- Shareholder's pro rata share of S corporation non separately computed loss subject to tax
- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Reimbursement for moving expenses in accordance with IRC § 82
- Tier 1 Railroad Retirement benefits
- Shareholder's pro rata share of S corporation non separately computed income subject to tax

- Depreciation adjustments
- Gain on sale of Connecticut bonds
- Other subtractions from federal AGI

STANDARD DEDUCTION

What Connecticut calls the personal exemption from Table A is handled automatically on the standard deduction row. In computing the standard deduction, the program allows the appropriate amount based on the filing status and Connecticut AGI.

ALTERNATIVE MINIMUM TAX

Connecticut law requires that federal alternative minimum taxable income be adjusted by the Connecticut AMT adjustments. Effective January 1, 1993, Connecticut allows the following methods of computing AMT.

Method 1: Computes the tax as 5.5% (5% for years prior to 2003) of adjusted alternative minimum taxable income (before the AMT exemption but after the increase for married filing separate if adjusted AMTI is greater than $165,000).

Method 2: Computes the tax as 19% of the adjusted federal AMT after the foreign tax credit. The program starts with federal alternative minimum taxable income, adds the calculated amount on the "Adjustments for State AGI" row, except for the state tax refund adjustment (i.e., U.S. Government interest, social security benefits, etc.), and subtracts the state exemption amount. Other adjustments, such as private activity bond interest income, are entered on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. The resulting "Net State Min Tx Base" is multiplied by the applicable percentage (less 19% of the federal AMT foreign tax credit).

Method 3: If Part IV of federal Form 6251 was completed, Connecticut law allows a third method of computing AMT.

This method computes the tax as 19% of the federal AMT Alternative Capital Gains Tax with the adjustments to AMTI in Method 2, above, after the foreign tax credit.

The program does not recompute the federal AMT Alternative Capital Gains Tax for Connecticut AMT capital gain or loss adjustments.

If the federal AMT alternative capital gains tax is applicable and if part of the amounts on the "Adjustments for State AGI" row are adjustments pertaining to capital gains or losses on the sale of Connecticut state and local government bonds or any other capital gain or loss amount, you may need to adjust the Connecticut AMT. The Connecticut AMT will be off by the difference in the long-term capital gain amount times 19% of the difference between the regular federal AMT tax rate and the federal AMT capital gain rate.

STATE TAX
CALCULATIONS

You can determine the amount of the adjustment by running a second case as follows:

1. Start with two cases. The first case will be the "actual" case; the second case will be used only to compute the Connecticut AMT capital gain adjustment.

2. The second case will be the same as the first except for any differences in the Connecticut adjustments to capital gains or losses.

   Make any such adjustments in the second case on the federal **Capital Gains and Losses** worksheet to follow the Connecticut rules. Also, if such adjustments are in the **Adjustments to State AGI** worksheet, remove them from the second case.

   The results on the "Net State Minimum Tax Base" row of the **State Minimum Tax** worksheet should be the same in both cases.

3. Next, subtract the amount computed in Case 2 on the "State Minimum Tax from Sched" row of the **State Alternative Minimum Tax** worksheet from the amount calculated for the same row in Case 1. Enter the result as an adjustment on the "Adjustment to State Regular Tax" row of the **State Alternative Minimum Tax** worksheet in Case 1. By increasing or decreasing the regular tax you will have the opposite affect on the AMT tax. The results on the "Net State Min Tax" row of the **State Minimum Tax** worksheet should be the same in both cases.

The program will choose the method that produces the lower tax and post that amount to the "State Minimum Tax from Schedule" row of that worksheet.

The program applies nonrefundable credits against both the regular and alternative minimum tax. The program will deduct the amount on the "Maine/Connecticut Credit" row of the **State Nonrefundable Credits** worksheet (the Connecticut low income credit) from the regular tax prior to subtracting it from the Connecticut AMT.

Note. Connecticut starts with federal AMTI. The program will not recompute the federal numbers; instead, it will use federal law in effect for the taxable year and include the 3% floor adjustment to compute the state minimum tax.

"NO TAX STATUS" (TAXPAYERS OVER 65)

The program does not apply the special "No Tax" rule exempting low-income taxpayers (under $10,000) who are 65 or over. If you determine that a taxpayer qualifies for such exempt status, enter (as a negative number) the amount of the total calculated state tax liability on the "Other State Taxes" row. This will "zero out" the state tax liability for the exempt taxpayer.

CREDITS

The program automatically computes the Personal Low Income Credit, which is based on State AGI in accordance with the Connecticut formula. The credit is computed as a percentage of the state income tax before application of any other credit. The program will enter it on the "Maine/Connecticut Credit" row of the **State Nonrefundable Credits** worksheet.

Any entry on the "Amount Subject to Credit Schedule" is ignored. Enter any other allowable state nonrefundable credits, such as the property tax credit, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments or the Connecticut pass-through entity tax credit) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

Caution! The program does not handle the Connecticut credit for the alternative minimum tax. The program will continue to compute the credit as described below. Enter any additions to the credit allowed on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet.

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY." Where the taxpayer is subject to both New York State taxes and New York City taxes, the program applies the three Step approach from example 2 of the Connecticut Special Notice SN 92 (2).

When calculating the credit for Connecticut, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." See the instructions for Schedule 2 of Form CT–1040. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet. See the instructions for Schedule 2 of Form CT–1040.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

  For files created in versions prior to 99.1, the program did not automatically adjust for other credits such as the Connecticut property tax credit when computing the Connecticut credit for tax paid to New York. The program now subtracts all nonrefundable credits when calculating the credit. Therefore you may need to remove any adjustment made for the Connecticut property tax credit on the "Adjs to Credit for NY Tax" row.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Other Nonresident State Taxes" on that worksheet.

HANDLING NEW YORK NONRESIDENT TAXPAYERS

For complete instructions on handling Connecticut taxpayers with New York nonresident income, see the "New York Nonresident Tax" section of the New York portion of the manual.

CONNECTICUT NONRESIDENT STATE TAX

The following sections describe the calculation of the Connecticut nonresident tax for residents of other states who have income from Connecticut. In order to calculate the nonresident tax, first choose Connecticut as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Connecticut, see the discussion under "Credit for Other State Tax" for the taxpayer's resident state.

CONNECTICUT NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet** and calculates the tax as follows:

1. The "Nonres State AGI" row shows Connecticut AGI as if the taxpayer were a full-year resident of Connecticut. The program carries to this row federal AGI after reducing it for U.S. Government interest and state tax refunds. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Connecticut exempt interest and related expenses, NOL adjustments, and any other differences between federal and Connecticut AGI for depreciation, gains and losses, etc.

Note. If Connecticut source income is higher than Connecticut AGI computed as if the taxpayer were a resident, you should make an adjustment on the "Other Additions" row of the **Adjustments for Nonresident State AGI** worksheet. The adjustment should equal the difference between Connecticut source income and Connecticut AGI computed as if you were a resident. You should reverse this adjustment on the "Adjs to Nonres State Min Tax Base" row of the **Nonresident State Minimum Tax** worksheet.

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2. The program then subtracts from "Nonres State AGI" the Connecticut standard deduction for the selected filing status, phasing it out in accordance with the Connecticut formula.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Connecticut tax (before Connecticut's low income credit) as if the taxpayer had been a resident. Enter any adjustments on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Connecticut-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Connecticut-sourced interest, dividends, or capital gains, and any other Connecticut-sourced income. Also include, as a negative adjustment, any Connecticut-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State — Tax Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

6. The program automatically computes the Low Income credit, which is based on state AGI, in accordance with the Connecticut formula and enters it on the "Connecticut Credit" row of the **Nonresident State Nonre-**

fundable Credits worksheet. The credit is computed as a percentage of the allocated nonresident regular tax before application of any other credit.

Enter any other available Connecticut nonrefundable credits on the "Other Nonres Credits and Adjustments" row on the **Nonresident State Nonrefundable Credits** worksheet.

CONNECTICUT NONRESIDENT ALTERNATIVE MINIMUM TAX

Connecticut allows three different methods of computing AMT:

Method 1: Computes the tax as 5.5% (5% for years prior to 2003) of adjusted alternative minimum taxable income (before the AMT exemption but after the increase for married filing separate if adjusted AMTI is greater than $165,000).

Method 2: Computes the tax as 19% of the adjusted federal AMT after the foreign tax credit.

Method 3: If Part IV of federal Form 6251 was completed, computes the tax as 19% of the federal AMT alternative capital gains tax with the adjustments to AMTI in Method 2 above after the foreign tax credit.

For a nonresident, the program computes the AMT using the lower of the three methods above as if the taxpayer were a resident. See the resident "Alternative Minimum Tax" section for more details.

To calculate the Connecticut nonresident minimum tax, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" on the **Nonresident State Minimum Tax** worksheet as if the taxpayer were a resident.

Note. If Connecticut source income is higher than Connecticut AGI computed as if the taxpayer were a resident, and you made an adjustment to nonresident Connecticut AGI, then you should reverse that adjustment on the "Adjs to Nonres State Min Tax Base" row of the **Nonresident State Minimum Tax** worksheet.

On the **Nonresident State Minimum Tax** worksheet, the program calculates the "Allocated Nonres State Tent Min Tax" (limited to not less than zero) as the amount on the "Nonres State Minimum Tax from Sched" row, after any adjustments you made, multiplied by the "Nonres State Minimum Tax Ratio" ("Total Nonres Min Tax Source Income" ÷ "Total Nonres State Minimum Tax AGI").

To calculate "Total Nonres Min Tax Source Income" the program adds the Nonresident State Source Income from the **Nonresident State Tax – Main Worksheet** and your entries on the "Min Tax Adj to Nonres Source Income" and "Nonres State Source Prefs & Adjs" rows. To calculate the Connecticut minimum tax for nonresidents, there must be an amount on the "Total Nonres Min Tax Source Income" row.

> **Note.** We have been given verbal guidance from the Connecticut Revenue Department that the ratio for Nonresident Connecticut AMT can exceed 100%. The program will now allow the ratio of "Total Nonres Min Tax Source Income" over "Total Nonres State Minimum Tax AGI" to exceed 100%.

Enter the amount of the AMT credit, if applicable, on the **State Nonrefundable Credits** worksheet.

STATE TAX CALCULATIONS

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DELAWARE

OVERVIEW

When the Delaware specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Delaware:

- Automatic calculation of personal exemption deduction
- Automatic calculation of standard deduction
- Carries federal itemized deductions after adjustment
- Applies Delaware limit on contributions deduction
- Automatic calculation of deduction for federal tax
- Automatic adjustment of AGI for Delaware income tax refunds, U.S. government interest, and social security/railroad benefits
- Optimizes between Delaware standard deduction and allowable Delaware itemized deductions
- Calculates tax reduction for joint taxpayers filing as "combined"
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Delaware. For more information on the Delaware tax rates and other state tax matters, refer to Delaware Form 200–01 and Instructions, as well as other official state publications.

You should review the default settings for Delaware state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet.

The program follows the Delaware rule and allows the proper personal exemption credit instead of the deduction. Make no entries for the other "Class #" exemption rows.

Delaware allows an additional personal exemption for resident taxpayers who are 60 or over. This may be entered by increasing the number on the "Class 1 Exemptions" row by the number of qualified taxpayers.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Delaware does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts state income tax refunds, U.S. Government interest, social security/railroad benefits, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. The program also calculates the state deduction for federal taxes. The other Delaware adjustments to AGI are handled on the rows below of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Delaware portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Delaware adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Federal tax refunds (if deducted in a prior year)
- Excess amounts for percentage depletion
- Any other addition to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- For years prior to 2010, Delaware Lottery winnings

- Salary expense disallowed for federal purposes due to claiming the jobs credit

- Any other subtraction from federal AGI

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions including sales taxes if elected as a deduction on the taxpayer's federal return, and after the 3% AGI floor for years after 1990 and then subtracts the state income tax deduction.

For years after 2017 and before 2026, the program assumes Delaware conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

The Delaware subtraction of state income taxes paid is computed using the percentage determined under IRC § 68(a). The percentage is computed by dividing the federal deduction for state income taxes by total itemized and multiplying the result by the federal floor.

Delaware also allows as additional itemized deductions: charitable mileage, the self-employed health insurance deduction not deducted federally, and the foreign tax credit. Enter any additional state itemized deductions including any local income taxes excluded above (as a positive number) on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet. **For 1987 only**, Delaware allows an additional 12% allowance for state itemized deductions. Enter the allowance (as a positive number) on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

STANDARD DEDUCTION

The Delaware standard deduction is handled automatically. The program allows a flat amount depending on filing status. In computing the standard deduction, the program does **not** automatically carry any additional amounts allowed for elderly (over 65)/blind. Therefore, if the taxpayer is allowed these additional amounts for state purposes, you **must** enter this additional amount (as a positive number) on the "Adjustments to STD/ZBA" row on the **State Standard Deduction** worksheet. The program selects the higher of the total standard deduction and Delaware itemized deductions.

JOINT TAXPAYERS FILING "COMBINED" RETURNS

The program automatically calculates the tax reduction for taxpayers filing a joint "combined" return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, passive loss limits, and itemized deduction limitations.

CREDITS

Enter any allowable Delaware nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter Delaware refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Delaware, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate, carried to the state worksheets, and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each. (You should remember to update these customized state files when you receive new updates.) For information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any other state or local income taxes, including lump sum tax, on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because Delaware allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Delaware.

DELAWARE NONRESIDENT TAX

The following sections describe the calculation of the Delaware nonresident tax for residents of other states who have income from Delaware. In order to calculate the nonresident tax, first choose Delaware as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Delaware, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

DELAWARE NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Delaware rules in the same manner as for residents). The tax is then calculated as follows:

Caution! If the taxpayer and spouse file joint for federal purposes and married filing separate for Delaware and both spouses do not have Delaware income exceeding $60,000, the program will not accurately calculate the tax.

1. The "Nonres State AGI" row of the worksheet shows Delaware AGI as if the taxpayer were a full-year resident of Delaware. The program carries to this row the federal AGI after reducing it for the following:

   - State income tax refunds
   - U.S. government interest
   - social security/railroad retirement benefits taxed at the federal level and
   - pension income included on the "State Exempt Pensions" row of the **Other ordinary Income** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Delaware exempt interest and related expenses, depreciation, and any other differences between federal and Delaware AGI.

2. The program then subtracts the "Nonres State Itemized Deductions" (if the taxpayer itemized for federal purposes) or the "Nonres State Standard Deduction," whichever is larger, from Nonresident State AGI to arrive at Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Delaware tax as if the taxpayer had been a resident. Enter

any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Delaware-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Delaware-sourced interest, dividends, or capital gains and any other Delaware-sourced income. Also include, as a negative adjustment, any Delaware-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, and after subtracting the "Nonres Personal Exemption Credit", multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

6. Enter any available Delaware nonrefundable credits (other than the exemption credit, which the program calculates automatically) on the "Nonres State Nonrefundable Credits" row of this worksheet. If the taxpayer is entitled to any other Delaware nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

7. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Delaware refundable credits, enter them on this row as a negative number.

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DISTRICT OF COLUMBIA

OVERVIEW

When the District of Columbia specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following tax calculations for the District of Columbia:

- Calculates Tax Reduction for Joint Taxpayers filing as "Combined." Automatic subtraction for personal exemptions

- Automatic calculation of standard deduction

- Itemized Deductions — addback of D.C. taxes paid

- Automatic adjustment of AGI for D.C. income tax refunds, U.S. Government interest, social security/railroad benefits and for years after 2008 the domestic production activities deduction

- Optimizes between D.C. standard deduction and allowable D.C. itemized deductions

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to D.C. For more information on the D.C. tax rates and other state tax matters, refer to D.C. Form D–40 and Instructions, as well as other official state publications.

You should review the default settings for the District of Columbia specifications to check that they accurately reflect current law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The D.C. tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

On the **State Tax Personal Exemptions** worksheet, enter as "Class 1 Exemptions" the number of exemptions allowed for D.C. purposes. The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row. Note that for years prior to 2018 the D.C. rules for the number of

exemptions differ from the federal rules (e.g., an additional exemption is allowed for an elderly or blind taxpayer/spouse; the spouse may not be claimed unless such spouse has no gross income, and different gross income limits apply to dependents). Therefore, you **must review** the number of state exemptions and make the appropriate adjustment where the D.C. number differs from the federal number. The program multiplies this number by the D.C. exemption amount. Make no entries for the other "Class #" exemption rows.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

Act 21-202, Laws 2015, creates a phaseout of the personal exemption in the amount of 2% for every $2,500 (or fraction thereof) of state AGI over $150,000. The program will phase out the Personal Exemption accordingly.

For years after 2017, the District of Columbia conforms to the 2017 tax act (Pub. L. No. 115-97).

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Combined, enter Joint filing status and see below for Combined filing status instructions.

For years prior to 2015, the District of Columbia did not have a separate filing status for Qualifying Widow(er). Most individuals who filed as a Qualifying Widow(er) for federal purposes qualified as Head of Household for the District of Columbia. The program automatically makes this change. If you do not feel that this properly reflects state treatment, you can change the filing status. **For years after 2014**, there is a separate filing status for Qualifying Widow(er), the standard deduction is the same as Joint, and the program will use the Joint filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts state income tax refunds, U.S. Government interest, social security/railroad benefits, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

The program automatically adds back the federal domestic production activities deduction for years after 2008.

The other D.C. adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Make no entry on this row since D.C. apparently does not tax out-of-state state municipal interest that was not taxed at the federal level.

OTHER ADDITIONS

Enter the following:

- Lump sum distributions
- Depreciation adjustments
- Deduction taken on federal return for D.C. franchise taxes paid
- Other Additions

OTHER SUBTRACTIONS

Enter the following:

- Deductible amounts for the disability exclusion
- D.C. Lottery winnings
- Military retirement
- Income taxed on the D.C. franchise or fiduciary return
- Interest and dividend income of a child reported on federal Form 8814
- Depreciation adjustments
- Other subtractions

STANDARD DEDUCTION

The D.C. Standard Deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount based on the filing status. The District of Columbia will allow the residential property tax and casualty loss additions and the vehicle sales tax as part of the standard deduction allowed federally. **For years after 2017**, the District of Columbia conforms to the 2017 tax act (Pub. L. No. 115-97).

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions (after the 3% AGI floor) including sales taxes if elected as a deduction on the taxpayer's federal return and automatically subtracts state income taxes or the sales tax deducted for federal itemized. **For 1991 and thereafter**, the program automatically reduces the subtraction for state income taxes or the sales tax by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized and multiplying

the result by the federal floor. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes. **For years after 2012**, it also adjusts for the 5% DC phaseout of itemized deductions based on State AGI and enters it on the "DC 5% Floor" row of the **State Itemized Deductions** worksheet.

Enter on the "Other Adjs to Federal Itemized" row of the State Itemized Deductions worksheet (as a negative number) any vehicle sales tax allowed and pre-1/1/82 contributions carryovers or deductions attributable to non-residence.

For years after 2010 and before 2013, the program recomputes federal itemized deductions disallowing any state income or sales taxes deducted federally. It also recomputes the amount shown on the "3% AGI Floor" row of the State Itemized Deductions worksheet for the 5% DC phaseout of itemized deductions based on State AGI.

For years after 2017 and before 2026, the program assumes D.C. conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions, but **for years after 2017** D.C. also allows the deduction of property taxes limited at the federal level by IRC § 164(b)(6).

Note. D.C. requires that the choice of standard or itemized deductions for state purposes conform to the federal choice. The program handles this rule automatically.

COMBINED FILING STATUS

The program automatically calculates the tax reduction for taxpayers filing a "combined separate" return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

INFLATION ADJUSTMENT

The District of Columbia provides for an annual inflation adjustment for the personal exemption and standard deduction amounts **beginning in 2013.**

Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "District of Columbia" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year District of Columbia tax specifications relating to exemptions, and standard deductions. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For the District of Columbia in years after 2014, the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY." Per the District of Columbia rule, the program does the actual calculation separately for city and county taxes paid to another jurisdiction however they are shown together on the **NY Nonresident Tax** worksheet.

When calculating the credit for the District of Columbia, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Nonresident State Minimum Tax."

GEORGIA

OVERVIEW

When the Georgia specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Georgia:

- Automatic subtraction for personal exemptions

- Automatic calculation of standard deduction

- Automatic calculation of itemized deductions

- Automatic adjustment of AGI for U.S. Government interest, social security benefits and the domestic production activities deduction

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Georgia. For more information on the Georgia tax rates and other state tax matters, refer to Georgia Form 500 and Instructions, as well as other official state publications.

You should review the default settings for Georgia state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Georgia tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

For years after 2002, the program does not automatically carry the number of federal exemptions to the **State Tax Personal Exemptions** worksheet. Enter the proper number of exemptions for the taxpayer and spouse on the "Class 1 Exemptions" row. Enter the number of dependents on the "Class 2 Exemptions" row. **For years after 2012**, the exemptions for a married taxpayer and spouse must be entered on the "Class 3 Exemptions" row instead of the "Class 1 Exemptions" row. The program multiplies the number of exemptions by the

proper exemption amounts. Make no entries for "Class 4" or "Class 5" exemptions.

For years before 2003, the program carries the total number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet, where it may be adjusted for Georgia purposes. The program multiplies this number by the proper exemption amounts. Starting in 1987, the additional deductions for elderly/blind are taken as extra standard deduction amounts rather than as personal exemptions (see below). Make no entries on the other "Class # Exemptions" rows.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Georgia does not have a separate filing status for Qualifying Widow(er). Most individuals who filed as Qualifying Widow(er) for federal purposes will qualify as Head of Household for Georgia. The program makes this change automatically. If you feel that this does not properly reflect state treatment, you may change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts U.S. Government interest and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and also subtracts all social security and railroad retirement benefits beginning in 1988. In 1987 the program subtracts state tax refunds in 1987 only because 1987 is the last year this subtraction is available in Georgia. The program also automatically adds back the domestic production activities deduction.

The other Georgia adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-Georgia portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Georgia adjusted gross income.

OTHER ADDITIONS

Enter any additions to federal AGI in arriving at Georgia taxable net income, including the following:

- Depreciation or gain/loss differences

- Lump sum distributions

- Federal NOL attributable to periods of nonresidence

- Up to $2,400 of unemployment compensation that was not reported for federal purposes in 2009

- Other Georgia additions to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Deductible amounts of disability income

- Subtractions due to depreciation or gain/loss differences

- Minor's unearned income included in the parent's federal AGI

- Mortgage interest disallowed for federal purposes due to claiming the federal mortgage interest credit

- Wage expense disallowed for federal purposes due to claiming the jobs credit

- Exempt portion of minority subcontractor payments

- Amounts previously taxed by Georgia

- Other Georgia subtraction from federal AGI

GEORGIA ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions (after the 3% AGI floor). **For years after 2017 and before 2026**, the program assumes Georgia conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions. **In 2004 only**, itemized deductions are recomputed ignoring the sales tax deduction and using the income tax deduction instead. If federal itemized deductions include an amount for income tax paid to a state other than Georgia, the vehicle sales tax, or investment interest for the production of income exempt from Georgia tax, enter such included amount as a negative number on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet. This will back out the amount from the itemized deductions total for Georgia purposes.

Note. The program assumes that Georgia conforms to the Federal disaster relief legislation which allows qualified charitable contributions entered on Federal Schedule A, row 15b, up to 100% of federal AGI and removes the floor under hurricane related casualty losses. For 2005, to calculate Georgia Itemized without this assumption enter any adjustments on the "Other Adjs to

Federal Itemized" row noted above. For 2005, you need to make an adjustment for 2005 Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base. Also note that these adjustments will affect the carryovers in future years. With respect to Casualty losses, in years after 2003, you should adjust for 2005 Hurricane Casualty Losses not in excess of 10% of AGI. In most cases you can simply make the adjustment for the difference between the federal and state deductions for qualified charitable and hurricane casualty losses. However, if you do not have other itemized to use the 3% AGI floor, are affected by the 80% of total itemized limitation, or just want an audit trail, then you should run multiple cases or a difference analysis. The first case should be the actual federal case. In the second case you should remove the "2005 Qualified Contributions" and enter all of the federal cash charitable contributions on the "50% Charities: Cash – Current" row on the federal **Charitable Contributions Deductions** worksheet. You should also remove any "2005 Hurricane Casualty Losses" and add these amounts to the "Other Net Personal Casualty Loss" row on the federal **Itemized Deductions** worksheet. This will give you total itemized deductions under the old rules, you should enter the difference as an adjustment to Georgia itemized in the first case.

Note. Georgia requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

STANDARD DEDUCTION

The Georgia standard deduction is handled automatically and is computed based on filing status. If the extra amounts for elderly/blind apply, enter the total amount on the second "Adjustment" row of the **State Standard Deduction** worksheet. The program selects the higher of the standard deductions or the Georgia itemized deductions. (See Note above regarding this selection.)

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other**

State Tax worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Georgia credit for taxes paid to a nonresident state the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

▪ **Adjusted Tax at Resident Rates —** the "Adjusted Nonresident Income" multiplied by the Georgia resident tax rates. "Adjusted Nonresident Income" equals the amount on the "Nonresident Source Income" row of the **Nonresident State Tax – Main Worksheet**. Georgia subtracts an amount from Nonresident Source Income equal to

Nonresident AGI ÷ Georgia AGI × {Georgia (standard deduction or itemized) + (Personal exemption + credit for dependents)}.

To make this adjustment, enter a negative amount on the "Adjs to Nonresident Income" row.

▪ **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

▪ **Adjusted Resident Tax —** the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

GEORGIA NONRESIDENT TAX

The following sections describe the calculation of the Georgia nonresident tax for residents of other states who have income from Georgia. In order to calculate the nonresident tax, first choose Georgia as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

> **Note.** To compute the credit against the taxpayer's resident state tax for tax paid to Georgia, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

GEORGIA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - U.S. Government interest,

   - social security/railroad benefits, and

   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

   The program automatically adds back the federal domestic production activities deduction.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Georgia exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income such as Non-Georgia state income tax refunds on the "Other Subtractions" row.

   The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Georgia-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Georgia-sourced interest, dividends, capital gains, and any other Georgia-sourced income. Also include, as a negative adjustment, any Georgia-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc"

row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see the "Georgia Itemized Deductions" section of this chapter). Make a positive adjustment on the "Other Adjs to Federal Itemized" row of this worksheet for the non Georgia state income taxes included on the "State Tax Adjustment" row. Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The Georgia nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Georgia nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Georgia.

7. Georgia requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

8. The program calculates Georgia personal exemptions for residents and nonresidents in the same manner. The program does **not** carry the federal number of personal exemptions to the state exemptions for any years except 1998 through 2002 (see the "Exemptions" section of this chapter). The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Georgia tax, based on the amount on the "Nonresident State Taxable Income" row.

10. If the taxpayer is entitled to any Georgia nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is

allowed any Georgia refundable credits, enter them as a negative number on this row.

HAWAII

OVERVIEW

When the Hawaii specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Hawaii:

- Automatic calculation of personal exemption deduction
- Applies the exemption credit for general income tax
- Automatic calculation of standard deduction
- Computes state itemized deductions
- Automatic subtraction of U.S. Government interest, and social security/railroad benefits
- Automatic addition of the federal domestic production activities deduction
- Optimizes between Hawaii standard deduction and allowable Hawaii itemized deductions
- Calculates the maximum capital gains tax
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Hawaii. For more information on the Hawaii tax rates and other state tax matters, refer to Hawaii Form N–12 and Instructions, as well as other official state publications.

You should review the default settings for Hawaii state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Hawaii tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

The program automatically calculates the maximum capital gains tax rate of 7.25% on the **State Alternative Capital Gains Tax** worksheet. See the "Alternative Capital Gains Tax" section below.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. You may adjust this number on the **State Personal Exemption** worksheet if necessary. You should increase the number of exemptions in row 1 by "1" for each taxpayer over 65 (additional exemptions are not allowed for blind taxpayers). **For years after 2000,** also enter the number of personal exemptions (without any extra exemptions for age or physical impairment) on the "Class 2 Exemptions" row. The program multiplies this entry by the credit amount for general income tax and allows the result as the "credit for general income tax." **Make no entry on the rows for "Class 3" or "Class 4" exemptions (or on the "Class 2 Exemptions" row, in years prior to 2001)**.

For years after 2008 and prior to 2016, the program will automatically phase out the personal exemption per Department of Taxation Announcement NO. 2009-22.

For 2016 and subsequent years, the program will no longer phase out the personal exemption, per legislative changes to Hawaii Revised Statutes, Sec. 235-54(a).

The program adds all of the exemptions entered for all three classes and displays the total on the "Number of Personal Exemptions" row of the **State Tax – Main Worksheet**. If you do not want the total to include Class 2 exemptions (or if total nonrefundable credits exceed total tax liability), make no entries on the **State Tax Personal Exemptions** worksheet (the Class 1 exemptions flow automatically from the federal entries) and instead, enter the total "credit for general income tax" on the "State Refundable Credits" row of the **State Tax – Main Worksheet**. The tax results will be the same in either case.

Enter any additional amount for blind, deaf or totally disabled persons on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program will change the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest
- Social security/railroad benefits
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet
- State income tax refunds are automatically included in AGI, because Hawaii includes these in state AGI. (If any part of such refunds are excludable from state AGI, enter the excludable portion on the Other Subtractions row, described below.)

The program automatic adds back the federal domestic production activities deduction.

The other Hawaii adjustments to AGI should be entered on the following rows:

OUT OF STATE INTEREST

Enter the non-Hawaii portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Hawaii adjusted gross income.

OTHER ADDITIONS

Enter the following on the "Other Additions" row of the **Adjustments for State AGI** worksheet:

- Differences in the deduction for self-employed health insurance
- Any capital loss adjustments that increase state income
- Adjustment to income due to differences in state AGI when computing allowable deductions, such as employer-provided adoption benefits and the student loan interest deduction
- Depreciation adjustments
- Distributions or deemed distributions from an Individual Housing Account
- Unemployment Compensation not reported for federal purposes in 2009
- Other Hawaii additions

OTHER SUBTRACTIONS

Enter the following on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet:

- Allowable military reserve or Hawaii National Guard duty pay exclusion

- Payments to an Individual Housing Account

- Hawaii capital gains deduction, see "Alternative Capital Gains Tax," below

- Expenses disallowed because they were connected with federal credits

- Depreciation adjustments

- Other Hawaii subtractions

Note. For taxpayers electing to include minor child unearned income in federal AGI, you may need to enter such amount as an "other subtraction" for state purposes if the child is filing a separate Hawaii return.

HAWAII ITEMIZED DEDUCTIONS

The program automatically carries total federal itemized deductions, in 2004, 2008 and 2010 and after, including the deduction for state taxes paid or sales taxes for years after 2010, to the State Itemized Deductions worksheet. **For years after 2010**, this amount will be reduced by any state income taxes or sales taxes elected as a deduction on the taxpayer's federal return if federal AGI exceeds the Hawaii income limits. If you elect to deduct the sales tax on your federal return in 2004, 2008 or 2010, the program for state purposes, will instead allow the deduction for state income taxes paid. The AGI limits are applied using state, rather than federal AGI, as per Hawaii law. The program applies the Hawaii 3% floor using state AGI for all years. The inflation adjustment will not be applied to the income base. For years after 2010 the 2009 base amounts will be used. **For years after 2010 and before 2016**, the program will also apply the overall Hawaii Cap for high income taxpayers based on Federal AGI. **For years after 2012**, charitable contributions will not be part of that cap.

You can make any adjustments to specific state itemized deductions on the "Adjustments" row of the individual subworksheets for the various types of itemized deductions. The program applies the appropriate limitations to these adjustments. However, the program will not apply any limitations to an amount entered on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

CHARITABLE

In computing the charitable deduction for state purposes, the program applies only the 50% (60% after 2017) of state AGI limit. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjs to Federal Contributions" row of the **State Charitable Contribution Deduction** worksheet. Note that the program applies the 50% limit to "2005 Qualified Contributions" which are allowed up to 100% of federal AGI for federal purposes. To calculate allowable Hawaii charitable deductions assuming compliance with the federal disaster relief legislation you must make adjustments for Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base. Also be sure to adjust allowable Hawaii charitable contribution carryovers in future years. To increase the charitable contribution deduction in excess of the 50% limit enter the adjustment on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. The program will not apply any limitations to an amount entered there.

TAXES

For years after 2010, for residents with Federal AGI in excess of the Hawaii AGI limit, the program will subtract from this amount either the state income or sales taxes whichever was deducted federally.

For years after 2008, make a negative entry on the "Other Adjustments to Taxes" row of the **Taxes** worksheet if the Motor Vehicle Sales Tax was allowed for federal purposes.

For years after 2017, Hawaii does not conform to the Tax Reform Act of 2017 for limiting State and Local Taxes, so the program will carry the unlimited amount the **State Tax Deduction** worksheet.

INTEREST

An adjustment may be necessary for Investment interest required because dividends are included as investment income for Hawaii purposes. **For years after 2017**, Hawaii does not conform to the Tax Reform Act of 2017 for mortgage interest deductions, so additional deductions may need to be entered on the **State Interest Deduction** worksheet.

CASUALTY LOSSES

With regard to casualty losses, for years after 2003, the program will continue to limit 2005 Hurricane Casualty Losses by the 10% floor. To calculate allowable Hawaii casualty losses assuming compliance with the federal disaster relief legislation, you should enter an adjustment for the difference between the federal and Hawaii casualty deduction. **For years after 2017**, Hawaii does not

conform to the Tax Reform Act of 2017 so enter any personal casualty losses disallowed for federal purposes on the **State Casualty Loss Deduction** worksheet.

MISCELLANEOUS EMPLOYEE AND BUSINESS EXPENSES

For years after 2017, Hawaii does not recognize the repeal of the Miscellaneous Itemized Deductions under the Tax Reform Act of 2017. Enter any Miscellaneous Itemized Deductions on the **State Miscellaneous and Employee Business Expense** worksheet. The program will apply the 2% limit for miscellaneous itemized deductions based on the state adjusted gross income.

STANDARD DEDUCTION

The program computes the Hawaii standard deduction automatically and selects the higher of the standard deduction or the Hawaii itemized deductions. In computing the standard deduction, the program selects the appropriate amount based on filing status.

ALTERNATIVE CAPITAL GAINS TAX

The program automatically calculates the maximum capital gains tax rate of 7.25% on the **State Alternative Capital Gains Tax** worksheet. The program automatically allows the lesser of the "State Regular Tax" row or the "State Alternative Capital Gains Tax" row when computing the total Hawaii tax on the **State Tax – Main Worksheet**. The alternative capital gains tax is computed on the lesser of the long-term capital gain or the net capital gain.

Generally, no adjustments to the alternative capital gains tax should be required. If you are required to make any adjustments to the federal net capital gains, enter them on the "Hawaii Adjustments to Fed Cap Gain" row of the **State Alternative Capital Gains Tax** worksheet.

CREDITS

Enter allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. The program allows nonrefundable credits to offset regular and supplementary taxes, but not amounts entered as "other state taxes." Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other**

State Tax worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Hawaii resident state credit for taxes paid to a nonresident state the program uses Method 3, i.e., it allows the lesser of the "Adjusted Nonresident Tax" row and the "Difference Between Taxes" row on the **Credit for Other State Tax** worksheet. These two rows are described below. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- The "**Adjusted Nonresident Tax**" row is the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

- The **"Difference Between Taxes"** row is the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the **Credit for Other State Tax** worksheet.

- The **"Adjusted Resident Tax"** row is the lesser of the "State Regular Tax" row or the "State Alternative Capital Gains Tax" row of the **State Tax – Main Worksheet** (after subtracting the allocated portion of any "State Supplementary Tax") plus any "Other State Taxes" on that worksheet. The **"Adjusted Tax on Net Resident Income"** row is the ("Adjusted Resident Income" less "Adjusted Nonresident Income") computed using the resident state regular tax schedule.

- The **"Adjusted Resident Income"** row is the amount on the "State Taxable Income" row of the **State Tax – Main Worksheet**. The **"Adjusted Nonresident Income"** row is the "Nonresident State Taxable Income" row of the **Nonresident State Tax – Main Worksheet** multiplied by the "Ratio" row of that worksheet. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

OTHER STATE TAXES

Enter any other state taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Since the program does not calculate the additional tax on the unearned income of a minor child, you should enter the incremental increase in tax where such additional tax is applicable. Also include here (as a positive number) any Hawaii lump sum tax and the amount of additional tax due on the unearned income of a minor child (see Hawaii Revised Statutes, § 235). (See also "Other Subtractions" in the "Adjustments for State AGI" section, above.)

HAWAII NONRESIDENT TAX

For Years after 2006, the following sections describe the calculation of the Hawaii nonresident tax for residents of other states who have income from Hawaii. In order to calculate the nonresident tax, first choose Hawaii as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Hawaii, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

HAWAII NONRESIDENT REGULAR TAX

For Years after 2006, the program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet.** The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - U.S. Government interest,

   - social security/railroad benefits,

   - state income tax refunds, and

   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

   The program automatically adds back the federal domestic production activities deduction.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Hawaii exempt interest and related expenses on the "Out of State Interest" row. Enter any

additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Hawaii-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Hawaii-sourced interest, dividends, capital gains, and any other Hawaii-sourced income. Also include, as a negative adjustment, any Hawaii-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. The program starts the Taxable income calculation with Nonresident Source income. No entries should be required on the Deductions for Nonresident State Taxable Income worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the overall limits for **Nonresident State Itemized Deductions** worksheet in a similar manner as for a resident (see **Hawaii Itemized Deductions** on page 844). However the actual deductions vary for a nonresident.

   a. Medical deductions are computed by starting with the total federal deduction before any limitations. They are multiplied by the Ratio as the first limit. They are then also limited by the AGI reduction.

   b. Casualty losses are only allowed if the property is located in Hawaii. Enter any Hawaii casualty losses on the "Adjustments to Federal Casualty" row of the **Nonresident State Casualty Loss Deduction** worksheet. Any amount entered there will be limited by 10% of the Total AGI for Floor row of that worksheet.

c. Charitable contributions are limited by 50% of state source income and then multiplied by the ratio. The amount by which the program is limiting the charitable deduction will appear on the "Additional Nonres State Limit" row of the **Nonresident State Charitable Deduction** worksheet. If any of the other charitable contribution limits apply they will need to be entered on the "Adjustments to Fed Contributions" row of this worksheet.

d. Taxes: Enter any Hawaii income taxes paid or withheld after all limits and real estate taxes paid on property located in Hawaii, on the "Other Adjustments to Taxes" row of the **Nonresident State Taxes Deduction** worksheet. **For years after 2017**, the program will disallow a negative deduction for taxes paid.

e. Interest: Enter any home mortgage interest secured by a property located in Hawaii and points paid thereon, on the "Adjustments to Interest" row, and any Hawaii investment interest on the "Adj to Investment Interest" row of the **Nonresident State Interest Deduction** worksheet.

f. Miscellaneous & Employee Business Expense: Enter any Hawaii Miscellaneous & Employee Business Expenses on the "Adjs to Federal Misc & Employee" row of the **Nonresident State Misc & Employee Business Expense Deduction** worksheet. The program will apply the 2% State AGI limit.

g. Other Itemized: Enter any other itemized deductions allowed after all limitations on the "Adj to Federal Other Item" row of the **Nonresident State Other Itemized Deduction** worksheet.

6. The Hawaii nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Hawaii nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Hawaii.

7. The program calculates Hawaii personal exemptions for residents and nonresidents in the same manner. The program does not carry the federal number of personal exemptions to the state exemptions (see **Exemptions** on page 842). The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

8. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Hawaii tax, based on the amount on the "Nonresident State Taxable Income" row.

9. The program automatically calculates the maximum capital gains tax rate of 7.25% on the **Nonresident State Alternative Capital Gains Tax**

worksheet. If the Maximum Capital Gains Tax on the "Nonres State Alt Capital Gains Tax" row is lower than the Regular Tax it will be brought to the "Nonresident Regular Base Tax" row of the **Nonresident State Tax – Main Worksheet**.

10. If the taxpayer is entitled to any Hawaii nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Hawaii refundable credits, enter them as a negative number on this row.

STATE TAX CALCULATIONS

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IDAHO

OVERVIEW

When the Idaho specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Idaho:

- Automatic carryover of federal taxable income to the **State Tax** worksheet
- Calculates personal exemption deduction and credit
- Automatic reduction of Idaho taxable income for state tax refunds, U.S. Government interest, and social security income
- Automatic addback of itemized deduction for state income tax paid.
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Idaho. For more information on the Idaho tax rates and other state tax matters, refer to Idaho Form 40 and Instructions, as well as other official state publications.

You should review the default settings for Idaho state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Idaho tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program will change the state filing status to Joint, which will properly reflect state treatment.

FEDERAL TAX BASE

Because the starting point for Idaho income is federal taxable income, the program carries to Idaho the same amounts for personal exemptions and standard deduction as for federal purposes (with the modifications mentioned in their respective sections).

EXEMPTIONS

For years after 2017, Idaho conforms to the 2017 tax act (Pub. L. No. 115-97), which eliminates personal exemptions.

On the **State Tax Personal Exemptions** worksheet, the program carries the number of federal exemptions to the "Class 1 Exemptions" row. **For years after 1988**, the deduction allowed is the same as the federal amount. **For years after 1990**, the program applies the federal phaseout percentage to the Class 1 personal exemption amount. The program assumes that Idaho will conform with the elimination of the federal personal exemption phaseout. No adjustment should be necessary.

To claim the extra Idaho grocery exemption credit, enter the number of eligible exemptions on the No. of Class 2 Exemptions row of the **State Tax Personal Exemptions** worksheet. The program multiplies this entry by the grocery credit amount and allows the result as an exemption credit.

For taxpayers over 65, enter the number of eligible exemptions on the "No. of Class 3 Exemptions" row of the **State Tax Personal Exemptions** worksheet. The program multiplies this entry by $20 ($15 for years prior to 2008).

Note. For years after 2014, for taxpayers with taxable income of $1,000 or less enter an extra exemption on the "No. of Class 4 Exemptions" row. **For years after 2014**, there is no longer an extra exemption credit. **For years after 2007 and before 2013**, include the extra exemption on the "No. of Class 3 Exemptions" row.

Idaho allowed the additional $500 exemption in 2005 and 2006 for Hurricane Katrina displaced individuals, and may allow the 2008 and 2009 exemption for Midwestern displaced individuals. The $500 deduction is limited to $2,000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

Make no entries for Class 4 or Class 5 exemptions.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

The program automatically makes the following adjustments: subtraction of state income tax refunds, U.S. Government interest, social security/railroad benefits, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

The other Idaho adjustments are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-Idaho portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Idaho taxable income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Differences in depreciation and depletion
- Lump sum distribution not included in federal AGI
- Federal NOL carryforward
- Other additions to federal taxable income

OTHER SUBTRACTIONS

Enter any subtraction adjustments:

- Child and dependent care expenses
- Adjustment for claiming federal jobs credit
- Alternative energy and insulation of residence
- Qualified military pay
- Any differences between federal and Idaho AGI for depreciation, depletion, gains and losses, etc. due to differences in basis.
- Idaho 60% (80% in 2001) capital gain deduction (must have Idaho situs; see Form 40 for other restrictions)
- Personal care services to a family member
- Contributions to an Idaho medical assistance account
- Other subtractions from federal taxable income

STANDARD DEDUCTION

The Idaho standard deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount per the filing

status, including the additional amounts allowed for elderly/blind. (In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.) **For years after 2007**, the program will allow the additional deduction for residential property tax, casualty loss and the vehicle sales tax as part of the standard deduction if allowed federally. If you would like to change this assumption go to the state standard deduction specification in the State Specs and change the "Use Federal Real Property Tax (Y/N)" spec to No. See Resident and Nonresident State Specifications Overview for more information.

For years after 2017, Idaho conforms to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction.

Note. If the filing status is Qualified Widower, for years after 1998 and before 2003, subtract the difference between the Idaho standard deduction for a Qualified Widower and the Idaho standard deduction for filing a joint return. Enter the adjustment as a negative amount on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For the Idaho itemized deduction amount, the program starts with total federal itemized deductions and automatically subtracts state income taxes or the sales taxes deducted. (For 2004 only, itemized deductions are recomputed ignoring the sales tax deduction and using the income tax deduction instead.) The program applies the 3% AGI floor and automatically reduces the subtraction for state taxes paid by a proportionate part of the federal floor. **For years before 2005**, the proportion is computed by dividing the federal deduction for state income or sales taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. In 2005, there was a rule change involving the allocation of the federal phaseout. In 2005 the program uses the corrected 2006 method for this allocation. **For years after 2004**, the percentage is computed by dividing the allowed itemized by total itemized and multiplying the result by the federal deduction for state income taxes or sales taxes.

For years after 2017, Idaho conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

There could be a slight rounding error because the instructions for Idaho's Form 40 indicate that — when the fraction is divided — it should be rounded to the nearest whole percent. The program does not round this number.

INFLATION ADJUSTMENT

Idaho provides for an annual inflation adjustment for the state tax rate brackets **beginning in 2000**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Idaho" in Help. If desired, you can estimate the amount of the inflation factor for future years and use it to adjust future year Idaho tax specifications to handle anticipated inflation adjustments. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Idaho, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

▪ **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER TAXES

Enter the amount of the "Permanent Building Fund Tax" ($10), the ITC recapture tax, and any other state or local income tax, as well as any adjustment to total Idaho taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Do not include the use/sales tax here since the program carries total state taxes as a federal itemized deduction (when selected on the **State Estimated & Withholding Payments** worksheet) and use/sales taxes are no longer deductible for federal purposes.

IDAHO NONRESIDENT TAX

The following sections describe the calculation of the Idaho nonresident tax for residents of other states who have income from Idaho. In order to calculate the nonresident tax, first choose Idaho as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Idaho, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

IDAHO NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI, after reducing it for the following:

   - state income tax refunds,

   - U.S. Government interest,

   - social security/railroad benefits, and

■   pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Idaho exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

The program uses the amount on the "Nonresident Source Income" row as the numerator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Idaho-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Idaho-sourced interest, dividends, capital gains, and any other Idaho-sourced income. Also include, as a negative adjustment, any Idaho-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax Main** worksheet. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see the "Adjustments to Federal Itemized Deductions" section of this chapter). Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The Idaho nonresident standard deduction is handled automatically and allows the appropriate amount per filing status (see the "Standard Deduction" section of this chapter). The Idaho nonresident standard deduction is

multiplied by the Ratio when computing the standard deduction allowed in Idaho.

7. Next, the program subtracts the higher of the Idaho nonresident standard deduction (for the selected filing status) or the Idaho nonresident itemized deductions from the amount on the "Nonres State AGI" row to calculate nonresident state taxable income.

8. The program calculates Idaho personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state (see the "Exemptions" section of this chapter). The exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Idaho tax, based on the amount on the "Nonresident State Taxable Income" row.

10. If the taxpayer is entitled to any Idaho nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Idaho refundable credits, enter them as a negative number on this row.

ILLINOIS

OVERVIEW

When the Illinois specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Illinois:

- Automatic subtraction for personal exemptions
- Automatic adjustment of AGI for Illinois income tax refunds, U.S. Government interest, and social security/railroad benefits
- Credit rate for Enterprise Zone Investment Credit
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Illinois. For more information on the Illinois tax rates and other state tax matters, refer to Illinois Form IL–1040 and Instructions, as well as other official state publications.

You should review the default settings for Illinois state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Illinois tax rate is contained in the state specifications and automatically loaded into the program.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet where it may be adjusted if needed. The state number will generally be the same as the federal number.

An additional exemption may be allowed for the taxpayer and/or spouse even if they are a dependent claimed on another person's return. The Illinois base income must also be less than the basic amount to claim the additional exemption if the taxpayer is a dependent claimed on another person's return.

If the taxpayer or a qualified spouse is at least 65 years of age or blind, increase the number on the "Class 2 Exemptions" row by 1 for each such condition. When a joint Illinois return is not filed, the taxpayer is also allowed the additional exemption if the spouse has no gross income and is not the dependent of another taxpayer. The program multiplies the number on the "Class 2 Exemptions" row by the $1,000 exemption amount.

Make no entries for the other "Class #" exemptions.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change that number if necessary.

For years after 2016, the program will disallow personal exemptions if federal adjusted gross income exceeds the appropriate threshold.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts state income tax refunds, U.S. Government interest, social security/railroad benefits, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

Illinois has a 5% Residential Property Tax Credit (see "Credits" below).

The other Illinois adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter all state interest income that was not taxed at the federal level. (Illinois requires that even the exempt interest derived from Illinois must be added back to income). The program adds this amount in calculating Illinois adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- Realty tax refunds previously deducted

- Partnership or S corporation income not taxed federally

- Illinois income taxes deducted in computing AGI for federal purposes

- Depreciation differences

- Other required additions to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Deductible amounts for military pay

- Schedule F valuation limitation

- Ride sharing benefits

- Enterprise zone dividends

- Amounts included in federal AGI as a recovery of amounts deducted previously on federal Schedule A

- Depreciation differences

- Taxable portion of the regular IRA to Roth IRA rollover

- Other allowable subtractions from federal AGI

OTHER STATE TAXES

Enter recapture of Enterprise Investment Credit (Illinois Schedule 4255) and any other state or local income taxes.

INFLATION ADJUSTMENT

For Years beginning after 2012, Illinois provides for an annual inflation adjustment for the personal exemption. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Illinois" in Help. If desired, you can estimate the amount of the inflation factor for future years and use it to adjust future year Illinois tax specifications to handle anticipated inflation adjustments. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

The program automatically computes the 5% Residential Property Tax Credit by multiplying the amount on the "Property Taxes: Residential" row of the federal **Itemized Deductions** worksheet by 5%. Therefore, the amount entered on the "Property Taxes: Residential" row should include only those

property taxes relating to the taxpayer's principal residence. Enter any other non-investment property taxes, such as for a second residence, on the "Other State & Local Taxes" row of the federal **Itemized Deductions** worksheet.

The credit rate for the Enterprise Zone Investment Credit (.5%) is built into the program. Enter the amount of qualified property on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. Enter any other allowable Illinois nonrefundable credits on the same worksheet, on the "Other Credits and Adjustments" row. Enter any refundable credits, including the Illinois earned income credit, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

In certain states, Illinois has reciprocal agreements for wages and other income from personal or professional services. In these states (such as Michigan) there should be no tax withheld by the nonresident state and therefore no double taxed income. If the taxpayer has other types of income in one of these states there could still be a credit.

Note. If the nonresident state is New York, the computations are done on the **Credit for NY Nonresident Tax** worksheet and the references below are to that worksheet and the **New York Nonresident Tax** worksheet. For Illinois the New York calculations include New York City Taxes. If the New York nonresident computations apply along with another nonresident state, then the combined computations are done on the **Credit for Other State Tax** worksheet.

When calculating the credit for Illinois, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Nonresident State Minimum Tax".

ILLINOIS NONRESIDENT TAX

The following sections describe the calculation of the Illinois nonresident tax for residents of other states who have income from Illinois. In order to calculate the nonresident tax, first choose Illinois as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Illinois, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

Note. Illinois has reciprocal agreements with certain states to exclude wages, salaries, tips and other employee compensation from nonresident income. However, there could still be other income from those states that should be included.

ILLINOIS NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - state income tax refunds,

   - U.S. Government interest,

   - social security/railroad benefits, and

   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Illinois exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income such as non-Illinois state income tax refunds on the

"Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Illinois-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Illinois-sourced interest, dividends, capital gains, and any other Illinois-sourced income. Also include, as a negative adjustment, any Illinois-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax Main worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program calculates Illinois personal exemptions for residents and nonresidents in the same manner (see the "Exemptions" section of this chapter). The program carries the federal number of personal exemptions to the state. The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

6. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Illinois tax, based on the amount on the "Nonresident State Taxable Income" row.

7. If the taxpayer is entitled to any Illinois nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Illinois refundable credits, enter them as a negative number on this row.

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INDIANA

OVERVIEW

When the Indiana specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Indiana:

- Automatic subtraction for personal exemptions

- Automatic adjustment of AGI for Indiana income tax refunds, U.S. government interest, and social security/railroad benefits

- Automatic addition of the federal domestic production activities deduction

- Calculation of Indiana County Tax

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Indiana. For more information on the Indiana tax rates and other state tax matters, refer to Indiana Form IT–40 and Instructions, as well as other official state publications.

You should review the default settings for Indiana state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Indiana tax rates are contained in the state specifications.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This number may be adjusted at the state level if needed, such as for additional exemptions for over 65 or blind. The program multiplies the number on this row by the $1,000 exemption amount.

An additional exemption of $1,500 is allowed for each dependent exemption allowed under IRC § 151(c)(1)(B). Enter these exemptions on the "Class 2 Exemptions" row.

An additional exemption of $500 is allowed for each exemption allowed under IRC § 63(f)(1) (if over 65) if federal AGI is under $40,000. Enter these exemptions on the "Class 3 Exemptions" row.

Make no entry on the "Class 4" exemption row; any entry on this row will be ignored by the program.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Indiana does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts state income tax refunds, U.S. Government interest, social security/railroad benefits, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. The program also automatically Automatic adds back the federal domestic production activities deduction.

The other Indiana adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OTHER ADDITIONS

Enter the following:

- State income tax or property taxes deducted in arriving at federal AGI (i.e., "above the line")
- Ordinary portion of lump sum distributions not included in federal AGI
- Non-Indiana NOL amounts
- Depreciation differences
- For years after 2008, any required unemployment insurance income adjustment
- Other additions to federal AGI for state purposes

OTHER SUBTRACTIONS —

Enter the following:

- Deductible amounts for the renter's deduction
- Supplemental railroad annuities
- Excludable portion of unemployment benefits
- Insulation deduction
- Allowable military pay
- Earned income tax deduction for taxpayers with dependent children for 2000 only
- "Non-Indiana locality earnings deduction" (up to the $2,000 limit)
- Any differences between federal and state AGI for depreciation, and capital gains and losses
- Other subtractions from federal AGI for state purposes

ITEMIZED OR STANDARD DEDUCTION

Indiana allows a residential homeowner's property tax deduction for residential property taxes up to a limit of $2,500. The program subtracts, as an itemized deduction for state purposes, the amount entered on the "Property Taxes: Residential" row of the federal **Itemized Deductions** worksheet. Indiana allows a deduction only for property taxes on the taxpayer's principal residence. Therefore, the amount entered on the "Property Taxes: Residential" row should include only those property taxes relating to the taxpayer's principal residence. Enter any other non-investment property taxes, such as for a second residence, on the "Other State & Local Taxes" row of the federal **Itemized Deductions** worksheet. (See the program help messages for these two rows.)

INDIANA COUNTY TAX

The program handles the county tax on the **State Supplementary Tax** worksheet. The program carries the total Indiana taxable income as the county tax base for residents of "adopting counties." If the taxpayer claimed the "Non-Indiana locality earnings deduction," enter the amount deducted as a positive amount on the "Adjustments" row. The program adds this amount to state taxable income and calculates the county tax using the county tax rate entered on the **State Supplementary Tax Specifications** worksheet.

For residents of "non-adopting counties," find the county taxable income using the Indiana Schedule CO–40; then adjust the "Total State Supplementary Tax" row using a positive or negative entry to equal the appropriate taxable income.

Because 1/3 of the Indiana counties impose no county tax, the program is shipped with the county tax rate set to "0," to avoid calculating an incorrect county tax. You should create a new "altered" state specifications file to build in the applicable county tax rate as follows:

1. On the **Income Tax Planner** menu bar, select **Resident State Specifications** from the Options menu.

2. On the **State Specifications** window, select **Schedules** from the menu bar.

3. Move the cursor down to row 3, "Schedule 3" (Supplementary Tax), then double-click on the Description COUNTY TAX in that row. The **Supplementary Tax Schedule COUNTY TAX** dialog appears.

4. Move the cursor to the "+ Percent Of" column and enter the applicable county tax rate in place of the "0.000" that appears there.

Click **OK** to close the **COUNTY TAX** dialog. Then click Close to exit the **State Schedules** dialog and return to the **State Specifications** window. For information on saving altered state tax specifications files, see the program's online help.

Alternatively, instead of entering the county tax rate and using the automatic calculation feature, you can manually enter the amount of the county tax as a positive adjustment to the "Other State Taxes" row of the **State Tax – Main Worksheet**.

OTHER STATE TAXES

Enter any other state or local income taxes, except the sales tax on out-of-state purchases, on the "Other State Taxes" row of the **State Tax – Main Worksheet**. You cannot include sales taxes here because the program automatically carries the total state tax as a federal itemized deduction (when selected on the **State Estimated & Withholding Payments** worksheet) and sales taxes are no longer deductible for federal purposes.

CREDITS

Enter the allowable Indiana nonrefundable credits, including the Indiana college credit, gas tax credit, and solar/wind energy credit, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the Indiana refundable credits (including state withholding/estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

In certain cases, Indiana does not give the credit for the nonresident tax. Instead, the nonresident state gives the credit as part of its nonresident computation. For example, when California is the nonresident state, California gives the credit rather than Indiana. In such cases, choose "Nonresident" on the "Cr Allowed by Res or Nonres State" row of this worksheet.

In other states Indiana has reciprocal agreements for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double taxed income. If the taxpayer has other types of income in one of these states there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Indiana credit for taxes paid to a nonresident state the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Tax at Resident Rates —** the "Adjusted Nonresident Income" multiplied by the Indiana resident tax rates. "Adjusted Nonresident Income" equals the amount on the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits in years prior to 2015 (except any credit for resident state tax) on that worksheet.

- **Adjusted Resident Tax —** the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

Note. Indiana allows a credit for any city and/or county taxes paid in Indiana. However, that credit is computed separately based on the Indiana county tax. Enter this or any other adjustment to the credit on the "Adjustments to Credit for Other State Tax" row.

INDIANA NONRESIDENT TAX

The following sections describe the calculation of the Indiana nonresident tax for residents of other states who have income from Indiana. In order to calculate the nonresident tax, first choose Indiana as the taxpayer's nonresident state, and then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Indiana, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

Note. Indiana has reciprocal agreements with certain states to exclude wages, salaries, tips, and other employee compensation from nonresident income. However, there may be other income from those states that should be included as nonresident income.

INDIANA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI prior to adjustments as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Indiana-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonresident Source Income" row. Include, as adjustments, any Indiana-sourced interest, dividends, preference items, capital gains, and any other Indiana-sourced income or loss.

    The program uses the amount on the "Total Nonresident Source Income" row as the starting point of the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the **Ratio: Nonresident Source Income Total Income** worksheet accessed from the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the base for the numerator and can be adjusted using the

"Adjustment to Nonresident Source Income" row of the **Ratio** worksheet. The amount on the "Federal AGI" row is used as the base for the denominator and can be adjusted using the "Other Adjustments" row of the **Ratio** worksheet.

4. Make any other adjustments required including the IRA or Keogh deductions, self-employed health insurance deductions, etc. on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet the program deducts the amount on the "Deductions for Nonresident State Taxable Income" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program calculates Indiana personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state exemptions (see "Exemptions"). The total exemption amount is multiplied by the Ratio. The reduced amount is then carried to the "Nonresident Personal Exemption Deduction" row on the **Nonresident State Tax – Main Worksheet**.

6. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Indiana tax, based on the "Nonresident State Taxable Income" row.

7. If the taxpayer is entitled to any Indiana nonrefundable credits, enter them on the "Other Nonresident Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. Enter the applicable Indiana county tax rate on the "Nonresident State Supplementary Tax Rate" row of the **Nonresident State Supplementary Tax** worksheet.

9. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Indiana refundable credits, enter them as a negative number on this row.

STATE TAX CALCULATIONS

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IOWA

OVERVIEW

When the Iowa specifications are used with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Iowa:

- Handles both the regular and new optional tax computation
- Automatic calculation of personal exemption credit
- Automatic calculation of standard deduction
- Automatic calculation of state itemized deductions
- Optimizes between Iowa standard deduction and allowable Iowa itemized deductions
- Automatic calculation of deduction for federal income tax
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Automatic adjustment for Iowa tax refunds and U.S. Government interest
- For years after 2013, the program will automatically subtract federally taxed social security income
- Calculates Iowa alternative minimum tax
- Handles "married filing combined" tax reduction
- Calculates credit for other state tax
- **For years after 2018**, the phase-in of the Qualified Business Income Deduction for Iowa purposes

The following notes provide a guide for entering specific items relating to Iowa. For more information on the Iowa tax rates and other state tax matters, refer to Iowa Form IA 1040 and Instructions, as well as other official state publications.

You should review the default settings for Iowa state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Iowa tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. See "Inflation Adjustment" below for information regarding the inflation adjustment.

SELECTION OF REGULAR OR OPTIONAL METHOD

The program calculates the tax using either the regular tax computation or the new optional method for taxpayers other than single taxpayers. Select the "IOWA REG" state file on the file selection menu to use the regular method; select the "IOWA OPT" file to use the optional method. The following paragraph and the "Exemptions" section describe the optional method; the rest of the notes describe the regular method.

The program computes the optional method based on the total Iowa "net income" (without reduction for itemized deductions, capital gains deduction, or the deduction for federal tax paid), less the statutory amount of $13,500. (This subtraction is handled by the program on the "State Standard Deduction" row. For years after 2007, if 65 or over enter the extra $10,500 exemption on the "Adjustment to STD/ZBA" row of the Standard deduction worksheet.) The program multiplies this base by the maximum regular tax rate of 8.98%. The program then computes any additional alternative minimum tax (see "Alternative Minimum Tax" for amounts and required entries). Follow the instructions below regarding adjustments for state AGI, credits, and other taxes.

You may want to calculate the state tax liability under both methods. The program allows you to switch from one method to the other without re-entering the client tax data.

EXEMPTIONS

The program carries the total number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet, where it may be adjusted for Iowa purposes. The program multiplies this entry by $40 and allows the result as an exemption credit. If the filing status is Head of Household (but not if filing as Qualifying Widow(er) for federal purposes), enter an extra exemption on the "Class 1 Exemptions" row. Dependents filing their own return can claim the $40 personal exemption credit even though they are claimed as a dependent on another person's Iowa return. Enter such adjustment on the "Class 1 Exemptions" row. On the "Class 2 Exemptions" row, enter additional exemptions for each taxpayer and spouse who is blind or over 65. The program multiplies this entry by $20 and allows the result as an exemption credit. Make no entries on the rows for "Class 3" or "Class 4" exemptions.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Separately on Same Return then enter Joint filing status and see below for Combined filing status instructions.

If you chose Qualifying Widow(er) as the federal filing status, the program will change the state filing status to Head of Household, which will properly reflect state treatment. (See "Exemptions.")

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following adjustments: subtraction of U.S. Government interest, state tax refunds, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. (The deduction for federal income taxes is handled automatically as a "below the line" subtraction from Iowa net income; see "Deduction for Federal Tax".) **For years after 2013**, the program will automatically subtract federally taxed social security income.

OUT OF STATE INTEREST

Enter the amount of municipal interest not taxed at the federal level. Include Iowa municipal interest except exempt interest from Iowa Regents. The program adds this amount in calculating Iowa adjusted gross income.

OTHER ADDITIONS

Enter the following on the "Other Additions" row of the **Adjustments for State AGI** worksheet:

- Adjustments to depletion allowances and intangible drilling costs deducted for federal purposes
- Iowa modifications to partnership income
- NOL adjustment
- For years after 2008, any required unemployment insurance income adjustment
- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet:

- **For years before 2014**, pursuant to Iowa Section 422.7.13(a), enter the amount, if any, of Social Security income currently taxable for federal AGI that exceeds the Social Security income that would have been included if inclusion continued to follow the IRS Code as amended on January 1, 1993. **For years after 2006** also include the amount of the additional phaseout in Iowa S.F. 2408, laws 2006 which creates Iowa Section 422.7.13(b). This section excludes an additional 32% in 2007 and 2008, 43% in 2009, 55% in 2010, 67% in 2011, 77% in 2012, 89%in 2013, and 100% in 2014 of the remaining taxable amount. In 2014 the Social Security amount will be automatically subtracted by the program.

- Portion of the railroad retirement benefits added for federal AGI

- Expenses disallowed for federal purposes due to claiming a credit on the federal return

- Small Business Deduction (50% of qualified wages)

- Iowa modifications to partnership income

- NOL adjustment

- The 100%capital gain deduction for certain types of property

- Unearned income of children included in the parent's return

- Adjustments to IRA deduction

- Health insurance premiums

- The exemption for qualified low income seniors

- **For 2018**, any allowed Iowa domestic activities deduction as previously allowed under the 2017 Tax Reform Act

- **For years after 2017**, any moving expenses previously allowed as a deduction under the 2017 Tax Reform Act

- **For years after 2017**, business entertainment and qualified fringe benefits previously allowed under the 2017 Tax Reform Act

- Other subtractions from federal AGI

CAPITAL GAINS

The capital gains deduction applies only to certain business or farming assets. See Iowa Code § 422.7. Due to the general unavailability of the deduction after 1989, the program does not calculate the deduction for such years and you

should enter such deduction on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet.

STANDARD DEDUCTION

For the Optional Method the flat standard deduction is handled automatically. For years after 2007, if 65 or over enter the extra $10,500 exemption on the "Adjustment to STD/ZBA" row of the Standard deduction worksheet.

For the Regular Method the program automatically deducts the standard deduction. It then selects the higher of the standard deduction or the Iowa itemized deductions. If the taxpayer files using "Separate Combined" status, you must enter as a negative number, on the "Adjustments" row of the **State Standard Deduction** worksheet an amount equal to the state standard deduction for the Joint filing status less two times the deduction for the Separate filing status.

IOWA ITEMIZED DEDUCTIONS FOR YEARS AFTER 2013

For years after 2013, the program recomputes Iowa itemized deductions generally following the federal rules. However, Iowa no longer conforms to federal AGI in certain areas. Iowa requires an adjustment to income for what they call "Conformity Modifications" for purposes of computing the itemized deduction limits. Make any adjustment to Federal AGI for this amount on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheets. Specific deductions are handled by the program as follows:

MEDICAL

For years after 2013, the AGI limits to federal medical expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to the Federal Medical Deductions may be entered on the "Adjustments to Federal Medical" deduction row of the **State Medical Expense** worksheet.

TAXES

For years after 2013, all tax expense amounts entered on the federal Itemized Deductions worksheet including any sales taxes elected as a deduction on the taxpayer's federal return are allowed in full for Iowa purposes. The State income tax amount is then subtracted on the "IA-NY-VA-VT State Income Tax Adj" row of the **State Itemized Deductions** worksheet after reduction for the allocation of the recomputed 3% AGI Floor. Make any necessary adjustments on the "Other Adjustments to Taxes" row of the **State Taxes Deduction** worksheet. Iowa only uses Iowa taxes to compute the "IA-NY-VA-VT State Income Tax Adjustment" row of the **State Itemized Deductions** worksheet, so

enter a positive adjustment on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet equal to the non-Iowa portion of the "IA-VA-VT State Income Tax Adjustment" amount. **For 2018 and later**, taxpayers may claim the itemized deduction for non-Iowa state and local income taxes even though they did not itemize for federal purposes, so make any necessary adjustments for this on the **State Taxes Deduction** worksheet. Iowa does not conform to IRC § 164(b)(6) that limits the deduction for state and local taxes. **For years after 2018**, Iowa generally conforms to the Tax Cut and Jobs Act of 2017, so for those years the "IA-NY-VA-VT State Income Tax Adj" row will equal zero due to the absence of the 3% floor.

INTEREST

For years after 2013, the full amount of all interest expense amounts allowed on the federal **Itemized Deductions** worksheet, including investment interest, personal, and other interest, are carried by the program as Iowa deductions. If you need to make any adjustment to this amount make an adjustment on the "Adj to Investment Interest" row of the **State Interest Deduction** worksheet. If you make any adjustments, you will also need to adjust the carryover amounts in future years.

CHARITABLE CONTRIBUTIONS

For years after 2013, Iowa allows the same amount as allowed for federal purposes. The program carries this number as an Iowa itemized deduction. The program does not adjust charitable contributions for the fixed date conformity modifications entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheets. If an adjustment to federal charitable contributions is necessary, make any adjustment on the "Adj to Federal Contributions" row of the **State Itemized Deductions** worksheet. If you make any adjustments, you may need to adjust the carryover amounts in future years.

CASUALTY

For years after 2013, the AGI limits to federal casualty expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to federal casualty deductions may be entered on the "Adjustments to Federal Casualty" deduction row of the **State Casualty Loss Deduction** worksheet.

MISCELLANEOUS ITEMIZED DEDUCTIONS

For years after 2013, the AGI limits to federal miscellaneous itemized deductions expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the

"Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to federal miscellaneous itemized deductions may be entered on the "Adjs to Federal Misc & Employee" deduction row of the **State Misc & Employee Business Expense** worksheet.

OTHER ITEMIZED

For years after 2013, the total amount of federal other itemized deductions expense amounts entered on the federal **Itemized Deductions** worksheet are allowed in full. Any adjustments to this amount may be entered on the "Adj to Federal Other Itemized" row of the **State Other Itemized Deductions** worksheet.

ADJUSTMENTS

For years after 2013, enter any other adjustments to the total Iowa itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

IOWA ITEMIZED DEDUCTIONS FOR YEARS PRIOR TO 2014

Note. For any year after 2002 and prior to 2014, if you want the program to compute itemized deductions in a manner consistent with the method above rather than the method below. For more information, see the **Resident and Nonresident State Specifications Overview** in help. In the **State Itemized Deductions** specification worksheet, change the "Recompute Itemized (Y/N)" row to Yes. The underling specs are already answered correctly so that no other specification adjustments should be necessary.

For years prior to 2014, the program starts with total federal itemized deductions (after the 3% AGI floor and automatically subtracts state income taxes. or the sales tax (for years prior to 2010) if deducted for federal itemized. The Iowa subtraction of state income taxes or sales taxes paid if applicable is computed using the percentage determined under IRC § 68(a). The percentage is computed by dividing the federal deduction for state income taxes or the sales tax if applicable, by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. Enter any other adjustments to the total Iowa itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. For example, include the amount of allowable dependent care expenses, dependent school expenses (only if not also claiming a credit for this expense), allowable adoption expenses, and charitable mileage amounts.

DEDUCTION FOR FEDERAL TAX LIABILITY

The program automatically computes the Iowa deduction for federal taxes paid, using total federal tax liability computed as follows:

> regular tax + excess advance premium tax credit recapture + alternative minimum tax + lump sum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes, + the Medicare Investment Income Tax, less nonrefundable credits, less the earned income credit.

The federal tax thus computed may differ from the amount used for the Iowa deduction, which uses federal taxes paid. Make adjustments to this amount using the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet, accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**. **For 2014 and thereafter**, if there is a Federal Premium Tax Credit on IRS form 8962, then adjust the Federal Tax by making a negative adjustment on this row. Also make an adjustment for Additional Medicare tax from federal form 8959 reported on line 62a of the federal 1040.

For 2006 only, you will need to make a positive adjustment to offset any negative entry that was entered for the Credit for Telephone Excise Tax amount on the "Social Sec Tip & Excess Plan Taxes" row of the **Self-Employment and Other Taxes** worksheet, accessed from the Federal **Main Worksheet**.

For 2001, if there is no refund to offset it, make a positive adjustment on this row for the amount of the federal tax rebate on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet.

Note. Enter any federal income tax refunds as a negative adjustment on the "Adjustments to Federal Tax" row described above. **In 2001**, do not include the amount of the federal tax rebate as part of the refund. No adjustment is necessary for self-employment taxes except the Social Security taxes on tips included in the "SS Tip & Excess Plan Taxes" row, which requires a negative adjustment because the program automatically excludes such taxes for Iowa state purposes.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an

itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

IOWA ALTERNATIVE MINIMUM TAX

The program automatically computes the Iowa alternative minimum tax, subject to the adjustments described below. The exemption and the phaseout of the exemption is built into the rate schedules.

The tax is calculated as 6.7% (i.e., 75% times the maximum tax rate of 8.98%) times Iowa alternative minimum taxable income (AMTI).

Iowa AMTI consists of state taxable income, computed without the capital gains deduction, plus federal preferences and adjustments (with the modifications described in § 422.5, Subsec. (1)(k)). This tax base is then reduced by the state exemption amount: $26,000 for single, head of household, or qualifying widower; $35,000 for joint; and $17,500 for married filing separate. This exemption is phased out by the amount of 25% of the excess of state AMTI over the following floors: $112,500 for single or head of household, $150,000 for joint, and $75,000 for married filing separate.

The program operates as follows. The program adds together state taxable income (after reduction for the capital gains deduction) and federal preferences and adjustments (without the state modifications described above), and carries this amount as the Iowa alternative minimum taxable income.

You **must** make the following adjusting entry on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet: enter the net total of the capital gains deduction **for years prior to 1990** (as a positive number) and the state modifications to preferences and adjustments (as a positive or negative number). (Also, Iowa does not include the federal preference items for exempt interest, depletion and intangible drilling costs; if federal AMTI includes these items, include the total as a negative adjustment on this row. Include any adjustment necessary to the state NOL deduction.)

The program automatically calculates the Iowa alternative minimum tax exemption, including the phaseout, by building it into the alternative minimum tax rate schedule.

For 2018 only, the program will use the amount of taxes unlimited by the IRC § 164(b)(6) limit.

For 2019 and later, the program will reduce the Iowa AMTI by the Iowa AMT exemption after any phaseouts.

COMBINED FILING STATUS

The program automatically calculates the tax reduction for taxpayers filing a "combined separate" return. The program handles this calculation by comput-

ing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Note. This credit is not applicable when using the optional Iowa method.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

Note. Iowa allows a lesser standard deduction for "combined" taxpayers. The program uses the joint amount. Therefore, you **must** reduce the standard deduction by the difference between the "combined" amount and the "joint" amount. If you make an entry on the "Amount to be Separately Taxed" row, enter the difference (as a negative number) on the "Adjustments" row of the **State Standard Deduction** worksheet.

CREDITS

Enter any allowable Iowa credits (other than the personal exemption credit), including the credit for alternative minimum tax, on the **State Nonrefundable Credits** worksheet or on the "State Estimated & W/H Payments" subworksheet of the federal **Main Worksheet**. Include state withholding and estimated payments on the "State Estimated & W/H Payments" subworksheet.

Note. The program allows nonrefundable credits to offset both regular tax and the alternative minimum tax. Iowa also allows the credits as a reduction of the lump sum tax. In the unusual situation in which the program is not allowing the full amount of credit due to the above rule, you should make the following adjustment. If any credit balance remains and there exists a lump sum tax, reduce the amount of lump sum tax entered on the **Other State Taxes** worksheet (see below) by the amount of the remaining credit.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Iowa has a reciprocal agreement for wages and other income from personal or professional services with Illinois. Since no tax is payable by the nonresident state, there is no double taxed income. If the taxpayer has other types of income in Illinois, there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For Iowa in years after 2014, the New York calculations includes New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Iowa, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." You should adjust "Adjusted Resident Income" to reconcile state AGI to gross state income, which Iowa uses as the denominator to compute the ratio. The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Workshee**t.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row plus any "Nonresident State Minimum Tax" on the **Nonresident State Tax – Main Worksheet** (and for years before 2014, after subtracting the allocated portion of any "Nonresident State Supplementary Tax" on that worksheet.) less any nonrefundable credits.

Note. Iowa allows a separately calculated credit for any alternative minimum tax and lump sum distribution tax paid to another state. Enter these and any other adjustments to the credit on the "Adjs to Credit for Othr St Tax" row.

OTHER STATE TAXES

Enter any other state taxes, including the Iowa lump sum tax and the school district surtax, on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

INFLATION ADJUSTMENT

Iowa provides for an annual inflation adjustment for the state tax rates and started inflating the standard deduction **beginning in 1991**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Iowa" in Help. If desired, you can estimate the amount of the inflation factor for future years and use it to adjust future year Iowa tax specifications to handle anticipated inflation adjustments. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

TAX-EXEMPT STATUS

Iowa exempts from tax certain low-income taxpayers. Also, taxpayers who have a "distressed sale" in the tax year are eligible for a reduction in state tax liability. Because the program does not apply these rules, in these unusual situations you should make a negative adjustment on the "Other State Taxes" row to reduce or eliminate the state tax liability calculated by the program.

ALTERNATE STATE TAX BASE

Because Iowa allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Iowa.

IOWA NONRESIDENT TAX

The following sections describe the calculation of the Iowa nonresident tax for residents of other states who have income from Iowa. In order to calculate the nonresident tax, first choose Iowa-Reg or Iowa-Opt as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Iowa, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

IOWA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Iowa rules in the same manner as for residents). The tax is then calculated as follows:

- State income tax refunds
- U.S. Government interest
- For years after 2013, the program will automatically subtract federally taxed social security income.
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and
- Subtracts as a "below the line" deduction the federal income tax liability (see **Deduction for Federal Tax Liability** on page 884).

Out of State Interest – Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. Reduce this amount by related expenses if such expenses exceed $500. The program adds the amount entered in calculating Iowa AGI.

1. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

   The program uses the amount on the "Nonres State AGI" row as total income when calculating the ratio described below.

2. The program then subtracts from "Nonres State AGI" the higher of the Iowa standard deduction (for the selected filing status) or Iowa itemized deductions if the taxpayer itemized for federal purposes, to derive Nonresident State Taxable Income. Make a positive adjustment on the "Additional Nonres State Itemized" row of this worksheet for the portion of non-Iowa state income taxes included on the "IA-VA-VT State Income Tax Adj" row on the **Nonres State Itemized Deductions** worksheet.

3. Iowa has a Personal Exemption Credit which is computed as if the taxpayer were a resident. If Married filing separately on a combined return enter the spouse's portion of the exemption credit on the "Iowa Spouse's Share PE Credit" row of the **Nonresident State Tax Personal Exemptions** worksheet.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Iowa tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row. For a Joint filer in Iowa this row is not used.

STATE TAX CALCULATIONS

5. Next, on the **Nonresident Source Income** worksheet designate which income is Iowa-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouses's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Iowa-sourced interest, dividends, or capital gains, as well as any other Iowa-sourced income. Also include, as a negative adjustment, any Iowa-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonresident State AGI"). For this calculation, the ratio cannot exceed 1.00.

    For a taxpayer filing Joint for federal and Combined for Iowa go to the Ratio:Nonres Income/Resident Income worksheet enter the Spouse's Adj to Source Inc and the Spouse's Portion of Total Income. Also go to the Nonresident State Nonrefundable Credits worksheet and enter the Spouses share of taxable income on the "Amount to be Separately Taxed" row.

7. If the taxpayer is entitled to any other Iowa nonrefundable credits that are deducted before apportioning the tax, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet**.

    If the taxpayer is entitled to any other Iowa nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Iowa refundable credits, enter them on this row as a negative number.

IOWA NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the Iowa nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched".

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by a calculated ratio. The ratio is determined by dividing the "Total Nonres Min Tax Source Income" row by the "Total Nonres State Minimum Tax AGI" row (see the descriptions for these rows below).

Total Nonres State Minimum Tax AGI – The program calculates this amount as "Federal Alternative Minimum Taxable Income" plus or minus the calculated amount on the "Adjustments for State AGI" row (that is, U.S. Government interest, social security benefits, etc.). Enter any other adjustments on the "Adjs to Nonres State Min Tax Base" row of the **Nonresident State Minimum Tax** worksheet.

Total Nonres Min Tax Source Income – The program adds the "Nonresident State Source Income" from the **Nonresident State Tax – Main Worksheet** and your entries on the "Min Tax Adj to Nonres Source Income" and "Nonres State Source Prefs & Adjs" rows on the **Nonresident State Minimum Tax** worksheet to calculate the "Total Nonres Min Tax Source Income" amount.

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KANSAS

OVERVIEW

When the Kansas specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Kansas:

- Automatic calculation of personal exemption deduction

- Automatic calculation of standard deduction

- Applies state adjustments to federal itemized deductions

- Automatic calculation of state deduction for federal income tax

- Performs circular calculation to automatically deduct the state tax liability for federal purposes

- Automatic adjustment of AGI for Kansas income tax refunds and U.S. Government interest

- Includes tax rate for Kansas lump sum tax

- Calculates credit for other state tax

- **For years after 2012 and before 2017**, the program will automatically add back the Domestic Production Activity Deduction, the Self-Employment Tax Deduction and the Keogh Deduction allowed. **Also for years after 2012 and before 2017**, a **Kansas Subtractions** worksheet was added to the **Adjustments for State AGI** worksheet to handle the addition/subtraction adjustments for income/losses from Schedule C, Schedule E, Schedule F, NOLs, health insurance, etc. See Kansas Notice 12-11 for more details.

The following notes provide a guide for entering specific items relating to Kansas. For more information on the Kansas tax rates and other state tax matters, refer to Kansas Form K40 and Instructions, as well as other official state publications.

You should review the default settings for Kansas state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Kansas tax rates are automatically loaded into the program. The program uses the state tax rate schedules for all taxpayers, regardless of whether the use of state tax tables is required.

SELECTION OF KANSAS OR KANSAS–2 STATE FILES

There is only one method (with no federal tax deduction) that will be used in both Kansas files.

EXEMPTIONS

The program automatically carries the federal number of exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This generally will not require adjustment except for head of household status, which is entitled to one extra exemption. Therefore, for head of household status, add "1" to the number on the "Class 1 Exemptions" row. The program multiplies the total number by the exemption amount and allows the result as an exemption deduction. Make no entries for the other "Class #" exemptions.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are **not** carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Kansas does **not** have a separate filing status for Qualifying Widow(er). Most individuals who filed as Qualifying Widow(er) for federal purposes will qualify as Head of Household for Kansas. The program makes this change automatically. If you feel that this does **not** properly reflect state treatment, you may change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically deducts federal tax liability, state income tax refunds, U.S. Government interest, and pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. **For years after 2012 and before 2017**, the program will automatically add back the Domestic Production Activity Deduction, the Self-Employment Tax Deduction and the Keogh Deduction allowed. A Kansas Subtractions worksheet was

added to handle the income adjustments for Kansas H.B. 2117, Laws 2012. The other Kansas adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level, less any related expenses not deducted at the federal level (for years after 1989) directly incurred in the purchase of out-of-state or political subdivision obligations that are taxed in Kansas. The program adds this amount in calculating Kansas taxable income.

OTHER ADDITIONS

Enter the following:

- Federal NOL carryforward
- Adjustments for differences between Kansas and federal computation of gains/losses
- Federal tax refunds (if a deduction was claimed in Kansas for a prior year)
- Contributions to Public Employment Retirement Systems (KPERS)
- Difference between the federal and state amount of Schedule E investment interest expense to the extent the federal deduction exceeds the amount allowed in Kansas
- Addbacks for deductions relating to various Kansas credits
- Other additions (partnership/S corporation adjustments, state cafeteria plans, etc.)

OTHER SUBTRACTIONS

Enter the following:

- Railroad retirement benefits added for federal AGI
- Kansas NOL carryforward
- Adjustments for differences between state and federal computation of gains/losses
- Salary expense disallowed for federal purposes due to claiming the federal jobs credit
- Difference between the federal and state amount of Schedule E investment interest expense to the extent the Kansas deduction exceeds the amount allowed for federal purposes

STATE TAX CALCULATIONS

- **For years after 2006**, any adjustment for social security income received by taxpayers with federal AGI under the limit set forth in K.S.A. Supp. 79–32.117(c)(xix)

- **For 2016 and later**, an amount necessary to account for the income tax exclusion for low income tax payers

- Other subtractions from federal AGI

BUSINESS SUBTRACTIONS

For years after 2012 and before 2017, this worksheet brings in Self-employment Income, Passive Activity Income/Loss, Trade or Business MAPRRA Income or Loss, Publicly Traded Partnerships, Schedule E Investment Interest Expense (this amount comes in as a negative so it becomes an addition to income), Royalties, Nonpassive Domestic Production, Other Nonpassive Income and Loss, Federal NOL, and allows for user adjustments in the Other Adjustments row for items such as guaranteed payments. See Kansas Notice 12–11 for more details.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years before 2015, the program starts with total federal itemized deductions (after the 3% AGI floor) including sales taxes elected as a deduction on the taxpayer's federal return and automatically subtracts state income taxes deducted for federal itemized. The program automatically reduces the subtraction for state taxes deducted by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes. **For years after 2012 and before 2015,** Kansas will subtract the state income tax as prorated, allow all of the charitable deduction, which was allowed federally, and disallow all gambling losses in years after 2013. The program will follow these rules and will apply the applicable Kansas reduction. **For years after 2014 and before 2018**, very few Itemized deductions will be allowed. Kansas will allow charitable contributions allowed federally in full, however, only 50% of mortgage interest and property taxes paid will be allowed. Kansas will allow a deduction for 50% of personal property taxes paid. Enter any adjustment for personal property taxes paid on the "Other Adjustments to Taxes" row of the **State Taxes Deduction** worksheet. The program will automatically reduce the entry by 50%. **For 2018**, Kansas will allow the federal amount of charitable contributions, 50% of the mortgage interest and property taxes paid, and 50% of the medical expense deduction allowed for federal purposes. **For 2019**, Kansas will allow the federal amount of charitable contributions, 75% of the mortgage

interest and property taxes paid, and 75% of the medical expense deduction allowed for federal purposes. **For 2020 and later**, Kansas will allow the federal amount of charitable contributions, 100% of the mortgage interest and property taxes paid, and 100% of the medical expense deduction allowed for federal purposes.

Note. For all years, Kansas does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program handles this rule automatically.

STANDARD DEDUCTION

The Kansas standard deduction is handled automatically. The program selects the higher of the standard deduction or the Kansas itemized deductions. (Kansas does not allow inflation of these amounts.) For taxpayers qualifying for an extra standard deduction due to age or blindness, enter the additional amount on the "Adjustments" row of the **State Standard Deduction** worksheet.

In computing the standard deduction **for years before 1988**, the program allows 16% of Kansas AGI, subject to the minimum and maximum amounts set for each filing status.

(In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.)

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

KANSAS LUMP SUM TAX

The 13% state lump sum tax rate is contained in the program. Enter the amount of the federal tax on lump sum distribution determined on federal Forms 4972 or 5544. This entry is made as a positive number on the "Adjustments" row of the **State Supplementary Tax** worksheet. The program multiplies this amount by 13% and adds the result to the regular state tax liability.

CREDITS

Enter any nonrefundable credits (such as the Kansas child and dependent care credit, solar energy/handicapped accessibility credit, and military credit) on the **State Nonrefundable Credits** worksheet. Enter refundable credits on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For Kansas in years after 2014, the New York calculations includes New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Kansas, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet**.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax" for years prior to 2012) less any nonrefundable credits and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER STATE TAXES

Enter any other state taxes (other than the state lump sum tax, discussed above) on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because Kansas allows a deduction for federal tax, the **Alternate State Tax Base** specifications worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Kansas.

KANSAS NONRESIDENT TAX

The following sections describe the calculation of the Kansas nonresident tax for residents of other states who have income from Kansas. In order to calculate the nonresident tax, first choose Kansas as the taxpayer's nonresident state, and then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Kansas, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

KANSAS NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Kansas rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Kansas AGI as if the taxpayer were a full-year resident of Kansas. The program carries to this row the federal AGI after reducing it for the following items:

    - U.S. Government interest

    - State tax refunds

    - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Kansas exempt interest and related expenses, NOL adjustments, and any other differences between federal and Kansas AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the higher of the Kansas standard deduction (for the selected filing status) or Kansas

itemized deductions if the taxpayer itemized for federal purposes, and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Kansas tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Kansas-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Kansas-sourced interest, dividends, capital gains, and any other Kansas-sourced income. Also include, as a negative adjustment, any Kansas-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

   If the taxpayer is entitled to any Kansas nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

6. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Kansas refundable credits, enter them on this row as a negative number.

KENTUCKY

OVERVIEW

When the Kentucky specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Kentucky:

- Automatic calculation of personal exemption credit
- Automatic calculation of standard deduction
- Applies state adjustments to federal itemized deductions
- Automatic calculation of state deduction for federal income tax
- Performs circular calculation to automatically deduct the state tax liability as a federal deduction
- Automatic reduction of AGI for Kentucky income tax refunds, U.S. government interest, and social security/railroad benefits
- Optimizes between Kentucky standard deduction and allowable Kentucky itemized deductions
- Tax reduction for Joint Taxpayers filing as "Combined"
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Kentucky. For more information on the Kentucky tax rates and other state tax matters, refer to Kentucky Form 740 and Instructions, as well as other official state publications. Because Kentucky has not adopted total conformity with federal law, several questions of interpretation may exist. You should rely on the assumptions contained in these notes and the Kentucky specifications file only to the extent you agree with them.

You should review the default settings for Kentucky state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Kentucky tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Kentucky does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

EXEMPTIONS

The program carries the number of federal exemptions to the "Class 1 Exemptions" row on the **State Tax Personal Exemptions** worksheet. This number is multiplied by $10 for years beginning on or after January 1, 2014 ($20 for years beginning before January 1, 2014, $0 after 2017) and allowed as an exemption credit. Increase this number by "1" for years beginning before January 1, 2014 for the additional exemption allowed for National Guard members or if the dependent of another. For years beginning on or after January 1, 2014, enter the additional exemption allowed for National Guard members on the "Class 3 Exemptions" row.

For elderly or blind taxpayers, enter "1" on the "Class 2 Exemptions" row for each such condition per taxpayer and spouse. This number is multiplied by $40 and allowed as an additional exemption credit. Make no entry on the "Class 3" and "Class 4" exemption rows (any entry will be ignored by the program).

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- Capital gains deduction
- State income tax refunds
- U.S. government interest
- For years before 2010, the Domestic Production Activities Deduction.

- Social security/railroad benefits, and

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

If you are running the Minor Child calculation and you have made the federal election to include the child's interest and dividends on the parent's return, you must subtract the included portion from the parent's AGI for state purposes (on the "Other Subtractions" row) and add the appropriate amount to the child's AGI ("Other Additions" row).

The other Kentucky adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-Kentucky portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Kentucky adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- The portion of a lump-sum distribution on which you have selected the 20% capital gains rate for federal purposes

- Federal NOL deduction

- Includible portion of disability income

- Depreciation adjustments

- Gain/loss adjustments on disposition of property

- Kentucky adjustment to Schedule E

- For years after 2008, any required unemployment insurance income adjustment

- Other additions to Kentucky income

OTHER SUBTRACTIONS

Enter the following subtractions:

- Kentucky NOL deduction

- Depreciation adjustments

- Gain/loss adjustments on disposition of property

- Kentucky adjustment to Schedule E

- Income of a child reported on the parent's return

- Amount of the retirement income exclusion and any adjustment for the IRA to Roth rollover
- For years after 2009, enter the amount Kentucky allows for the Domestic Production Activities Deduction.
- Other subtractions from Kentucky income

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

STATE AGI

The "State AGI" row on the **State Tax – Main Worksheet** reflects state AGI as shown on the Kentucky 740 form.

STANDARD DEDUCTION

The Kentucky standard deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount per filing status. The program selects the higher of the standard deduction or the Kentucky itemized deductions. **Starting in 2001,** the standard deduction will be adjusted for inflation (see "Inflation Adjustment" below).

Note. The program allows the full deduction to joint taxpayers on the assumption that they are filing a combined return. If they are instead filing a joint Kentucky return, the total standard deduction allowed is only half the computed amount. In such a circumstance, you should reduce the standard deduction by one half by entering the amount as a negative number on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

Kentucky generally follows the federal Code for itemized deductions (except for sales taxes elected as a deduction on the taxpayer's federal return). **For years after 1991**, the program will apply the 3% AGI floor based on Kentucky AGI. **For years after 2012**, the program will apply the Kentucky phaseout to state itemized deductions. Specific deductions are handled by the program as follows:

MEDICAL

For years after 2017, Kentucky does not allow a deduction for medical expenses.

For years before 2018, Kentucky generally follows the current federal Code for medical expenses, using state AGI to compute the 7.5% floor which will continue in Kentucky for 2013. For 2014 through 2016, Kentucky will use 7.5% for taxpayers that are over 65 and 10% for all others. The program will automatically apply these limits. Any adjustments may be added on the "Adjustments to Federal Medical" row of the **State Medical Expense Deduction** worksheet.

TAXES

For years before 2018, all tax expense amounts entered on the federal **Itemized Deduction** worksheet are allowed in full for Kentucky purposes, except the deduction for state income taxes paid or sales taxes elected as a deduction on the taxpayer's federal return.

For years after 2017, Kentucky does not allow a deduction for taxes. Make a negative adjustment for any taxes deducted on the **State Taxes Deduction** worksheet.

INTEREST

For years before 2018, Kentucky follows the current federal Code for interest expense. The program will automatically apply the federal limits and no adjustment should be necessary.

For years after 2017, Kentucky does not allow a deduction for investment interest expense.

CHARITABLE CONTRIBUTIONS

Kentucky allows the same amount of charitable deductions as federal, except that federal law calculates the 20%, 30%, and 50% limitations using federal AGI, while Kentucky uses modified state AGI (discussed above). In computing the charitable deduction for state purposes, the program applies only the 50% of state AGI limit. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjustments to Federal Contributions" row of the **State Charitable Deduction** worksheet. The program also applies the 50% limit to "2005 Qualified Contributions". Also include on this row any allowable charitable contribution carryovers.

For 2019 and later, the program will automatically applies the 60% limit. Make any necessary adjustments for charitable contributions subject tom the 50%, 30%, or 20% limits.

CASUALTY

For years before 2018, all casualty amounts entered on the federal **Itemized Deduction** worksheet are allowed in full for Kentucky purposes after applying the floor of 10% of modified state AGI. Since the amounts entered on the federal worksheet should already have been reduced for the $100 floor per casualty (that reduction is also adopted by Kentucky), no adjustments are required. **For years after 2003**, the program will continue to limit 2005 Hurricane Casualty Losses by the 10% floor.

For years after 2017, Kentucky does not allow a deduction for personal casualty losses.

MISCELLANEOUS ITEMIZED DEDUCTIONS

For years after 2017, Kentucky does not allow a deduction for miscellaneous itemized deductions.

For years before 2018, Kentucky follows the current federal Code for miscellaneous itemized deductions, using state AGI to compute the 2% floor. The program will automatically apply this limit.

OTHER ITEMIZED

Kentucky generally follows the current federal Code. The program will allow federal itemized deduction amounts for other itemized deductions and gambling losses for state purposes. To the extent they are not allowed as Kentucky itemized deductions, they should be entered as a negative number on the "Adj to Federal Other Itemized" row of the **State Other Itemized Deductions** worksheet.

ADJUSTMENTS

Enter any other adjustments to the total Kentucky itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. The program will not apply any limitations to the amount entered on this row.

CAPITAL GAINS AND LOSSES

Kentucky follows the federal rules for capital gains and losses, and the program handles them accordingly.

INFLATION ADJUSTMENT

Kentucky provides for an annual inflation adjustment for the standard deduction, **for years beginning after 2000**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years

907 of 1210

used in your version of the program, see the "Inflation Adjustment" subtopic under "Kentucky" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year Kentucky tax specifications relating to the standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

COMBINED FILING STATUS

The program automatically calculates the tax reduction for taxpayers filing a "combined separate" return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

CREDITS

Enter the allowable state nonrefundable credits (other than the exemptions credit) on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Kentucky has reciprocal agreements with certain states for wages and other income from personal or professional service. Since no tax is payable by the nonresident state there is no double taxed income. If the taxpayer has other types of income in one of these states there could still be a credit.

<div style="text-align: right">STATE TAX CALCULATIONS</div>

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Ta**x worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Kentucky resident state credit for taxes paid to a nonresident state, the program uses Method 3, i.e., it allows the lesser of the "Adjusted Nonresident Tax" row and the "Difference Between Taxes" row on the **Credit for Other State Tax** worksheet. These two rows are described below. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- "**Adjusted Nonresident Tax**" — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

- **"Difference Between Taxes" —** the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the **Credit for Other State Tax** worksheet.

The "Adjusted Resident Tax" is the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet). The "Adjusted Tax on Net Resident Income" is the tax on "Adjusted Resident Income" (the amount on the "State Taxable Income" row of the **State Tax – Main Worksheet**) less "Adjusted Nonresident Income" (the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**) computed using the resident state regular tax schedule.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate, carried to the state worksheets, and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each. (You should remember to update these customized state files when you

receive new updates.) For information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any other taxes, including the Kentucky lump sum tax, on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Because the program does not handle the Kentucky income averaging tax calculation, enter an adjustment to state tax liability due to any tax savings resulting from utilizing the income averaging method.

ALTERNATE STATE TAX BASE

Because Kentucky allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Kentucky.

KENTUCKY NONRESIDENT TAX

The following sections describe the calculation of the Kentucky nonresident tax for residents of other states who have income from Kentucky. In order to calculate the nonresident tax, first choose Kentucky as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Kentucky, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

Note. Kentucky has reciprocal agreements with certain states to exclude wages, salaries, tips, and other employee compensation from nonresident income. However, there may be other income from those states that should be included as nonresident income.

KENTUCKY NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Kentucky-sourced. Enter Yes in the appropriate row to carry the federal amount of the

taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Kentucky-sourced interest, dividends, or capital gains and any other Kentucky-sourced income. Also include, as a negative adjustment, any Kentucky-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If, however, you do need to make entries on this worksheet, the program deducts the amount on the "Deductions for Nonres St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program carries to the **Nonresident State Itemized Deductions** worksheet much of the required state tax data from the federal entries, so few adjustments are required. However, Kentucky itemized deductions differ from federal itemized deductions, so refer to the "Adjustments to Federal Itemized Deductions" section of this chapter to determine how specific deductions are handled by the program. Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The Kentucky nonresident standard deduction is handled automatically and allows the appropriate amount. The Kentucky nonresident standard deduction is not multiplied by the Ratio when computing the standard deduction allowed in Kentucky.

7. Next, the program subtracts the higher of the Kentucky nonresident standard deduction or the Kentucky nonresident itemized deductions from the amount on the "Nonresident Source Income" row to calculate nonresident state taxable income.

8. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Kentucky tax, based on the amount on the "Nonresident State Taxable Income" row.

9. The program calculates Kentucky personal exemption credit for residents and nonresidents in the same manner. The program carries the federal

number of personal exemptions to the state exemptions (see the "Exemptions" section of this chapter). The exemption credit amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres Personal Exemption Credit" row on the **Nonresident State Tax – Main Worksheet**.

10. If the taxpayer is entitled to any Kentucky nonrefundable credits other than the personal exemption credit, enter them on the "Other Nonres Creds and Adjs" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Kentucky refundable credits, enter them as a negative number on this row.

STATE TAX CALCULATIONS

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LOUISIANA

OVERVIEW

When the Louisiana specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Louisiana:

- Automatic calculation of personal exemption deduction
- Automatic calculation of deduction for federal income tax liability
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Automatic calculation of standard deduction
- Automatic calculation of Louisiana itemized deductions
- Automatic adjustment of AGI for U.S. Government interest and social security/railroad benefits
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Louisiana. For more information on the Louisiana tax rates and other state tax matters, refer to Louisiana Form IT–540 and Instructions, as well as other official state publications.

You should review the default settings for Louisiana state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Louisiana tax rates are automatically loaded into the program. The rate schedules are built by incorporating the combined standard deduction and basic personal exemption. ($4,500 for single and married filing separate; $9,000 for joint and head of household). The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

The basic combined exemption/standard deduction amount is built into the rate schedules contained in the program, as described above. The additional exemptions for dependents and elderly/blind taxpayers are built into the Form IT–540 tables; however, the program treats such exemptions as credits, which produces the same result. Enter the Louisiana exemptions as follows:

On the **State Tax Personal Exemptions** worksheet, enter as "Class 2 Exemptions" the number of dependents allowed. Also include the extra exemptions for elderly or blind taxpayers. Do not count the taxpayer or spouse, because these exemptions have been built into the tax rate schedules. (For example, a married couple with 3 dependents would enter "3" on the "Class 2 Exemptions" row.) If the number of such exemptions exceeds "6" if filing Joint or "7" for all other filing statuses, enter the remaining exemptions (in excess of this limit) on the "Class 3 Exemptions" row. The program multiplies this entry by $1,000 and allows the result as an exemption deduction, as per the Form IT–540 instructions.

Note. In certain cases an adjustment is required. The tax tables are constructed so that certain exemptions are allowed an additional reduction in tax (above the $20 amount), as may be observed from the tax table. No adjustment is necessary for joint filers except as noted above when such exemptions exceed "6." The program accounts for these extra amounts as follows:

- **For years after 2002**, if the number of Class 2 exemptions (not counting the taxpayer) for the head of household status exceeds "3," the exemption credit is $30 for exemption 4 and $40 for exemptions 5 through 7. Since the program will continue to allow only $20 per exemption, enter the remaining exemption amount — $10 for exemption 4 or $20 for exemption 5 through 7 — as a nonrefundable credit on the **State Nonrefundable Credits** worksheet. Enter any additional Class 2 exemptions (after 7) on the "Class 3 Exemptions" row, as noted above. Make no entries on the "Class 4 Exemptions" row.

- **For years prior to 2003**, if the number of Class 2 exemptions (not counting the taxpayer) for single or married filing separate status exceeds "5," the exemption credit is $30 for Class 2 exemption 6 and $40 for Class 2 exemption 7. Since the program will continue to allow only $20 per exemption, enter the remaining $10 or $20 (for Class 2 exemptions 6 and 7, respectively) as a nonrefundable credit on the **State Nonrefundable Credits** worksheet. If the status is head of household, the state allows a $40 reduction for each Class 2 exemption (not counting the taxpayer). Enter this extra $20 amount (i.e., $40 minus $20) per exemption for the second through the seventh Class 2 exemptions as a nonrefundable credit

on the **State Nonrefundable Credits** worksheet. Make no entries on the "Class 4 Exemptions" row.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest
- social security/railroad benefits, and
- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet
- Subtracts as a "below the line" item the state deduction for the federal income tax liability (see "Deduction for Federal Tax" below).

The other Louisiana adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. The program adds this amount in calculating Louisiana AGI.

OTHER ADDITIONS

Enter the amount of any other Louisiana additions to income on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

OTHER SUBTRACTIONS

Enter the amount of any other Louisiana subtractions on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet.

STANDARD DEDUCTION

The Louisiana standard deduction is handled automatically. The Louisiana standard deduction is treated as a "zero bracket amount." It is built into the rate

schedule used by the program (see "Tax Rates" above). **For 2008**, the program will not allow the additional deduction for real estate taxes. The elderly and blind deductions are part of the personal exemption in Louisiana (see "Exemptions" above).

For years prior to 2003, the federal standard deduction amount is automatically subtracted from total itemized deductions (see "Itemized Deductions" below). The additional federal standard deduction amounts allowed for elderly/blind are not carried to Louisiana.

ITEMIZED DEDUCTIONS

For years after 2017 and before 2026, the program assumes Louisiana conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions. **For years prior to 2003 and after 2006**, the program starts with total federal itemized deductions allowed in computing federal taxable income. **For 2000 through 2002 and again after 2006**, the program applies the new 3% AGI floor. The program automatically subtracts from this amount the state standard deduction, which is treated as a "zero bracket amount" in Louisiana. The program then subtracts the remaining "excess" itemized deductions in computing state taxable income. **For 2000 through 2002 and again for years after 2006**, the amount of excess itemized deductions allowed is limited to a percentage of the amount by which the federal itemized deductions exceed the federal standard deduction. The percentage is equal to 50% for 2000 and 2001 and 57.5% for 2002 and 2007, 65% for 2008, and 100% for 2009 and thereafter. The adjustment for the reduction of itemized deduction is computed on the "Taxable Income" row of the **State Tax – Main Worksheet**.

For years 2003 through 2006, Louisiana did not allow a deduction for itemized deductions.

Note. Louisiana does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program handles this rule automatically.

DEDUCTION FOR FEDERAL TAX

The state deduction for federal taxes is handled automatically by the program. The program bases the deduction on the regular federal tax + excess advance premium tax credit recapture + alternative minimum tax + ITC recapture tax + the Medicare Investment Income Tax, less nonrefundable credits.

Louisiana requires that a certain portion of this deduction be added back to state AGI. Louisiana has two options for calculating the addback of federal tax. The program handles only Option 2. If Option 1 would give a more favorable result, make any necessary adjustment to the "Adjustments to Federal Tax" row of the **Federal Tax For State Purposes** worksheet. It may be helpful to run

a second file with the "Prorate (Y/N)" row of the **Fed Tax For State Purposes (Spec)** worksheet turned to "No" and to make the adjustment in that file using Option 1. Then use the file with the best result. (See the instructions for Schedule E, line 4I for details.)

The Option 2 addback is calculated as follows: exempt income divided by federal AGI times the federal tax liability. The program uses a similar proration as follows: the amount allowed as a state deduction is state AGI divided by federal AGI times the federal tax liability. If the taxpayer had any state additions to federal AGI (e.g., out-of-state interest income), you may need to subtract out such additions for purposes of this allocation. (See Louisiana R.S. 47:298 for state law regarding this allocation.) Enter the amount of such additions (as a negative number) on the "Adjustments to State AGI" row of the **Federal Tax for State Purposes** worksheet, which is accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**.

NOTE 1

The addback of a portion of the deduction for the federal tax liability is handled on Form IT–540 as a reduction of the amount of state "Nontaxable Income" ("above the line" adjustment). The program instead treats it as a reduction of the deduction for federal taxes ("below the line" adjustment). Accordingly, where the taxpayer's situation requires the above adjustment of the federal tax deduction, the amount of state AGI calculated by the program may differ slightly from the amount calculated on Form IT–540. However, this variance has no effect on the ultimate taxable income or tax liability and therefore, generally requires no adjustment.

NOTE 2

For 2001, if there is no refund to offset it, make a positive adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet for the amount of the federal tax rebate on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet.

NOTE 3

For 2005 and thereafter, if there is a Federal Casualty Loss Deduction associated with the Hurricanes you may want to use 2 cases to adjust the federal tax deduction. The first case will be the normal Federal Case. In Case 2 you should eliminate the amount entered on the "2005 Hurricane Casualty Losses" row of the **Federal Itemized Deduction** worksheet. Then adjust the Federal Tax by making a positive adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet for the amount of the difference in the Regular tax, also add any Federal disaster relief credits.

NOTE 4

For 2014 and thereafter, if there is a Federal Premium Tax Credit on IRS form 8962, then adjust the Federal Tax by making a negative adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet, for the amount of the difference amount of the credit.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credit**s worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer "Yes" on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). When calculating the credit for Louisiana, the program uses Method 1.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the Credit for NY Nonresident Tax worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY".

For years after 2014, when calculating the credit for Louisiana, the program uses Method 1 and applies the normal limits: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet (**Credit for Other State Tax** worksheet) and applies the resulting ratio to the "Adjusted Resident Tax". The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax". The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount

is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

▪ **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

▪ **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

▪ **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "State Minimum Tax" on that worksheet.

▪ **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonres State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

For years prior to 2015, Louisiana had no limitations on the credit except that the tax must have been properly paid, and it is nonrefundable. It is simply the income tax paid to the nonresident state less any credits. Louisiana does not allow a credit for cities, including the District of Columbia.

To calculate the resident state credit for taxes paid to the nonresident state the program allows the lesser of the following two amounts:

▪ **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

▪ **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

OTHER STATE TAXES

Enter any adjustment to the total Louisiana tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because Louisiana allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Louisiana.

LOUISIANA NONRESIDENT TAX

The following sections describe the calculation of the Louisiana nonresident tax for residents of other states who have income from Louisiana. In order to calculate the nonresident tax, first choose Louisiana as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Louisiana, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

LOUISIANA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Louisiana-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Louisiana-sourced interest, dividends, or capital gains and any other Louisiana-sourced income. Also include, as a negative adjustment, any Louisiana-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

    The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If, however, you do need to make entries on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. **For years prior to 2003**, the program computes the nonresident state itemized deductions in a similar manner as for a resident. See the "Itemized Deductions" section of this chapter for details. Once the itemized deductions are calculated, the program multiplies them by the Ratio, then carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. **For years prior to 2003**, the Louisiana nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Louisiana nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Louisiana. The Louisiana standard deduction is treated as a zero bracket amount, and is subtracted from itemized deductions.

7. **For years after 2002**, Louisiana will no longer allow a deduction for itemized deductions in excess of the standard deduction. Louisiana requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

8. The program calculates the Louisiana deduction of the federal tax liability for residents and nonresidents in the same manner. The federal tax amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Fed Tax Ded from Nonres State AGI" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Louisiana tax, based on the "Nonresident State Taxable Income" row.

10. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Louisiana tax, based on the "Nonresident State Taxable Income" row.

11. For Louisiana, the program does **not** carry the federal number of personal exemptions to the state. On the **State Tax Personal Exemptions** worksheet, enter the exemption for the taxpayer and spouse as "Class 1 Exemptions;" include an additional exemption for the Head of Household filing status. Enter the number of dependents allowed as "Class 2 Exemptions;" also include the extra exemptions for elderly or blind taxpayers. The total exemption credit is multiplied by the Ratio used to allocate the allowed deductions. If the amount of the credit, after allocation, exceeds $200

($400 for married filing jointly), the program doubles the excess to account for the fact that the personal exemptions exceed the 2% bracket and should thereby reduce the 4% bracket. This amount is then carried to the "Nonres Personal Exemption Credit" row on the **Nonresident State Tax – Main Worksheet**.

12. If the taxpayer is entitled to any Louisiana nonrefundable credits, other than the personal exemption credit, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

13. If the taxpayer is required to pay any other taxes or credit recaptures, enter them on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet** as a positive number. Likewise, if the taxpayer is allowed any Louisiana refundable credits, enter them on this row as a negative number.

MAINE

OVERVIEW

When the Maine specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Maine:

- Automatic calculation of personal exemption deduction and credit
- Automatic calculation of standard deduction/credit
- Applies state adjustments to federal itemized deductions
- Automatic adjustment of AGI for Maine income tax refunds, U.S. government interest, social security and railroad benefits and federal domestic production activities deduction
- For years prior to 2012, calculates Maine alternative minimum tax
- For years prior to 2013, calculates Maine supplementary lump sum tax
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Maine. For more information on the Maine tax rates and other state tax matters, refer to Maine Form 1040–ME and Instructions, as well as other official state publications.

Review the default settings for Maine state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Maine tax rates are in the state specifications. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

EXEMPTIONS

For years after 2017, enter 2 on the "Class 1 Exemptions" for joint filers, 1 for other filing statuses on the **State Tax Personal Exemptions** worksheet. The

program will automatically phase out the personal exemptions at higher income levels.

For years before 2018, the program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This number may be adjusted at the state level, but will generally not require adjustment in Maine. The program multiplies this entry by the appropriate exemption amounts. No additional exemptions for age or blindness are allowed. **For years after 2013** Maine will use the federal exemption amount.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

For years before 2018, the program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program automatically adds back the federal domestic production activities deduction.

The other Maine adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Maine portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Maine adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- Depreciation adjustments
- For years prior to 2006, Health savings account addback
- Unemployment insurance adjustment
- Other additions to Maine income

OTHER SUBTRACTIONS

Enter the following subtractions:

- Depreciation adjustments
- Recovery of 1984 ACRS
- Salary expense disallowed as a result of the federal jobs credit
- Interest from other Maine Municipal General Obligation Bonds included in federal AGI
- Other subtractions from federal AGI.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions (after the 3% AGI floor), and then automatically subtracts state income taxes or sales taxes deducted on the federal return. The program automatically reduces the subtraction for state income or sales taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. There could be a slight rounding error because the instructions for Maine's Form 1040ME indicate that when the fraction is divided it should be rounded to the nearest four decimal places. The program does not round this number. **For years after 2012**, there is a cap on itemized deductions computed after the federal phase-out. This amount began at $27,500 and will be adjusted for inflation beginning in 2014. **For years after 2014**, Medical deductions allowed for federal itemized will be allowed for Maine without regard to the Maine itemized deduction cap. **For years after 2015**, itemized deductions allowed are phased out for higher income taxpayers. **For years after 2017 and before 2026**, the program assumes Maine conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions, but **for years after 2017**, Maine also allows the deduction of property taxes limited at the federal level by IRC § 164(b)(6).

For years after 2007 and before 2011, enter the amount of any federally allowed mortgage insurance premium as a negative number on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

You may enter adjustments on the row marked "Additional State Itemized" on the state **Itemized Deductions** worksheet. For example, enter (as a positive number) expenses of federally exempt income taxed in Maine; enter (as a negative number) expenses of Maine-exempt income. In 1988 only, Maine required that the federal basic standard deduction amount be subtracted from state itemized deductions. The program handles this automatically.

Note. Maine does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program applies this rule automatically.

STANDARD DEDUCTION

The Maine standard deduction is handled automatically. The program allows the basic standard deduction allowed for federal purposes plus the extra amounts for elderly/blind). If the taxpayer was allowed a casualty loss as part of their federal standard deduction, enter it as a positive number on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet. **For years after 2002 through 2013 (except 2012)**, the program uses the federal standard deduction as it would have been without the changes to reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003 or any subsequent legislation. **For 2012, 2013, and years after 2017**, Maine uses the Federal Standard Deduction. **For years after 2015**, Maine increased its standard deduction over the federal amount; however, it is phased out for higher income taxpayers. The program selects the higher of the standard deduction or the Maine itemized deductions.

MAINE ALTERNATIVE MINIMUM TAX

For years after 2011, this section does not apply.

The Maine tax is generally calculated as 27% of the adjusted federal alternative minimum tax before the foreign tax credit.

If a taxpayer has an alternative minimum tax and also has a lump sum tax (entered on the "Adjustments" row of the **Supplementary Tax** worksheet) or other taxes (on the "Other State Taxes" row of the **State Tax Main Worksheet**), enter the total (as a positive number) on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet. This adjustment is necessary because Maine defines the alternative minimum tax as the excess tax over the regular **and** other tax liabilities. The program applies nonrefundable credits against both regular and alternative minimum tax for years prior to 2004.

For all years after 2002 and before 2012, the program computes the Maine minimum tax by starting with federal alternative minimum taxable income, adding the State AGI adjustments (except the subtraction for state tax refunds), and then subtracting the Maine exemption amount, arriving at the net state minimum tax base. **For years after 2003 and before 2012**, this amount is multiplied by the Maine AMT rate. Also Maine will no longer allow credits to be used against the AMT. The AMT is defined as the excess of the AMT over the Regular Tax. Therefore, the Regular tax can be offset by credits. Only the excess of the AMT over the Regular Tax can not be reduced by credits. **For 2003 only**, this amount is then multiplied by a rate that is equivalent to 27% of the federal alternative minimum tax rate, taking into account the federal capital gains tax rates. If there are differences in the capital gain amounts you may need to run two cases to determine the required adjustment to the AMT Tax.

For years before 2003, the program computes the Maine minimum tax as 27% of the adjusted federal alternative minimum tax before the foreign tax credit. For whichever years you are computing, the program will not recompute the federal numbers; instead, it will use federal law in effect for the taxable year to compute the state minimum tax. Make any adjustments to the alternative minimum tax (years before 2003) or its tax base (years after 2002) on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet.

For years before 2003, the subtraction for amounts not taxable for the Maine AMT should be made as an adjustment of the federal AMT, as detailed in the below list. **For years after 2002**, you should only need to run two cases for differences in the capital gain amounts.

1. Start with two cases. The first case will be the "actual" case; the second case will be used only to compute the Maine adjustment.

2. In the second case, compute federal income without U.S. Government interest income and any other required adjustments.

3. Next, find the difference in the alternative minimum tax resulting from these adjustments. The difference is the amount computed on the "Total Min Tax Base Before Exemption" row of the **State Alternative Minimum Tax** worksheet with and without the adjustments.

4. Make an adjustment for the difference on the "Adjs to State Minimum Tax Base" row of the **State Alternative Minimum Tax** worksheet.

LUMP SUM TAX

For years after 2012, this section does not apply.

The program calculates the 15% (7.5% in 2012) Maine supplemental tax. Enter (as a positive number) on the "Adjustments" row of the **State Supplementary Tax** worksheet: the amount of separate federal tax on lump sum distributions and the amount of increase in federal tax due to early retirement distributions

under IRC § 72(t). The program applies the 15% rate and carries the result to the "State Supplementary Tax" row on the **State Tax – Main Worksheet**.

CREDITS

Enter any allowable Maine nonrefundable credits, such as the Sales Tax Fairness Credit, the Property Tax Fairness Credit, or the Dependent Exemption Credit, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter Maine refundable credits, including state withholding and estimated tax payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For Maine the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Maine, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

Note. Maine allows a separately calculated credit for any alternative minimum tax and lump sum distribution tax paid to another state. Enter these and any other adjustments to the credit on the "Adjs to Credit for Othr St Tax" row.

OTHER STATE TAXES

Enter any other state or local income taxes (other than the lump sum tax or alternative minimum tax), on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

INFLATION ADJUSTMENT

Maine provides for an annual inflation adjustment for tax rates **beginning in 1990**, if the inflation factor exceeds 1.000 for the year. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Maine" in Help. If you want, you can estimate the amount of this inflation factor for future years and adjust the rates and the Maine tax specifications can be changed accordingly. However, the remaining items require a hard-coded programming change. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

MAINE NONRESIDENT TAX

For years beginning after 2011, the following sections describe the calculation of the Maine nonresident tax for residents of other states who have income from Maine. In order to calculate the nonresident tax, first choose Maine as the taxpayer's nonresident state then open the **Nonresident State Tax – Main Worksheet** from the **Other Nonresident Tax row of the State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Maine, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MAINE NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Maine AGI as if the taxpayer were a full-year resident of Maine. The program carries to this row the federal AGI after reducing it for the following:

   - U.S. Government interest
   - Social Security/railroad benefits
   - State tax refunds and
   - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Maine exempt interest and related expenses, NOL adjustments, and any other differences between federal and Maine AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the Maine standard deduction (for the selected filing status) or Maine itemized deductions (if the taxpayer itemized for federal purposes), and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. **For 2012**, in the **Nonresident State Supplementary Tax** worksheet enter any Lump Sum income taxable to Maine on the "Adjs to Nonres State Supp Tax Base" row of this worksheet.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Maine tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

5. Next, on the **Nonresident Source Income** worksheet designate which income is Maine-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row. Include, as a positive adjustment, any Maine-sourced interest, dividends, or capital gains, as well as any other Maine-sourced income. Also include, as a negative adjustment, any Maine-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   Note. The program does not calculate the first ratio for Maine that allocates the Federal Adjustments. You will need to make that allocation by subtracting from Maine Source income the Federal adjustments times a ratio that equals Maine Source income divided by Federal AGI before adjustments.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjust-

ments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

7. Enter any available Maine nonrefundable credits against the apportioned taxes on the "Nonres State Nonrefundable Credits" row of this worksheet.

8. If the taxpayer is allowed any Maine refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

STATE TAX CALCULATIONS

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MARYLAND

OVERVIEW

When the Maryland specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Maryland:

- Supplemental (County) Tax

- Automatic subtraction for personal exemptions

- Automatic calculation of standard deduction

- Itemized deductions — addback of Maryland taxes paid and other adjustments

- Automatic adjustment of AGI for Maryland income tax refunds, U.S. government interest, social security/railroad benefits and the federal domestic production activities deduction

- Optimizes between Maryland standard deduction and allowable Maryland itemized deductions

- Automatic calculation of Maryland tax preference adjustment

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Maryland. For more information on the Maryland tax rates and other state tax matters, refer to Maryland Form 502 and Instructions and other official state publications.

You should review the default settings for Maryland state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Maryland state tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

Note. For years after 1998 all of the Maryland files are the same and the county tax must be separately entered.

LOCAL TAXES RATES AND ADJUSTMENTS

The county tax rate is a flat tax on Maryland taxable income. Once the state file is chosen, the county rate must be entered on the "State Supplementary Tax Rate" row of the **State Supplementary Tax** worksheet for the program to compute a county tax.

Enter the Maryland earned income credit for state purposes on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This number may be adjusted at the state level if needed. If you are allowed an exemption for sheltering up to four displaced hurricane victims add them here. The program multiplies the number on this row by the exemption amount. If any dependents are at least 65, enter as "Class 2 Exemptions" an additional "1" for each such dependent. The program again multiplies this number by the same exemption amounts. If you are allowed an exemption for sheltering up to four displaced hurricane victims and any of them are 65 or older or blind, add them here. **For years after 2007**, the program will compute the phaseout of the personal exemptions for both "Class 1 and Class 2 Exemptions" for high income taxpayers. When calculating AGI for the phaseout of the personal exemption, interest on U.S. obligations is subtracted from federal AGI.

If the taxpayer or spouse is elderly or blind, enter "1" for each such condition on the "Class 3 Exemptions" row. The program multiplies this entry by $1,000 and allows the amount as an additional exemption deduction. Make no entries on the "Class 4 Exemptions" row.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Combined, enter Joint filing status and see below for Combined filing status instructions.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Head of Household, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security and railroad benefits
- Maryland tax preference adjustment, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program automatically adds back the federal domestic production activities deduction.

The other Maryland adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter on this row the non-Maryland portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Maryland adjusted gross income.

OTHER ADDITIONS

Enter the following:

- The addition for lump sum distributions
- Any NOL adjustment
- Depreciation adjustment
- Miscellaneous "Other Additions."

OTHER SUBTRACTIONS

Enter the following:

- Deductible amounts for child care expenses
- Charitable use of vehicle
- Artist contribution
- Non-resident income
- Depreciation adjustments
- Child's income included in federal AGI on the parent's return

- For two-income deductions **(for years after 1991)**, note that if the combined Maryland AGI is between $20,000 and $26,667 and you are taking the standard deduction, you should enter the two-earner deduction on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet

- Miscellaneous "Other Subtractions"

MARYLAND PREFERENCE ITEMS

The program automatically carries to the **State Minimum Tax** worksheet the Maryland capital gains deduction, federal preference items, and the Maryland exclusion of $10,000 ($20,000 for a Joint return). Enter any adjustments necessary to compute the net state minimum tax base, such as the reserve for losses on bad debts of financial institutions, on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. (The **State Minimum Tax** worksheet is accessed from the "Maryland Preference Items" row of the **Adjustments for State AGI** worksheet.) The resulting computation on the "Net State Minimum Tax Base" row is divided by 50% and entered on the "Maryland Preference Items" row. (See Maryland HB 246, § 280B (1987).)

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions after the 3% AGI floor. The program then subtracts state income taxes deducted. The subtraction for state income taxes paid is computed by reducing the subtraction for state taxes paid by a proportionate part of the federal floor. **For 2000**, the proportion is computed by dividing the total federal itemized deductions after reduction for the floor over total federal itemized deductions prior to the floor times the state income tax deduction. **For years after 2000**, the percentage is computed by dividing the federal deduction for state income taxes by total itemized deductions (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. **For 2013 only**, Maryland will apply the old federal phase-out amounts for high-income taxpayers. **For years after 2017 and before 2026**, the program assumes Maryland conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

Note. Maryland does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program applies this rule automatically.

STANDARD DEDUCTION

The Maryland Basic Standard Deduction is handled automatically. The program selects the higher of the standard deduction or the Maryland itemized

deductions. In computing the standard deduction, the program takes 15% of Maryland AGI and applies the minimum/maximum rules based on filing status.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Maryland has reciprocal agreements with certain states for wages and other income from personal or professional service. Since no tax is payable by the nonresident state there is no double taxed income. If the taxpayer has other types of income in one of these states there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For Maryland in years after 2014, the New York calculations includes New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Maryland resident state credit for taxes paid to a nonresident state the program uses Method 3, i.e., it allows the lesser of the "Adjusted Nonresident Tax" row and the "Difference Between Taxes" row on the **Credit for Other State Tax** worksheet. These two rows are described below. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

- **Difference Between Taxes** — the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the **Credit for Other State Tax** worksheet.

- **Adjusted Resident Tax** — the "Adjusted Resident Tax" is the "State Regular Tax" row of the **State Tax – Main Worksheet** (For years prior to 2012, any "State Supplementary Tax" is subtracted) on that worksheet.

- **Adjusted Tax on Net Resident Income** — the "Adjusted Tax on Net Resident Income" is the tax on "Adjusted Resident Income" (from the "State Taxable Income" row of the **State Tax – Main Worksheet**) less "Adjusted Nonresident Income" (from the "Nonresident State Taxable Income" row of the **Nonresident State Tax – Main Worksheet** multiplied by the "Ratio" row of that worksheet) computed using the resident state regular tax schedule. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

MARYLAND NONRESIDENT TAX

The following sections describe the calculation of the Maryland nonresident tax for residents of other states who have income from Maryland. In order to calculate the nonresident tax, first choose Maryland as the taxpayer's nonresident state, and then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Maryland, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual

Note. Maryland has reciprocal agreements with certain states to exclude wages, salaries, tips, and other employee compensation from nonresident income. However, there may be other income from those states that should be included as nonresident income.

MARYLAND NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. **For years after 2007**, make any adjustments required by Instruction 14 to compute the Maryland Adjusted Gross Income Factor on the **Adjustments for State AGI** worksheet. For years prior to 2008, adjustments made to this worksheet will not affect the calculation.

3. **For years after 2014**, the "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

- U.S. Government interest,
- state income tax refunds,
- social security/railroad benefits, and
- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

The program automatically adds the domestic production activities deduction.

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Maryland exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

4. On the subworksheet accessed from the top "Nonresident Source Income" row, designate the amount of federal income that is Maryland-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Maryland-sourced interest, dividends, preference items, capital gains, and any other Maryland-sourced income. Also include, as a negative adjustment, any Maryland-sourced "adjustments to income," including the two-earner deduction, IRA or Keogh deductions, self-employed health insurance deductions, etc.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

5. **For years prior to 2008, the** program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on row 8 "Ratio: Nonres Source Inc/Total Inc" of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

For years after 2007, Maryland has more than one ratio. The ratio on row 8 will continue to be used to allocate the allowed deductions. That ratio is computed using Nonresident State AGI as the numerator and the amount on the "Federal AGI" row as the denominator.

6. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. **For years prior to 2008**, if entries are made on this worksheet the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income. **For years after 2007**, adjustments made to this worksheet will not affect the calculation.

7. The program computes the nonresident state itemized deductions in a similar manner as for a resident. See the "Adjustments to Federal Itemized Deductions" section of this chapter for details. Once the itemized deductions are calculated, the program multiplies them by the Ratio on row 8, and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

8. The Maryland nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Maryland nonresident standard deduction is multiplied by the Ratio. The reduced amount is then carried to the **Nonresident State Tax – Main Worksheet**.

9. Next, the program subtracts the higher of the Maryland nonresident standard deduction or the Maryland nonresident itemized deductions (if the taxpayer itemized federally) from the amount on the "Nonresident Source Income" row to calculate nonresident state taxable income.

10. The program calculates Maryland personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state exemptions (see the "Exemptions" section of this chapter). The total exemption amount is multiplied by the Ratio on row 8. The reduced amount is then carried to the "Nonres Personal Exemption Credit" row on the **Nonresident State Tax – Main Worksheet**.

11. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Maryland tax, based on the "Nonresident State Taxable Income" row.

12. **For years after 2007**, Maryland has added form 505–NR that calculates new ratios to allocate the tax. The program does this calculation by using source income as the numerator and the amount on the nonresident State AGI row as the denominator. Although this is not the way the Maryland form calculates the nonresident tax, except for minor rounding differences the results of the program are the same as those using the form. The main exception is when there is not enough source income to allow the full standard deduction. In that case you will need to adjust the tax for the difference.

13. If the taxpayer is entitled to any Maryland nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresi-dent State Nonrefundable Credits** worksheet.

14. **For years after 2003**, Enter the applicable Maryland county tax rate on the "Nonres State Supplementary Tax Rate" row of the **Nonresident State Supplementary Tax** worksheet.

15. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Maryland refundable credits, enter them as a negative number on this row.

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MASSACHUSETTS

OVERVIEW

When the Massachusetts specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Massachusetts:

- Computes Part A, Part B, and Part C taxes

- Automatic deduction of personal exemptions

- Automatic deduction of medical expense exemption

- Automatic reduction of AGI for Massachusetts income tax refunds, U.S. government interest, and social security/railroad benefits. Automatic addition of IRA and Keogh amounts

- Automatic addback of the deduction for self-employment tax allowed under IRC § 164(f) for federal AGI

- Automatic addback of the federal domestic production activities deduction

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Massachusetts. For more information on the Massachusetts tax rates and other state tax matters, refer to Massachusetts Form 1 and Instructions, as well as other official state publications.

Massachusetts updated their tax conformity law in 2005 which updated its reference to federal law to the Internal Revenue Code in effect on 1/1/05 (formerly 1/1/98), effective for years beginning in 2005. Therefore, Massachusetts now follows federal law in most key areas. You should adjust for other items of federal AGI not adopted by Massachusetts (differences in basis, household exemption, etc.), except where such adjustments are handled by the program automatically as discussed below.

You should review the default settings for Massachusetts state specifications to check that they accurately reflect current state law for the situations you are running. If you believe that modifications are needed, you can make the changes yourself (see the program's online help).

TAX RATES

The Massachusetts tax rates are automatically loaded into the program. For a description of the tax rates and rules applicable to tax years after 1995, see "Massachusetts Part C Income — Tax Years After 1995," below.

The program does not automatically compute the maximum 10% tax on Massachusetts adjusted gross income under 175% of the no-tax status for low income individuals, per IRC § 5(a) of Chapter 62 of the Annotated Laws of Massachusetts. If any adjustment to the tax is necessary, enter the adjustment as a negative number on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

Note. The program has not incorporated Chapter 184, Laws 2002, which calls for an elected rate of 5.85% on Parts A & B income.

Note. For 2002, the effective date of May 1, 2002 for the Part C rate increase in Chapter 186 of the Acts of 2002 was deemed unconstitutional. Chapter 163, Acts of 2005, moved the effective dates for the long-term capital gains rate increase to January 1, 2003.

FILING STATUS

The program automatically carries the federal filing status to the **State Tax – Main Worksheet**, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. Massachusetts does not have a separate filing status for Qualifying Widow(er). The program changes the state filing status to "Head of Household". Also see TIR 04-17 regarding rules for same-sex couples. Same-sex couples that file as head of household generally will not be eligible to file as head of household for Massachusetts purposes. However same-sex couples may qualify to file joint returns in Massachusetts.

EXEMPTIONS

Massachusetts does not follow the federal rules for number of personal exemptions; therefore, the program does not automatically carry the number of federal exemptions to the **State Tax Personal Exemptions** worksheet. Enter exemptions on this worksheet as follows.

On the "No. of Class 1 Exemptions" row, enter the number of dependents allowed in Massachusetts. The program multiplies this number by the dependent exemption amount.

On the "No. of Class 2 Exemptions" row, enter "2" if the taxpayer's filing status is "Joint," enter "1" for "Single" or "Separate."

On the "No. of Class 3 Exemptions" row, enter "1" if the taxpayer is 65 or over (enter "2" for both spouses). The program multiplies this entry by the elderly exemption amount.

If the filing status is "Head of Household" enter "1" on the "No. of Class 4 Exemptions" row. The program multiplies this entry by the head of household exemption amount.

On the "No. of Class 5 Exemptions" row, enter "1" if the taxpayer is blind (enter "2" for both spouses).

When exemptions plus allowable medical and adoption expenses exceed the Part B income, the program first applies the excess deductions against the taxable portion of Part A short term capital gains and then against Part A interest and dividend income on the corresponding "Massachusetts Loss Offset" row of the **State Supplementary Tax** worksheet. Any remaining excess is then carried to the **Alternate State Tax** worksheet and will offset long-term capital gains. **In years after 2002**, the excess is carried to the "Mass >2002 Class C Loss Offset" row of the **Alternate State Tax** worksheet.

Note. In 2002, no entry should be made on the "Mass 2002 >4/30 Long-term G/L" row. Chapter 163, Acts of 2005, moved the effective date for the long-term capital gains rate increase to January 1, 2003. This row was retained to allow for information contained in previously filed returns and old files.

For years prior to 2003, the excess carried to the **Alternate State Tax Base** worksheet is applied toward gains in the "Mass Class B through G Loss Offset" rows, in that order.

MASSACHUSETTS PART B INCOME

The program starts with federal AGI and adjusts it as follows in computing state AGI for the Part B tax base:

- Subtracts all amounts of interest, dividends, capital gains, state income tax refunds, pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and social security/railroad benefits;

- adds back federal IRA and Keogh deductions, the deduction for self-employment tax, and the federal domestic production activities deduction, since these are not deductible in Massachusetts.

Massachusetts adopted the passive loss rules beginning in 1988 and the program handles this automatically. (You may need to make an adjustment, including a basis adjustment upon sale of passive interests, to account for losses disallowed for federal purposes in 1987, but allowed in Massachusetts. See Massachusetts Dept. of Revenue Technical Information Release 89–2.)

The program adjusts Part B income for any capital gains/losses as defined by the IRC If capital gain income as defined by IRC § 1(m) of Chapter 62 of the General Laws differs from the federal definition, you should enter the amount of the difference on the "Other Additions" or "Other Subtractions" rows of the **Adjustments for State AGI** worksheet. Such amount should also be entered as Part A or Part C income, depending on the property's holding period.

The state medical expense exemption is also automatically subtracted from federal AGI. (See "Itemized Deductions.") You should make the following adjustments on the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Make no entry on this row because Massachusetts taxes out-of-state interest as Part A income rather than as Part B income. Instead, enter this amount as Part A income (see "Other Adjustments to Part A Income," below).

OTHER ADDITIONS

Enter the following additions:

- Federal adjustments to gross income not allowed in Massachusetts
- Lump sum distributions not included in federal AGI
- NOL deduction allowed for federal purposes in the current year
- Interest income earned in Massachusetts banks, net of the $100 ($200 for joint) state exclusion. (See "Part A" for the corresponding subtraction from Part A income.
- For years after 2008, any required unemployment insurance income adjustment
- Adjustments due to differences in the basis of assets
-
- Other additions to Part B income

OTHER SUBTRACTIONS

Enter the following subtractions:

- FICA or railroad taxes paid plus state or federal retirement contributions ($2000 limit per taxpayer)
- Dependent care expenses
- Household exemptions, available for an individual who maintains a household that includes as a member one or more individuals under the age of 12 that qualifies for an exemption as a dependent under IRC § 151, provided that the dependent care deduction is not claimed for that depen-

dent. (The exemption is also available for years after 2000 if at least one individual in the household is 65 or older, or is disabled.) Only available if filing status is "single," "joint," or "head of household"

- 50% rental deduction ($2,500 limit per return, $3,000 for years after 2000)

- Federal moving expense deduction in excess of employer reimbursements

- Allowable employee business expenses (any such amounts entered as federal itemized deductions are not carried automatically by the program and should be entered here)

- Adjustments due to differences in the basis of assets

- Adjustments to self-employed health insurance deduction

- Adjustments due to temporary differences with federal AGI due to nonconformity with IRC § 461(l), excess business losses

- Other subtractions allowable from Part B income

ITEMIZED DEDUCTIONS

The program automatically carries to the state worksheet the medical expense deduction, calculated under federal law. Massachusetts does not allow the medical deduction if the taxpayer does not itemize for federal purposes. The program handles this rule automatically.

For 2001 only, the program allows as a charitable deduction (against Part B income only) an amount equal to the amount of the charitable contribution deduction allowed or allowable to the taxpayer for the taxable year under IRC § 170. This amount must be reduced for carryovers included therein representing contributions made before 1/1/2001. The reduction should be entered as a negative amount on the "Adjustments to Federal Contributions" row of the **State Charitable Contributions Deduction** worksheet. The program does not reduce the charitable deduction by any part of the 3% itemized deductions floor of IRC § 68. This treatment appears to be supported by Massachusetts proposed regulation 830 CMR 62–3–2. Note, however, that the statute, Mass. Ch. 62, § 3B(a)(13) states that all requirements, conditions and limitations imposed upon charitable contributions under the Internal Revenue Code shall apply for purposes of determining the amount of the deduction, except that a taxpayer shall not be required to itemize deductions for federal purposes. As of the date of publication of the program, there appeared to be no other authority on the question of whether, and how, to reduce the deduction for the 3% floor.

Since Massachusetts does not allow any other itemized deductions, no itemized deductions are carried to Massachusetts except the medical expense deduction and the charitable deduction **(for 2001 only)**.

STATE TAX CALCULATIONS

> **Note.** To the extent the federal itemized deductions include any other amounts deductible in Massachusetts (e.g., employee business expenses, etc.), they should be re-entered as "Other Subtractions" on the **Adjustments for State AGI** worksheet.

STANDARD DEDUCTION

The program allows no deduction for a state standard deduction, since Massachusetts has no standard deduction.

MASSACHUSETTS PART A INCOME

The program uses the **State Supplementary Tax** worksheet to handle both the automatic and manual adjustments to state income in calculating the Part A tax.

INTEREST & DIVIDENDS

The program automatically carries all interest and dividends to the "Interest & Dividends" row of the **State Supplementary Tax** worksheet. Make any other necessary adjustments, such as for Massachusetts interest, on the "Adj to Interest & Dividends" row. Enter qualified interest from Massachusetts banks as a negative amount on this row. This subtraction is necessary because such interest is taxed in Massachusetts as part of Part B income, rather than as part of Part A income.

If you are running the Minor Child calculation and you made the federal election to include the child's interest and dividends on the parent's return, you must also subtract the included portion from the parent's AGI for state purposes as a negative entry on the "Adj to Interest & Dividends" row. Also add the appropriate amount to the child's AGI (as a positive entry) on this row.

Part A interest and dividends are taxed at the Part B rate. The Part A tax on interest and dividends will be computed on the "Mass Interest & Dividends Tax" row.

The loss offset provisions of Massachusetts Chapter 127, of the Acts of 1999, are applied. Under these provisions, Part A interest and dividends are offset by:

- any net Part A losses from short term capital losses
- the excess of Part C net losses from the **Alternate State Tax Base** client data worksheet, and
- the excess of Part B exemptions over Part B income and Part A short-term capital gains

These offsets are shown on the Loss Offset row below the interest and dividends rows. For further clarification see "For years after 1998" in the Part C Income section, below. See also Chapter 127 of the Acts of 1999, Mass. Dept. of Revenue TIR 99–17, and Proposed Regulation 830 CMR 62.4.1.

SHORT-TERM AND COLLECTIBLES CAPITAL GAINS AND LOSSES

The program automatically carries to the state worksheet the federal amounts for current year short-term gains and losses. Short-term losses that exceed Part A gross income will not be automatically carried to the succeeding taxable years. Enter any short-term carryover on the "Adj to Capital Gains" row of the **State Supplementary Tax** worksheet. Include on this row any other short-term gains/losses adjustments due to differences between state law and current federal law in the basis of assets. Make any other adjustments, such as for collectibles, described in § 1(m) of Chapter 62 of the General Laws, other than short-term capital gains/losses defined by the IRC Enter long term capital gains on collectibles after the fifty-percent reduction. The deduction is allowed in an amount equal to fifty percent of the excess of long-term capital gains on the sale or exchange of collectibles over the sum of short term capital losses and Part C capital losses that are deductible from Part A gross income.

Part A interest and dividends are taxed at the Part B rate while the tax on short-term capital gains and losses remains at 12%. Therefore, the tax on short- term capital gains and losses will be computed separately on the "State Suppl Tax from Sched" row.

The loss offset provisions of Massachusetts Chapter 127, of the Acts of 1999, are applied. Under these provisions, Part A capital gains are offset by:

- the excess of Part C net losses from the **Alternate State Tax Base** client data worksheet and

- the excess of Part B exemptions over Part B income.

These offsets are shown on the Loss Offset row below the capital gains rows. For further clarification see "For years after 1998" in the Part C Income section, below. See also Chapter 127 of the Acts of 1999, Mass. Dept. of Revenue TIR 99–17, and Proposed Regulation 830 CMR 62.4.1.

OTHER ADJUSTMENTS TO PART A INCOME

The program will offset excess exemptions from Part B against income in Part A.

In the rare event that the deduction amounts exceeds net income in Part B, enter the unused deduction amount as a subtraction from Part A income on the "Adjs to State Sup Tx Base" row of the **State Supplementary Tax** worksheet.

STATE TAX CALCULATIONS

These deductions can only be offset against Part A or Part C income that is effectively connected with the active conduct of a trade or business of the taxpayer.

The program will consider all adjustments made on the "Adjs to State Sup Tx Base" row to be made to short-term capital gains taxed at 12% first. Negative adjustments will reduce any short-term capital gains first and then interest and dividends. Remaining negative amounts are not carried forward.

For years after 2001, entries on this row will be ignored.

MASSACHUSETTS PART C INCOME

The Massachusetts Part C tax on long-term capital gains is handled by the program on the **Alternate State Tax Base** worksheet (accessed from the **State Tax – Main Worksheet**). The Part C capital gain rates have been incorporated into the program.

For years after 2002, the Part C net long-term capital gains and losses are automatically entered on the "Total Capital Gains" row. Enter any adjustments to this amount for differences in the basis of sold assets, any long-term capital loss carryovers, adjustments for IRC § 408(m)(2) (collectibles) gains, and any other necessary adjustments on the "Adjustment to Capital Gains" row of the **Alternate State Tax Base** worksheet.

Note. For 2002, the effective date of May 1, 2002 for the Part C rate increase in Chapter 186 of the Acts of 2002 was deemed unconstitutional. Chapter 163, Acts of 2005, moved the effective date for the long-term capital gains rate increase to January 1, 2003. **In 2002**, no entry should be made on the "Mass 2002 >4/30 Long-term G/L" row. This row was retained only to allow for information contained in previously filed returns and old files.

For years before 2003, you must enter long-term gains and losses on the Mass Class B through G rows. Enter the sum of all gains less the sum of all losses from the sale or exchange of capital assets as defined by § 1(m) of Chapter 62 of the General Laws.

Enter gains and losses on the appropriate Mass Class row based on the number of years the assets are held. Also, do not include IRC § 408(m)(2) gains. The holding period should take into account that for the purposes of Part C the holding period of property acquired prior to January 1, 1996, shall be deemed to have been acquired on January 1, 1995, or on the date of actual acquisition, whichever is later.

See §§ 2, 3, and 4 of Chapter 62 of the General Laws of Massachusetts for holding period definitions and other rules. If losses exceed gains, enter the amount as a negative number. See the **Alternate State Tax Base** worksheet in Chapter 2 for further details on the Massachusetts rows.

The amount of the Massachusetts Part C Tax/Credit will be posted to the "Alternate State Tax Base" row of the **State Tax – Main Worksheet**. The total is included in Total State Tax on that worksheet. The loss offset provisions of Massachusetts Chapter 127, of the Acts of 1999, are applied. These offsets are shown on Loss Offset rows below the rows for classes B through G long-term capital gains on the **Alternative Tax Base** worksheet and also on the **Supplementary Tax Worksheet** that handles the Part A tax.

Note, however, that the Governor's veto (of the portions of the 1999 act that eliminated classes F and G of long-term capital gain included in Part C) left the statute incomplete insofar as how to treat the classes (F and G) revived by the veto. However, in light of the general statements in Department of Revenue TIR 99–17 and Proposed Regulation 830 CMR 62.1.4, the program treats classes F and G in a manner consistent with the statutory requirements for classes B through E. Specifically, the program operates as follows:

By virtue of entering net gain or loss in classes B through G on the **Alternate State Tax Base** worksheet, gains and losses within each of these classes are offset against each other.

Next, net losses in classes B through G (1 year through 6 years) are offset against net gains in these classes in the order of highest rate gains to lowest. See Mass General Laws, Chapter 62, § 2(e)(I)(1); TIR 99–17 paragraph C; and Proposed Regulation 830 CMR 62.1.4.

Any remaining Part C losses (including classes F and G) are offset against net Part A income, first against net capital gain and then against interest and dividends. The losses are applied from Part C classes in the order of B, C, D, E, F, and G. Similarly, the net loss in Part A (if any) is applied against Part C net capital gains in the order of B, C, D, E, F, and G.

Next, any excess exemptions from Part B are applied to Part A income, first to capital gains, then to Part A interest and dividends, and then to Part C net gains in the order of classes B, C, D, E, F, and G.

In computing the tax for Part C, no negative amount is included for any net losses remaining after the offsets in classes B through E, and the offsets to and from Part A, since these losses are to be carried over to the next year under the 1999 law. This rule is applied by the program to classes F and G, even though there is no specific statutory authority for such application. See Proposed Regulation 830 CMR 62.1.4

Finally, no carryovers are computed by the program. Thus, for example, a net loss in Class B of Part C that is not used against the gains in other Classes or Parts must be entered in the following year.

Note also that unless the 1999 law is being applied to 1996, 1997, or 1998, as indicated on the **Alternate State Tax Base** worksheet, the program does **not**

offset excess exemptions from Part B against income in Parts A and C even though these were in the pre-1999 law. This is keep the calculations consistent for files created with an earlier version of the program, since you may have entered adjustments for these offsets.

Please note also that the program does not offset excess Part B deductions against either Part A or Part C income, since the program has no way to determine how much of Part A or Part C income is effectively connected with the active conduct of a trade or business of the taxpayer.

Enter an adjustment on the row "Adjustment to Massachusetts Part C Tax" on the **Alternate State Tax Base** worksheet to account for the sale of any Massachusetts qualified small business stock subject to the 3% capital gains rate.

INFLATION ADJUSTMENT

Massachusetts provides for an inflation adjustment for the personal exemption amount starting in 2005. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Massachusetts" in Help. If you want, you can estimate the amount of any inflation factor for future years and add it to the Massachusetts tax specifications relating to the regular personal exemption amount. See Resident and Nonresident State Specifications Overview for more information.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the nonresident state is New York, the computations are done on the **Credit for NY Nonresident Tax** worksheet and the references below are to that worksheet and the **New York Nonresident Tax** worksheet. If the New York nonresident computations apply along with another nonresident state, then the combined computations are done on the **Credit for Other State Tax** worksheet.

When calculating the credit for Massachusetts, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits in years prior to 2013, plus any "Nonresident State Minimum Tax" on that worksheet.

Note. Massachusetts does a separate credit calculation for each class of income. In the majority of cases, nonresident income consists of only "Class B" type income and the credit will not need to be adjusted. Adjustments for any additional credit amounts allowed for any Class A and Class C income taxed by the nonresident state should be entered on the "Adjs to Credit for Othr St Tax" row.

OTHER TAXES

Enter any adjustment to the total state tax liability on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

"NO TAX STATUS"

The program does not apply the special "No Tax Status" rule exempting low-income taxpayers from any Massachusetts income tax liability. You should determine whether a taxpayer qualifies for such exempt status. If so, you should not activate the **State Tax – Main Worksheet** (or kill this worksheet by pressing K from the **State Tax – Main Worksheet** if it has been activated) so that the state tax liability will remain zero.

MASSACHUSETTS NONRESIDENT TAX

The following sections describe the calculation of the Massachusetts nonresident tax for residents of other states who have income from Massachusetts. In order to calculate the nonresident tax, first choose Massachusetts as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Massachusetts, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MASSACHUSETTS NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status and federal adjusted gross income to the **Nonresident State Tax – Main Worksheet**.

1. The tax is then calculated as follows:

   ▪ Subtracts all amounts of interest, dividends, capital gains, state income tax refunds, pension income included on the "State Exempt Pensions" row of the Other Ordinary Income worksheet, and social security/railroad benefits;

   ▪ adds back federal IRA and Keogh deductions, the deduction for self-employment tax, and the federal domestic production activities deduction, since these are not deductible in Massachusetts.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row. Include among the subtractions non-Massachusetts source Part B Income. (See the Mass Part B Income section for a resident above for a more detailed explanation.)

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Massachusetts-sourced. Enter "Yes" in the appropriate row to carry the federal amount of

the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row. Include, as a positive adjustment, any Massachusetts-sourced interest, dividends, capital gains, and any other Massachusetts-sourced income.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate nonresident state deductions and exemptions (referred to below as the Ratio) on the **Ratio: Nonres Source Inc/Total Inc** worksheet accessed from the **Nonresident State Tax Main Worksheet**. The amount on the "Nonresident Source Income" row is brought into this worksheet and used as the numerator. The Denominator is calculated by starting with Federal AGI before the Federal Adjustments Enter any other adjustments to arrive at Total Income, on the "Other Adjustments" row of the **Ratio** worksheet. This Ratio can not exceed 100%.

4. The program starts the Taxable income calculation with State AGI. Enter any amounts that are deductible only against part B income on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident State AGI" row when calculating Nonresident State Taxable Income. This amount should equal Massachusetts Part B income.

5. The program computes the allowed Medical exemption overall limits on the **Nonresident State Itemized Deductions** worksheet. The program will only allow this deduction if the taxpayer itemized for federal.

6. The program calculates Massachusetts personal exemptions for residents and nonresidents in the same manner. The program does not carry the federal number of personal exemptions to the state exemptions (see Exemptions). The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

7. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Massachusetts tax, based on the amount on the "Nonresident State Taxable Income" row. This amount equals the Massachusetts Part B tax.

8. The program will not automatically carry Part A income to the **Nonresident State Supplementary Tax** worksheet or the Part C income to the **Alternate Nonresident State Tax Worksheet** because only Massachusetts source income is taxable in these categories. Enter any Massachusetts

Taxable Interest and Dividends on the "Adj to Interest & Dividends" row, and any Short Term or Collectibles Capital Gains (amounts taxable at 12%), on the "Adj to Capital Gains" row of the **Nonresident State Supplementary Tax** worksheet. The Program will automatically allocate any remaining exemptions from Bart B income, on the "Massachusetts Loss Offset" rows on this worksheet. Enter any Part C Long Term Capital Gains on the "Adjustment to Capital Gains" row of the **Alternate Nonresident State Tax Worksheet**. The Program will automatically allocate any remaining exemptions on the "Mass >2002 Class C Loss Offset" row on this worksheet.

9. If the taxpayer is entitled to any Massachusetts nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

10. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Massachusetts refundable credits, enter them as a negative number on this row.

MICHIGAN

OVERVIEW

When the Michigan specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Michigan:

- Automatic calculation of personal/special exemptions
- Credit calculation for taxes paid to Michigan cities
- Automatic reduction of AGI for Michigan income tax refunds, U.S. Government interest, and social security/railroad benefits
- Automatic addback of the deduction for self-employment tax allowed under IRC § 164(f) for federal AGI
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Michigan. For more information on the Michigan tax rates and other state tax matters, refer to Michigan Form MI–1040 and Instructions, as well as other official state publications.

You should review the default settings for Michigan state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Michigan tax rate is automatically loaded into the program. The other rate schedule built into the program is the credit schedule for taxes paid to Michigan cities (see "Credits" below).

EXEMPTIONS

The program automatically carries the federal number of exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. The program multiplies this number by the proper regular personal exemption amount. (See "Inflation Adjustment" below for information regarding the annual adjustment for inflation.)

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

On the "Class 2 Exemptions" row of the **State Tax Personal Exemptions** worksheet, enter the additional Michigan exemptions for taxpayers who are blind, deaf, and disabled, over 65, or receiving unemployment compensation in excess of 50% of AGI. The program multiplies this number by the Michigan amount.

For years after 2017, the number of exemptions that may be claimed in Michigan no longer depends on the number claimed on the federal tax return.

For years after 2007, Michigan allows an additional exemption for qualified disabled veterans and their dependents. On the "Class 4 Exemptions" row, enter the number of allowed exemptions.

For years after 2000 and before 2012, Michigan allows an additional exemption for dependents younger than 19 years of age on the last day of the tax year. On the "Class 3 Exemptions" row, enter the number of dependents younger than 19-years-old on the last day of the tax year. The program multiplies this number by $600 for 2000 through 2011.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Michigan does not have a separate filing status for Qualifying Widow(er). The program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet (Entries made on this row should be exempt amounts after any phaseouts for higher income taxpayers.)

The program also automatically adds back the deduction for self-employment tax.

The other Michigan adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-Michigan portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Michigan adjusted gross income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Gain/loss adjustment from sale of pre-10/1/67 property
- Losses attributable to other states
- NOL adjustment (to extent disallowed in Michigan)
- Michigan differences due to nonrecognition of the Federal Excess Business Loss
- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter any subtraction adjustments:

- Additions to income required for federal AGI when claiming certain federal credits
- Military benefits
- Gain/loss adjustment from sale of pre-10/1/67 property
- Income attributable to other states
- Senior citizen adjustments, if available
- Other subtractions from federal AGI
- Railroad unemployment benefits
- Michigan differences due to nonrecognition of the Federal Excess Business Loss
- Other subtractions to federal AGI

INFLATION ADJUSTMENT

Michigan provides for an annual inflation adjustment for the regular personal exemption amount **starting in 1998**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Michigan" in Help. If you want, you can estimate the amount of this

inflation factor for future years and add it to the Michigan tax specifications relating to the regular personal exemption amount. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDIT FOR TAXES PAID TO MICHIGAN CITIES

Enter the amount of Michigan city taxes on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. No further entries are needed since the credit rate schedule is stored in the program. The program does **not** apply the $10,000 cap on this credit. On the rare occasions when the calculated credit exceeds $10,000 (requiring the amount of city taxes paid to exceed $190,000), you should limit the credit to $10,000.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Michigan has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state there is no double-taxed income. If the taxpayer has other types of income in one of these states, there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY." For Michigan in years after 2014, the New York calculations include New York City Taxes. Per the Michigan rule, the program does the actual calculation separately for city and county taxes paid to another jurisdiction; they are, however, shown together on the **NY Nonresident Tax** worksheet.

When calculating the credit for Michigan, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted

Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate, carried to the state worksheets, and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each.

(You should remember to update these customized state files when you receive new updates.) For complete information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any other Michigan taxes or any adjustment to total Michigan taxes owed on the "Other State Taxes" rows of the **State Tax – Main Worksheet**.

MICHIGAN NONRESIDENT TAX

The following sections describe the calculation of the Michigan nonresident tax for residents of other states who have income from Michigan. In order to

calculate the nonresident tax, first choose Michigan as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Michigan, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

Note. Michigan has reciprocal agreements with certain states to exclude wages, salaries, tips, and other employee compensation from nonresident income. However, there may be other income from those states that should be included.

MICHIGAN NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Michigan-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Michigan-sourced interest, dividends, capital gains, and any other Michigan-sourced income. Also include, as a negative adjustment, any Michigan-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax Main** worksheet. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

4. On the **Deductions for Nonresident State Taxable Income** worksheet, enter any adjustments to Michigan source income allowable when computing nonresident state taxable income. Do **not** include deductions allowed elsewhere on the **Nonresident State Tax – Main Worksheet**, such as the personal exemptions deductions (these deductions are discussed below).

On the "Other Deductions Before Allocation" row, enter any deductions that require reduction by the Ratio. Enter deductions that are **not** reduced by the Ratio, such as Michigan income tax refunds, on the "Other Deductions" row. Note that a negative amount on the "Other Deductions" row increases income. Therefore, if you have any additions to income, such as the self-employment tax deduction on Michigan based income, enter them as negative amounts on this row.

On the **Nonresident State Tax – Main Worksheet**, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row.

5. The program calculates Michigan personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the "Class 1 Exemptions" row (see the "Exemptions" section of this chapter). The Class 1, Class 2, and Class 4 exemption amounts are multiplied by the Ratio used to allocate the allowed deductions. Class 3 exemption amounts are allowed in full. The total exemption amounts are carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

6. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Michigan tax, based on the "Nonresident State Taxable Income" row.

7. If the taxpayer is entitled to any Michigan nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Michigan refundable credits, enter them as a negative number on this row.

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MINNESOTA

OVERVIEW

When the Minnesota specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Minnesota:

- Automatic carryover of federal taxable income to state worksheet

- Automatic reduction of Minnesota taxable income for state tax refunds and U.S. Government interest

- Automatic addback of itemized deduction for state income tax paid and the federal domestic production activities deduction

- Optimizes between allowable itemized deductions and standard deduction

- Calculates Minnesota alternative minimum tax

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Minnesota. For more information on the Minnesota tax rates and other state tax matters, refer to Minnesota Form M–1 and Instructions, as well as other official state publications.

You should review the default settings for Minnesota state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Minnesota tax rates are contained in the state specifications. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you

change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Minnesota has a separate filing status for Qualifying Widow(er). The program will change the state filing status to Joint, which will properly reflect state treatment.

FEDERAL TAX BASE

Because the starting point for Minnesota income is federal taxable income, the program carries to Minnesota the federal taxable income, including the same amounts for personal exemptions and standard deduction as for federal purposes (with the modifications mentioned in their respective sections).

For 2019 and later, the starting point of Minnesota taxable income is Federal Adjusted Gross Income.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet and multiplies it by the federal personal exemption amount. The program will apply the federal phaseout percentage to the Class 1 personal exemption amount. **For years after 2010,** the program will apply the Minnesota phaseout for high income taxpayers to the Class 1 personal exemption amount. **For years after 2017**, the program will compute personal exemptions as if the 2017 Tax Act had not passed, including appropriate phase-outs. The number of exemptions may be adjusted at the state level if needed, but no adjustment should be necessary because Minnesota adopts the federal number. Make no entry on the other "Class # Exemptions" rows.

Minnesota allowed the additional $500 exemption in **2005 and 2006** for Hurricane Katrina displaced individuals, and may allow the **2008 and 2009** for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest, and

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program automatically adds back the federal domestic production activities deduction

The other Minnesota adjustments are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Minnesota portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Minnesota taxable income.

OTHER ADDITIONS

Enter the following:

- Adjustment for expenses deducted federally which are attributable to income that is not taxed in Minnesota
- Federal bonus depreciation adjustment
- The capital gain portion of a lump-sum distribution from a qualified retirement plan
- **For years after 2008**, any required unemployment insurance income adjustment
- Other additions from federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Federal bonus depreciation adjustment
- Tuition and transportation expenses of dependent children
- Railroad retirement benefits added for federal AGI
- Elderly and disabled income subtractions from Form M–1R
- Any additional deduction allowed by Minnesota for health insurance for a self-employed individual **(years after 1991)**
- **For years after 2016**, the subtraction for Social Security income
- **For years after 2018**, excess charitable deductions
- Other subtractions from federal AGI

STANDARD DEDUCTION

The Minnesota standard deduction is handled automatically, including the additional amounts allowed for elderly/blind. **For 2018**, the program assumes that Minnesota does not conform to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction, so the program will compute a standard deduction as if the 2017 Tax Act had not passed. **For years after 2018**, Minnesota conforms to the 2017 tax Acts so adopts the federal standard deduction, including amounts for the blind and elderly. **For years after 2010 and before 2014**, the program uses the federal standard deduction as it would have been without the changes reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003 or any subsequent legislation. **For 2008 and years thereafter**, the program will not allow the additional deduction for real estate taxes, motor vehicle sales taxes or casualty losses. Add any casualty loss allowed as part of the standard deduction on the "Adjustment to STD/ZBA" row of the State Standard Deduction worksheet. See Resident and Nonresident State Specifications Overview for more information. In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status. (For information regarding the annual adjustment for inflation, see "Inflation Adjustment" below.)

Note. Effective 5–25–99, Minnesota allows a charitable contribution deduction for taxpayers who do not itemize for 50% of the excess of charitable contributions over $500 allowable under IRC § 170(a). Enter the amount of this deduction on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions (after the 3% AGI floor). The program then subtracts total state income taxes or the state sales tax whichever was deducted on the federal return. Minnesota law specifies that this subtraction shall not reduce itemized deductions below the standard deduction. The program allows the higher of federal itemized deductions (after subtracting state income taxes) or the state standard deduction. **For years after 2010**, the program will apply the Minnesota phaseout for high income taxpayers. **For years after 2017**, the program will compute a 3% floor based on federal adjusted gross income.

Adjustments can be made on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

Note. Minnesota does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program applies this rule automatically.

MINNESOTA ALTERNATIVE MINIMUM TAX

Minnesota computes the AMT as follows. Starting with Federal AGI, it then adds and subtracts most of the same preference and adjustments made to compute federal AMTI. Minnesota also allows certain federal itemized deduction amounts. For more information, see Minnesota Statutes, § 290.091.

The program computes the Minnesota alternative minimum tax on the **State Minimum Tax** worksheet as follows. It starts with federal AMTI as the base. On the "State AGI Adjustments" row, the program adds out of state interest plus the federal domestic production activities deduction and subtracts U.S. Government interest. If itemized deductions were taken for state purposes on the "Fed Itemized Deduction Adjustments" row, the program adds the amounts entered on the "Qualified Housing Interest," "Gambling Losses," and "Other Itemized" rows of the **Federal Itemized Deduction** worksheet. (Also **for years after 2001 and prior to 2006**, the program adds charitable contributions that are not in excess of 1.0% (1.3% in 2002) of Federal AGI.) **For years after 2005**, Minnesota allows the charitable contributions to the full extent of the deduction of AMT, and the program will no longer add back charitable contributions for AMT purposes.

To the extent applicable, include the net of the following adjustments on the "Adjs to State Min Tax Base" row of the **State Minimum Tax** worksheet (you may want to use a custom worksheet here):

POSITIVE ADJUSTMENTS

- Certain intangible drilling costs and depletion
- Federal bonus depreciation addition
- Any adjustments required for certain casualty losses. For more information, compare the Minnesota AMT form to Minnesota Statutes, § 290.091, Subdivision 2(a)
- **For years prior to 2002**, the Minnesota courts have decided that the disallowance of only non-Minnesota charitable contribution deductions is unconstitutional and that all charitable contributions of any type should be allowed for years prior to 2002. If this issue affected you, you may want to amend the old returns. (For information about years after 2001, see the second paragraph of **Minnesota Alternative Minimum Tax** on page 969.)
- **For years after 2017**, the federal qualified business income deduction
- Any other necessary adjustments

NEGATIVE ADJUSTMENTS

- Federal bonus depreciation subtraction

- The impairment-related work expenses of a disabled person

- Federally taxed railroad retirement benefits

- Reservation income

- Holocaust settlement payments for 1999 and 2000

- Any other necessary adjustments

The computed Minnesota AMT base less the Minnesota exemption amount is then multiplied by the Minnesota AMT rate in years after 1999. In computing the AMT exemption, the program applies the Minnesota rule requiring that the phaseout be based on state AMTI (i.e., federal AMTI after the above adjustments) rather than federal AMTI. The program applies the Minnesota rule allowing nonrefundable credits to offset both regular and alternative minimum tax. Enter the amount of the AMT credit, if applicable, on the **State Nonrefundable Credits** worksheet. Minnesota starts with federal AMTI. The program does not recompute the federal numbers; instead, it uses federal law in effect for the taxable year and includes the 3% floor adjustment to compute the state minimum tax.

For the purpose of the AMT, exemption and phaseout amounts in effect per the IRS Code as of 12/31/92 will apply for 1993 through 2005. For years beginning after 2005, Minnesota has its own exemption amount that will be adjusted for inflation for years after 2006. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

Note. Minnesota starts with federal AMTI. The program does not recompute the federal numbers; instead, it uses federal law in effect for the taxable year and includes the 3% floor adjustment to compute the state minimum tax. For the purpose of the AMT, exemption and phaseout amounts in effect per the IRS Code as of 12/31/92 will apply for 1993 through 2005. For years after 2005, Minnesota computes its own AMT exemption amount that is adjusted for inflation in years after 2006.

MINNESOTA CREDITS

Enter any allowable Minnesota nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter any Minnesota refundable credits, including state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other**

State Tax worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Minnesota, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "Federal AGI" row of the **State Tax – Main Worksheet**. Make any adjustments to this amount for the subtraction of U.S. bond interest and the addition of interest from bonds of another state on the "Adjs to Resident Income" row.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "State Minimum Tax" on that worksheet). Make any adjustments to this amount for allowed credits on the "Adjs to Resident Tax" row.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

MINNESOTA SURTAX

Minnesota imposes a surtax for years after 1987 for certain income ranges. This surtax is handled automatically by the program and is incorporated in the rate schedules.

OTHER STATE TAXES

Enter the amount of the Minnesota lump sum tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

INFLATION ADJUSTMENT

Minnesota provides for an annual inflation adjustment for tax rates, and the AMT exemption beginning in 2007. The personal exemption is the same as the federal exemption and does not need adjustment. **For 2005 and years after 2010**, the Minnesota standard deduction is based on the federal amount but as it would have been under the IRC Code as amended through 12/31/03. **For years after 2006 and before 2011**, the standard deduction is the same as the federal amount and does not need adjusted. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Minnesota" in Help. If you want, you can estimate the amount of any inflation factor for future years and add it to the Minnesota tax specifications relating to the tax rates and standard deduction amount. See Resident and Nonresident State Specifications Overview for more information.

MINNESOTA NONRESIDENT TAX

The following sections describe the calculation of the Minnesota nonresident tax for residents of other states who have income from Minnesota. In order to calculate the nonresident tax, first choose Minnesota as the taxpayer's nonresident state, and then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Minnesota, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MINNESOTA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Minnesota rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Minnesota AGI as if the taxpayer were a full-year resident of Minnesota. The program carries to this row the federal AGI after reducing it for the following items:

   - U.S. Government interest
   - State tax refunds

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program automatically adds back the federal domestic production activities deduction.

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Minnesota exempt interest and related expenses, NOL adjustments, and any other differences between federal and Minnesota AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the higher of the Minnesota standard deduction (for the selected filing status) or Minnesota itemized deductions if the taxpayer itemized for federal purposes, and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Minnesota tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Minnesota-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Minnesota-sourced interest, dividends, capital gains, and any other Minnesota-sourced income. Also include, as a negative adjustment, any Minnesota-sourced "adjustments to income", including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

If the taxpayer is entitled to any Minnesota nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

6. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Minnesota refundable credits, enter them on this row as a negative number.

STATE TAX CALCULATIONS

MINNESOTA NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the Minnesota nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched" after the exemption.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by a calculated ratio. The State Minimum Tax ratio is the same as the regular tax ratio.

MISSISSIPPI

OVERVIEW

When the Mississippi specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Mississippi:

- Automatic calculation of personal exemption deduction

- Automatic calculation of standard deduction

- Computes state itemized deductions

- Automatic adjustment for Mississippi tax refunds, U.S. government interest, social security/railroad benefits, the deduction for self-employment tax, and the federal domestic production activities deduction

- Special tax reduction for Joint "combined" returns

- Optimizes between Mississippi standard deduction and allowable Mississippi itemized deductions

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Mississippi. For more information on the Mississippi tax rates and other state tax matters, refer to Mississippi Form 62–101 and Instructions, as well as other official state publications.

You should review the default settings for Mississippi state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Mississippi tax rates are contained in the state specifications. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

FEDERAL CONFORMITY

Although Mississippi does not adopt federal AGI in calculating state income, however, Mississippi has adopted many federal calculations, including passive

loss rules, installment sales, alimony provisions, IRA/SEP provisions, itemized deductions and business entertainment. The program automatically carries these federal amounts to the **Mississippi** worksheet, so adjustment should not be required. However, you may need to adjust the federal amounts for other items where Mississippi has not adopted federal conformity, including depreciation, capital gains, NOLs, etc.

EXEMPTIONS

Since Mississippi does not follow the federal rules for number of personal exemptions, you must enter the number of dependents allowed in Mississippi on the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. The program multiplies this amount by $1,500. When the filing status is Married Filing Separate, the program uses one-half of this amount. Include "1" each for a taxpayer or spouse who is elderly or blind.

If the taxpayer is single, enter "1" on the "No. of Class 2 Exemptions" row. If the filing status is Joint, or Married Filing Separate (one return), enter "1" on the "No. of Class 3 Exemptions" row. When the filing status is Married Filing Separate, the program uses one-half of the amount in the **State Personal Exemptions Specification** worksheet. If the filing status is Head of Household, enter "1" on the "No. of Class 4 Exemptions" row; the program multiplies this entry by $8,000.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Combined, enter Joint filing status and see below for Combined filing status instructions.

Mississippi does not have a separate filing status for Qualifying Widow(er). Most individuals who filed as Qualifying Widow(er) for federal purposes will qualify as Head of Household for Mississippi. The program makes this change automatically. If you feel this does not properly reflect state treatment, you can change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest

- Social security/railroad benefits

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

- State income tax refunds (since there is no longer a benefit received by the deduction), and

The program automatically adds back the deduction for self-employment tax and the federal domestic production activities deduction.

The other Mississippi adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Mississippi portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Mississippi adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Lump sum distributions

- Differences in depreciation

- Gain/loss on sale of assets

- Capital gain

- Self-employed health insurance deduction

- NOL adjustments

- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Excludable military compensation

- Differences in depreciation

- Gain/loss on sale of assets

- Capital gain or NOL adjustments

- Other subtractions from federal AGI

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

Mississippi no longer allows a deduction for state income taxes paid.

The program allows as a Mississippi deduction the full amount of the allowed federal itemized deductions (after the 3% AGI floor) including the sales tax if elected on the taxpayer's federal return. Then the program subtracts the state income or sales tax deduction. The program automatically reduces the subtraction for state income or sales tax deducted for federal itemized by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income tax or sales tax by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. Make any required adjustments to federal itemized deductions, such as for Mississippi gambling losses, on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet. **In 2006 only**, the program will allocate the federal floor for purposes of the state income or sales tax itemized deduction addback using the amount of the federal floor prior to its 1/3 reduction.

STANDARD DEDUCTION

The state Standard Deduction is handled automatically. In computing the standard deduction, the program selects the appropriate amount based on filing status. The program selects the higher of the standard deduction or the Mississippi itemized deductions.

JOINT TAXPAYERS FILING COMBINED RETURNS

The program automatically calculates the tax reduction for taxpayers filing a joint "combined" return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "Joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

CREDITS

Enter any allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the state refundable credits, including state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For years after 2012, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed by combining the States on the **Credit for Other State Tax** worksheet.

When calculating the Mississippi credit for taxes paid to nonresident states the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Tax at Resident Rates** – the "Adjusted Nonresident Income" multiplied by the Mississippi resident tax rates. "Adjusted Nonresident Income" equals the amount on the "Nonresident Source Income" row on the **Nonresident State Tax - Main Worksheet**.

- **Adjusted Nonresident Tax** – the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax - Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

- **Adjusted Resident Tax** – the "State Regular Tax" row of the **State Tax - Main Worksheet** (after subtracting any "State Supplementary Tax" or "Other Taxes" on that worksheet).

For years before 2013, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the Credit for NY Nonresident Tax worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Mississippi resident state credit for taxes paid to a nonresident state the program uses Method 3, i.e., it allows the lesser of the "Adjusted Nonresident Tax" row and the "Difference Between Taxes" row on the **Credit for Other State Tax** worksheet. These two rows are described

below. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Nonresident Tax** – the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

- **Difference Between Taxes –** the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the C**redit for Other State Tax** worksheet.

- **Adjusted Resident Tax** – The "Adjusted Resident Tax" is the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Resident Tax** – The "Adjusted Tax on Net Resident Income" is the tax on "Adjusted Resident Income" (from the "State Taxable Income" row of the **State Tax – Main Worksheet**) less "Adjusted Nonresident Income" (from the "Nonresident State Taxable Income" row of the **Nonresident State Tax – Main Worksheet** multiplied by the "Ratio" row of that worksheet) computed using the resident state regular tax schedule. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

OTHER STATE TAXES

Enter any other state or local income taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

MISSISSIPPI NONRESIDENT TAX

The following sections describe the calculation of the Mississippi nonresident tax for residents of other states who have income from Mississippi. In order to calculate the nonresident tax, first choose Mississippi as the taxpayer's nonresident state. Next, open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Mississippi, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MISSISSIPPI NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

    ▪   U.S. Government interest,

    ▪   state income tax refunds

    ▪   social security/railroad benefits, and

    ▪   pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

    The program automatically adds back the deduction for self-employment tax and the federal domestic production activities deduction.

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Mississippi exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

    The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Mississippi-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Mississippi-sourced interest, dividends, capital gains, and any other Mississippi-sourced income. Also include, as a negative adjustment, any Mississippi-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

    The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see the "Adjustments to Federal Itemized Deductions" section of this chapter). Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The Mississippi nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Mississippi nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Mississippi

7. Next, the program subtracts the higher of the Mississippi nonresident standard deduction (for the selected filing status) or the Mississippi nonresident itemized deductions from the amount on the "Nonresident Source Income" row to calculate nonresident state taxable income.

8. The program calculates Mississippi personal exemptions for residents and nonresidents in the same manner. The program does **not** carry the federal number of personal exemptions to the state (see the "Exemptions" section of this chapter). The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Mississippi tax, based on the amount on the "Nonresident State Taxable Income" row.

10. To compute the credit for joint taxpayers filing combined returns, see the section of the same name in this chapter.

11. If the taxpayer is entitled to any Mississippi nonrefundable credits, other than the joint filing credit, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

12. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Mississippi refundable credits, enter them as a negative number on this row.

MISSOURI

OVERVIEW

When the Missouri specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Missouri:

- Automatic calculation of personal exemption deduction

- Automatic calculation of standard deduction

- Applies state adjustments to itemized deductions

- Automatic calculation of state deduction for federal income tax

- Performs circular calculation to automatically deduct the state tax liability as a federal deduction

- Automatic adjustment of AGI for Missouri income tax refunds and U.S. government interest

- Applies rate reduction for "Combined" filing status

- Applies the phaseout of the deduction for federal taxes starting in 2019

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Missouri. For more information on the Missouri tax rates and other state tax matters, refer to Missouri Form 40 and Instructions, as well as other official state publications.

You should review the default settings for Missouri state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Missouri tax rates are contained in the state specifications. The program uses the rates found in the statutory tax rate schedule rather than the state tax rate table in Form 40. For taxpayers with less than $9,000 taxable income (who are required to use the tax table) this may result in a slight rounding difference in tax liability.

EXEMPTIONS

For years after 2018 and before 2026, Missouri has eliminated its personal exemptions.

Missouri does not follow the federal rules for number of personal exemptions. You must enter the number of dependent exemptions allowed in Missouri on the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. On the "No. of Class 2 Exemptions" row, if the taxpayer's filing status is Joint, enter "2"; if the taxpayer's filing status is Single or Separate, enter "1". (If the status is "Married Filing Separate" but the other spouse does not file, enter "2" rather than "1"). If the taxpayer's filing status is "Head of Household" or "Qualifying Widow(er)," enter "1" on the "Class 3 Exemptions" row.

For years after 1997, to compute the additional $1,000 exemption for Qualified Dependents over 65, enter 1 for each such dependent on the "No. of Class 4 Exemptions" row.

For years after 2016, to compute the additional $500 exemption for the taxpayer and/or spouse if Missouri AGI is less than $20,000 enter the extra exemptions on the "No. of Class 5 Exemptions" row.

Note. Do not include taxpayers with a Missouri filing status of "6" (can be claimed as a dependent), since the Missouri exemption for such taxpayers is "0".

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Combined, enter Joint filing status and see below for Combined filing status instructions.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Head of Household, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds

- U.S. Government interest

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and

- Subtracts as a "below the line" deduction the federal income tax liability, described below

The program will allow the federal self-employment tax deduction (H.B. 1155, Missouri Laws 1992).

Other Missouri adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. Reduce this amount by related expenses if such expenses exceed $500. The program adds the amount entered in calculating Missouri AGI.

OTHER ADDITIONS

Enter the amount of any partnership/S corporation adjustments and any other addition to federal AGI.

OTHER SUBTRACTIONS

Enter the following:

- Railroad retirement benefits added for federal AGI

- Capital gain or loss adjustment due to difference in basis

- Amounts previously taxed by Missouri

- Partnership/S corporation adjustments

- **For years after 2006** any allowable adjustment for federally taxed social security benefits

- **For years after 2016**, any allowable adjustment for Missouri business income

- Other subtractions from federal AGI

STANDARD DEDUCTION

The Missouri standard deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes, including the additional amounts allowed for elderly/blind **and** the additional deduction for real estate taxes, casualty losses and vehicle sales taxes. If you would like to change this assumption go to the state standard

deduction specification in the State Specs and change the "Use Federal Real Property Tax & Casualty (Y/N)" spec to No. See Resident and Nonresident State Specifications Overview for more information. The program selects the higher of the standard deduction or the Missouri itemized deductions. (In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.)

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions (after the 3% AGI floor), including the sales tax if elected on the taxpayer's federal return, and automatically subtracts state income taxes deducted for federal itemized. **For years after 1992**, the program automatically reduces the subtraction for state income taxes by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. **For years prior to 1992**, the program subtracts the total state income taxes paid, limited to total itemized deductions allowed. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes.

Enter any other adjustments to the total Missouri itemized deductions as a positive or negative number on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet. If any of the state taxes paid include Kansas City or St. Louis earnings taxes, enter this amount as a positive number. Enter (as a positive number) the following additional Missouri itemized deductions: FICA and S.E. taxes paid less the one-half tax deduction (to maximum), and the Cultural Contributions deduction. **For years after 2017**, if the federal itemized deduction for state and local taxes for state and local income taxes exceed the IRC § 164(b)(6) limit for state and local taxes (5,000 for married filing separate, 10,000 for other filing statuses), also enter as a negative adjustment the proportionate part of the limitation that represents the state and local income taxes. See Missouri Schedule SA.

Note. Missouri does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program handles this rule automatically.

DEDUCTION FOR FEDERAL TAX LIABILITY

The allowed deduction for federal income taxes is limited to a maximum of $10,000 for Joint and $5,000 for a single taxpayer.

In computing the Missouri deduction for federal tax liability, the program uses total federal tax liability computed as follows:

regular tax + lump sum tax + alternative minimum tax + excess advance premium tax credit recapture + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes less nonrefundable credits and the earned income credit.

Note. If you make an entry for the Social Security tax on tips on the "SS Tip & Excess Plan Taxes" row, make a negative adjustment on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet, which is accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Workshee**t. Include as a positive adjustment on this row any Foreign Tax Credit. You may also need to make a negative adjustment for certain refundable federal credits other than the earned income credit which the program handles automatically. **For 2014 and thereafter**, if there is a Federal Premium Tax Credit on IRS form 8962, then adjust the Federal Tax by making a negative adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax For State Purposes** worksheet, for the amount of the difference amount of the credit. **For 2006 only**, you will need to make a positive adjustment to offset any negative entry that was entered for the Credit for Telephone Excise Tax amount on the "Social Sec Tip & Excess Plan Taxes" row of the **Self-Employment and Other Taxes** worksheet, accessed from the Federal **Main Worksheet**. **For 2001 only**, if there is no refund to offset it, make a positive adjustment on this row for the amount of the federal tax rebate on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

COMBINED FILING STATUS

The program automatically calculates the tax reduction for taxpayers filing a "combined separate" return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate

taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

CREDITS

Enter any allowable Missouri nonrefundable credits, including the Missouri Enterprise Zone credit, Neighborhood Assistance credit, etc., on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the Missouri refundable credits, including the state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Missouri, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") plus any "Nonresident State Minimum Tax" and **for years after 2014**, less any nonrefundable credits on that worksheet. The reduction for the credits may need to be adjusted if the nonresident state provides a reciprocal benefit to Missouri residents.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate, carried to the state worksheets, and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each. (You should remember to update these customized state files when you receive new updates.) For complete information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any other state or local income taxes, on the "Other State Taxes" row of the **State Tax – Main Workshee**t. **Starting in 1990,** include 10% of the federal lump sum tax (for distributions not already included in Missouri AGI).

ALTERNATE STATE TAX BASE

Because Missouri allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Missouri.

MISSOURI NONRESIDENT TAX

The following sections describe the calculation of the Missouri nonresident tax for residents of other states who have income from Missouri. In order to calculate the nonresident tax, first choose Missouri as the taxpayer's nonresi-

dent state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Missouri, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MISSOURI NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Missouri rules in the same manner as for residents). The tax is then calculated as follows:

1. The program automatically subtracts the following:

   - State income tax refunds
   - U.S. Government interest
   - Pension income included on the "State Exempt Pensions" row of the Other Ordinary Income worksheet, and
   - Subtracts as a "below the line" deduction the federal income tax liability, described below

   Out of State Interest — Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. Reduce this amount by related expenses if such expenses exceed $500. The program adds the amount entered in calculating Missouri AGI.

2. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

   The program uses the amount on the "Nonres State AGI" row as total income when calculating the ratio described below.

3. The program then subtracts from "Nonres State AGI" the higher of the Missouri standard deduction (for the selected filing status) or Missouri itemized deductions if the taxpayer itemized for federal purposes, and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Missouri tax as if the taxpayer had been a resident Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row. For a Joint filer in Missouri this row is not used.

5. Next, on the **Nonresident Source Income** worksheet designate which income is Missouri-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouses's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Missouri-sourced interest, dividends, or capital gains, as well as any other Missouri-sourced income. Also include, as a negative adjustment, any Missouri-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonresident State AGI"). For this calculation, the ratio cannot exceed 1.00.

   For a taxpayer filing Joint for federal and Combined for Missouri go to the **Ratio: Nonres Income/Resident Income** worksheet enter the Spouse's Adj to Source Inc and the Spouse's Portion of Total Income. Also go to the **Nonresident State Nonrefundable Credits** worksheet and enter the Spouse's share of taxable income on the "Amount to be Separately Taxed" row.

7. If the taxpayer is entitled to any other Missouri nonrefundable credits that are deducted before apportioning the tax, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet**.

   If the taxpayer is entitled to any other Missouri nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Missouri refundable credits, enter them on this row as a negative number.

STATE TAX CALCULATIONS

991

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MONTANA

OVERVIEW

When the Montana specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Montana:

- Automatic calculation of personal exemption deduction
- Automatic calculation of deduction for federal income tax
- Performs circular calculation to automatically carry the state tax liability as a federal deduction
- Computes state standard deduction and itemized deductions
- Automatic adjustment of AGI for state tax refunds, U.S. Government interest, and unemployment benefits
- Calculates tax reduction for joint taxpayers filing separately on the same return
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Montana. For more information on the Montana tax rates and other state tax matters, refer to Montana Form 2 and Instructions, as well as other official state publications.

You should review the default settings for Montana state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help)

TAX RATES

The Montana tax rates, including any applicable surtaxes, are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. See "Inflation Adjustment" later in this section for information regarding the annual adjustment for inflation.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This number may be adjusted at the state level if necessary, such as when the taxpayer is the dependent of another. The program multiplies this entry by the exemption amount. Enter on the "Class 2 Exemptions" row any additional Montana exemptions for elderly or blind taxpayers or for handicapped children. The program multiplies this entry by the exemption amount and allows the result as an additional exemption deduction. Make no entries for "Class 3" or "Class 4" exemptions. (See "Inflation Adjustment" later in this section for information regarding the annual adjustment for inflation.)

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Montana does not have a separate filing status for Qualifying Widow(er). Most individuals filing as Qualifying Widow(er) for federal purposes qualify as Head of Household for Montana. The program makes this change automatically. If you feel that this does not properly reflect state treatment, you may change the filing status.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest
- State tax refunds
- Unemployment benefits and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The deduction for federal income taxes is handled automatically as a "below the line" subtraction from AGI; see **Deduction for Federal Tax Liability** on page 995.

The other Montana adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the applicable amount of state municipal bond interest that was not taxed at the federal level. The program adds this amount in calculating Montana taxable income.

OTHER ADDITIONS

Enter the following additions:

- Federal income tax refunds (if deducted in a prior year)
- NOL adjustments
- Social security income (if amount taxed in Montana exceeds the amount taxed for federal purposes)
- S corporation adjustment
- Other Montana additions to federal AGI

OTHER SUBTRACTIONS

Enter the following subtractions:

- Disability income included in federal AGI (to limits)
- Allowable interest exclusion for the elderly
- Salary expense disallowed for federal purposes due to claiming the jobs credit
- Excludable military pay
- NOL adjustments
- Social Security and railroad retirement income (if amount taxed in Montana is less than the amount taxed for federal purposes)
- S corporation adjustment
- Authorized Medical Care Savings Accounts
- Other Montana subtractions from federal AGI

DEDUCTION FOR FEDERAL TAX LIABILITY

The program automatically computes the Montana deduction for federal taxes paid, using total federal tax liability computed as follows:

regular tax + alternative minimum tax + lump sum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes + for years after 2012, the Medicare Investment Income Tax, less nonrefundable credits and the earned income credit.

For years after 2004, the federal tax deduction is limited to $10,000 for joint taxpayers and $5,000 for all others. The program **only** applies the $10,000 limit. Therefore all other taxpayers must make an adjustment for the excess federal tax deduction over the allowed amount.

The deduction appears on the "Federal Tax Deducted from State AGI" row of the **State Tax – Main Worksheet**. Although Montana treats this amount as an itemized deduction, the program treats it separately as another "below the line" deduction. Therefore, where the taxpayer takes the state standard deduction, the program will also allow the deduction for federal tax. Thus, an adjustment is required if 1 of 2 situations exists.

First, in cases where itemized deductions (excluding the deduction for federal taxes) are less than the standard deduction, but where total itemized deductions (including the deduction for federal taxes) exceed the standard deduction, the program will allow a deduction for both the standard deduction and the deduction for federal taxes. To prevent a double deduction, enter the difference between the state standard deduction and total itemized deductions (excluding the deduction for federal taxes) as a negative number on the "Adjustments to AGI" row of the **State Standard Deduction** worksheet.

The second situation arises when the federal tax deduction plus the other itemized deductions is less than the state standard deduction. To prevent a double deduction in this case, enter (as a negative number) the amount of the federal tax on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet, which is accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**. This entry will "zero out" the deduction for federal taxes so that it is not deducted in addition to the standard deduction.

In calculating the deduction, Montana allows all taxes paid except self-employment taxes. Any automatically computed self-employment taxes are properly excluded by the program for state purposes except for the Social Security Taxes on tips included in the "SS Tip & Excess Plan Taxes" row, for which a negative adjustment is necessary. The program bases the deduction on federal tax liability, rather than federal tax paid. You may adjust this amount to reflect the actual federal tax paid and any other adjustments, including the federal fuels tax credit and other refundable tax credits, using the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet.

Note. For 2008, you may need to make a negative adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet for the amount on the "Refund Check" row on the **Recovery Rebate Credit** worksheet accessed from the **Credits** worksheet.

Note. For 2003, you may need to make a negative adjustment on the "Adjustments to Federal Tax" row on the **Federal Tax Deduction from State AGI** worksheet for the amount on the "Reduction for 2003 Advance" row on the **2003 Child Tax Credit** worksheet accessed from the **Credits** worksheet.

Note. For 2001, enter a negative adjustment on the "Adjustments to AGI" row on the **Federal Tax for State Purposes** worksheet for the amount on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet, that was offset by the refund check.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and Withholding Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

STANDARD DEDUCTION

The Montana standard deduction is handled automatically. In computing the standard deduction, the program allows 20% of Montana AGI up to the maximum amount. The program also applies the minimum amount. The program selects the higher of the standard deduction or the Montana itemized deductions. (For information regarding the annual adjustment for inflation, see "Inflation Adjustment" below.)

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program carries federal itemized deduction amounts to Montana including the sales tax if elected on the taxpayer's federal return, and after subtracting state income taxes deducted for federal itemized. The program applies the 3% AGI floor. The program automatically computes the deduction for federal tax, as described above.

The percentage limitations for itemized deductions (3% and 80%), contributions deduction, medical deduction, casualty deduction, and miscellaneous itemized deductions are based on Montana AGI rather than federal AGI. Also, the program applies only the 50% limit to current charitable contributions. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjustments to Federal Contributions" row of the **State Charitable Contributions Deduction** worksheet. Note that the program applies the 50% limit to "2005 Qualified Contributions" which are allowed up to 100% of federal AGI for federal purposes. To calculate allowable

Montana charitable deductions assuming compliance with the federal disaster relief legislation you must make adjustments for 2005 Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base. (See "Adjustments" below.) Also be sure to adjust for any allowable charitable contribution carryovers.

For years after 2003, the program will continue to limit 2005 Hurricane Casualty Losses by the 10% floor. To calculate allowable Montana casualty losses assuming compliance with the federal disaster relief legislation, you should enter an adjustment for the difference between the federal and Montana casualty deduction. (See "Adjustments" below.)

You can make other adjustments to specific state itemized deductions on the "Adjustments" row of the individual subworksheets for the various types of itemized deductions. The program will apply the appropriate limitations to such adjustments. Taxpayers filing separately on the same return may require an additional adjustment on the row for "Additional State Itemized Deductions" on the **State Itemized Deductions** worksheet because the program computes the itemized deduction limitation based on the income of both spouses instead of each spouse separately.

ADJUSTMENTS

Enter any other adjustments to the total Montana itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. Amounts entered on this row will not be subject to the 3% and 80% limitations. Include, for example, allowable dependent care expenses and long term care insurance, since these amounts are not included as federal itemized deductions but are deductible in Montana and are not subject to the 3% and 80% limitations.

INFLATION ADJUSTMENT

Montana provides for an annual inflation adjustment for the state tax rates, exemptions, and standard deduction amounts. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Montana" in Help. If you want, you can estimate the inflation factor for such years and use it to adjust future year Montana tax specifications relating to rates, exemptions, and the standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter any allowable Montana nonrefundable credits, including the Montana investment credit and homeowner or renter credit, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter

Montana refundable credits, including state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Montana, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet. Enter any adjustments to this amount on the "Adjs to Nonresident Tax" row. This amount may need to be adjusted if the amount of the double-taxed income is less than the amount of adjusted gross income taxable by the other state.

JOINT TAXPAYERS FILING SEPARATELY ON THE SAME RETURN

The program automatically calculates the tax reduction for taxpayers filing separately on the same return. The program handles this calculation by computing a credit in the amount of the tax reduction that results from using the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, passive loss limitations, and itemized deduction limitations.

Note. Montana follows federal law when the taxpayers file separately. Therefore, there may be certain items that must be added back to income, such as, the passive activity real estate exclusion of up to $25,000, the IRA deduction, and the capital gain and interest exclusions if only one spouse was elderly.

OTHER STATE TAXES

Enter any other state or local income taxes (other than the 10% surtax) on the "Other State Taxes" row of the **State Tax – Main Worksheet**. For example, include the amount of the state lump sum tax or ITC recapture tax, and any other adjustments to the total Montana tax.

ALTERNATE STATE TAX BASE

Because Montana allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Montana.

MONTANA NONRESIDENT TAX

The following sections describe the calculation of the Montana nonresident tax for residents of other states who have income from Montana. In order to calculate the nonresident tax, first choose Montana-Reg or Montana-Opt as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

> **Note.** To compute the credit against the taxpayer's resident state tax for tax paid to Montana, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

MONTANA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions. The tax is then calculated as follows:

- State income tax refunds
- U.S. Government interest
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and
- Subtracts as a "below the line" deduction the federal income tax liability, see "Deduction for Federal Tax".

Out of State Interest – Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. Reduce this amount by related expenses. The program adds the amount entered in calculating Montana AGI.

1. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Enter any additions to income on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row. The program uses the amount on the "Nonres State AGI" row as total income when calculating the ratio described below.

2. The program then subtracts from "Nonres State AGI" the higher of the Montana standard deduction (for the selected filing status) or Montana itemized deductions, to derive Nonresident State Taxable Income.

3. Montana has a Personal Exemption which is computed as if the taxpayer were a resident.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Montana tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row. For a Joint filer in Montana this row is not used.

5. Next, on the **Nonresident Source Income** worksheet designate which income is Montana-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouses's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Montana-sourced interest, dividends, or capital gains, as well as any other Montana-sourced income. Also include, as a negative adjustment, any Montana-sourced "adjustments to income", including IRA or Keogh deductions, self-employed health insurance deductions, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonresident State AGI"). For this calculation, the ratio cannot exceed 1.00.

   For a taxpayer filing Joint for federal and Combined for Montana go to the **Ratio:Nonres Income/Resident Income** worksheet enter the Spouse's Adj to Source Inc and the Spouse's Portion of Total Income. Also go to the **Nonresident State Nonrefundable Credits** worksheet and enter the Spouses share of taxable income (net of deductions) on the "Amount to be Separately Taxed" row.

7. If the taxpayer is entitled to any other Montana nonrefundable credits that are deducted before apportioning the tax, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet**.

   If the taxpayer is entitled to any other Montana nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

8. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any Montana refundable credits, enter them on this row as a negative number.

NEBRASKA

OVERVIEW

When the Nebraska specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Nebraska:

- Computes the surtax starting in 1993, including limitations

- Automatic adjustment of AGI for Nebraska income tax refunds and U.S. government interest

- Automatic calculation of standard deduction and including the phaseout for years before 2006

- Computes Nebraska itemized deductions including the Nebraska phaseout for years before 2006

- Optimizes between Nebraska standard deduction and allowable Nebraska itemized deductions

- Calculates Nebraska minimum tax

- Contains rate for Nebraska elderly/disabled credit

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Nebraska. For more information on the Nebraska tax rates and other state tax matters, refer to Nebraska Form 1040N and Instructions, as well as other official state publications.

You should review the default settings for Nebraska state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Nebraska tax rates, including the supplementary tax schedules, are contained in the state specifications. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

Note that if the **additions for state AGI are less than $5,000**, the Nebraska tax after nonrefundable credits should not exceed Federal tax liability before credits.

STATE SUPPLEMENTARY TAX

The Nebraska surtax is automatically calculated on the **State Supplementary Tax** worksheet. To calculate the tax, the program takes 10% of the excess Federal AGI over the IRC § 68 threshold and multiplies it by the highest bracket of 6.99% (6.68% for 1997 and 1998). From this amount the program subtracts the tax computed by figuring the tax on 10% of the excess federal AGI using the tax tables. The difference is the increase in tax liability. If state taxable income is less than 10% of the excess, the tax is calculated using state taxable income times the highest rate of 6.99% (6.68% for 1997 and 1998).

The state supplementary tax is suspended for years 2018 – 2025.

Note. When computing the Supplementary Tax the program posts the Federal AGI amount to the "State Taxable Income" row of the **State Supplementary Tax** worksheet to properly compute this tax for Nebraska.

EXEMPTIONS

For years before 2006, Nebraska allows a personal exemption credit which is phased out. The program does not calculate the credit. Enter the allowed credit, after the Nebraska phaseout, on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet.

For years after 2005, the program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This entry generally does not require adjustment in Nebraska. The program multiplies this entry by the exemption amount. Make no entries for the other "Class #" exemption rows. (For more information on the inflation adjustment, see "Inflation Adjustment" below.)

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds (allowable beginning in 1987)
- U.S. Government interest, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

If state tax refunds are not fully deductible due to the tax benefit rule enacted in 1989, enter the disallowed portion as a positive adjustment to AGI, as described below.

The other Nebraska adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the applicable amount of out-of-state municipal bond interest that was not taxed at the federal level. The program adds this amount in calculating Nebraska taxable income.

OTHER ADDITIONS

Enter the following (as a positive number):

- Depreciation Adjustments
- Other additions from federal AGI

OTHER SUBTRACTIONS

Enter the following (as a positive number):

- Railroad retirement benefits added for federal AGI
- **For years after 2005**, the deduction for the long term care savings plan
- Nebraska NOL adjustment
- Nebraska exclusion for IRC § 1341(a)(5) "claim of right" repayments (1989 and thereafter)
- Other subtractions from federal AGI

NEBRASKA

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2017 and before 2026, the program assumes Nebraska conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

The program carries total federal itemized deductions allowed, after the federal 3% AGI floor, and including the sales taxes if elected on the taxpayer's federal return, and automatically subtracts state income taxes deducted for federal itemized. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes.

For years before 2006, the program carries total federal itemized deductions including the sales taxes if elected on the taxpayer's federal return, and automatically subtracts state income taxes deducted for federal itemized. Then, the program applies the Nebraska version of the phaseout of federal itemized deductions. The Nebraska phaseout is calculated as follows:

Federal itemized less state and local taxes less protected itemized per IRC § 68 (medical, casualty, investment interest, gambling losses, and charitable deductions for years after 1994) equals disallowable deductions. Disallowable deductions cannot be reduced below 20% of their total.

Disallowable deductions are reduced by:

- An amount calculated as $1 for every $10 over the IRC § 68 thresholds, multiplied by a fraction, the numerator of which is disallowable deductions minus charitable contributions and the denominator of which is disallowable deductions.

Note. Nebraska does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program handles this rule automatically.

STANDARD DEDUCTION

The Nebraska standard deduction is handled automatically and is computed based on taxpayer filing status and year.

For years prior to 2006, the program will automatically handle the Nebraska standard deduction phaseout. Nebraska will phase out the standard deduction by $1 for every $10 of excess federal AGI over the IRC § 68 thresholds.

For years after 2002 and before 2007, the program uses the federal standard deduction as it would have been without the changes reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003. **Prior to 2003 and after 2006**, the program allows the same amount as for federal purposes. **For all years prior to 2004 and after 2006**, this amount includes the additional amounts allowed for the elderly/blind. **For years after 2007**, the program will not allow the additional deduction for the residential property tax, casualty losses, and

the vehicle sales tax as part of the standard deduction allowed federally. **In years 2004 through 2006**, the elderly and blind amounts will need to be added on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet. (In the unusual situation in which the state filing status differs from the federal filing status, you must also adjust the state standard deduction to allow the proper amount for the state filing status.)

NEBRASKA MINIMUM TAX

For years after 2013, this section no longer applies for the alternative minimum tax, however it does apply to any other taxes such as the lump sum tax, and IRA tax. If the taxpayer had any federal tax on a lump sum distribution or other tax on an early distribution from an IRA or other qualified retirement plan, you must enter the total of such amounts as a positive number on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet.

For years prior to 2014, Nebraska imposes a flat tax on the total of the taxpayer's federal alternative minimum tax, lump sum tax, and IRA tax. The program automatically carries the federal net alternative minimum tax to the **State Minimum Tax** worksheet. If the taxpayer had any federal tax on a lump sum distribution or other tax on an early distribution from an IRA or other qualified retirement plan, you **must** enter the total of such amounts as a positive number on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. The program adds this entry to the amount of federal net alternative minimum tax and then applies the state minimum tax rate. Nonrefundable credits are allowed against both regular and alternative minimum tax.

Nebraska law requires that federal Forms 1040 and 6251 be recomputed to take into account the Nebraska adjustments found in Revenue Ruling 22-13-2. To do so, follow these steps:

1. Start with two cases. The first case will be the "actual" case; the second case will be used only to compute the Nebraska adjustment.

2. In the second case Regular Federal Taxable income must equal Nebraska Taxable Income. In the second case, recompute federal income by removing U.S. Government interest or dividend income and adding the interest or dividend income from non-Nebraska state or local obligations, adjusting Capital Gains, NOL's and any other amounts necessary to arrive at Nebraska taxable income, including the adjustments to account for the special capital gains/extraordinary dividends deduction. In the second case the number of personal exemptions should be changed to 0 and state income taxes paid should also be removed from the federal calculation. Because AGI may change the amount of the itemized deductions, you may also need to adjust federal itemized deductions and any other items that are altered. The itemized deduction adjustment can be made on the "Other

Itemized" row of the **Federal Itemized Deductions** worksheet. If there are other items that are affected by the AGI calculation or adjustments to capital gains for Nebraska these should be adjusted as well. If you include more than one amount on a row it is easier to trace if you detail the amounts in a custom worksheet. If any of these ancillary calculations such as the itemized deduction amounts amount are changed in the Federal AMT worksheet, they will need to be adjusted to reflect the case one AMT amounts as well.

3. Next, find the difference in the alternative minimum tax resulting from these adjustments. The difference is the amount computed on the "Alternative Minimum Tax" row of the federal **Alternative Minimum Tax** worksheet with and without the adjustments in Nebraska Revenue Ruling 22-13-2.

4. Enter the amount on the "Adj's to State Min Tx Base" row of the **State Minimum Tax** worksheet.

ELDERLY AND DISABLED CREDIT

Nebraska allows a credit of 100% (50% for pre-1989 years) of the federal elderly and disabled credit. **For years after 1988**, enter the amount of the federal credit on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. **For years before 1989**, enter 50% of the federal elderly disabled credit on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. No further entries are needed since the credit rate is contained in the state specifications.

OTHER CREDITS

Enter any other allowable Nebraska nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter any refundable credits, including state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For Nebraska, **in years after 2014**, the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Nebraska, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** less any nonrefundable credits (except any credit for nonresident tax) plus any "State Minimum Tax" and any "Other State Taxes" on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Nonresident State Minimum Tax" and any "Other Nonresident State Taxes" on that worksheet.

OTHER STATE TAXES

Enter the depreciation surcharge and any other adjustments to the total Nebraska income tax liability on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Amounts on this row will not be offset by the amount on the "State Nonrefundable Credits" row.

INFLATION ADJUSTMENT

Nebraska provides for an annual inflation adjustment for personal exemptions beginning in 1990. **For years after 2002**, Nebraska has their own standard deduction that is adjusted for inflation. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years

used in your version of the program, see the "Inflation Adjustment" subtopic under "Nebraska" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year Nebraska tax specifications relating to the standard deduction. (The program does not handle the personal exemption credit for years after 1992 and before 2005.)

NEBRASKA NONRESIDENT TAX

The following sections describe the calculation of the Nebraska nonresident tax for residents of other states who have income from Nebraska. In order to calculate the nonresident tax, first choose Nebraska as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Nebraska, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

NEBRASKA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Nebraska AGI as if the taxpayer were a full-year resident of Nebraska. The program carries to this row the federal AGI after reducing it for the following items:

    -   U.S. Government interest
    -   State tax refunds
    -   Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Nebraska exempt interest and related expenses, NOL adjustments, and any other differences between federal and Nebraska AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the higher of the Nebraska standard deduction (for the selected filing status) or Nebraska itemized deductions if the taxpayer itemized for federal purposes (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Nebraska tax as if the taxpayer had been a resident. Enter

any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Nebraska-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Nebraska-sourced interest, dividends, capital gains, and any other Nebraska-sourced income. Also include, as a negative adjustment, any Nebraska-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

    Enter any available Nebraska nonrefundable credits including the personal exemption credit, after adjustment for the ratio on the "Nonres State Nonrefundable Credits" row of this worksheet.

6. If the taxpayer is allowed any Nebraska refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number, as they are allowable against the Nebraska AMT. Also enter on this row any other taxes and credit recaptures as a positive number.

NEBRASKA NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the Nebraska nonresident minimum tax as follows:

For years after 2013, this section no longer applies for the alternative minimum tax. However it does still apply to any other taxes such as the lump sum tax, and IRA tax. If the taxpayer had any federal tax on a lump sum distribution or other tax on an early distribution from an IRA or other qualified retirement plan, you must enter the total of such amounts as a positive number on the "Adjs to Nonresident State Minimum Tax Base" row of the **Nonresident State Minimum Tax** worksheet.

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched". If the taxpayer is required to report any lump sum tax or tax on early distributions of an IRA, enter the amount on the "Adjs to Nonres State Min Tax Base" row of this worksheet.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by the regular tax ratio.

Note. Enter the amount of the AMT credit, if applicable, on the **State Nonre-fundable Credits** worksheet.

NEW HAMPSHIRE

OVERVIEW

When the New Hampshire specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for New Hampshire:

- Interest/dividends rate schedule
- Automatic calculation of personal exemptions
- Automatic subtraction of U.S. Government interest from interest/dividends tax base

The following notes provide a guide for entering specific items relating to New Hampshire. For more information on the New Hampshire tax rates and other state tax matters, refer to New Hampshire Form RP–10 and Instructions and other official state publications.

You should review the default settings for New Hampshire state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make changes yourself (see the program's online help).

TAX RATES

The New Hampshire tax rate has remained at 5% and is contained in the state specifications. **For years after 2008 and before May 23, 2011**, New Hampshire will tax Gambling Winnings at a rate of 10%. Enter any amounts taxable in New Hampshire on the "Adj to State Supplementary Tax Base" row of the **State Supplementary Tax** worksheet.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. In New Hampshire, changing the filing status does not affect the tax.

New Hampshire does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

EXEMPTIONS

New Hampshire does not follow the federal rules for the number of personal exemptions. The exemptions of $4,800 for joint filing status or $2,400 for all other filing statuses are incorporated in the state tax schedules and the program subtracts these amounts in calculating the amount subject to tax. The program does not, however, automatically calculate the extra exemptions that apply to taxpayers who are blind, elderly, or disabled (no dependent exemptions are allowed). Therefore, enter (as a negative number) $2,400 for each extra exemption on the "Adjustments" row of the **Alternate State Tax Base** worksheet. No entry is allowed on the state **Personal Exemptions** worksheet.

DIVIDENDS/INTEREST TAX

The program automatically calculates the New Hampshire dividends and interest tax using the entries in the federal **Other Ordinary Income** worksheet. If the taxpayer is not required to file the New Hampshire return, e.g., because interest and dividends are from New Hampshire banks (for tax years prior to 1995), or are below the applicable amounts, do not activate the **State Tax – Main Worksheet**.

ADJUSTMENTS TO DIVIDENDS/INTEREST

U.S. GOVERNMENT INTEREST

The program automatically excludes U.S. Government interest included in federal AGI but not taxed by New Hampshire.

OUT OF STATE INTEREST

Enter the non-New Hampshire portion of municipal interest that was not taxed at the federal level as a positive number on the "Adjustments" row of the **Alternate State Tax Base** worksheet.

OTHER ADDITIONS TO DIVIDENDS/INTEREST

Enter any taxable distributions from S corporations, partnerships, and fiduciaries that are treated as dividends as a positive number on the "Adjustments" row of the **Alternate State Tax Base** worksheet.

OTHER SUBTRACTIONS FROM DIVIDENDS/INTEREST

Certain dividend and interest income included in federal AGI is not taxable in New Hampshire. Enter the amount of such excludable items as a negative number on the "Adjustments" row of the **Alternate State Tax Base** worksheet. **For tax years prior to 1995,** include such items as qualified interest and

dividends from New Hampshire and Vermont banks, credit unions, and other qualified financial institutions included in the federal AGI.

If you are running the Minor Child calculation and you have made the federal election to include the child's interest and dividends on the parent's return, you must subtract the included portion from the parent's income for state purposes (as a negative entry on the "Adjustments" row) and add the appropriate amount to the child's income (as a positive entry on this row).

Note. If you have more than one such addition or subtraction, you may want to create a custom worksheet on the "Adjustments" row of the **Alternate State Tax Base** worksheet, to list each item separately.

OTHER STATE TAXES

Enter any adjustment to total New Hampshire taxes on the "Other State Taxes" rows of the **State Tax – Main Worksheet**.

TAXES PAID/WITHHELD

Enter the total amount of estimated payments and withholdings on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

STATE TAX CALCULATIONS

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NEW JERSEY

OVERVIEW

When the New Jersey specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for New Jersey:

- Automatic calculation of personal exemptions

- Itemized Deductions — Automatic calculation of medical expenses (with 2% floor) and taxes paid

- Automatic reduction of AGI for New Jersey income tax refunds, U.S. government interest, social security/railroad benefits, and unemployment income

- Automatic addition of IRA and Keogh amounts, the deduction for self-employment tax, and the federal domestic production activities deduction

- Automatic New Jersey deduction for passive losses disallowed for federal purposes

- Calculates New Jersey nonresident tax

- Calculates nonresident New York State and City tax

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to New Jersey. For more information on the New Jersey tax rates and other state tax matters, refer to New Jersey Form NJ–1040 and Instructions, as well as other official state publications.

You should review the default settings for New Jersey state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The New Jersey tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

New Jersey no longer follows the federal rules for the number of personal exemptions. Therefore, if the filing status is Joint, you must enter "2" on the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet; enter "1" for all other filing statuses. The program multiplies the number entered by $1,000. Enter the number of dependents on the "Class 2 Exemptions" row. The program multiplies this amount by $1,500. Enter "1" for each taxpayer or spouse who is elderly, blind or disabled and for dependents in college on the "Class 3 Exemptions" row. The program multiplies this amount by $1,000. Make no entries on the "Class 4 Exemptions" row.

Note. If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose "Qualifying Widow(er)" as the federal filing status, the program changes the state filing status to "Joint", which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following subtractions:

- State income tax refunds
- U.S. government interest
- Unemployment income
- Social security/railroad benefits
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. For years after 2004, the pension exclusion is not allowed if gross income exceeds $100,000. The program will not automatically apply this limit. (See Chapter 130, Laws 2005.)
- Deduction of passive losses disallowed on the federal return

The program also automatically adds back to state AGI:

- Federal IRA

- Keogh deductions, and
- Deduction for self-employment tax
- The domestic production activities deduction

If you are running the Minor Child calculation and you made the federal election to include the child's interest and dividends on the parent's return, you **must** subtract the included portion from the parent's AGI for state purposes (on the "Other Subtractions" row) and add the appropriate amount to the child's AGI ("Other Additions" row).

The other New Jersey adjustments to AGI are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-New Jersey portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating New Jersey adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet:

- Employee business expenses
- Moving expenses
- Prior year unallowed capital loss carryovers
- Lump Sum Distribution entered on federal Form 4972 (enter any pension exclusion as a subtraction)
- Any necessary Partnership and S Corp income adjustments
- Depreciation adjustments
- Other additions to New Jersey income (or unallowable federal deductions)

OTHER SUBTRACTIONS

Enter the following adjustments (as a positive number) on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet:

- New Jersey lottery winnings
- Homestead rebate
- Undistributed S Corp income, for tax years prior to July 8, 1993
- Salary expense disallowed on federal return due to claiming jobs credit
- Depreciation adjustments

- Include any amounts allowed by New Jersey for the domestic production activities deduction
- Other New Jersey deduction not allowed on the federal return, or income taxed on the federal return but exempt in New Jersey

MISCELLANEOUS ADJUSTMENTS

Form NJ 1040 provides for an "other income" section consisting of several categories of income including partnership income, capital gains and losses, business (Schedule C) income, pensions, etc. New Jersey does not allow a loss in any of these categories to offset income in another category or to be carried to future years. Because this rule is incompatible with the federal method of netting income and loss, the program does not handle this New Jersey limitation of losses. Therefore, if a taxpayer has a net loss in one of these categories, you should disallow this loss manually by making an offsetting entry (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

Note. Final gross income regulations published March 15, 1999, pertaining to net income from business (NJAC18:35–1.1) and income from partnerships (NJAC 18:35–1.3) will require you to make adjustments to determine the amount of taxable income that should be taxed at the entity level. This calculation should include all income and deductions that are allowable for NJ income taxes for that entity, including 1231 gains and losses. This adjustment is only for **tax years after 1998**. See the regulations for details.

CAPITAL LOSS ADJUSTMENT

The program carries capital losses to the state worksheet as part of federal AGI, i.e., after applying the federal limit of $3,000 per year and automatically carrying forward the balance. Because New Jersey does not allow net losses on sales of property, you should add back such losses (in the year of sale and all carryforward years). Enter the amount of the loss not allowed in New Jersey (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet. (See below for treatment of passive capital losses.)

TREATMENT OF PASSIVE LOSSES

The New Jersey disallowance of any net losses should not be confused with the federal passive loss rule, which has **not** been adopted by New Jersey. The program, therefore, properly does not apply the passive loss rule to New Jersey. The loss disallowed for federal purposes is allowed in full by the program for New Jersey purposes and appears on the "Passive Activity Loss" row as a subtraction on the **Adjustments for State AGI** worksheet.

In some circumstances (especially in the year of disposition), where the federal deduction exceeds the state deduction as a result of allowing accumulated losses suspended from prior years, the adjustment will appear as an addition on this worksheet. Except for passive capital losses (discussed below), you generally do not need to make any adjustments except to comply with the general state prohibition of net losses discussed above.

EXAMPLE

Assume a $1,000 passive loss has been entered and that $600 has been disallowed for federal purposes. The program will allow the full $1,000 loss in New Jersey; $400 will flow through as part of federal AGI, and the other $600 will appear as a negative adjustment on the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. If you determine that none of this $1,000 loss is deductible for state purposes under the New Jersey rule described above, you should enter $1,000 as a positive number on the "Other Additions" row of the **Adjustments for State AGI** worksheet. (For years in which a federal deduction is allowed for a prior year "suspended" passive loss, the amount of such loss will appear as a positive number on the "Passive Activity Loss" row; again this is because the program properly does not apply the passive loss rules to New Jersey.)

PASSIVE CAPITAL LOSSES

For passive capital losses, in the first year of the activity the program carries to the state worksheet the portion disallowed for federal purposes, as described above. It will also carry (as part of federal AGI) the balance, up to the $3,000 federal capital loss limitation. Enter any remaining portion of the passive loss on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. In subsequent years, the program carries to the state (as part of federal AGI) up to $3,000 per year of the passive capital loss carryover. To avoid duplication, you should add back such loss carryover (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet. In the year the activity is sold, subtract the amount of the capital loss carryover from the amount carried by the program to the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. Enter the result (as a positive number) on the "Other Subtractions" row of this worksheet.

These adjustments for passive capital losses will result in full allowance at the state level. To the extent that they are not allowed in New Jersey due to the prohibition on net losses, you should enter the disallowed portion (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

STATE TAX CALCULATIONS

The following situations provide other examples of transactions that may require adjustment due to different treatment for federal and New Jersey purposes:

- Three-year Rule for pensions/annuities
- NOL carryforward or carryback
- Capital gain/loss (differences in carries or loss limitations)
- Gain/loss on sale of asset
- Schedule C differences (e.g., no N.J. taxes deduction)
- Other differences between federal and New Jersey law

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

MEDICAL EXPENSES

The program automatically calculates the New Jersey medical expense deduction. The program allows all medical expenses entered on the federal worksheets in excess of the state floor (2% of state AGI).

PROPERTY TAX DEDUCTION

The program subtracts a portion of the amount entered on the "Property Taxes: Residential" row of the federal **Itemized Deductions** worksheet. New Jersey allows a deduction only for property taxes on the taxpayer's principal residence. Therefore, the amount entered on the "Property Taxes: Residential" row should include only those property taxes relating to the taxpayer's principal residence. Any other non-investment property taxes, such as for a second residence, should be entered on the "Other State & Local Taxes" row of the federal **Itemized Deductions** worksheet. (See the program help messages for these two rows.) New Jersey also allows a deduction for property taxes deemed paid on the rental of the taxpayer's principal residence. Any such amount or any other adjustment, such as for married filing separate, should be entered on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. **For 2009**, the program will apply the limits for high income taxpayers that are not 65 or older or blind or disabled. The program will make this determination based on whether the taxpayer was elderly or blind for federal purposes, any difference in this determination will need to be adjusted manually.

Note. You can set up two cases to determine whether the taxpayer is better off claiming a NJ property tax deduction or the credit. In the first case, compute the tax with the property tax deduction on the **State Itemized Deduction** worksheet. In the second case, compute the tax without the property tax deduction by entering a negative number for the amount of the state tax

deduction on the "Other Adjustments to Taxes" row of the **State Taxes Deduction** worksheet. (If you are running multi-state returns, compare column one and two after considering the credit for taxes paid to other jurisdictions.) If "Total State Tax" in Case 1 is larger than in Case 2, or the difference is zero or less than $50 (on a joint return), use Case 2 and claim the property tax credit on the **State Estimated & W/H Payments** worksheet on the row titled "Other Refundable Credits" for that case.

OTHER DEDUCTIONS

The program carries to New Jersey none of the federal itemized deductions except medical expenses, with the adjustment described above. Enter on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet, deductible amounts for alimony/separate maintenance paid.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments and the residential property tax credit) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

New Jersey has a reciprocal agreement with Pennsylvania for wages and other income for personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. This agreement does not apply to any Pennsylvania city or county taxes or to other types of income; therefore, there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For New Jersey, the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for New Jersey, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted

Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (For years after 2015, after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Other Nonresident State Taxes" on that worksheet. **For years prior t o 2015**, if the "Nonresident State Supplementary Tax" includes city or county taxes on the same income they should be multiplied by the Ratio and included on the "Adjs to Nonresident Tax" row of the **Credit for Other State Tax** worksheet. For years after 2014, the program will include any "Nonresident State Minimum Tax".

Note. New Jersey allows a separately calculated credit for any lump sum distribution tax paid to another state. Enter this and any other adjustments to the credit on the "Adjs to Credit for Othr St Tax" row.

OTHER TAXES

Enter any other New Jersey taxes other than the use tax on out-of-state purchases. Do **not** include the use tax here, since the program carries total state taxes as a federal itemized deduction (when selected on the **State Estimated & Withholding Payments** worksheet) and use/sales taxes are no longer deductible for federal purposes.

HANDLING NEW YORK NONRESIDENT TAXPAYERS

For complete instructions on handling New Jersey taxpayers with New York nonresident income, see the "New York Nonresident Tax" section of the New York portion of the manual.

NEW JERSEY NONRESIDENT STATE TAX

The following sections describe the calculation of the New Jersey nonresident tax for residents of other states who have income from New Jersey. In order to calculate the tax, first choose New Jersey as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to New Jersey, see the discussion under "Credit for Other State Tax" for the taxpayer's resident state.

NEW JERSEY NONRESIDENT REGULAR TAX

In general the nonresident tax calculations are the same as for a resident. Federal amounts including the filing status carry automatically to this worksheet. The program then calculates the tax as follows:

1. The "Nonres State AGI" row shows New Jersey AGI as if the taxpayer were a full-year resident of New Jersey. The program carries to this row the federal AGI after reducing it for the following:

    - State tax refunds

    - U.S. government interest

    - Unemployment income

    - Social security/railroad benefits

    - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet. For years after 2004, the pension exclusion is not allowed if gross income exceeds $100,000. The program will not automatically apply this limit. (See Ch. 130, Laws 2005.)

    - Deduction of passive losses disallowed on the federal return

    The program also automatically adds back to state AGI:

    - Federal IRA

    - Keogh deductions

    - The deduction for self-employment tax

    - The domestic production activities deduction

    Enter any other adjustments on the worksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-New Jersey exempt interest and related expenses, NOL adjustments, and any other differences

between federal and New Jersey AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the New Jersey Personal Exemption deduction (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row the program displays the amount of the New Jersey tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is New Jersey-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

5. Include, as a positive adjustment, any New Jersey-sourced interest, dividends, or capital gains and any other New Jersey-sourced income. Also include, as a negative adjustment, any New Jersey-sourced "adjustments to income," including New Jersey Lottery winnings, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ by "Nonres State AGI").

7. Enter any available New Jersey non-refundable credits on the "Nonres State Nonrefundable Credits" row.

NEW MEXICO

OVERVIEW

When the New Mexico specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for New Mexico:

- Automatic calculation of personal exemption deduction
- Automatic calculation of standard deduction
- Computes New Mexico itemized deductions
- Automatic adjustment of AGI for U.S. government interest, social security (for years before 1990), railroad benefits, and (for years after 2010) state income tax refunds
- For years after 2002, the program automatically calculates the deduction for net capital gain
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to New Mexico. For more information on the New Mexico tax rates and other state tax matters, refer to New Mexico Form PIT–1 and Instructions, as well as other official state publications.

You should review the default settings for New Mexico state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The New Mexico tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, rather than any state tax tables.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This entry generally will not require adjustment in New Mexico. Make no entries on the other "Class #" exemption rows.

For 2018, the program assumes New Mexico conforms to the 2017 tax act (Pub. L. No. 115-97), which eliminates personal exemptions.

For years after 2018, enter the number of dependent exemptions on the class 2 exemption row of the **State Tax Personal Exemptions** worksheet.

For years after 2004, on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet, enter any additional exemption allowed for individuals 65 or older for unreimbursed medical expenses in excess of $28,000. **For years after 2005**, also enter on this row any additional exemption allowed for low income individuals. (See New Mexico, Sections 7–2–5.8 for details.)

New Mexico allows the additional $500 exemption in **2005 and 2006** for Hurricane Katrina displaced individuals, and in **2008 and 2009** for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are **not** carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet
- **For years after 2002,** the deduction for net capital gain, as calculated on the **Capital Gains and Losses** worksheet
- **For years after 2002,** for married taxpayers filing separate, the program allows a maximum of the greater of $500 or the applicable percentage of the net capital gain
- **For years after 2010**, the program automatically subtracts state income tax refunds

The other New Mexico adjustments to AGI are handled on the following rows:

ADDITIONS

Enter the following:

- Enter the lump sum tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

- **For years after 2002,** enter any adjustment required to the capital gain deduction under New Mexico Code § 7–2–34(C). A taxpayer may **not** claim the capital gain deduction if the taxpayer has claimed the credit provided in New Mexico Code § 7–2D–8.1.

OTHER SUBTRACTIONS

Enter the following on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet:

- Deduction for taxpayers who are blind or over 65

- Allowable federal and New Mexico pensions/annuities

- On-reservation Indian income

- Railroad retirement benefits added for federal AGI

- **For years prior to 2003,** enter the allowed capital gain deduction

- **For years after 2003,** for the capital gain deduction for married taxpayers filing separately, enter any adjustments that may be required by New Mexico Code § 7–2–34(B)

- Any other subtractions from federal AGI

STANDARD DEDUCTION

The New Mexico standard deduction is handled automatically and the program will allow the same standard deduction that is allowed federally. **For years after 2017 and before 2026**, the program assumes New Mexico conforms to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction. **For years after 2009**, the program selects the higher of the standard deduction or the New Mexico itemized deductions. **Note: For years after 1988 and before 2010**, New Mexico did not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program applies these rules automatically.

ITEMIZED DEDUCTIONS

For New Mexico the program allows the total amount of federal itemized deductions after the floor. **For years after 2009**, these amounts will not include

the deduction for state income taxes or for the sales tax whichever is elected on the taxpayer's federal return. **For 2013 and thereafter**, the program applies the 3% AGI floor and automatically reduces the subtraction for state income or general sales taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing allowed federal itemized by total federal itemized before the floor. **For years after 2017 and before 2026**, the program assumes New Mexico conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the New Mexico credit for taxes paid to a nonresident state the program uses Method 2. It allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- **Adjusted Tax at Resident Rates** — the "Adjusted Nonresident Income" multiplied by the New Mexico resident tax rates (up to a maximum of 5.5% for years prior to 2013). **For years after 2012**, the program will use the average New Mexico residential tax rate. "Adjusted Nonresident Income" equals the amount on the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting

the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

▪ **Adjusted Resident Tax —** the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

OTHER STATE TAXES

Enter any other adjustment to total state taxes due on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

NEW MEXICO NONRESIDENT STATE TAX

The following sections describe the calculation of the New Mexico nonresident tax for residents of other states who have income from New Mexico. In order to calculate the tax, first choose New Mexico as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to New Mexico, see the discussion under "Credit for Other State Tax" for the taxpayer's resident state.

NEW MEXICO NONRESIDENT REGULAR TAX

In general, the nonresident tax calculations are the same as for a resident. Federal amounts including the filing status and the federal number of personal exemptions carry automatically to this worksheet. The program then calculates the tax as follows:

1. The "Nonres State AGI" row of the worksheet shows New Mexico AGI as if the taxpayer were a full-year resident of New Mexico. The program carries to this row the federal AGI after reducing it for the following items:

   ▪ U.S. Government interest

   ▪ Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   ▪ **For years after 2002,** the deduction for net capital gain, as calculated on the **Capital Gains and Losses** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-New Mexico exempt interest and related expenses, NOL adjustments, and any other differences between federal and New Mexico AGI for depreciation, gains and losses, etc.

2. The program then subtracts from "Nonres State AGI" the higher of the New Mexico standard deduction (for the selected filing status) or New Mexico itemized deductions if the taxpayer itemized for federal purposes, and the Personal Exemption amount (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the New Mexico tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is New Mexico-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any New Mexico-sourced interest, dividends, or capital gains and any other New Mexico-sourced income. Also include, as a negative adjustment, any New Mexico-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

   Enter any available New Mexico nonrefundable credits adjusted for the ratio on the "Nonres State Nonrefundable Credits" row of this worksheet.

6. If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number. If the taxpayer is allowed any New Mexico refundable credits, enter them on this row as a negative number.

NEW YORK

OVERVIEW

When the New York specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for New York:

- New York Supplemental Tax on unearned income

- New York Minimum Tax

- New York City Tax

- New York City Nonresident Tax and Exemption

- New York State Nonresident Tax

- Automatic subtraction for personal exemptions

- Automatic calculation of standard deduction

- Itemized Deductions — Addback of New York taxes paid and other adjustments, including the special New York phaseout

- Automatic adjustment of AGI for New York income tax refunds, U.S. government interest, Domestic Production Activity Deduction (for years after 2007), and social security/railroad benefits

- **For 2015 and later**, the New York Metropolitan Commuter Transport Mobility Tax (MCTMT)

- **For 2017 and later**, the New York City school tax credit

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to New York. For more information on the New York tax rates and other state tax matters, refer to New York Form IT–201 and Instructions, as well as other official state publications.

You should review the default settings for New York tax data in the New York State specifications file or New York City specifications file to ensure that you agree they conform with current state tax law. If you believe modifications are required, you can change these yourself (see the program help) or call Bloomberg Tax Technology Customer Support.

TAX RATES

The New York tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

LOADING NEW YORK FILES

The New York State program is contained on two specifications files. For New York City residents select the "NYCITY" file (this file is used to calculate both New York State and New York City resident taxes; see "New York City Resident Taxpayers" below). For other New York State residents, including those who work in New York City but live in New York State, select the "NYSTATE" file.

For residents of other states who have income from New York State or City, see "New York State Nonresident Tax" or "New York City Nonresident Taxpayers" later in this section.

NEW YORK STATE RESIDENT TAX

EXEMPTIONS

The program automatically carries the federal number of personal exemptions to the "Class 2" row of the **State Tax Personal Exemptions** worksheet. The program automatically handles the New York rule reducing this number by two (joint filers) or one (all other filers). The number of exemptions is multiplied by $1,000. **Make no entries on the other "Class #" exemption rows**.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are **not** carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

New York has a separate filing status for Qualifying Widow(er). The program will change the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following from federal AGI:

- State income tax refunds

- U.S. government interest
- Domestic Production Activity Deduction (for years after 2007)
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other New York adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-New York portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating New York adjusted gross income.

OTHER ADDITIONS

Enter the following on the "Other Additions" row of the **Adjustments for State AGI** worksheet:

- Differences in depreciation and depletion
- Difference in gains and losses upon the sale of assets, due to differences in basis
- Adjustment for expenses deducted federally that are attributable to income that is not taxed in New York
- Public Employee 414(h) retirement contributions from the wage and tax statements
- Any other additions in computing New York AGI

OTHER SUBTRACTIONS

Enter the following on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet:

- Deductible tuition payments (1987 and 1988 only), to the extent not already deducted on the federal return
- The two-earner deduction allowed in 1987 (10% of the federal earned income of the lower earning spouse up to a maximum deduction of $3,000)
- Adjustment for expenses not deducted federally which are attributable to income that is taxed in New York but is federally exempt
- Any differences between federal and New York AGI for depreciation, depletion, gains and losses, etc.

- Adjustment for conversion of a conventional IRA to a Roth IRA for taxpayers over 59½

- Any other subtractions in computing New York AGI

ITEMIZED DEDUCTIONS

For years after 2017, New York does not conform to the 2017 Tax Act (Pub. L. No. 115-97), so:

- The program will carry the unreduced medical expenses form the **Itemized Deduction** worksheet to the **State Medical Expense Deduction** worksheet. As of the date of publication, New York does not appear to recognize the 7.5% floor for medical expenses provided by the 2017 Tax Act, so make any necessary adjustment on the **State Medical Expense Deduction** worksheet.

- The program will carry the personal casualty losses from the **Itemized Deduction** worksheet to the **State Casualty Loss Deduction** worksheet. New York does not require a presidentially declared disaster to recognize personal casualty losses, so enter any necessary adjustments for such losses on this worksheet.

- The program will carry the charitable deduction from the **Itemized Deduction** worksheet to the **State Charitable Contribution** worksheet. New York does not recognize the 60% charitable contribution limit provided by the 2017 Tax Act, so enter any required adjustments on this worksheet.

- The program will carry the unreduced deductions for state and local taxes from the **Itemized Deduction** worksheet to the **State Taxes Deduction** worksheet and add back the amount of any income or sales taxes deducted. Enter any required adjustments on this worksheet.

- The program will carry the amounts for qualified residence interest from the **Qualified Residence Interest** worksheet and the Investment Interest Expense from the **Itemized Deduction** worksheet to the **State Interest Deduction** worksheet. New York does not recognize the new limits for mortgage interest under the 2017 Tax Act, so enter any necessary adjustments on this worksheet.

- New York does not recognize the repeal of miscellaneous itemized deductions under the 2017 Tax Act. Enter any such deductions on the **State Miscellaneous and Employee Business Expense** worksheet. The program will apply a floor based on 2% of the Federal Adjusted Gross Income.

- The program will carry any gambling losses or other itemized deductions from the **Itemized Deduction** worksheet to the **State Other Itemized**

Deductions worksheet. Enter any required adjustments on this worksheet.

- The program will recompute an overall itemized deduction floor on the **State Itemized Deductions** worksheet based on current Federal Adjusted Gross Income from the **Main Worksheet** as before passage of the 2017 Tax Act.

- The program will compute the special phaseout of New York itemized deductions on the Post 2017 New York Disallowance row of the **State Itemized Deductions** worksheet.

- A taxpayer no longer must itemize the federal return to itemize for the state.

The special New York phaseout of itemized deductions is handled automatically by the program. **For years before 2018**, the program automatically carries the total federal itemized deductions including the sales tax if elected on the taxpayers federal return to New York after the 3% AGI floor. The program then subtracts state income taxes (or the sales tax, if applicable, for years after 2009) deducted on the taxpayer's federal return. **For years prior to 2010**, the program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes. This total is then reduced by the New York phaseout.

For 1991 and thereafter, the program applies the 3% AGI floor and automatically reduces the subtraction for state taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor.

After the allowed itemized deductions are reduced by the appropriate state tax deduction, the program then applies the New York itemized deduction phaseout to the reduced amount. Enter on the "Other NY Adjs Before Disallowance" row of the **State Itemized Deductions** worksheet any other modifications to federal itemized deductions, including interest or bond premium expense on income exempt in New York, but taxed federally, and visa versa. Also, if you do **not** want to apply the new method of deducting the state tax to an old year, make an adjustment here for the difference, or change the "Allocate Floor (Y/N)" row of the **State Itemized Deductions** specifications worksheet back to "No" for any old year in which you do **not** wish to apply the Shorter decision. Any adjustments made on this row will be taken into account for the New York itemized deduction phaseout, but not for the 3% AGI floor. Enter any adjustments such as the College Tuition deduction that are not subject to the New York itemized deduction phaseout, on the "Other Adjs to Federal Itemized" row of this worksheet.

For New York City taxpayers, enter (as a positive number) the deductible amount of the New York City nonresident tax. Enter this amount after the adjustment for the 3% floor. See the instructions to Form IT–201page 2 worksheet, line i.

Note. For years before 2018, New York does **not** allow itemized deductions if the taxpayer did not itemize for federal purposes. The program handles this rule automatically.

STANDARD DEDUCTION

The New York standard deduction is handled automatically. The program selects the higher of the standard deduction or the New York itemized deductions. In computing the standard deduction, the program applies the minimum/maximum rules based on filing status. If the taxpayer is filing must itemize supported for federal purposes (i.e., a situation where the taxpayer is a dependent or supported by another individual/s) an adjustment may be necessary.

NEW YORK MINIMUM TAX

For years after 2013, there is no longer a New York or New York City minimum tax.

The minimum tax rate of 6% is built into the program (for New York City the rate is 8.85% **prior to 2014**). The program carries the amount of federal preferences to the New York minimum tax base. The program automatically handles the New York "specific deduction" of $5,000 ($2,500 for married filing separate) by building it into the minimum tax rate schedule.

Enter any adjustments (including a negative adjustment for any preference amounts for which a tax benefit will **not** be received in any year, or a positive adjustment for the AMT preference amount of a charitable contribution) on the "Adjs to State Minimum Tax Base" of the **State Minimum Tax** worksheet. The program automatically subtracts the state regular tax (after reducing it by nonrefundable credits) from the minimum tax base and multiplies the result by the applicable tax rate.

Note. The adjustment for the 3% AGI floor under federal itemized deductions effective for 1991 is **not** included in the Federal Preferences amount. The effect is to generate the same Minimum Tax base as was in effect before the federal change.

OTHER NEW YORK STATE TAXES

Enter the lump sum tax and any other New York state or city taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**. The New York

Metropolitan Commuter Transport Mobility Tax is computed on the **New York Metropolitan Commuter Transport Mobility Tax** worksheet (for New York residents) or the **New York Nonresident Tax** worksheet (for New York nonresidents).

INFLATION ADJUSTMENT

New York provides for an annual adjustment for the standard deduction and rates **beginning in 2013**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "New York" in Help. If you want, you can estimate the amount of this adjustment for future years and add future year New York tax specifications relating to rates, exemptions, and standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments and the child credit) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

Note. The program allows nonrefundable credits to offset the regular tax, the supplementary tax and the state minimum tax. This follows New York law except that the following adjustment may be required to follow the rule that **no** nonrefundable credits are allowed against the New York City tax. Where nonrefundable credits exceed all state taxes and there is also a New York City tax, the program will allow such credits to offset the New York City tax. In the unusual situation in which this occurs, you should reduce the nonrefundable credits entered so that the New York City tax is **not** reduced by any nonrefundable credits.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

When calculating the credit for New York, the program uses a combination of Method 1 and Method 3: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio, which can exceed 100%, to the "Adjusted Resident Tax." Then it allows as the credit the lesser of that amount, the "Adjusted Nonresident

Tax," or an additional Method 3 limitation, which further limits the credit to the "Difference Between Taxes." **For years after 2009 and before 2013** the program will apply the additional limit for the New York regular tax less other credits. To compute this extra limit the program uses Adjusted Regular Tax described below less the amount entered on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. If this limit reduces the credit too much because it is not including the addbacks of investment credits then make an adjustment on the "Adjs to Credit for Other State Tax" on the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "Other State Taxes" on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") plus any Nonresident State Minimum Tax less any nonrefundable credits on that worksheet.

- **Difference Between Taxes —** the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the Credit for **Other State Tax** worksheet. The "Adjusted Tax on Net Resident Income" is the tax on "Adjusted Resident Income" less "Adjusted Nonresident Income" computed using the resident state regular tax schedule.

NEW YORK CITY RESIDENT TAXPAYERS

The program computes both New York state and resident New York City taxes when you select the NYCITY specifications file. The New York City tax appears on the "State Suppl Tax from Sched" row of the **State Supplementary Tax** worksheet.

For 2017 and later, the program will compute the New York City school tax credit. If the credit exceeds the amount of the New York City tax, the issues a caution message.

NEW YORK STATE NONRESIDENT TAX

The following sections describe the calculation of the New York State nonresident tax for residents of other states with income from New York.

In order to calculate the nonresident tax, first choose New York State as the taxpayer's nonresident state by checking the box labeled "New York Nonresident" on the **Choose Nonresident State Spec** dialog. Then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to New York State, see the discussion under "Credit for Other State Tax".

NEW YORK NONRESIDENT REGULAR TAX

The program automatically carries to this worksheet the federal filing status. It also carries the federal number of personal exemptions (after automatically applying the New York rule reducing personal exemptions by two for joint filers or one for all other filers) and multiplies the number by the $1,000 New York personal exemption deduction ($900 in 1987).

The program then calculates the tax as follows. (If only one spouse has New York income, see the Note at the end of this section.)

1. The "New York AGI" row shows NY AGI as if the taxpayer were a full-year resident of New York. The program carries to this row federal AGI after reducing it for U.S. Government interest, Social Security income, Domestic Production Activity Deduction (for years after 2007), and state tax refunds. Enter any other adjustments on the subworksheet accessed from the "Adjustments for New York AGI" row. Include non-New York exempt interest, pension and retirement exclusions, and any other differences between federal and New York AGI for depreciation, gains and losses, etc.

    Note. The pension amount in the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet is considered exempt only for the resident state and will be included in New York AGI. You must make a negative adjustment for any pension amount that is taxable for federal purposes but nontaxable for New York AGI. For detailed instructions on handling Regular IRA to Roth IRA conversions for nonresidents and part-year residents, see TSB–M–98(7)I.

2. The appropriate New York itemized deduction is displayed on the "NY Itemized Deductions" row. **For 1991 through 2017**, the program applies the 3% AGI floor and automatically reduces the subtraction for state taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized

(other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. **For years after 2017**, the program computes the same 3% floor on the **New York Nonresident itemized Deduction** worksheet.

Note. This treatment differs from versions before 97.3. In Shorter, New York Division of Tax Appeals, Tax Appeals Tribunal, DTA No. 813571, July 31,1997, it was decided that the proportional method should be used. Before the 97.3 version, the program in accordance with the form and the Tax Division's regulation at 20 NYCRR 115.2(g), effective June 12, 1991, applied the 3% AGI floor and automatically subtracted only the amount of state income tax that actually increased the federal itemized deductions after taking the floor into account. In other words, the program recomputed total federal itemized and recomputed the floor without the state income tax deduction. The difference between the newly computed total and the old total was the adjustment for the state income tax. The Department of Revenue has interpreted the Shorter decision to allow taxpayers to amend prior year returns for open years.

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3. After the allowed itemized deductions are reduced by the appropriate state tax deduction, the program then applies the New York itemized deduction phaseout to the reduced amount. **For years after 2017**, the program computes the same New York Itemized deduction phaseout on the **New York Nonresident Itemized Deduction** worksheet.

   For years after 2017, New York does not conform to the 2017 Tax Act (Pub. L. No. 115-97), so:

   - The program will carry the unreduced medical expenses from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet. As of the date of publication, New York does not appear to recognize the 7.5% floor for medical expenses provided by the 2017 Tax Act, so make any necessary adjustment on the **New York Nonresident Itemized Deduction** worksheet.

   - The program will carry the personal casualty losses from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet. New York does not require a presidentially declared disaster to recognize personal casualty losses, so enter any necessary adjustments for such losses on this worksheet.

   - The program will carry the charitable deduction from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet. New York does not recognize the 60% charitable contribution limit provided by the 2017 Tax Act, so enter any required adjustments on this worksheet.

- The program will carry the unreduced deductions for state and local taxes from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet, and add back the amount of any income or sales taxes deducted. Enter any required adjustments on this worksheet.

- The program will carry the amounts for qualified residence interest from the **Qualified Residence Interest** worksheet and the Investment Interest Expense from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet. New York does not recognize the new limits for mortgage interest under the 2017 Tax Act, so enter any necessary adjustments on this worksheet.

- New York does not recognize the repeal of miscellaneous itemized deductions under the 2017 Tax Act. nter any such deductions on **New York Nonresident Itemized Deduction** worksheet. The program will apply a floor based on 2% of the Federal Adjusted Gross Income.

- The program will carry any gambling losses or other itemized deductions from the **Itemized Deduction** worksheet to the **New York Nonresident Itemized Deduction** worksheet. Enter any required adjustments on this worksheet.

- The program will recompute an overall itemized deduction floor on the **State Tax – Main Worksheet** based on current Federal Adjusted Gross Income form the **Main Worksheet** as before passage of the 2017 Tax Act.

- The program will compute the special phaseout of New York itemized deductions on the "Post 2017 New York Disallowance" row of the **State Tax – Main Worksheet**.

- A taxpayer no longer must itemize the federal return to itemize for the state.

4. Enter any adjustments on the "Adjs to NY Itemized/Standard Ded" row. Include an adjustment (if you do not wish to file an amended return) for the difference between the old and new method of deducting the state tax for an old year. Any adjustments made on this row will be taken into account for the New York itemized deduction phaseout, but not for the 3% AGI floor. Include here (as a positive number) the deductible amount of the New York City nonresident tax (see the instructions for Form IT 203 itemized deduction worksheet, line i). (If you make an entry here and then adjust federal itemized deductions, review the entry here to ensure it is still accurate.)

5. The program displays on the "NY Regular Base Tax" row the amount of the New York tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to NY Regular Base Tax" row. If applicable, include here (as a positive number) the full amount of the New York

unearned income tax and (as a negative number) the New York dependent care or household credit.

6. Next, on the **New York Source Income** worksheet designate which income is New York-sourced. Enter S for New York State or C for New York City in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. (An entry of C carries the amount as both New York City and State income; if no entry is made, a default of "Neither" is assumed.)

   Enter the total amount of any state adjustments to New York-sourced income on the "Adjs to NY Source Income" row. Include here, as a positive number, any New York source interest, dividends or capital gains and any other New York source income. Also include here, as a negative number, any New York-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, alimony (see New York memorandum (TSB–M–99(2)I) for Nonresident Adjustments for Alimony), etc. **For years after 1993,** also include any "New York Additions and Subtractions" adjustments to federal AGI from New York sources. These adjustments are the same as those included on Form IT–203, lines 20–30 in the New York State Amounts column.

   For New York City purposes only, enter any modifications on the appropriate New York City adjustment rows for wages or self-employment income of the taxpayer or spouse.

7. On the **New York Nonresident Tax** worksheet, the program calculates the New York regular tax (limited to not less than zero) as the amount on the "NY Regular Base Tax" row, after any adjustments you made, multiplied by the following fraction: **For years after 1993,** New York Source Income (before the New York additions and subtractions) divided by New York AGI.

8. Enter any available New York non-refundable credits on the "NY Non-refundable Credits" row (other than the dependent care or household credit, which are entered on the "Adjs to NY Regular Base Tax" row as described above).

NEW YORK NONRESIDENT MINIMUM TAX

For years after 2013, there is no longer a New York minimum tax.

For years prior to 2014, to calculate the New York nonresident minimum tax, the program carries the total federal preferences to the "Federal Preferences" row of the **New York Minimum Tax (Nonres)** worksheet. You should enter any adjustments to this amount on the "New York Adjustments to Fed Preferences" row of this worksheet. Such adjustments include:

▪ Depreciation adjustment

- Exempt interest
- Depletion, and
- S Corp preference items (see lines 9–13 of New York Form IT–220)

You **must** enter the amount of any New York preference items on the "New York Source Preferences" row in order to generate the New York minimum tax for nonresidents.

The program calculates the New York specific deduction ($2,500 for married filing separate and $5,000 for all other filing statuses). The program automatically prorates this amount by multiplying it by the New York preferences divided by Federal preferences, after any adjustments you made on the "NY Adjs to Fed Prefs" row.

The program automatically reduces the minimum tax base by the Specific Deduction and the New York regular tax (after non-refundable credits). Enter any other adjustments on the "Other NY Minimum Tax Adjs" row. The program multiplies the amount on the "NY Minimum Taxable Income" row by the minimum tax rate (6%).

<div style="writing-mode: vertical">STATE TAX CALCULATIONS</div>

OTHER NEW YORK TAXES

Enter any other New York State taxes (other than the minimum tax and tax on unearned income), including the lump sum tax, on the "Other New York Taxes" row of the **New York Nonresident Tax** worksheet.

EXAMPLE: NEW YORK STATE NONRESIDENT CALCULATION

FACTS Taxpayers have two dependents and file a joint return in 2006. They have the following federal and New York State income:

	Federal	New York
Wages	$130,000	$130,000
Interest	20,000	0
Dividends	10,000	0
Capital gains	15,000	0
Total	$175,000	$130,000

Taxpayers also have New York itemized deductions of $15,000 and are entitled to a personal exemption deduction of $2,000, resulting in taxable income of $158,000 and a New York base tax of $10,823 (i.e., computed as if taxpayer were a New York resident). The New York base tax is multiplied by the proration fraction. The proration fraction is computed as follows:

For years after 1993, [New York Source Income (after the New York additions and subtractions) ($130,000)] divided by [New York AGI ($175,000)] or [74.29%].

RUNNING THE EXAMPLE

This example would be entered into the program as follows:

1. Enter the federal amounts into the federal part of the program.

2. Open up the **NY Source Income** worksheet and designate the wages as New York State income.

The program will then calculate the correct New York nonresident tax of $8,040.

NORTH CAROLINA

OVERVIEW

When the North Carolina specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for North Carolina:

- Automatic deduction of personal exemptions

- Automatic calculation of standard deduction

- Automatic calculation of state itemized deductions

- Automatic reduction of AGI for North Carolina income tax refunds, U.S. Government interest, and social security/railroad benefits

- Automatic addition of the domestic production activities deduction

- Optimizes between North Carolina standard deduction and allowable itemized deductions

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to North Carolina. For more information on the North Carolina tax rates and other state tax matters, refer to North Carolina Form D–400 and Instructions, as well as other official state publications.

You should review the default settings for North Carolina state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see Resident and Nonresident State Specifications Overview).

North Carolina enacted a tax conformity law in 1989. Therefore, North Carolina now follows federal law in several key areas, including the passive loss rules, depreciation, unemployment income, employee and travel expenses, and other federal rules not specifically modified by North Carolina law. You should adjust for other items of federal AGI not adopted by North Carolina, except where such adjustments are handled by the program automatically as discussed below.

TAX RATES

The North Carolina tax rates are contained in the state specifications. The program uses the rates found in the state tax rate schedule, regardless of whether or not the state also has tax rate tables available. **For years 2009 and 2010**, the program will compute the Surtax using the **Supplementary Tax** worksheet. The surtax is computed as a percentage of the regular tax based on state taxable income.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

EXEMPTIONS

North Carolina follows the federal rules regarding the number of personal exemptions. The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. You may adjust this number on the **State Tax Personal Exemptions** worksheet if necessary. The program multiplies this entry by the correct exemption amount and allows the result as an exemption deduction. **For years after 1990**, the program applies the federal personal exemption phaseout percentage to the "Class 1" exemption amount. **For years after 1994**, the program first applies the North Carolina personal exemption rules. If federal adjusted gross income is equal to or greater than $100,000 (Married Filing Jointly), $80,000 (Head of Household), $60,000 (Single), and $50,000 (Married Filing Separate), the class 1 personal exemption is reduced by $250 in 1995 ($500 in 1996 and after) and the federal personal exemption phaseout percentage is applied to the remaining class 1 personal exemption. **For years 2011 and 2012**, the phaseout begins for amounts greater than the above amounts therefore changing the beginning of the phaseout by $1. **For year 2013**, there is no additional phaseout of the personal exemption. **For years after 2013**, North Carolina no longer has a Class 1 Personal Exemption.

For years before 2018, North Carolina allows an additional credit for each dependent child. **For years after 2002 and before 2018**, the additional credit is allowed for a dependent child that qualifies for the federal child credit. Enter the total number of allowable exemptions on the "Class 2 Exemptions" row if the taxpayer's AGI is below the Limit. **For years after 2013 and before 2018**,

there are two limits. The program multiplies this number by the Credit for Children amounts. The program allows the result as a personal exemption credit if federal AGI is below the amounts, which vary by filing status. **For years after 2017**, North Carolina treats the exemption as a deduction that is phased out according to the taxpayer's AGI. Make no entries on the "Class 3" or "Class 4" exemption rows.

North Carolina allowed the additional $500 exemption in **2005 and 2006** for Hurricane Katrina displaced individuals, and may allow the **2008 and 2009** exemption for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security/railroad benefits
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

OUT OF STATE INTEREST

Enter the non-North Carolina portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating North Carolina adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Lump sum distribution not included in federal AGI
- Depreciation adjustments
- Gain/loss on property, if different from federal
- Adjustment for deductions disallowed for federal purposes due to taking a federal credit
- Other additions to North Carolina income

OTHER SUBTRACTIONS

Enter the following:

- For years beginning after 2004, Depreciation adjustments
- Gain/loss on property, if different from federal
- For years after 2011 and before 2014, any net business income adjustment allowed
- Other subtractions from North Carolina income

STANDARD DEDUCTION

The North Carolina standard deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount based on the tax year and filing status. For taxpayers qualifying for an extra standard deduction due to age or blindness, enter the additional amount on the "Adjustments" row of the **State Standard Deduction** worksheet. (In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.)

Note that, for **years before 2015**, North Carolina does not allow itemized deductions if the taxpayer did not itemize for federal purposes. The program applies this rule automatically.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2013, North Carolina itemized deductions are limited to the total of federal charitable contributions, plus a $20,000 combined maximum deduction for interest during the taxable year with respect to any qualified residence and property taxes paid or accrued during the taxable year. **For years after 2014**, North Carolina also includes the federal medical deduction.

For years before 2014, the program allows the total amount of federal itemized deductions and automatically subtracts state income taxes or the sales taxes deducted. **For 1991 and thereafter**, the program applies the 3% AGI floor and automatically reduces the subtraction for state income or general sales taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. **In 2004 only**, itemized deductions are recomputed ignoring the sales tax deduction and using the income tax deduction instead.

CREDITS

Enter the other allowable North Carolina nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the North Carolina refundable credits on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For years after 1995, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for North Carolina, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet** plus the federal adjustments.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and for years after 2014, plus any "Nonresident State Minimum Tax" on that worksheet.

NORTH CAROLINA NONRESIDENT TAX

The following sections describe the calculation of the North Carolina nonresident tax for residents of other states who have income from North Carolina. In order to calculate the nonresident tax, first choose North Carolina as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to North Carolina, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

NORTH CAROLINA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - State income tax refunds
   - U.S. Government interest
   - Social Security/Railroad Benefits
   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   The program automatically adds back the federal domestic production activities deduction.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-North Carolina exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any other subtractions from income on the "Other Subtractions" row.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is North Carolina-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row. Include, as a positive adjustment, any North Carolina-sourced interest, dividends, capital gains, and any other North Carolina-sourced income.

The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate nonresident state taxable income (referred to below as the Ratio) on the **Ratio: Nonres Source Inc/Total Inc** worksheet accessed from the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is brought into this worksheet and used as the numerator. The Denominator is calculated by starting with Federal AGI before the Federal Adjustments and adding the Adjustments for Nonresident State AGI from the **Nonresident State Tax – Main Worksheet**. Enter any other adjustments on the "Other Adjustments" row of the **Ratio** worksheet. This ratio can exceed 100%.

4. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see North Carolina Itemized Deductions).

5. The North Carolina nonresident standard deduction is handled automatically and allows the appropriate amount per filing status.

6. North Carolina requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

7. The program calculates North Carolina personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state exemptions (see Exemptions) for needed adjustments.

8. The program calculates Nonresident State Taxable Income in the same way as a resident and then multiplies Nonresident State Taxable Income by the Ratio computed above to arrive at Allocated Nonresident State Taxable Income.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the North Carolina tax, based on the amount on the "Allocated Nonresident State Taxable Income" row.

10. **For years 2009 and 2010**, the program calculates Nonresident State Surcharge for high income taxpayers on the **Nonresident State Supplementary Tax** worksheet.

11. The program will calculate the Credit for children in the same manner as a resident, and prorate it using the lesser of the Ratio or 100%.

12. If the taxpayer is entitled to any other North Carolina nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

STATE TAX CALCULATIONS

1053

13. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any North Carolina refundable credits, enter them as a negative number on this row.

OTHER STATE TAXES

Enter any other state or local income taxes or any adjustment to total North Carolina taxes owed on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

NORTH DAKOTA

OVERVIEW

When the North Dakota specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for North Dakota:

- Computes both regular and optional methods
- Automatic carryover of federal taxable income to state worksheet
- Automatic calculation of deduction for federal tax
- Automatic reduction of North Dakota taxable income for state tax refunds and U.S. government interest
- Automatic addback of deduction for income tax paid
- Computes extra state deduction for medical expenses
- Computes tax reduction for joint filers who file "separately" on the same return for state purposes
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to North Dakota. For more information on the North Dakota tax rates and other state tax matters, refer to North Dakota Forms 37 and 37S and Instructions, as well as other official state publications.

The tax calculations for North Dakota include both the regular (Form ND–2 (For years prior to 2009)(Form 37 for years prior to 2001)) tax calculation and the alternative short form method (Form ND–1 (Form 37S for years prior to 2001)). (The Form ND–1 and ND–2 instructions advise that 80–90% of North Dakota taxpayers will save taxes using Form ND–1.) To use the regular Form ND–2 calculation, select "ND–2.ST" when choosing a state. **For years after 2008**, the ND–2 form was repealed and the ND–1 and ND–2 specification files for years after 2008 will contain the ND–-1 rules. This will allow you to continue to use a file from prior years using the ND–2 calculations. To use the Form ND–1 calculation, select "ND–1.ST" when choosing a state. (The Form ND–1 option is discussed in more detail at the end of the North Dakota notes.)

You should review the default settings for North Dakota state specifications to check that they accurately reflect current state law for the situations you will be

running. If you believe modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The North Dakota tax rates are automatically contained in the state specifications. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are **not** carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

For years after 2017 and before 2026, the program assumes North Dakota conforms to the 2017 tax act (Pub. L. No. 115-97), which eliminates personal exemptions.

A husband and wife **must** use the same filing status as used for federal income tax purposes.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

If you change the filing status on the federal worksheet, you should review the filing status on the state worksheet and change it if necessary. Only the first entry on the federal worksheet is carried to the state worksheet.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet and applies the federal personal exemption amount. **For years after 1991**, the program applies the federal phaseout percentage to the Class 1 personal exemption amount. This number may be adjusted at the state level if needed. **For years prior to 2009 when using the ND–2 file**, if the taxpayer is claiming the extra $300 exemption (joint, head of household, and surviving spouse), enter "1" on the "Class 2 Exemptions" row. The program multiplies this entry by $300 and allows the result as an additional exemption deduction. Make no entries on the "Class 3" or "Class 4" exemption rows.

North Dakota allows the additional $500 exemption in 2005 and 2006 for Hurricane Katrina displaced individuals, and in 2008 and 2009 for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the

amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FEDERAL TAX BASE

Because the starting point for the North Dakota income tax is federal taxable income, the program carries to North Dakota the federal amounts for personal exemptions, standard deduction, and itemized deductions, with the modifications mentioned in their respective sections. **For the years 2018-2025**, the program will include the Qualified Income Deduction under IRC § 199A on the "State Personal Exemption/Qualified Business Deduction" row of the **State Tax – Main Worksheet**.

ND-2 ADJUSTMENTS FOR STATE AGI

This set of adjustments refers to the ND-2 Form. For the ND-1 adjustments and for years after 2008 see the ND-1 section below. In the ND-2 file for years prior to 2009, the program automatically subtracts the following:

- Deduction for federal taxes
- State income tax refunds
- U.S. Government interest, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other North Dakota adjustments should be made on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-North Dakota portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating North Dakota AGI.

OTHER ADDITIONS

Enter any amounts for lump sum distributions and any other addition in computing state AGI.

OTHER SUBTRACTIONS

Enter the following:

- Allowable amounts for the interest exclusion (from state banks, limit is $300, $600 if joint)

- Military income exclusion

- ACRS adjustment

- American Indian income (on reservation)

- "Beginning Farmer" or "Beginning Businessman" subtractions

- Railroad retirement benefits added for federal AGI

- Other subtractions in computing state AGI

The extra medical expense amount is handled automatically under "Itemized Deductions" below. The extra $300 exemption is handled above under "Exemptions."

ND-2 DEDUCTION FOR FEDERAL TAX LIABILITY

For years prior to 2009, in computing the North Dakota deduction for federal tax liability for Form ND–2 (Form 37 for years prior to 2001), the program follows Form ND–2 and uses total federal tax liability computed as follows:

regular tax + lump sum tax + AMT (for years prior to 1990) + ITC recapture tax + tax on IRA and other taxes + social security tip and excess plan taxes,
less nonrefundable credits and the earned income credit.

North Dakota does **not** subtract the federal Foreign Tax Credit and the Credit for Federal Tax on Fuels when computing the deduction.

Make the following adjustments on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet, accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**:

1. Enter (as a positive number) the amount of the federal foreign tax credit.

2. **For 2001,** enter (as a negative number) the amount on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet, which offsets the amount on the "Refund Check" row on the same worksheet.

Note. For purposes of computing the federal tax deduction for North Dakota Form ND–2, the exclusion of the alternative minimum tax reduced by the Investment Tax Credit, **for years after 1989**, results from a change of interpretation by the North Dakota State Tax Commissioners Office, not a law change. The older interpretation resulted in a larger deduction.

STANDARD DEDUCTION

The North Dakota standard deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes, including the additional amounts allowed for elderly/blind, the additional deduction for real estate taxes, disaster casualty losses and the vehicle sales tax. (In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.)

For years after 2017 and before 2026, the program assumes North Dakota conforms to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction.

ND-2 ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2017 and before 2026, the program assumes North Dakota conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

The program starts with total federal itemized deductions including the sales tax if elected on the taxpayer's federal return and automatically subtracts state income taxes deducted for federal itemized. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes.

The program applies the 3% AGI floor and automatically reduces the subtraction for state income taxes deducted by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. There could be a slight rounding error because the instructions for North Dakota's Form ND–2 indicate that when the fraction is divided, it should be rounded to the nearest whole percent. The program does **not** round this number. **For 2006 only**, the program will allocate the federal floor for purposes of the state income tax itemized deduction addback using the amount of the federal floor prior to its 1/3 reduction for 2006. The extra medical expense deduction allowed in North Dakota (medical expenses are fully deductible) should be added as an adjustment on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

Note. North Dakota requires that the taxpayer conform to the federal selection of itemized or standard deduction. The program handles this rule automatically.

FILING SEPARATELY ON SAME RETURN

Generally, the federal filing status will be joint and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

Note. State law does not permit the extra $300 exemption for "separate" filers; therefore, if you make an entry here, do not also claim the extra $300 exemption on the **State Tax Personal Exemptions** worksheet.

CREDITS

Enter any allowable North Dakota nonrefundable credits, including the energy credit, contributions credit, developmentally disabled credit, and the marriage penalty credit on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter any refundable credits (including state withholding and estimated payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

North Dakota has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. However, if the taxpayer has other types of income in one of these states, there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). **For North Dakota in years after 2014**, the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for North Dakota, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "Federal AGI" row of the **State Tax – Main Worksheet**. When computing the credit on Form ND–1CR, you may need to make a negative adjustment for US Government Interest on the "Adjs to Resident Income" row of this worksheet.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" and any "Other Nonresident State Taxes" on that worksheet.

OTHER STATE TAXES

Enter any adjustment to the total North Dakota tax liability on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because the North Dakota Form ND–2 allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable to the North Dakota Form ND–2.

NORTH DAKOTA SHORT FORMS: FORM ND-1 AND FORM 37S

North Dakota House Bill 1399, Laws 2001 (signed on May 4, 2001) changed the method of computing the North Dakota Short Form 37S. Prior to Bill 1399, the tax had been based on the Federal Tax with certain adjustments. Beginning in 2001, the North Dakota Form ND–1 (Form 37S for years before 2001) is

based on Federal Taxable Income with certain adjustments, including a 30% Capital Gain Exclusion which the program handles automatically. The program also automatically subtracts the Federal Personal Exemption, and the Standard Deduction or Itemized Deductions.

FORM ND-1: SHORT FORM FOR YEARS AFTER 2000

The above description (beginning on page 1055) provides a general understanding of the **North Dakota** worksheet and provides specific detail regarding Form ND–2 (Form 37 for years before 2001). The following notes provide more detail regarding Form ND–1 (Form 37S for years before 2001). If not mentioned below, the general treatment discussed above also applies to the Form ND–1 spreadsheet. Form ND–1 may be selected by choosing "ND–1.ST" when loading resident state specifications.

FEDERAL TAX BASE

Because the starting point for the North Dakota income tax is federal taxable income, the program carries to North Dakota the federal amounts for personal exemptions, standard deduction, and itemized deductions, with the modifications mentioned in their respective sections.

EXEMPTIONS

On the **State Tax Personal Exemption** worksheet, the program carries the number of federal exemptions to the "Class 1 Exemptions" row and multiplies it by the federal personal exemption amount. The program applies the federal phaseout percentage to the Class 1 personal exemption amount. No adjustment should be needed. Make no entries for the other class exemption rows.

Note. If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number, if necessary.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. Government interest

- **For years after 2000**, the 30% Net Long-Term Capital Gain Deduction and **for years after 2008**, the 30% Dividend Deduction for dividends taxed at the lower federal capital gains rate. **For years after 2012**, the reduction is 40% for Capital Gains and Dividends. Both of these items will be included on the "Capital Gain Deduction" row on the **Adjustments for State AGI** worksheet.

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

Other North Dakota adjustments should be made on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

For Form ND–1, the non-North Dakota portion of municipal interest that was not taxed at the federal level is not required to be added back when calculating North Dakota AGI.

OTHER ADDITIONS

Enter the following:

- Lump-sum distributions,
- Loss from a pass-through entity subject to the North Dakota financial institution tax, and
- Other additions in computing state AGI.

OTHER SUBTRACTIONS

Enter the following:

- Dividends exclusion (from qualified North Dakota corporations — limit is $15,000),
- American Indian income (on reservation),
- Railroad retirement benefits added for federal AGI,
- Income from a pass-through entity subject to the North Dakota financial institution tax, and
- Other subtractions in computing state AGI.

CALCULATION OF FEDERAL TAX LIABILITY

Form ND–1 does not allow a deduction for the federal income tax liability.

ITEMIZED DEDUCTIONS

The program allows, for North Dakota purposes, the total amount of federal itemized deductions (after the floor) including the deduction for state income taxes or for the sales tax whichever is elected on the taxpayer's federal return.

Note. North Dakota does not allow taxpayers to itemize unless they itemized for federal purposes. The program automatically applies this rule.

INFLATION ADJUSTMENT

North Dakota tax rate schedules are based on the federal brackets. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "North Dakota" in Help. If desired, you can estimate the inflation factor for future years and add future year North Dakota tax specifications relating to rates. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

FORM 37S — SHORT FORM FOR YEARS PRIOR TO 2001

The following notes provide detail regarding Form 37S. If not mentioned below, the general treatment discussed on prior to this subsection for North Dakota also applies to the Form 37S North Dakota spreadsheet. Select Form 37S by choosing "ND–1.ST" when loading resident state specifications.

STATE WORKSHEETS

The program uses the Alternate State Tax Base worksheet in calculating the North Dakota Form 37S tax. No other entries on other worksheets are required. The **Adjustments for State AGI** worksheet is used solely to enter adjustments for purposes of prorating the federal tax.

TAX RATES

The North Dakota Form 37S tax rate of 14% is contained in the state specifications. The program also contains the 10% state surtax rate, which applies only to 1987.

CALCULATION OF FEDERAL TAX LIABILITY

For North Dakota Form 37S purposes, the program calculates the federal income tax liability as follows:

regular tax + alternative minimum tax + lump sum tax + tax on IRA and other taxes + Social Security tip and excess plan taxes.

North Dakota requires that the alternative minimum tax be reduced by the investment tax credit. If the taxpayer has both an alternative minimum tax and an ITC credit, enter on the "Adjs to Alternate State Tax Base" row of the **Alternate State Tax Base** worksheet (as a negative number) the amount by which the investment tax credit reduces the alternative minimum tax (see instructions for Form 37S, L. 1).

If the taxpayer has a credit for federal tax on fuels (entered on the "Tax on IRA and Other Taxes" row), enter the credit (as a positive amount) on the "Adjust-

ments" row described above. North Dakota does not subtract the credit when computing the deduction for federal tax liability.

If the taxpayer has a federal alternative minimum tax credit or Social Security Tax on tip income (entered on the "SS tip & Excess Plan Taxes" row), enter the amount as a negative on the "Adjs to Alternate State Tax Base" row.

The program automatically handles the proration of the federal tax deduction by dividing state AGI by federal AGI and multiplying the result by the total amount of federal taxes.

For purposes of this proration, the state defines AGI as federal AGI less U.S. Government interest, railroad retirement income, American Indian income (on reservation), and certain state compensation as a result of Operation Desert Shield or Operation Desert Storm. The program automatically subtracts U.S. Government interest. If the taxpayer has amounts for the other adjustments, enter them (as positive numbers) on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

NORTH DAKOTA NONRESIDENT TAX

The two following sections describe the calculation of the North Dakota nonresident tax for residents of other states who have income from North Dakota. These sections describe the use of Form ND–2 and Form 37, and Form ND–1 and Form 37S, respectively. In order to calculate the nonresident tax, first choose either ND–1 or ND–2 as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to North Dakota, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

NORTH DAKOTA NONRESIDENT REGULAR TAX: FORM ND-2 & FORM 37

North Dakota has eliminated the ND–2 (old Form 37) **for years after 2008**. **For years after 2008**, the program will use the Form ND–1 calculations. **For years**

prior to 2008, the program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is North Dakota-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any North Dakota-sourced interest, dividends, capital gains, and any other North Dakota-sourced income. Also include, as a negative adjustment, any North Dakota-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. No entries should be required on the **Deductions for Nonresident State Taxable Income** worksheet. If entries are made on this worksheet, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row when calculating nonresident state taxable income.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see the "North Dakota Itemized Deductions" section of this chapter). Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The North Dakota nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The North Dakota nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in North Dakota.

7. North Dakota requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

8. The program calculates North Dakota personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the "Class 1 Exemptions" row and multiplies it by the federal personal exemption amount. If the taxpayer is claiming the extra $300 exemption for (joint, head of household, and surviving spouse), enter "1" on the "Class 2 Exemptions" row. The total exemption amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. The program calculates the North Dakota deduction of the federal tax liability for residents and nonresidents in the same manner. The federal tax amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Fed Tax Ded from Nonres State AGI" row on the **Nonresident State Tax – Main Worksheet**.

10. On the "Nonresident State Regular Tax" row, the program calculates the amount of the North Dakota tax, based on the amount on the "Nonresident State Taxable Income" row.

11. If the taxpayer is entitled to any North Dakota nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

12. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any North Dakota refundable credits, enter them as a negative number on this row.

NORTH DAKOTA NONRESIDENT REGULAR TAX: FORM ND-1 AND FORM 37S

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the North Dakota rules in the same manner as for residents). The tax is then calculated as follows (some steps note differences between years after 2000 and years prior to 2001):

1. **For years after 2000,** the "Nonres State AGI" row of the worksheet shows North Dakota AGI as if the taxpayer were a full-year resident of North Dakota. The program carries to this row the federal AGI after reducing it for the following items:

   - U.S. Government interest

   - For years prior to 2005, 30% Long-Term Capital Gain exclusion, and

- Pension income included on the "State Exempt Pensions" row of the Other Ordinary Income worksheet

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-North Dakota exempt interest and related expenses, NOL adjustments, and any other differences between federal and North Dakota AGI for depreciation, gains and losses, etc.

For years prior to 2001, the North Dakota tax is based on the Federal Tax Liability, computed in the same manner as for a resident taxpayer (see the discussion under **Calculation of Federal Tax Liability** on page 1063). The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 5, below. Adjustments made on the **Adjustments for Nonresident State AGI** worksheet will **not** be used when computing the denominator of the ratio discussed below.

2. **For years after 2000,** to derive Nonresident State Taxable Income, the program subtracts from "Nonres State AGI" the personal exemption amount (computed as if the taxpayer were a resident) and the higher of the North Dakota standard deduction (for the selected filing status) or North Dakota itemized deductions. **For years after 2004**, Nonresident State Taxable Income may need to be adjusted. North Dakota now allows the 30% reduction only for North Dakota nonresident capital gains and only to North Dakota Taxable income. This reduction does not affect the calculation of the ratio itself. This can be done on either the "Other Adjs to Federal Itemized" row of the **Nonresident State Itemized Deductions** worksheet, and or the "Adjustment to STD/ZBA" row of the **Nonres State Standard Deduction** worksheet.

   For years prior to 2001, this step does not apply.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the North Dakota tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the Nonresident Source Income worksheet, designate which income is North Dakota-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any North Dakota-sourced interest, dividends, or capital gains and any other North Dakota-sourced income. Also include, as a negative adjustment, any North Dakota-sourced "adjust-

ments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. **For years after 2000**, on the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made multiplied by the ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

    For years prior to 2001, the above paragraph applies, with one modification: replace the denominator in the ratio ("Nonres State AGI") with the amount on the "Federal AGI" row.

6. Enter any available North Dakota nonrefundable credits against the apportioned taxes on the "Nonres State Nonrefundable Credits" row of this worksheet.

7. If the taxpayer is allowed any North Dakota refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

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OHIO

OVERVIEW

When the Ohio specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Ohio:

- Calculation of basic personal exemption amount
- Calculation of additional exemption credit
- Automatic computation of Ohio "joint filing credit"
- Automatic reduction of AGI for Ohio income tax refunds, U.S. government interest, and social security/railroad benefits
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Ohio. For more information on the Ohio tax rates and other state tax matters, refer to Ohio Form IT–1040 and Instructions, as well as other official state publications.

You should review the default settings for Ohio state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Ohio tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. **For years after 2014**, Ohio will tax business income at different rates than nonbusiness income. **For 2015** there will be a separate business income tax rate schedule. **In years after 2015** there will be a flat 3% business income tax. These taxes will be in the Alternate Tax Schedule. Both the Regular Tax and the Alternate State Tax will be included on the "State Regular Tax" row of the **State Tax – Main Worksheet**.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. You may make any appropriate adjustments for Ohio purposes. **For years**

after 2013, Ohio increased their personal exemption, but decreases the increase depending on Ohio AGI. The program handles this calculation automatically.

For all years, Ohio also allows an additional credit for each exemption. Enter the total number of exemptions on the "Class 3 Exemptions" row. **For years after 2012**, do not enter amounts on this row if income is above the applicable income limit per Sec. 5747.022 of the Revised Ohio Code. The program multiplies this number by $20 and allows the result as a personal exemption credit. Make no entry on the "Class 2 Exemptions" row f**or years before 1996 and after 1998**.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

Note. Ohio allows dependents who are claimed on their parents' tax return to claim themselves on their own return. Adjust the number of Class 1 exemptions accordingly.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Ohio does not have a separate filing status for Qualifying Widow(er). The program changes the state filing status to Single, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other Ohio adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Ohio portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Ohio adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- Federal interest and dividends subject to state taxation (and that is excluded from federal AGI)
- Accumulation distribution from complex trust
- Depreciation adjustments
- Other additions to Ohio income (or unallowable federal deductions)

OTHER SUBTRACTIONS

Enter the following adjustments:

- Disability or survivor's benefits
- Exempt gains from Ohio state/local bonds (if included in federal AGI)
- Salary expense disallowed on federal return due to claiming the federal jobs credit
- Depreciation adjustments
- Other Ohio business income other than self-employment income
- Other subtractions from Ohio income

BUSINESS SUBTRACTIONS

For Years after 2014, the **Business Subtractions** worksheet is accessed from the "Business Subtractions" row of the **Adjustments for State AGI** worksheet or the "Taxable Business Income" row of the **Alternate State Tax Base** worksheet. It is the same worksheet. The **Business Subtractions** worksheet brings in Self-employment Income, Passive Activity Income/Loss, Trade or Business MAPRRA Income or Loss, Publicly Traded Partnerships and applicable Capital Gains/Losses. The help on the "Current Business Capital Gain/Loss" row of that worksheet details the capital gain rows included on that row, and the "Adj To Current Bus Cap Gain/Loss" and "Carryover Business Capital Loss" rows allow for adjustments to the business capital gains. Make any other adjustments such as for guaranteed payments to a less than 20% owner, on the "Other Adjustments" row of the **Business Subtractions** worksheet. The program will automatically subtract the applicable Ohio

Deduction. Ohio Taxable Business Income will then be carried to the "Taxable Business Income" row of the **Alternate State tax Base** worksheet.

ALTERNATE STATE TAX BASE

For years after 2014, the program will include in this worksheet Taxable Business Income from the **Business Subtractions** worksheet (accessed from the **Adjustments for State AGI** worksheet). The program will limit the alternate state tax base to the amount of the Ohio Adjusted Gross Income less the amount of any personal exemptions before posting the amount to the S**tate Tax - Main Worksheet**. The remaining amount will be taxed at the business income rate contained in the Alternate State Tax Rate Schedule.

INFLATION ADJUSTMENT

Ohio provides for an annual adjustment for the personal exemption deduction **beginning in 2000** and for the tax rates **beginning in 2010**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Ohio" in Help. If you wish, you can estimate the amount of this inflation factor and use it to adjust future year Ohio tax specifications accordingly. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality.

You will need to modify two state specifications worksheets: the State Tax Schedules worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate and carried to the state worksheets and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each. (You should remember to update these customized state files when you receive new updates.) For complete information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any adjustment to the total Ohio income tax liability on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

OHIO JOINT FILING CREDIT

The program automatically computes the Ohio "joint filing" credit. To select this option, enter Y on the "Ohio Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet. (You should make sure all applicable requirements are met, including the earned income requirement of $500 per spouse.)

OTHER CREDITS

Enter the net allowable amount of all other Ohio credits, including the retirement income credit, lump sum income credit, and senior citizen credit on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter nonrefundable resident and nonresident part-year credits and nonrefundable business credits on the "Other Taxes" row of the **State Tax – Main** worksheet to the extent they are allowed. Enter the state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Ohio has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. However, if the taxpayer has other types of income in one of these states, a credit may still be available.

Note. If the nonresident state is New York, the computations are done on the **Credit for NY Nonresident Tax** worksheet and the references below are to that worksheet and the **New York Nonresident Tax** worksheet. If the New York nonresident computations apply along with another nonresident state, then the combined computations are done on the **Credit for Other State Tax** worksheet.

When calculating the credit for Ohio, the program uses Method 1: first, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident State **Nonrefundable Credits** worksheet.

STATE TAX CALCULATIONS

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OHIO NONRESIDENT TAX

The following sections describe the calculation of the Ohio nonresident tax for residents of other states who have income from Ohio. In order to calculate the nonresident tax, first choose Ohio as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Ohio, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

OHIO NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Ohio AGI as if the taxpayer were a full-year resident of Ohio. The program carries to this row the federal AGI after reducing it for the following items:

   - State tax refunds

   - U.S. Government interest

   - Social security/railroad benefits and

   - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Ohio exempt interest and related expenses, and any other differences between federal and Ohio AGI.

2. The program then subtracts from "Nonres State AGI" the Ohio Personal Exemption deduction. Follow the instructions for a resident in the "Personal Exemptions" section for Ohio.

3. If the federal filing status is joint and the taxpayer is filing a combined separate return follow the instructions for a resident in the "Ohio Joint Filing Credit" section for Ohio. The program automatically multiplies that credit by the ratio before posting it to the "Ohio Joint Filing Credit" row of the **Nonresident State Nonrefundable Credits** worksheet.

4. When calculating Net Business income the program will follow the resident rules. Net Business Income will be subtracted on the "Business Subtractions" row, carried to the **Alternate Nonresident State Tax Base** worksheet, and taxed at the business income rate.

5. On the "Nonresident State Regular Tax" row, the program displays the amount of the Ohio tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

6. Next, on the **Nonresident Source Income** worksheet designate which income is Ohio-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Ohio-sourced interest, dividends, capital gains, and any other Ohio-sourced income. Also include, as a negative adjustment, any Ohio-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

7. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

8. If the taxpayer is entitled to any Ohio nonrefundable credits that are deducted prior to apportioning the tax, other than the personal exemption credit or the joint filing credit, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax Main** worksheet.

9. If the taxpayer is entitled to any Ohio nonrefundable credits against the apportioned tax, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

10. If the taxpayer is allowed any Ohio refundable credits, enter the allowed amount on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

OKLAHOMA

OVERVIEW

When the Oklahoma specifications are selected for use with **the Fifty State Planner**, the program handles the following state tax calculations for Oklahoma:

- Handles both Method I and Method II tax computation
- Automatic calculation of personal exemption deduction
- Automatic calculation of deduction for federal income tax liability
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Automatic calculation of standard deduction
- Automatic calculation of Oklahoma itemized deductions, including the itemized deduction cap after 2017
- Automatic adjustment of AGI for U.S. government interest and social security/railroad benefits
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Oklahoma. For more information on the Oklahoma tax rates and other state tax matters, refer to Oklahoma Form 511 and Instructions, as well as other official state publications.

You should review the default settings for Oklahoma state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Oklahoma tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. **For 2016**, there are contingent rate reductions in the program. If you do not believe that these rate reductions will take place, you can eliminate the additional schedules or you can elect to have them apply to later years. **See Resident and Nonresident State Specifications Overview** for more information.

SELECTION OF METHOD I OR METHOD II

The program calculates the tax using either "Method I" or "Method II" (see Form 511 instructions). When choosing a state file on the file selection menu, select the "OKLA(1)" state file to use Method 1. Select the "OKLA(2)" file to use Method 2 in years prior to 2006. The only difference between these two files is the following: The "OKLA(1)" file does not allow a state deduction for the federal tax liability and uses lower statutory rates (§ 2355). The "OKLA(2)" file automatically subtracts the federal tax liability and uses higher statutory rates in years prior to 2006. You may want to calculate the state tax liability under both methods, and the program allows you to switch from one method to the other without re-entering the client tax data.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. The program multiplies this entry by $1,000 and allows the result as an exemption deduction. Because the federal number no longer includes any extra exemptions for elderly or blind taxpayers, enter on the "Class 2 Exemptions" row the number of additional exemptions for blind taxpayers allowed for state purposes. Also, **for years after 1987**, enter on this row the number of additional exemptions for taxpayers who are 65 or over and who otherwise qualify for the additional amount (i.e., taxpayers with AGI below the requisite levels). The program multiplies this entry by $1,000 and allows the result as an additional exemption deduction. Make no entry on the "Class 3" or "Class 4" exemption rows.

Oklahoma allows the additional $500 exemption in **2005 and 2006** for Hurricane Katrina displaced individuals, and in **2008 and 2009** for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years. The amount of the reduction should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- U.S. government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program subtracts as a "below the line" item the state deduction for the federal income tax liability (see **Deduction for Federal Tax** on page 1082).

The other Oklahoma adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the applicable amount of out-of-state municipal bond interest that was excluded from federal AGI. The program adds this amount in calculating Oklahoma AGI.

OTHER ADDITIONS

Enter the amount of any lump sum distributions or losses from the sale of exempt government obligations, the additional $2,400 unemployment exclusion for federal AGI and any other additions to income on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

OTHER SUBTRACTIONS

Enter the depletion adjustment, NOL adjustment, capital gain/loss adjustment, certain out-of-state income, and any other Oklahoma subtractions on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet.

"BELOW THE LINE" DEDUCTIONS

Oklahoma treats the following items as "below the line" deductions subtracted from AGI to arrive at state taxable income: dividend exclusion, political contributions, military pay exclusion, and disability deduction. In order for the program to treat these items as "below the line" deductions, enter the total as follows: If the taxpayer is taking itemized deductions, enter these additional deductions (as a positive number) on the "Other Adjs to Fed Itemized" row of the **State Itemized Deductions** worksheet. If the taxpayer is taking the

standard deduction, enter the amount (as a positive number) on the second "Adjustment" row of the **State Standard Deduction** worksheet.

STANDARD DEDUCTION

The Oklahoma standard deduction is handled automatically. In computing the deduction, the program allows the appropriate amount based on the tax year and filing status. **For years prior to 2006** the program allows 15% of Oklahoma AGI, subject to the $1,000 minimum ($500 for married filing separate) and $2,000 maximum ($1,000 for married filing separate).

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2017, the program will limit the itemized deductions to the Oklahoma itemized deduction cap.

For years after 2017 and before 2026, the program assumes Oklahoma conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

For years after 2016, the program starts with total federal itemized deductions after the 3% AGI floor. The program then subtracts state income taxes or sales tax deducted on the federal return. The subtraction for state income taxes or sales tax paid is computed by reducing the subtraction for state income taxes or sales taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income or sales taxes by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor.

For years prior to 2015, the program allows the total amount of federal itemized deductions including the deduction for state income taxes or for the sales tax whichever is elected on the taxpayer's federal return. **In 1991 and thereafter**, the program applies the 3% AGI Floor. Enter any adjustments on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

Note. Oklahoma requires that the taxpayer conform to the federal selection of itemized versus standard deduction. The program applies this rule automatically.

DEDUCTION FOR FEDERAL TAX

For years prior to 2006, the state deduction for federal taxes is handled automatically by the program, but only when you select the "OKLA(2)" rather than the "OKLA(1)" state file, as discussed above. The program bases the deduction on the total federal tax liability computed as follows:

regular tax + alternative minimum tax + lump sum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes, *less* nonrefundable credits.

If the taxpayer's federal liability includes items not subtracted by Oklahoma (e.g., foreign tax credit), or social security tax on tip income (entered on the "SS Tip & Excess Plan Taxes" row), enter such amounts as an adjustment (positive for the foreign tax credit; negative for social security tax on tip income) on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet, which is accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**. **For 2001 only**, if there is no refund to offset it, make a positive adjustment on this row for the amount of the federal tax rebate on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet.

The program performs the required proration of the deduction by dividing state AGI by federal AGI and allowing as a deduction only the resulting percentage times the federal tax liability.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For years after 1995, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Oklahoma, the program uses Method 1: first, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the total of the taxpayer's and spouse's wages and self-employment income rows of the **Nonresident Source Income** worksheet accessed from the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits on that worksheet.

Note. Oklahoma has a second ratio limitation on the credit for taxes paid to other states that further limits the creditable nonresident tax. It is equal to ((nonresident source personal service income ÷ total nonresident income) × total tax paid to the other state). If nonresident income includes income other than personal service income, an adjustment may be necessary. Enter this and any other adjustment to the nonresident tax on the "Adjs to Nonresident Tax" row.

OTHER STATE TAXES

Enter any adjustment to the total Oklahoma tax on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

ALTERNATE STATE TAX BASE

Because Oklahoma allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Oklahoma.

OKLAHOMA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Oklahoma rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Oklahoma AGI as if the taxpayer were a full-year resident of Oklahoma. The program carries to this row the federal AGI after reducing it for the following items:

   - U.S. Government interest

   - Social Security income

   - State tax refunds

   - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Oklahoma exempt interest and related expenses, NOL adjustments, and any other differences between federal and Oklahoma AGI for depreciation, gains and losses, etc.

2. The program subtracts the standard deduction or itemized deductions (depending on which was deducted for federal purposes) and the personal exemption (computed as if the taxpayer were a resident) from "Nonres State AGI" to derive Nonresident State Taxable Income.

3. If you use the Oklahoma II method, the program automatically subtracts the federal tax liability and uses the higher statutory rates. The Oklahoma II method was discontinued in years after 2005.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Oklahoma tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

5. Next, on the **Nonresident Source Income** worksheet designate which income is Oklahoma-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment

income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Oklahoma source interest, dividends, or capital gains and any other Oklahoma source income. Also include, as a negative adjustment, any Oklahoma-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

7. If the taxpayer is entitled to any Oklahoma nonrefundable credits that are deducted before apportioning the tax, enter them on the "Adjs to Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet**.

Enter any available Oklahoma nonrefundable credits deductible after the ratio on the "Nonres State Nonrefundable Credits" row of this worksheet after adjustment for the ratio.

8. If the taxpayer is allowed any Oklahoma refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

OREGON

OVERVIEW

When the Oregon specifications are selected for use with **the Fifty State Planner**, the program handles the following state tax calculations for Oregon:

- Automatic carryover of federal taxable income to the state worksheet
- Automatic calculation of personal exemption credit
- Automatic calculation of deduction for federal tax
- Performs circular calculation to automatically deduct the state tax liability as a federal deduction
- Automatic reduction of Oregon taxable income for state tax refunds, U.S. Government interest, and social security income
- Automatic addback of deduction for income tax paid
- Automatic addition of the domestic production activities deduction
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Oregon. For more information on the Oregon tax rates and other state tax matters, refer to Oregon Form 40 and Instructions, as well as other official state publications.

You should review the default settings for Oregon state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Oregon tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

FEDERAL TAX BASE

The program carries federal taxable income to the Oregon state tax worksheet, except that the Oregon standard deduction and personal exemption credit

amounts are used instead of the federal amounts. The program also makes other automatic adjustments to this tax base, as described below.

EXEMPTIONS

On the **State Tax Personal Exemptions** worksheet, the program carries the number of federal exemptions to the "Class 1 Exemptions" row and the number is multiplied by the exemption credit. Enter on the "Class 2 Exemptions" row the appropriate number of additional Oregon exemption credits allowed for handicapped children or a disabled taxpayer/spouse. The program multiplies this entry by the exemption amount and allows the result as an additional exemption credit. Make no entry on the row for "Class 3" or "Class 4" exemptions. See "Inflation Adjustment" below for further information. **For years after 2006**, enter all exemptions on the class 1 exemptions row if the taxpayer might be subject to the Oregon phaseout. The program will apply the Oregon phaseout to the "Class 1" exemption credit.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

DEDUCTION FOR FEDERAL TAX LIABILITY

The program automatically computes the Oregon deduction for federal tax liability, using as total federal tax liability the following:

regular tax + alternative minimum tax + lump sum tax
+ ITC recapture tax + tax on IRA and other taxes
+ Social Security tip and excess plan taxes
less nonrefundable credits
less the earned income credit for years prior to 1997.

Note. If you make an entry for the Social Security tax on tips on the "SS Tip & Excess Plan Taxes" row, or if you have certain refundable federal credits, make an adjustment (as a negative number) on the "Adjustments to Federal Tax" row on the **Federal Tax for State Purposes** worksheet, accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**.

The program applies the maximum deduction limit. **For years after 2008**, the program will apply the phaseout for high income taxpayers. See "Inflation Adjustment" below for further information. **For years before 2008**, for Married Filing Separate taxpayers living together, Oregon law limits the deduction to one-half of the deduction for Joint taxpayers. **For years after 2012**, for Married Filing Separate taxpayers living together, Oregon law limits the deduction to one-half of the deduction for Single taxpayers. The program automatically handles this adjustment.

For 2008 only, you may need to make a negative adjustment for the amount of the 2008 Recovery Rebate Check in the year it is received on the "Adjustments to Federal Tax" row of the **Federal Tax Deduction from State AGI** worksheet. For many Oregon taxpayers this adjustment will not be necessary because of they would exceed the limit on the amount of federal taxes that are deductible.

For 2006 only, you may need to make a positive adjustment on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet to offset any negative entry that was entered for the Credit for Telephone Excise Tax amount on the "Social Sec Tip & Excess Plan Taxes" row of the **Self-Employment and Other Taxes** worksheet, accessed from the Federal **Main Worksheet**.

For 2003 only, you may need to make a negative adjustment on the "Adjustments to Federal Tax" row of the **Federal Tax Deduction from State AGI** worksheet for the amount on the "Reduction for 2003 Advance" row of the **2003 Child Tax Credit** worksheet, accessed from the **Credits** worksheet.

For 2001 only, if the allowed deduction is less than the maximum allowed deduction, and if there is no refund to offset it, make a positive adjustment on the "Adjustments to Federal Tax" row for the amount of the federal tax rebate on the "Credit for 10% Bracket" row of the **2001 10% Bracket Credit** worksheet accessed from the **Credits** worksheet. Make these entries on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes**

worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

The program automatically subtracts the following:

- State income tax refunds
- U.S. Government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program automatically adds the domestic production activities deduction. The other Oregon adjustments are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Oregon portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Oregon taxable income.

OTHER ADDITIONS

Enter the following addition adjustments on the "Other Additions" row of the **Adjustments for State AGI** worksheet:

- Federal tax refunds (if deducted in a prior year)
- Oregon interest/dividends exclusion
- Lump sum distribution not included in the federal taxable income
- Gain/loss adjustment due to a different basis for federal vs. Oregon purposes
- Depreciation adjustments
- For years after 2008, any required unemployment insurance income adjustment
- Other additions to federal taxable income

OTHER SUBTRACTIONS

Enter the following subtraction adjustments on the "Other Subtractions" row of the **Adjustment for State AGI** worksheet:

- Allowable military exclusion

- Gain/loss adjustment due to a different basis for federal vs. Oregon purposes

- Depreciation adjustment

- For years after 2014, any nonpassive income included in the Supplementary Tax Worksheet.

- Other subtractions from federal taxable income

DIFFERENCES IN PASSIVE LOSSES

If the Oregon amount of passive gain or loss differs from the federal amount (e.g., because of a different basis in the property, or the MAPRRA rules), enter the amount of the difference on the "Other Additions" or "Other Subtractions" row, taking into consideration any adjustments to other components of income/loss allowed such as capital gains/losses, etc.

STANDARD DEDUCTION

The Oregon standard deduction is handled automatically, based on the taxpayer's filing status.

ELDERLY/BLIND

If the taxpayer/spouse is elderly or blind, an additional $1,000 ($1,200 for single) standard deduction is allowed per taxpayer. Enter the total additional standard deduction as a positive number on the "Adjustments" row on the **State Standard Deduction** worksheet.

(If the taxpayer can be claimed as a dependent on another's return, you should limit the amount of the standard deduction to the greater of $500 or earned income.)

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions after the 3% AGI floor. The program then subtracts state income taxes or (for years after 2004, the sales tax) deducted on the federal return. **For years after 1991**, the subtraction for state income taxes or (for years after 2004, the sales tax) paid is computed by reducing the subtraction for state income taxes or sales taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income or sales taxes by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. There could be a slight rounding error because the instructions for Oregon's Form 40 indicate that when the fraction is divided, it should be rounded to the nearest three decimal places. The program does not round this number.

For years after 2017 and before 2026, the program assumes Oregon conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

Enter any adjustments such as the special medical deduction, to federal itemized deductions allowed (after any applicable limitations) on the "Other Adjs to Federal Itemized" row of the State Itemized Deductions worksheet.

SUPPLEMENTARY TAX

For years after 2014, Oregon has enacted alternate decreased rates for certain nonpassive income. Income subject to these reduced rates should be entered as a subtraction adjustment on the "Other Subtractions" row of the Adjustment for State AGI worksheet: This income should also be included on the "Adj to State Supplementary Tax Base" row of the State Supplementary Tax worksheet.

SURPLUS REFUND CREDITS

The 2017 Oregon Surplus Refund Credit rate of 5.6% is contained in the state specifications. To enter the amount subject to this credit rate, first enter all items of income, deductions and credits, other than the surplus refund credit, to determine the net state income tax. Then enter the net state income tax (as a positive number) on the "Amount Subject to Credit Schedule" row of the State Nonrefundable Credits worksheet. The program will multiply this number by the Surplus Refund Credit rate.

OTHER CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the State Nonrefundable Credits worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal Main Worksheet.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the Credit for Other State Tax worksheet (accessed from the "Credit for Other Nonres Tax" row of the State Nonrefundable Credits worksheet).

In certain cases, Oregon does not give the credit for the nonresident tax. Instead, the nonresident state gives the credit as part of its nonresident computation. For example, when California is the nonresident state, California gives the credit rather than Oregon. In such cases, choose "Nonresident" on the "Cr Allowed by Res or Nonres State" row of this worksheet.

> **Note.** If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Oregon, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet. **For years after 2014**, you will need to adjust both resident income and the resident tax for the amount of income entered on the Supplementary Tax worksheet and the tax generated in that worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") less any nonrefundable credits (except any credit for nonresident tax) on that worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits (except any credit for resident state tax) and **for years after 2014**, plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER STATE TAXES

Enter any adjustment to total Oregon taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

INFLATION ADJUSTMENT

Oregon provides for an annual inflation adjustment for personal exemptions **starting in 1987**, for rates **starting in 1993**, and the standard deduction

starting in 2003. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Oregon" in Help. For future years, you can estimate the amount of the inflation factor adjustment and use it to adjust future year Oregon tax specifications accordingly. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

ALTERNATE STATE TAX BASE

Because Oregon allows a deduction for federal tax, the **Alternate State Tax Base** worksheet is activated. Do **not** make any entries on this worksheet since they are not applicable in Oregon.

OREGON NONRESIDENT TAX

The following sections describe the calculation of the Oregon nonresident tax for residents of other states who have income from Oregon. In order to calculate the nonresident tax, first choose Oregon as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Oregon, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

Note. For some states (e.g., California), Oregon allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). For such cases, see the "Credit for Other State Tax" section below.

OREGON NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

   - U.S. Government interest,
   - state income tax refunds,
   - social security/railroad benefits, and

- pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet.

The program automatically adds the domestic production activities deduction. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Oregon exempt interest and related expenses on the "Out of State Interest" row. Enter any additions to income such as non-Oregon state income tax refunds on the "Other Additions" row. Enter any subtractions from income on the "Other Subtractions" row.

The program uses the amount on the "Nonres State AGI" row as the denominator of the ratio described below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Oregon-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

Include, as a positive adjustment, any Oregon-sourced interest, dividends, capital gains, and any other Oregon-sourced income. Also include, as a negative adjustment, any Oregon-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc. The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonres State AGI" row is used as the denominator.

4. On the **Deductions for Nonresident State Taxable Income** worksheet, enter any adjustments to Oregon source income allowable when computing nonresident state taxable income. Do **not** include deductions allowed elsewhere on the **Nonresident State Tax – Main Worksheet**, such as itemized deductions or the standard deduction (these deductions are discussed below).

On the "Other Deductions Before Allocation" row, enter any deductions that require reduction by the Ratio. Enter deductions that are **not** reduced by the Ratio on the "Other Deductions" row. Note that a negative amount on the "Other Deductions" row increases income. Therefore, if you have any additions to income, enter them as negative amounts on this row. On the **Nonresident State Tax – Main Worksheet**, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see the "Adjustments to Federal Itemized Deductions" section of this chapter). Once the itemized deductions are calculated, the program multiplies them by the Ratio, then carries the reduced amount to the **Nonresident State Tax – Main Worksheet**. Make a positive adjustment on the "Other Adjs to Federal Itemized" row of this worksheet for the non Oregon state income taxes included on the "State Tax Adjustment" row.

6. The Oregon nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The Oregon nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Oregon

7. Next, the program subtracts the higher of the Oregon nonresident standard deduction (for the selected filing status) or the Oregon nonresident itemized deductions from the amount on the "Nonresident Source Income" row to calculate nonresident state taxable income.

8. The program calculates the Oregon deduction of the federal tax liability for residents and nonresidents in the same manner except that the deduction is calculated for state taxable income rather then state AGI. The federal tax amount is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Fed Tax Ded from Nonres State AGI" row on the **Nonresident State Tax – Main Worksheet**.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Oregon tax, based on the amount on the "Nonresident State Taxable Income" row.

10. **For years after 2014**, Oregon has enacted alternate decreased rates for certain nonpassive income. Income subject to these reduced rates should be entered in the same way as a resident (see the Supplementary Tax section above.) For a nonresident the reduced rates only applies to qualified business income earned in Oregon.

11. The program calculates Oregon personal exemption credit for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state (see the "Exemptions" section of this chapter). The total exemption credit is multiplied by the Ratio used to allocate the allowed deductions. The reduced amount is then carried to the "Nonres Personal Exemption Credit" row on the **Nonresident State Tax – Main Worksheet**.

12. If the taxpayer is entitled to any Oregon nonrefundable credits, other than the personal exemption credit, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

13. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Oregon refundable credits, enter them as a negative number on this row.

Note. If you assume that the surtax tax — enacted in Oregon House Bill 2152, Laws 2003, and effective for years 2003, 2004, and possibly 2005 — will not be repealed by the voter referendum to repeal the surtax, enter it on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For some states (e.g., California), Oregon allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). To compute the credit for these states, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Resident State Tax" row of the **Nonresident State Nonrefundable Credits** worksheet). Choose "Nonresident" on the "Cr Allowed by Res or Nonres St" row. Otherwise, the Credit is computed in the same manner as for an Oregon resident except that it uses the tax due to the resident state after all credits including the other state tax credit.

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PENNSYLVANIA

OVERVIEW

When the Pennsylvania specifications are selected for use with **the Fifty State Planner**, the program handles the following state tax calculations for Pennsylvania:

- Automatic reduction of AGI for Pennsylvania income tax refunds, U.S. Government interest, social security/railroad benefits, and unemployment income. Automatic addition of IRA and Keogh amounts and the deduction for self-employment tax

- Automatic Pennsylvania deduction for passive losses disallowed for federal purposes

- Automatic addback of the federal domestic production activities deduction

- Tax rate for Employment Incentive Payment Credit

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Pennsylvania. For more information on the Pennsylvania tax rates and other state tax matters, refer to Pennsylvania Form PA–40 and Instructions, as well as other official state publications.

You should review the default settings for Pennsylvania state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help). Because Pennsylvania has not adopted conformity with federal law, including the Tax Reform Act of 1986, several questions of interpretation may exist. You should rely on the assumptions in these notes and the Pennsylvania specifications file only to the extent you agree with them.

TAX RATES

The Pennsylvania tax rate is automatically loaded into the program.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the

federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Pennsylvania does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following:

- State income tax refunds
- U.S. government interest
- Unemployment income
- Social security/railroad benefits
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and
- Deduction of passive losses disallowed on the federal return

The program also automatically adds back the following:

- Federal IRA and Keogh deductions
- The deduction for self-employment tax,
- The federal domestic production activities deduction to state AGI.

If you are running the Minor Child calculation and you have made the federal election to include the child's interest and dividends on the parent's return, you **must** subtract the included portion from the parent's AGI for state purposes (on the "Other Subtractions" row) and add the appropriate amount to the child's AGI ("Other Additions" row).

The other Pennsylvania adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Pennsylvania portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Pennsylvania adjusted gross income.

OTHER ADDITIONS

Enter the following adjustments:

- Lump Sum Distribution entered on federal Form 4972

- Federally exempt employee contributions to TSA's, 401(k), or profit sharing/stock option plans
- Other additions to Pennsylvania income or unallowable federal deductions

OTHER SUBTRACTIONS

Enter the following adjustments:

- Pennsylvania State Lottery winnings
- Salary expense disallowed on federal return due to claiming jobs credit
- Any additional exemption for the qualified sale of a personal residence
- The federally-taxed portion of the regular IRA to Roth IRA rollover
- Any other Pennsylvania deduction disallowed on the federal return, or income taxed on the federal return but exempt in Pennsylvania.

MISCELLANEOUS ADJUSTMENTS

Pennsylvania does not allow losses from one category of income to offset gains in another category. If this has occurred, add back these losses as an "other addition" so that these losses will be properly disallowed for Pennsylvania purposes. Because this rule is incompatible with the federal method of netting income and loss, the program does not handle this Pennsylvania limitation of losses. Therefore, if a taxpayer has a net loss in one of these categories, you should disallow this loss manually by making an offsetting entry (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

The following items provide additional examples of situations that may require adjustment due to different treatment for federal and Pennsylvania purposes:

- NOL carryforward or carryback
- Capital gain/loss (differences in carries or loss limitations)
- Depreciation differences
- Gain/loss on sale of asset
- Installment sales
- Business expenses (including "office at home")
- Moving expenses
- Educational expenses or scholarship income
- Other differences between federal and Pennsylvania law

Note. For certain categories of income such as net income or loss from rents, royalties, patents or copyrights; the operation of a business, profession, or farm; or the sale, exchange, or disposition of property, a husband and wife filing a joint return cannot offset each other's income and losses. Make any adjustments accordingly.

CAPITAL LOSS ADJUSTMENT

The program carries capital losses to the state worksheet as part of federal AGI, i.e., after applying the federal limit of $3,000 per year and automatically carrying forward the balance. Because Pennsylvania does not allow net losses on sales of property, you should add back such losses (in the year of sale and all carryforward years). Enter the amount of the loss not allowed in Pennsylvania (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet. (See below for treatment of passive capital losses.)

TREATMENT OF PASSIVE LOSSES

This Pennsylvania rule should not be confused with the federal passive loss rule that has not been adopted by Pennsylvania. The program, therefore, properly does not apply the passive loss rule to Pennsylvania. The loss disallowed for federal purposes is allowed in full by the program for Pennsylvania purposes and appears on the "Passive Activity Loss" row as a subtraction on the **Adjustments for State AGI** worksheet. In some circumstances (especially in the year of disposition), where the federal deduction exceeds the state deduction as a result of allowing accumulated losses suspended from prior years, the adjustment will appear as an addition on this worksheet. Except for passive capital losses (discussed below), you generally will not need to make any adjustments except to comply with the general state prohibition of net losses discussed above.

EXAMPLE

Assume a $1,000 passive loss has been entered and that $600 has been disallowed for federal purposes. The program will allow the full $1,000 loss in Pennsylvania; $400 will flow through as part of federal AGI, and the other $600 will appear as a negative adjustment on the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. If you determine that none of this $1,000 loss is deductible for state purposes under the Pennsylvania rule described above, you should enter $1,000 as a positive number on the "Other Additions" row of the **Adjustments for State AGI** worksheet. (For years in which a federal deduction is allowed for a prior year "suspended" passive loss, the amount of such loss will appear as a positive number on the "Passive Activity Loss" row; again this is because the program properly does not apply the passive loss rules to Pennsylvania.)

PASSIVE CAPITAL LOSSES

For passive capital losses, in the first year of the activity the program carries to the state worksheet the portion disallowed for federal purposes, as described above. It will also carry (as part of federal AGI) the balance, up to the $3,000 federal capital loss limitation. Enter any remaining portion of the passive loss on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. In subsequent years, the program carries to the state (as part of federal AGI) up to $3,000 per year of the passive capital loss carryover. To avoid duplication, you should add back such loss carryover (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet. In the year the activity is sold, subtract the amount of the capital loss carryover from the amount carried by the program to the "Passive Activity Loss" row of the **Adjustments for State AGI** worksheet. Enter the result (as a positive number) on the "Other Subtractions" row of this worksheet.

These adjustments for passive capital losses will result in full allowance at the state level. To the extent that they are not allowed in Pennsylvania due to the prohibition on net losses, you should enter the disallowed portion (as a positive number) on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

Since Pennsylvania does not allow itemized deductions, none of the amounts entered as federal itemized deductions are carried to Pennsylvania. However, a portion of the miscellaneous itemized deductions may be deductible in Pennsylvania (e.g., union dues, work uniforms or tools, trade or professional license fees, etc.). To the extent the federal itemized deductions include such amounts deductible in Pennsylvania, they should be re-entered as "Other Subtractions" on the **Adjustments for State AGI** worksheet.

CITY AND COUNTY TAXES

The program is able to calculate city and county taxes automatically, where such taxes are based on wages or self-employment income. You can set your state specifications file to incorporate the tax rate for your particular locality and save the file under a different name for use with other clients from that locality. You will need to modify two state specifications worksheets: the **State Tax Schedules** worksheet to set the tax rate and the **State Supplementary Tax** worksheet to specify that wages and/or self-employment income (entered on the **Ordinary Income** worksheet) will be multiplied by the applicable tax rate, carried to the state worksheets, and added to the client's other state taxes. You can set up one or more versions of the state specifications file to handle several local jurisdictions, as long as you assign a different filename to each.

(You should remember to update these customized state files when you receive new updates.)

For complete information on changing and saving state specifications files, see the program's online help.

OTHER STATE TAXES

Enter any other Pennsylvania taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

CREDITS

The 20% credit rate for Employment Incentive Payments is built into the program. Enter the amount of the qualified investment on the "Amount Subject to Credit Schedule" row on the **State Nonrefundable Credits** worksheet. Enter any other allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter the state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

For years after 1995, the program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Pennsylvania has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. However, if the taxpayer has other types of income in one of these states, a credit may still be available.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the Pennsylvania credit for taxes paid to a nonresident state the program uses Method 2, i.e., it allows as the credit the lesser of the three amounts described below from the **Credit for Other State Tax** worksheet. The credit is shown on the "Credit for Other State Tax" row at the bottom of the

worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

- Adjusted Tax at Resident Rates — the "Adjusted Nonresident Income" multiplied by the Pennsylvania resident tax rates. "Adjusted Nonresident Income" equals the amount on the "Nonresident Source Income" row on the Nonresident State Tax – Main Worksheet. Pennsylvania requires a determination of income in the nonresident state using Pennsylvania rules. For years after 2005, this amount should equal the total of each category of income using the lesser of the Nonresident or Resident amount. Enter this and any other adjustments on the "Adjs to Nonres Income" row.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and plus any "Nonresident State Minimum Tax" on that worksheet. **For years after 2005,** this row should be adjusted to the lesser of tax due or paid to the nonresident state. Also when the Pennsylvania income for a category is less then the nonresident income for that category Pennsylvania makes an adjustment to the nonresident tax, see Part III of PA Schedule G–L. Enter these and any other adjustments on the "Adjs to Nonres Tax" row.

- **Adjusted Resident Tax —** the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

PENNSYLVANIA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Pennsylvania rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Pennsylvania AGI as if the taxpayer were a full-year resident of Pennsylvania. The program carries to this row the federal AGI after reducing it for the following items:

   - State income tax refunds

   - U.S. government interest

   - unemployment income

   - social security/railroad benefits

   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet, and

   - deduction of passive losses disallowed on the federal return

The program also automatically adds back the following:

- Federal IRA and Keogh deductions
- The deduction for self-employment tax,
- The federal domestic production activities deduction

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Pennsylvania exempt interest and related expenses, NOL adjustments, and any other differences between federal and Pennsylvania AGI for depreciation, gains and losses, etc.

2. On the "Nonresident State Regular Tax" row, the program displays the amount of the Pennsylvania tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

3. Next, on the **Nonresident Source Income** worksheet designate which income is Pennsylvania-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Pennsylvania-sourced interest, dividends, or capital gains and any other Pennsylvania-sourced income. Also include, as a negative adjustment, any Pennsylvania-sourced "adjustments to income," including contributions to medical savings accounts, etc.

4. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI"). Enter any available Pennsylvania nonrefundable credits on the "Nonres State Nonrefundable Credits" row of this worksheet after adjustment for the ratio.

5. If the taxpayer is allowed any Pennsylvania refundable credits, enter the allowed amount on the "Other Nonresident State Taxes" row as a negative number, as they are allowable against the Pennsylvania AMT. Also enter on this row any other taxes including city and county taxes and credit recaptures as a positive number.

RHODE ISLAND

OVERVIEW

When the Rhode Island specifications are selected for use with **the Fifty State Planner**, the program handles the following state tax calculations for Rhode Island:

- Automatic carryover of federal tax to state worksheet
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Handles credit calculation for investment tax credit
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Rhode Island. For more information on the Rhode Island tax rates and other state tax matters, refer to Rhode Island Form RI–1040 and Instructions, as well as other official state publications.

You should review the default settings for Rhode Island state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

For years after 2000, the Rhode Island tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers for the regular tax, regardless of whether the use of state tax tables is required. For years after 2010 Rhode Island has simplified it's tax system and will have only a regular tax. **For years after 2000 and before 2010**, the program also applies the maximum capital gains tax rate to net long-term capital gains, and (for years after 2005 and before 2011) computes the alternate flat tax, and picks the lowest of the three taxes. For further details, see the Alternate Capital Gains Tax and the Alternate State Tax sections below. (For information on how the rates are adjusted for inflation, see "Inflation Adjustment" later in this section.)

For years before 2001, the Rhode Island tax rate is a percentage of the federal tax liability. The rates are automatically loaded into the program. The

other rate schedule built into the program is the schedule for the Rhode Island investment tax credit.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed. Subsequent changes on the federal worksheet are not carried to the state worksheet. In Rhode Island, changing the state filing status has no effect on the tax liability.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

FEDERAL TAX BASE

For years after 2000 and before 2011, because the starting point for the Rhode Island income tax is federal taxable income, the program carries to Rhode Island the federal amounts for the standard deduction, personal exemptions (after the federal phaseout), and itemized deductions (after reduction for the 3% AGI floor). (Any modifications are mentioned in their respective sections.)

For years before 2001, the program primarily uses the **Alternate State Tax Base** worksheet to calculate the Rhode Island tax, which is based on the federal tax liability. See the "Calculation of Federal Tax for State Purposes" section below.

EXEMPTIONS

The program carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. **For years after 2011**, the program will apply the Rhode Island phaseout to the Rhode Island personal exemption amount. **For years after 2000 and prior to 2011**, the program multiplies the number of exemptions by the federal personal exemption amount. The program applies the federal phaseout percentage using State AGI to the Class 1 personal exemption amount. No adjustment should be needed. Make no entries for the other exemption rows.

Rhode Island allows the additional $500 exemption in **2005 and 2006** for Hurricane Katrina displaced individuals, and in **2008 and 2009** for Midwestern displaced individuals. The $500 deduction is limited to $2000 minus the amount of the deduction in prior years. Unlike for federal purposes for Rhode Island this amount is reduced by the same percentage as other exemption deductions. The amount of the deduction less its phaseout should be entered on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

For years after 2000, the program automatically subtracts the following:

- U.S. Government interest
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other Rhode Island adjustments are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-Rhode Island portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Rhode Island taxable gross income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Interest and dividends exempt for U.S., but not Rhode Island purposes
- Depreciation adjustments
- **For years after 2008**, any required unemployment insurance income adjustment
- **For years after 2008**, any Sales Tax allowed on a qualified motor vehicle purchase
- Other additions to federal taxable income

OTHER SUBTRACTIONS

Enter any subtraction adjustments:

- Rhode Island Lottery winnings
- Railroad benefits included in federal AGI
- Depreciation adjustments
- **For years after 2015**, the Social Security Adjustment
- Other subtractions from federal taxable income

For years before 2001, the program only uses the **Adjustments for State AGI** worksheet to prorate the Rhode Island tax, which is based on the federal

tax liability. See the "Calculation of Federal Tax for State Purposes" section, below.

NOTE

For years after 2000 and before 2011, Rhode Island requires the complete recomputation of federal taxable income to compute the full impact of adjustments to State AGI.

In most cases, you can accomplish the required result for the first method by making adjustments to income as discussed above. The program will automatically phase out the personal exemption and itemized deductions using State AGI. In most cases, the above calculation of State AGI will produce an accurate state tax liability. However, the result will only be an approximation in some cases where other amounts are subject to phaseouts for federal purposes.

To obtain an accurate result in such situations you must recalculate federal AGI with adjustments to State AGI, use two cases/files labeled "Federal" and "Rhode Island."

1. In the "Federal" case/file, enter all federal and state amounts as you normally would (including the non-Rhode Island municipal interest and U.S. Government interest).

2. In the "Rhode Island" case/file, enter all federal and state amounts as you normally would, except the U.S. Government interest and the non-Rhode Island municipal interest. Enter the non-Rhode Island municipal interest and any other addition modifications on the "Other Ordinary Income" row of the federal **Other Ordinary Income** worksheet. Do not enter U.S. Government interest and any other subtraction modifications. See Rhode Island Form RI–1040, Schedule I.

3. In the "Federal" case/file, on the **Adjustments for State AGI** worksheet make an adjustment on either the "Other Additions" row or the "Other Subtractions" row for the difference in the amounts shown on the "State AGI" row.

4. In the "Federal" case/file, you must make an adjustment to "Other State Taxes" so that the "Total State Taxes" row in the "Federal" case/file equals the "Total State Taxes" row in the "State" case/file.

STANDARD DEDUCTION

For years after 2010, the Rhode Island standard deduction is handled automatically. The program allows the Rhode Island amount and phases it out for high income taxpayers.

For years after 2000 and before 2011, the Rhode Island standard deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes, including the additional amounts allowed for elderly/blind. For years after 2002, the program uses the federal standard deduction as it would have been without the changes reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003. (For information on how the rates are adjusted for inflation, see "Inflation Adjustment" later in this section.)

In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.

For years before 2001, this section does not apply.

ITEMIZED DEDUCTIONS

For years after 2017 and before 2026, the program assumes Rhode Island conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

For years after 2010, Rhode Island no longer allows itemized deductions.

For years after 2000 and before 2011, for Rhode Island purposes, the program allows the total amount of federal itemized deductions, (including the deduction for state income taxes or for the sales tax (except for 2009) whichever is elected on the taxpayer's federal return). The AGI limits are applied using state AGI, rather than federal AGI, as per Rhode Island law. The program applies the 3% floor using state AGI for 1991 and thereafter.

In computing the charitable deduction for state purposes, the program applies only the 50% of state AGI limit. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjs to Federal Contributions" row of the State Charitable Contribution Deduction worksheet. Also, enter any allowable charitable contribution carryovers on this row.

You can make any adjustments to specific state itemized deductions on the "Adjustments" row of the individual subworksheets for the various types of itemized deductions. The program applies the appropriate limitations to these adjustments. However, the program will not apply any limitations to an amount entered on the "Additional State Itemized" row of the State Itemized Deductions worksheet.

For years before 2001, this section does not apply.

ALTERNATE STATE TAX

For years after 2010, this section does not apply.

For years after 2005 and before 2011, The Rhode Island alternative flat tax is handled automatically on the **Alternate State Tax** worksheet. This tax is a flat rate multiplied by State AGI found on the AGI row of that worksheet. However, the amount that appears on the "Alternate State Tax Base" row of the **State Tax Main** worksheet is the flat tax itself, rather than the base on which the tax is computed. No credits are allowed against this tax except the credit for taxes paid to another state. The flat tax is not included in the regular tax, the alternative capital gains tax, or the minimum tax. If less then these other taxes minus nonrefundable credits it is included in the total state tax. The program will include any amount on the "Other Taxes" row even though they may not apply to the alternate state tax and may need to be adjusted. In some cases where the determination is not readily apparent you may want to run two cases. When you run two cases you will be able to remove other taxes and refundable credits from the Alternate State Tax Case that do not apply. To remove the alternate state tax from the regular case make a large positive adjustment to the "Adjs to Alternate State Tax Base" row so that it will not become an option in that case.

RHODE ISLAND CAPITAL GAINS TAX

For years before 2001 and after 2009, this section does not apply.

For years after 2000 and before 2010, the Rhode Island capital gains tax is handled automatically on the **State Alternative Capital Gains Tax** worksheet. Each type of Federal Capital gain is brought over to the **State Alternative Capital Gains Tax** worksheet. The tax shown is the applicable federal tax on that income multiplied by the Rhode Island percentage. Generally, no adjustments to the Capital Gains tax should be required. If you have differences in the amount of Capital Gains taxed in Rhode Island you may want to use two cases one for Federal and one for Rhode Island. Make any adjustments to the total state capital gains tax, on the "Adjustment to Total State Capital Gain Tax" row of the **State Alternative Capital Gains Tax** worksheet in the Federal case. If you need to make any adjustments to the State Ordinary Income for the purpose of calculating the State Alternative Capital Gains Tax, enter them on the "Adjustment To State Ordinary Income" row of this worksheet. **In addition, for years after 2002**, the program computes the capital gains tax using the federal law as it would have been without the changes reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003. **Also, for years after 2006 and before 2011**, use the "Adj to Pre-2001 5-Year Gain" and the "Adj to Post-2000 5-Year Gain" rows in the "Qualified 5-Year Gain" section of the federal **Capital Gains and Losses** worksheet to adjust for gains that would have been treated as 5-Year Gains without the changes made by the JGTRRA of 2003. The program will **not** use these rows in years after 2003 and before 2011 for federal purposes. **For years after 2010**, the program will use the federal 5 year gains for Rhode Island as well.

The program automatically allows the lesser of the "State Regular Tax" or the "State Alternative Capital Gains Tax" when computing the total Rhode Island Tax on the **State Tax – Main Worksheet**.

MINIMUM TAX

For years before 2001 and before 2010, this section does not apply.

For years after 2000, the program automatically computes the Rhode Island alternative minimum tax on the **State Minimum Tax** worksheet.

COMPUTING THE RHODE ISLAND MINIMUM TAX IN YEARS AFTER 2002 AND BEFORE 2011

For years after 2002 and before 2011, the Rhode Island minimum tax is calculated as follows:

1. **For all years after 2002 and before 2011**, the Rhode Island alternative minimum tax is based on the federal AMT, as it existed without the increased exemptions reflected in the Jobs and Growth Tax Relief Reconciliation Act of 2003. However, in years after 2004, the exemption amounts and their respective phaseouts will be adjusted for inflation. The program computes the Rhode Island minimum tax by starting with federal alternative minimum taxable income, then adding the State AGI adjustments, then subtracting the Rhode Island exemption amount. Also, when the Filing Status is Married Filing Separate and there is an add back of the Federal AMT Exemption, the program will add this exemption to Federal Alt Min Taxable Income carried to the "Fed Alt Min Taxable Income" row of the **State Minimum Tax** worksheet. The result is the net state minimum tax base. This amount is then multiplied by a rate that is equivalent to 25% of the federal alternative minimum tax rate.

2. AMT Alternative Capital Gains Tax

   For years after 2009, Rhode Island has eliminated the special capital gains rate and this section no longer applies.

   a. **Years After 2002 and Before 2007**. In computing the Rhode Island AMT alternative capital gains tax, the program recomputes the federal AMT alternative capital gains tax as it would have been computed without the changes reflected in the JGTRRA of 2003, and then multiplies this hypothetical federal result by 25%.

   b. **Years After 2006 and before 2010**. At the date of publication of the program, it did not appear that the published Rhode Island AMT Capital Gain Form for 2007, represented a totally accurate formulation of the AMT Alternative Capital Gain Tax calculation. The following AMT description represents our reading of Rhode Island Law based on the

statute, and is how the program does this calculation. If you disagree with our interpretation of the law you should make an adjustment to the "Other State Taxes" row of the **State Tax – Main Worksheet**. In this calculation where the program is subtracting one number from another if the answer is less than 0 enter 0.

The program computes the Rhode Island AMT Alternative Capital Gain tax as follows:

1. Rhode Island Alt Min Taxable Income after the Exemption

2. Total Capital Gain or Loss refigured for AMT if necessary

3. Section 1250 Unrecaptured Gain refigured for AMT if necessary

4. 28 Percent Gain refigured for AMT if necessary

5. Add line 3 and line 4

6. Subtract line 5 from line 2

7. Add lines 3 and 6

8. Enter the smaller of line 2 or line 7

9. Subtract line 8 from line 1

10. 5 yr 28% gain refigured for AMT if necessary

11. Enter the smaller of line 9 or line 10

12. Multiply line 11 by 2.33% (.0233)

13. Subtract line 11 from line 9

14. Tax on row 13 at AMT Sch. Tax Rates

15. Enter the smaller of line 1 or line 6

16. Amount from RI Sch D Tax W/S L 16

17. Enter the smaller of line 15 or 16

18. Total regular 5 YR Gain refigured for AMT if necessary

19. Enter the smaller of line 17 or 18

20. Multiply line 19 times 0.83% (0.0083)

21. Subtract line 19 from line 17

22. Multiply line 21 by 2.5% (.025)

23. Subtract line 17 from line 15

24. Subtract line 19 from line 18

25. Enter the smaller of lines 23 or 24

26. Line 25 times 1.67% (.0167)

27. Subtract line 25 from line 23

28. Multiply line 27 by 5% (.05)

29. Add lines 9, 17 and 23

30. Subtract line 29 from line 1

31. Enter the smaller of line 30 or RI Sch D L19 Column (g) refigured for AMT if necessary.

32. Multiply line 31 by 2.08% (.0208)

33. Subtract line 31 from line 30

34. Multiply line 33 by 6.25% (.0625)

35. Add lines 12, 14, 20, 22, 26, 28, 32, and 34

36. Calculate the Tax on row 1 at AMT Schedule Tax Rates

37. The AMT Tax equals the smaller of lines 35 or line 36.

To handle AMT adjustments to gains that would have been treated as 5-year gains without the changes made by the JGTRRA of 2003, enter them on the "AMT Adjs to <2001 5-Year" and "AMT Adjs to >2000 5-Year" rows on the federal **Alternative Capital Gain or Loss** worksheet. To avoid double-counting the total capital gains for federal purposes, make an offsetting negative entry on the "AMT Adjs to Other Long-term G/L" row of the same worksheet. The program does **not** have any provision for adjusting federal AMT capital gains by Rhode Island adjustments other than those entered on the 5 year rows for Rhode Island regular tax purposes. For Rhode Island purposes any further adjustments must be made on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet or on the "Other Taxes" row of the **State Tax – Main Worksheet**. You may want to use a custom worksheet or a note to provide an audit trail for this amount. To determine the amount of the adjustment you may want to run two cases as described in Note 1 below.

3. **For years 2001 and 2002**, the federal tentative minimum tax (before the Foreign Tax Credit) is carried to the **State Minimum Tax** worksheet. The program will not recompute the federal numbers; instead, it will use federal law in effect for the taxable year. Make any adjustments to the minimum tax base on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. To determine the amount of the adjustment you may want to run two cases, as described in the Note 2 below.

4. The amount on the "State Minimum Tax from Schedule" row equals the amount on the "Net State Minimum Tax Base" row multiplied by the Rhode Island Percentage.

5. The program then subtracts the state regular tax from the "State Minimum Tax from Schedule" row. The state regular tax equals the lesser of the "State Regular Tax" row, the "State Alternative Capital Gains Tax" row of the **State Tax – Main Worksheet**. Make any adjustments to the State Regular Tax on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet.

6. **For years 2001 and 2002 only**, note that the program calculates the net state minimum tax base before the foreign tax credit and does not automatically add back the regular foreign tax credit, nor the recapture of the federal investment tax credit, therefore you will need to make an adjustment for the difference between these credits.

7. The program carries the amount of any state minimum tax to the **State Tax – Main Worksheet**.

8. The program applies nonrefundable credits against both the regular tax and the minimum tax.

NOTE 1

For years after 2002, if you have Rhode Island modifications to federal long term capital gains that would cause an adjustment to the federal TMT, you will be required to make an adjustment on the "State Regular Tax" row of the **State Minimum Tax** worksheet.

To determine the amount of the required adjustment, use two cases/files titled "Federal" and "Rhode Island."

1. In the "Federal" case/file, enter all federal and state amounts as you normally would (including the capital gains).

2. In the "Rhode Island" case/file, enter all capital gains amounts as adjusted for Rhode Island modifications.

3. Compare the "Fed Tentative Minimum Tax" rows of the two cases. Make an adjustment for the difference in the amounts on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet of the "Federal" case/file.

NOTE 2

For years 2001 and 2002, Rhode Island starts with the federal TMT. The program does not recompute the federal tentative minimum tax for Rhode Island purposes. If you have Rhode Island modifications to federal AGI that would cause an adjustment to the federal TMT, you will be required to make an adjustment on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet.

To determine the amount of the required adjustment, use two cases/files titled "Federal" and "Rhode Island."

1. In the "Federal" case/file, enter all federal and state amounts as you normally would (including the non-Rhode Island municipal interest and U.S. Government interest).

2. In the "Rhode Island" case/file, enter all amounts as adjusted by the Rhode Island modifications. For example, enter the non-Rhode Island municipal interest and other addition modifications on the "Other Ordinary Income" row of the federal **Other Ordinary Income** worksheet. Do not enter U.S. Government interest or any other subtraction modifications. See Rhode Island Form RI–1040, Schedule I.

3. Compare the "Fed Tentative Minimum Tax" rows of the two cases. Make an adjustment for the difference in the amounts on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet of the "Federal" case/file.

CALCULATION OF FEDERAL TAX FOR STATE PURPOSES

For years after 2000, this section does not apply.

For years before 2001, for Rhode Island purposes, the program calculates the federal income tax liability as follows:

> regular tax + lump sum tax + AMT + ITC recapture tax – nonrefundable credits and the earned income credit.

The program primarily uses the **Alternate State Tax Base** worksheet in calculating the Rhode Island tax.

Files loaded with versions prior to 97.1 will give a different tax result if they contained the early distribution penalty tax on IRAs and other qualified pension plans. In Rhode Island it was determined that the early distribution penalty tax, on IRAs and other qualified pension plans, should not have been part of the federal income tax that made up the Rhode Island tax base. See Faring v. Clark (A.A. No. 93–135, Unpub. Slip Op., 6th Div. District Court 3–30–95 (Cert. Denied). It may be possible to amend open returns to take advantage of this ruling.

ADJUSTMENTS

You may adjust the automatically calculated amount of federal tax liability as follows (using a custom worksheet would provide an audit trail for the calculation):

1. Add together any amounts the taxpayer has for the following "addition" items:

- Out-of-state exempt (municipal bond) interest

- Interest and dividends exempt for U.S., but not Rhode Island purposes

- Miscellaneous additions (pre-1969 NOL, etc.)

2. Add together any amounts the taxpayer has for the following "subtraction" items:

- U.S. Government interest

- Rhode Island Lottery winnings

- Railroad benefits included in federal AGI

- Other miscellaneous subtractions (see Form RI–1040)

3. Net the above two subtotals and multiply by the taxpayer's applicable federal tax bracket (see the Summary Report for taxpayer's marginal bracket).

4. Also subtract any federal Adoption, Child, and Education Credit allowed.

5. Enter the resulting number (as a positive number if positive and a negative number if negative) on the "Adjustments" row of the **Alternate State Tax Base** worksheet. The program uses this number to increase or decrease the federal tax liability before applying the state's tax rate.

Note. In **most** cases, the above calculation will produce an accurate state tax liability. However, the result will only be approximate in some cases, for example, where the above adjustment moves the taxpayer into another tax bracket. To obtain an accurate result in such situations, use the following alternate calculation: Use the "Cases" option of the federal worksheet to obtain the federal tax liability with and without the Rhode Island adjustments. (Enter the amount of state tax paid in calculating federal itemized deductions rather than the "automatic carry" feature for state taxes paid.) Then enter the difference between these two figures as a positive or negative adjustment on the "Adjustments" row of the **Alternate State Tax Base** worksheet.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

INFLATION ADJUSTMENT

Rhode Island tax rate schedules are based on the federal brackets. **Beginning in 2003**, Rhode Island no longer follows the federal standard deduction but does provide for its own annual inflation adjustment. **Beginning in 2005**, the Individual AMT Exemption is adjusted for inflation. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Rhode Island" in Help. If desired, you can estimate the inflation factor for future years and add future year Rhode Island tax specifications relating to rates. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

INVESTMENT TAX CREDIT

Enter the total qualifying basis of eligible property on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. No further entries are needed since the credit rate (2%) is stored in the program. You must limit the amount of this credit so that the credit does not reduce the state tax to less than $100, since this limitation is not handled by the program.

CREDITS

Enter any other allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Amounts on this row other than the credit for taxes paid to another state will not offset the Alternative Tax. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**. However **for years after 2005**, you should not enter refundable credits that are not allowed against the alternative tax if that system applies.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Rhode Island, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — **For years after 2010**, this amount equals the "State Regular Tax" row of the **State Tax – Main Worksheet**. **For years prior to 2011**, the lesser of the "State Regular Tax" row or the "State Alternative Capital Gains Tax" row of the **State Tax – Main Worksheet** (after subtracting the allocated portion of any "State Supplementary Tax"), plus any "State Minimum Tax" and any "Other State Taxes" entries on that worksheet. Make a negative adjustment on the "Adjs to Resident Tax" row of the **Credit for Other Nonresident Tax** worksheet for the amount of the allowable federal credits. **For years after 2005**, the program will choose the lesser of the amount just described above or the Alternative Flat Tax. Because the program does not take the adjustment for federal credits into account at this point you may also need to make an adjustment for the tax that the program chooses if it would have been less once the federal credits were subtracted.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax"), less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER TAXES

Enter any adjustment to total Rhode Island taxes owed on the "Other State Taxes" rows of the **State Tax – Main Worksheet**. Since this row can be used to make adjustments for additional nonresident states it will be included even if the alternate state tax applies. If the alternate state tax applies you should not include any taxes on this row that do not apply to that tax such as the Lump-Sum tax or credit recapture amounts.

RHODE ISLAND NONRESIDENT TAX

The following sections describe the calculation of the Rhode Island nonresident tax for residents of other states who have income from Rhode Island. In order to calculate the nonresident tax, first choose Rhode Island as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Rhode Island, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

RHODE ISLAND NONRESIDENT TAX FOR YEARS AFTER 2000

RHODE ISLAND NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Rhode Island AGI as if the taxpayer were a full-year resident of Rhode Island. The program carries to this row the federal AGI after reducing it for the following items:

    - U.S. Government interest

    - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Rhode Island exempt interest and related expenses, NOL adjustments, and any other differences between federal and Rhode Island AGI.

    Caution! The adjustments for Nonresident State AGI and Nonresident State Minimum Tax Base may require recalculation. See the Notes under "Adjustments to Federal Taxable Income" and "Minimum Tax" in the resident section above.

2. The program then subtracts from "Nonres State AGI" the higher of the Rhode Island standard deduction (for the selected filing status), or for years prior to 2011, Rhode Island itemized deductions (computed as if the taxpayer were a resident) to derive Nonresident State Taxable Income.

3. **For years after 2005 and before 2011**, the Rhode Island alternative flat tax is handled automatically on the **Alternate Nonresident State Tax**

Base worksheet. The program will bring Nonresident Source Income to the "Nonresident State AGI" row of this worksheet. However, the amount that appears on the "Alternate State Tax Base" row of the **Nonresident State Tax Main** worksheet is the flat tax itself, rather than the base on which the tax is computed. The flat tax is not included in the regular tax nor the alternative capital gains tax, but, if applicable, is included in the "Nonresident Regular Base Tax" row. Enter any adjustments to this amount on the "Adjs to Alt Nonres State Tax Base" row of that worksheet.

4. On the "Nonresident State Regular Tax" row, the program displays the amount of the Rhode Island tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

5. Next, on the **Nonresident Source Income** worksheet designate which income is Rhode Island-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Rhode Island-sourced interest, dividends, or capital gains and any other Rhode Island-sourced income. Also include, as a negative adjustment, any Rhode Island-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

6. On the **Nonresident State Tax – Main Worksheet**, the program calculates the lesser of the "Allocated Nonresident Regular Tax" or, for years after 2000 and prior to 2010 the "Nonres State Alt Capital Gains Tax" (limited to not less than zero), or for years after 2005 and before 2011, the Rhode Island alternative flat tax as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

7. Enter any available Rhode Island nonrefundable credits, on the "Other Nonres Credits and Adjustments" row of the **Nonres State Nonrefundable Credits** worksheet.

8. If the taxpayer is allowed any refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number, also enter on this row any other taxes and credit recaptures as a positive number.

RHODE ISLAND NONRESIDENT ALTERNATIVE MINIMUM TAX

For years after 2010, this sections does not apply.

The program calculates the Rhode Island nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched" after the exemption.

   Caution! The adjustments for Nonresident State Minimum Tax Base may require recalculation. See the Note under "Minimum Tax" in the resident section above.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by the same ratio used to calculate the Rhode Island nonresident regular tax.

Note. Adjustments made on the "Adjs to State Minimum Tax AGI" row, the "Min Tax Adj to Nonres Source Income" row, and the "Nonres State Source Prefs & Adjs" row will have no effect on the minimum tax calculation.

RI NONRESIDENT TAX FOR YEARS BEFORE 2001

For years before 2001, for Rhode Island purposes, the program calculates the Rhode Island tax based on the federal income tax liability as follows:

regular tax + lump sum tax + AMT + ITC recapture tax – nonrefundable credits and the earned income credit.

The program primarily uses the **Alternate State Tax Base** worksheet in calculating the Rhode Island tax.

Enter any adjustments to this amount in the same manner as a resident. See "Adjustments" in the Calculation of Federal Tax for State Purposes in the Rhode Island Resident Section above.

1. The "Nonres State AGI" row of the worksheet shows Rhode Island AGI as if the taxpayer were a full-year resident of Rhode Island. The program carries to this row the federal AGI after reducing it for U.S. government interest.

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Rhode Island exempt interest and related expenses, railroad retirement benefits, and any other differences between federal and Rhode Island AGI. Nonresident State AGI is used to prorate the Federal Tax deduction.

2. On the "Nonresident State Regular Tax" row, the program displays the amount of the Rhode Island tax as if the taxpayer had been a resident.

Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

3. Next, on the **Nonresident Source Income** worksheet designate which income is Rhode Island-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Rhode Island-sourced interest, dividends, or capital gains and any other Rhode Island-sourced income. Also include, as a negative adjustment, any Rhode Island-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

4. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row, after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Nonres State AGI").

    Enter any available Rhode Island nonrefundable credits on the "Nonres State Nonrefundable Credits" row of this worksheet after adjustment for the ratio.

5. If the taxpayer is allowed any Rhode Island refundable credits, enter the allowed amount on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes, including city and county taxes and credit recaptures, as a positive number.

SOUTH CAROLINA

OVERVIEW

When the South Carolina specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for South Carolina:

- Automatic carryover of federal taxable income to state worksheet

- Automatic calculation of state capital gain deduction

- Credit calculation for "two-earner" credit

- Automatic reduction of South Carolina taxable income for state tax refunds, U.S. government interest, and social security income

- Automatic addback of deduction for income tax paid and the federal domestic production activities deduction, and **for years after 2017**, the IRC § 199A Qualified Business Income Deduction.

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to South Carolina. For more information on the South Carolina tax rates and other state tax matters, refer to South Carolina Form SC–1040 and Instructions, as well as other official state publications.

You should review the default settings for South Carolina state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes (see the program's online help).

TAX RATES

The South Carolina tax rate is automatically loaded into the program. The other rate schedule stored in the program is the "two-wage earner" credit rate. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. (For information on how the rates are adjusted for inflation, see "Inflation Adjustment" later in this section.)

For years after 2005, South Carolina has a special tax rate for "active trade or business income or loss." Enter only the net amount of active trade or business income on the "Adj to State Supplementary Tax Base" row of the **State Supplementary Tax** worksheet. Do not enter net loss amounts here. The net amount

of income or loss will need to be subtracted from State AGI on the "Other Subtractions" row. See the "Other Subtractions" row for more details. Note that in some cases this can actually increase the tax due. See South Carolina Act 41, Laws 2005.

At the time of publication very little was known about how this Act would be implemented. Please rely on these calculations only to the extent that you agree with them.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

FEDERAL TAX BASE

Because the starting point for the South Carolina income tax is federal taxable income, the program carries to South Carolina the federal amounts for the standard deduction, personal exemptions (after the federal phaseout), and itemized deductions (after reduction for the 3% AGI floor).

(Any modifications are mentioned in their respective sections.)

EXEMPTIONS

On the **State Tax Personal Exemptions** worksheet, the program carries the number of federal exemptions to the "Class 1 Exemptions" row and multiplies it by the federal personal exemption amount. **For years after 1990 and before 2010**, the program applies the federal phaseout percentage to the Class 1 personal exemption amount. No adjustment should be needed. **For years after 2017**, the program uses the South Carolina personal exemption amount.

Enter the additional personal exemption for dependents under the age of 6 on the "Class 2 Exemptions" row. The exemption is equal to 100% of the federal personal exemption. The extra exemption is not subject to the phaseout. Make no entries for the "Class 3" or "Class 4" exemption rows. For more information on how to change these amounts when more current data becomes available, see Resident and Nonresident State Specifications Overview.) **For years after 2017**, the program uses the South Carolina personal exemption amount.

For 2005 and 2006, South Carolina complied with federal disaster relief legislation and allowed the additional $500 exemption for Hurricane Katrina displaced individuals. If it allows the additional $500 exemption **in 2008 and 2009** for Midwestern displaced individuals, enter the amount of the reduction on the "Adj to Total Exemption Deduction" row of the **State Tax Personal Exemptions** worksheet. The $500 deduction is limited to $2000 minus the amount of the reduction in prior years.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

The program automatically subtracts the following:

- State income tax refunds
- U.S. government interest
- Social security/railroad benefits, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The program also automatically adds back the federal domestic production activities deduction, and **for years after 2017**, the IRC § 199A Qualified Business Income Deduction.

The other South Carolina adjustments are handled on the following rows:

OUT OF STATE INTEREST

Enter the non-South Carolina portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating South Carolina taxable gross income.

OTHER ADDITIONS

Enter the following addition adjustments:

- Gain/loss adjustment due to different basis for federal vs. South Carolina purposes
- Depreciation adjustments
- Adjustment for NOL carryovers
- Retirement income deduction
- Other additions to federal taxable income

OTHER SUBTRACTIONS

Enter any subtraction adjustments:

- Gain/loss adjustment due to different basis for federal vs. South Carolina purposes

- Depreciation adjustments

- Allowable military or National Guard exclusion

- **For years after 2005**, enter the amount of active trade or business income. This amount should also be entered as a positive amount on the "Adj to State Supplementary Tax Base" row of the **State Supplementary Tax** worksheet to calculate the tax. If otherwise allowable enter any net loss amount here. The amount entered for a loss should be equal to the allowable loss multiplied by a fraction the numerator of which is the business rate of tax (6.5% in 2006, 6% in 2007, 5.5% in 2008, and 5% in 2009) and the denominator of which is the highest rate of the regular tax currently 7%. See South Carolina Act 41, Laws 2005.

- Other subtractions from federal taxable income

For taxpayers electing to include minor child unearned income in federal AGI, you may need to enter such amount as an "other subtraction" for state purposes.

STANDARD DEDUCTION

The South Carolina standard deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes (**except for 2003 and 2008**), including the additional amounts allowed for elderly/blind and the additional deduction for real estate taxes and casualty losses. The program will also allow the Vehicle Sales Tax. If you do not agree, you may subtract it by putting a negative entry on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet. See Resident and Nonresident State Specifications Overview for more information. **For 2003 only**, South Carolina did not conform to the federal increase in the standard deduction from the Jobs and Growth Tax Relief Reconciliation Act of 2003. The program uses the properly reduced standard deduction for 2003.

In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For years after 2009, the program starts with total federal itemized deductions and then subtracts state income taxes or the sales tax deducted which ever is applicable.

For years prior to 2010, the program starts with total federal itemized deductions after the 3% AGI floor, in 2004 only recomputed ignoring the sales tax deduction and using the income tax deduction instead. The program then subtracts state income taxes or the sales tax deducted whichever is applicable. **For 1991 and thereafter**, the subtraction for state income or sales taxes paid is computed by reducing the subtraction for state taxes paid by a proportionate part of the federal floor. **For years after 1990**, the proportion is computed by dividing the federal deduction for state income or sales taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor.

Note. The program assumes that South Carolina will conform to the Federal disaster relief legislation which allows qualified charitable contributions entered on Federal Schedule A, row 15b, up to 100% of federal AGI and removes the floor under hurricane related casualty losses.

Note. South Carolina does not allow taxpayers to itemize unless they itemized for federal purposes. The program automatically applies this rule.

SUPPLEMENTARY TAX

For years beginning after 2005, the program calculates the special tax rate that may be elected for "active trade or business income or loss" on the **State Supplementary Tax** worksheet. Enter only the net amount of active trade or business income on the "Adj to State Supplementary Tax Base" row of the **State Supplementary Tax** worksheet. Do not enter net loss amounts here. The net amount of income or loss will need to be subtracted from State AGI on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. See the "Other Subtractions" row for more details. Note that in some cases this can actually increase the tax due. South Carolina Act 282, Laws 2006, amended Code Section 12-6-545, thereby making this an election rather than mandatory. For joint returns, the election is effective for both spouses.

CAPITAL GAIN DEDUCTION

South Carolina allows a phased-in capital gains deduction. The percentage allowed is 44%. The capital gains base is net long-term capital gain, as determined for federal purposes, except that for years before 2001 the holding period for South Carolina purposes is at least two years. The program automatically calculates the deduction, using net long-term capital gain, as

defined for federal purposes. Therefore, to the extent the program is allowing a capital gains deduction for a capital asset held for less than two years for years before 2001, you must reduce this deduction by entering the unallowed amount on the "Other Additions" row of the **Adjustments for State AGI** worksheet.

CREDIT FOR "TWO-WAGE EARNER" EARNED INCOME

For joint filers where both have earned income, enter the amount of the lower earned income of the spouses on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. No further entries are needed since the credit rate amount (0.7%) is stored in the program. The program does not apply the $30,000 maximum earned income limit on this credit. Therefore, you must be careful to limit this entry to $30,000 or less.

Beginning in 2018, the maximum earned income limit increases $3,333 each year until fully phased-in in 2023.

INFLATION ADJUSTMENT

Beginning in 1989, South Carolina provides for an annual inflation adjustment for tax rates. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "South Carolina" in Help. If you wish, you may estimate the amount of the inflation factor for future years and add it to the tax rate specifications for future years. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

Enter any other allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

> **Note.** If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). For South Carolina, the New York calculations include New York City Taxes. The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for South Carolina, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income —** the **Nonresident Source Income** worksheet accessed from the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet**. **For years after 2013**, the program will include the "State Supplementary Tax" and any "Other Taxes" on that worksheet. **For years prior to 2014**, adjustments for these items should be made on the "Adjs to Resident Tax" row of the **State Nonrefundable Credits** worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER TAXES

Enter the amount of the state lump sum tax along with any other adjustment to total South Carolina taxes on the "Other State Taxes" row of the **State Tax – Main Worksheet**. Since the program does not calculate the additional tax on the unearned income of a minor child, you should enter the incremental increase in tax where such additional tax is applicable. (See also "Other Subtractions" in the "Adjustments for State AGI" section above.)

STATE TAX CALCULATIONS

SOUTH CAROLINA NONRESIDENT TAX

The following sections describe the calculation of the South Carolina nonresident tax for residents of other states who have income from South Carolina. In order to calculate the nonresident tax, first choose South Carolina as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to South Carolina, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

SOUTH CAROLINA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program uses federal AGI as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is South Carolina-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any South Carolina-sourced interest, dividends, capital gains (reduced by the South Carolina capital gain reduction), and any other South Carolina-sourced income. Also include, as a negative adjustment, any South Carolina-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the allowed deductions (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Federal AGI" row is used as the denominator.

4. On the **Deductions for Nonresident State Taxable Income** worksheet, enter any adjustments to South Carolina source income allowable when computing nonresident state taxable income. Do **not** include deductions

allowed elsewhere on the **Nonresident State Tax – Main Worksheet**, such as itemized deductions, the standard deduction, or the personal exemption deductions (these deductions are discussed below).

On the "Other Deductions Before Allocation" row, enter any deductions that require reduction by the Ratio. Enter deductions that are **not** reduced by the Ratio on the "Other Deductions" row. **For years after 2005**, enter the amount of South Carolina active trade or business income. This amount should also be entered as a positive amount on the "Adjs to Nonres State Supp Tax Base" row of the **Nonresident State Supplementary Tax** worksheet to calculate the tax. If otherwise allowable also enter any net loss amount here. The negative amount entered for a loss should be equal to the allowable loss multiplied by a fraction the numerator of which is the business rate of tax (6.5% in 2006, 6% in 2007, 5.5% in 2008, and 5% in 2009) and the denominator of which is the highest rate of the regular tax currently 7%. See South Carolina Act 41, Laws 2005. Note that a negative amount on the "Other Deductions" row increases income. Therefore, if you have any additions to income, enter them as negative amounts on this row.

On the **Nonresident State Tax – Main Worksheet**, the program deducts the amount on the "Deductions for Nonresident St Taxable Inc" row from the amount on the "Nonresident Source Income" row.

5. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for residents (see the "Adjustments to Federal Itemized Deductions" section). Once the itemized deductions are calculated, the program multiplies them by the Ratio and carries the reduced amount to the **Nonresident State Tax – Main Worksheet**.

6. The South Carolina nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The South Carolina nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in South Carolina.

7. Next, the program subtracts the higher of the South Carolina nonresident standard deduction or the South Carolina nonresident itemized deductions from the amount on the "Nonresident Source Income" row to calculate nonresident state taxable income.

8. The program calculates South Carolina personal exemption for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state exemptions (see the "Exemptions" section of this chapter). The Class 1 exemption amounts are multiplied by the Ratio used to allocate the allowed deductions. Class 2 exemption amounts are allowed in full. Do not make an entry here if you were not a resident for at least part of the year. The reduced amount is then

carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax – Main Worksheet**.

9. For years after 2005, South Carolina has a special tax rate for "active trade or business income or loss." Enter only the net amount of active trade or business income on the "Adj to Nonresident State Supplementary Tax Base" row of the **Nonresident State Supplementary Tax** worksheet. Do not enter net loss amounts here. The net amount of income or loss will need to be subtracted from State AGI on the "Other Subtraction" row. See the "Other Subtractions" row for more details. Note that in some cases this can actually increase the tax due. See South Carolina Act 41, Laws 2005. At the time of publication very little was known about how this Act would be implemented. Please rely on these calculations only to the extent that you agree with them.

10. On the "Nonresident State Regular Tax" row, the program computes the amount of the South Carolina tax, based on the amount on the "Nonresident State Taxable Income" row.

11. To compute the Credit for "Two-Wage Earner" earned income, see the "Credit for 'Two-Wage Earner' Earned Income" section of this chapter.

12. If the taxpayer is entitled to any South Carolina nonrefundable credits, other than the credit for "Two-Wage Earner" earned income, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

13. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the N**onresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any South Carolina refundable credits, enter them as a negative number on this row.

TENNESSEE

OVERVIEW

When the Tennessee specifications are selected for use with **the Fifty State Planner**, the program handles the following state tax calculation for Tennessee:

- Automatic subtraction of U.S. Government interest from interest/dividends tax base

The following notes provide a guide for entering specific items relating to Tennessee. For more information on the Tennessee tax rates and other state tax matters, refer to Tennessee Form INC 250 and Instructions, as well as other official state publications.

Because the structure of the Tennessee income tax differs so much from the federal income tax, only the following state worksheets are active and available for entering data: **State Personal Exemptions** and the **Alternate State Tax Base**. The other worksheets are not used for Tennessee purposes and no entries may be made on them.

The tax will phase out by the end of 2020.

You should review the default settings for Tennessee state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Tennessee dividends/interest tax rate is automatically loaded into the program.

EXEMPTIONS

Tennessee does not follow the federal rules for the number of personal exemptions. The exemptions of $2,500 for joint filing status or $1,250 for all other filing statuses are incorporated in the state tax schedules and the program subtracts these amounts in calculating the amount subject to tax. The program does not, however, automatically calculate the income exclusions that apply to taxpayers who are elderly, blind, or quadriplegic (no dependent exemptions are allowed). Therefore, enter the exclusion amount (as a negative number) on the "Adjust-

ments" row of the **Alternate State Tax Base** worksheet. No entries are allowed on the **State Personal Exemptions** worksheet.

Note. Files created with versions 91.2 or 92.1 may contain a negative adjustment of $2,500 for joint filing status, or $1,250 for all other filing statuses on the "Adjs to Alternate State Tax Base" row of the **Alternate State Tax Base** worksheet. This adjustment should be removed as the program now incorporates the exemption deduction amount in the state tax schedules.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Tennessee does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

DIVIDENDS/INTEREST TAX

The program automatically calculates the Tennessee dividends and interest tax on the **Alternate State Tax Base** worksheet, using the entries in the federal **Ordinary Income** worksheet. The program brings these amounts to the "Interest & Dividends" row of this worksheet.

ADJUSTMENTS TO DIVIDENDS/INTEREST

U.S. Government interest included in federal AGI, but not taxed by Tennessee, is automatically excluded by the program.

OUT OF STATE INTEREST

Enter the non-Tennessee portion of municipal interest that was not taxed at the federal level on the "Adjs to Alternate State Tax Base" row. The program adds this amount in calculating the Tennessee tax base.

OTHER EXCLUDABLE DIVIDENDS/INTEREST

Certain dividend and interest income included in federal AGI is excluded in Tennessee. Enter the amount of such excludable items as a negative number on the "Adjs to Alternate State Tax Base" row of the **Alternate State Tax Base** worksheet. Include such items as:

- Qualified passbook savings interest

- CDs
- credit union interest or dividends
- dividends from Tennessee insurance or loan companies
- national or Tennessee bank dividends, and
- other non-taxable interest and dividends included in federal AGI

If you are running the Minor Child calculation and you have made the federal election to include the child's interest and dividends on the parent's return, you must subtract the included portion from the parent's income for state purposes (as a negative entry on the "Adjustments" row) and add the appropriate amount to the child's income (as a positive entry on this row).

ADJUSTMENTS FOR STATE AGI

The **Adjustments for State AGI** worksheet is not used in the Tennessee program.

EXEMPT TAXPAYERS

Certain taxpayers are totally exempt from the state tax. These include blind taxpayers and taxpayers who are 65 or older and have a total income from all sources below the exemption limit. The program does not identify and exempt such taxpayers. Therefore, for such taxpayers you should **not** activate the state worksheet. If it is already activated, press K on the "State Tax" row of the federal **Main Worksheet** to kill it. This will avoid incorrectly calculating a state tax on exempt taxpayers.

OTHER TAXES

Enter any adjustment to total Tennessee taxes on the "Other State Taxes" rows of the **State Tax – Main Worksheet**.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the S**tate Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

TENNESSEE

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UTAH

OVERVIEW

When the Utah specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Utah:

- Automatic calculation of personal exemption deduction
- Automatic calculation of standard deduction
- Carries federal itemized deductions after adjustment
- Automatic adjustment of AGI for Utah income tax refunds and U.S. government interest
- Optimizes between Utah standard deduction and allowable Utah itemized deductions
- Automatic calculation of deduction for federal income tax liability
- Performs circular calculation to automatically deduct the state tax liability for federal purposes
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Utah. For more information on the Utah tax rates and other state tax matters, refer to Utah Form TC–40 and Instructions, as well as other official state publications.

You should review the default settings for Utah state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Utah tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. **For years after 2006 and before 2008**, the program also computes the alternate flat tax, and picks the lower of the regular or alternate flat tax. **For years after 2007**, Utah will no longer compute the tax under the regular tax system and the program will compute only the flat tax. For further details, see the "Alternate Tax" sections below. (For information on how

the regular rates are adjusted for inflation, see "Inflation Adjustment" later in this section.)

EXEMPTIONS

For years before 2018, the program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. (Increase this number for any additional exemptions, including the exemption for handicapped children and adults claimed as dependents.) The program multiplies this entry by 75% of the federal personal exemption amount. **For years after 1990**, the program will apply the federal phaseout percentage to the Utah Class 1 personal exemption amount. Make no entries for the other "Class #" exemptions rows. **For years after 2007**, the program applies the credit for personal exemptions.

For years after 2017, Utah allows a personal exemption only for "Qualifying dependents," which means individuals with respect to whom the claimant is allowed to claim a tax credit under Section 24, of the Internal Revenue Code, on the claimant's federal individual income tax return for the taxable year, i.e., the Child Tax Credit. Enter the number of such personal exemptions on the "Class 1 Exemptions" row.

Enter the number of federal special exemptions allowed in **2005 and 2006** for housing Hurricane Katrina victims, and in **2008 and 2009** for Midwestern displaced individuals, on the "Class 2 Exemptions" row of the **State Tax Personal Exemptions** worksheet. For Utah the program will allow $375 for each exemption (75% of $500).

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Utah does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Head of Household, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically subtracts the following adjustments:

- State income tax refunds

- U.S. Government interest, and

- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other Utah adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

For years after 2002, for bonds purchased after 2002, enter the non-Utah portion of municipal interest that was not taxed at the federal level from a state that taxes Utah municipal bond interest. The program adds this amount in calculating Utah taxable gross income.

OTHER ADDITIONS

Enter the amount of any lump sum distribution (total amount on federal Form 4972), "equitable adjustments" (e.g., differences in depreciation, gain/loss on sale, etc.) and any other addition to federal AGI.

OTHER SUBTRACTIONS

Enter adoption expenses, Indian income, the portion of the railroad retirement benefits added for federal AGI, "equitable adjustments" (e.g., differences in depreciation, gain/loss on sale, etc.) and any other subtraction from federal AGI.

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

For the Utah itemized deduction amount, the program starts with total federal itemized deductions after the floor and including the sales tax if elected on the taxpayer's federal return, and automatically subtracts state income taxes if deducted. The program automatically reduces the subtraction for state income taxes by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest, and gambling losses) and multiplying the result by the federal floor. The program will allow the deduction for sales taxes in full if elected as a deduction on the taxpayer's federal return instead of state income taxes. (Note: Utah decided that taxpayers who filed using the previous method for 1991 and 1992 could file for a refund.) **For years after 2007**, the program computes only the flat tax and then applies the credit for itemized deductions. Enter on the "Other Adjs to Federal Itemized" row any other modifications to federal itemized deductions. **For years after 2017 and before 2026**, the program assumes Utah conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions. Utah

allows up to $10,000 of deductions for state and local taxes under IRC § 164(b)(6) for married taxpayers filing separately, so **for years after 2017**, for such taxpayers enter as a positive adjustment on the **State Itemized Deduction** worksheet the amount of any federal salt deduction disallowed in excess of $5,000, but do not enter an adjustment of more than $5,000.

Note. Utah requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

STANDARD DEDUCTION

The Utah Standard Deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes, including the additional amounts allowed for elderly/blind, and the additional deductions for residential property taxes, disaster casualty losses, and vehicle sales taxes. (In the unusual situation in which the state filing status differs from the federal, the taxpayer must adjust the state standard deduction to allow the proper amount for the state filing status.) **For years after 2007**, the program applies the credit for the standard deduction. **For years after 2017 and before 2026**, the program assumes Utah conforms to the 2017 tax act (Pub. L. No. 115-97), which increases the standard deduction.

DEDUCTION FOR FEDERAL TAX LIABILITY

For years prior to 2008, Utah allows a deduction for 1/2 of federal tax liability. The program automatically computes this deduction using total federal tax liability computed as follows:

regular tax + alternative minimum tax + lump sum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes, *less* nonrefundable credits.

If the taxpayer's federal liability thus computed includes taxes that are not deductible in Utah, such as the social security tax on tip income (entered on the "SS Tip & Excess Plan Taxes" row of the **Self-Employment & Other Taxes** worksheet), enter such amounts as a negative adjustment on the first "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet (accessed from the "Federal Tax Deduction from State AGI" row on the **State Tax – Main Worksheet**). Include as a positive adjustment on this row any credits not required to be added back, such as the federal tax rebate on the "Credit for 10% Bracket" row on the **2001 10% Bracket Credit** worksheet, if there is no refund to offset it.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal **Resident State Estimated and W/H Taxes** worksheet, the program automatically carries the computed state tax as an itemized deduction on the federal return and handles the resulting "circular calculation" automatically without additional entries.

ALTERNATE STATE TAX

For years after 2006, The Utah alternative flat tax is handled automatically on the Alternate State Tax worksheet. The program starts with State AGI, found on the AGI row of that worksheet, as computed for the regular tax. This amount may need to be adjusted for amounts that are not allowed as subtractions for purposes of computing the alternative flat tax such as those for the Medical Savings Account, Utah Educational Savings Plan, health care and long-term care insurance premiums, adoption expenses, and gain on certain capital transactions. Make any adjustments as a positive number on the "Adjs to Alternate State Tax Base" row of this worksheet. This tax is a flat rate multiplied by the amount on the "Total State Tax Base" row. However, the amount that appears on the "Alternate State Tax Base" row of the **State Tax Main** worksheet is the flat tax itself, rather than the base on which the tax is computed. The flat tax is not included on the "State Regular Tax" row, but is included, if applicable, in the total state tax.

CREDITS

Enter allowable state nonrefundable credits, including the 6% Flat Tax Credit (applicable after 2007) and its phaseout for low income taxpayers on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

For years after 2019, enter the credits for retirement and social security on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonres Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the N**ew York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Utah, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "Federal AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the lesser of the "State Regular Tax" row or the "Alternate State Tax" row of the **State Tax – Main Worksheet**, less the taxpayer credit on the "Wisconsin/Utah Credit" row of the **State Nonrefundable Credits** worksheet.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

OTHER STATE TAXES

Enter any other state or local taxes, other than the use tax on out-of-state purchases, on the "Other State Taxes" row of the **State Tax – Main Worksheet**. (The use tax should not be included here, since use/sales taxes are no longer deductible for federal purposes and the program carries total state taxes as a federal itemized deduction when selected on the **State Estimated & Withholding Payments** worksheet.)

UTAH NONRESIDENT TAX

The following sections describe the calculation of the Utah nonresident tax for residents of other states who have income from Utah. In order to calculate the

nonresident tax, first choose Utah as the taxpayer's nonresident state and open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Utah, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

UTAH NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the Utah rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Utah AGI as if the taxpayer were a full-year resident of Utah. The program carries to this row the federal AGI after reducing it for the following items:

   - U.S. Government interest

   - State tax refunds, and

   - Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

2. Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Utah exempt interest and related expenses, lump-sum distributions, capital gain or loss adjustments, and any other differences between federal and Utah AGI.

3. The program will subtract the Utah standard deduction or Utah itemized deductions (whichever was used for federal purposes), the federal tax deduction, and the personal exemption (computed as if the taxpayer were a resident) from "Nonres State AGI" to derive Nonresident State Taxable Income.

4. **For years after 2006**, the Utah alternative flat tax is handled automatically on the **Alternate Nonresident State Tax Base** worksheet. Adjustments to the taxable amount may be made on the "Adjs to Alt Nonres State Tax Base" row of that worksheet. However, the amount that appears on the "Alternate State Tax Base" row of the **Nonresident State Tax Main** worksheet is the flat tax itself, rather than the base on which the tax is computed.

5. On the "Nonresident State Regular Tax" row, the program displays the amount of the Utah tax as if the taxpayer had been a resident. The alternative flat tax is not included in the regular tax amounts, but if less than the regular tax is included in the "Nonresident Regular Base Tax" row.

Enter any adjustments to the alternative flat tax or the regular tax amount on the "Adjs to Nonresident Regular Tax" row of this worksheet.

6. Next, on the **Nonresident Source Income** worksheet designate which income is Utah-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

7. Include, as a positive adjustment, any Utah-sourced interest, dividends, or capital gains, and any other Utah-sourced income. Also include, as a negative adjustment, any Utah-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

8. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Federal AGI").

9. **For Years after 2007** the program will automatically compute the 6% Personal Credit for the personal exemption and the standard or itemized deduction. The program computes this credit in the same way it is computed for a resident and then applies the ratio to it. Enter any other available Utah nonrefundable credits other than the 6% personal credits on the "Nonresident State Nonrefundable Credits" row of this worksheet.

If the taxpayer is required to pay any other taxes and credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number.

If the taxpayer is allowed any Utah refundable credits, enter them on this row as a negative number.

VERMONT

OVERVIEW

When the Vermont specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Vermont:

- Automatic carryover of federal tax liability to the **State Tax** worksheet
- Performs circular calculation to automatically deduct state tax liability as a federal deduction
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Vermont. For more information on the Vermont tax rates and other state tax matters, refer to the Vermont income tax forms and instructions, as well as other official state publications.

You should review the default settings for Vermont state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

For years after 2000, the Vermont tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required. **For years after 2014**, if federal AGI is in excess of $150,000, the program will calculate the alternate state tax, and the higher of the alternate tax or the regular tax will be entered on the State Regular Tax row. **For 2001 only**, the program also applies the maximum capital gains tax rate to net long-term capital gains. For further details, see the Alternate Capital Gains section below.

For years prior to 2001, the Vermont tax rate is a flat tax based on the federal tax liability. The rate is automatically loaded into the program.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if needed. Subsequent changes on the

federal worksheet are **not** carried to the state worksheet. In Vermont, **for years prior to 2001**, changing the state filing status has no effect on the tax liability.

Prior to 1999, Vermont did not have a separate filing status for Qualifying Widow(er). The program will use Joint filing status for Vermont. The program makes this change automatically. If you feel this does not properly reflect state treatment, you may change the filing status.

FEDERAL TAX BASE

For years after 2017, the starting point for the Vermont Income tax is federal adjusted gross income.

For years after 2000 and before 2018, because the starting point for the Vermont income tax is federal taxable income, the program carries to Vermont the federal amounts for the standard deduction, personal exemptions (after the federal phaseout), and itemized deductions (after reduction for the 3% AGI floor). (Any modifications are mentioned in their respective sections.)

For years prior to 2001, the Vermont tax rate is a flat tax based on the federal tax liability and computed on the alternate state tax base. The rate is automatically loaded into the program.

EXEMPTIONS

The program carries the number of federal exemptions to the "Class 1 Exemptions" row on the **State Tax Personal Exemptions** worksheet. **For years after 2017**, the program multiplies the number of Class 1 exemptions by the Vermont personal exemption amount. **For years after 2000 and before 2018**, the program multiplies the number of exemptions by the federal personal exemption amount. **For years after 2001**, the program applies the federal phaseout percentage to the Class 1 personal exemption amount. **For 2001 only**, the program uses State AGI to compute the phaseout percentage for the Class 1 personal exemption amount. No adjustment should be needed. Make no entries for the other exemption rows.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME

For years after 2001, the program automatically subtracts the following:

- U.S. Government interest
- The flat capital gains exclusion
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other Vermont adjustments are handled on the following rows:

OUT OF STATE INTEREST —

Enter the non-Vermont portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Vermont taxable gross income.

OTHER ADDITIONS —

Enter the following addition adjustments:

- Interest and dividends exempt for U.S., but not Vermont purposes
- Depreciation Adjustments
- **For years after 2009**, recapture of state and local income tax refunds taken against the Vermont income tax
- **For years after 2008**, any required unemployment insurance income adjustment
- Other additions to federal taxable income

OTHER SUBTRACTIONS —

Enter any subtraction adjustments:

- **For years after 2008**, any additional capital gain exclusions
- **For years after 2017**, any exclusion for social security income
- Other subtractions from federal taxable income

CAPITAL GAIN EXCLUSIONS —

For years after 2001 and before 2009, the program also subtracts 40% of the federal adjusted net capital gain. **In 2008**, this amount is limited to 40% of federal taxable income and the program handles that limit. **In 2009 and 2010**, the program will limit the capital gain deduction to $2,500. **In 2011 and thereafter**, the limit is $5,000. In 2009 Vermont law contains a transition rule allowing the old 40% reduction for gains received between January 1, 2009 and June 30, 2009, and allowing a reduction of $2,500 for gains received from July 1, 2009 until December 31, 2009. **For years after 2008**, the program will not handle the 40% limit. Taxpayers over 70 years old will be able to use either the transition rule or continue to use the 40% limit. The 40% reduction will also apply to the sale of a farm or the sale of timber. Make any adjustment required on the "Additions or Other Subtractions" rows of the **Adjustments for State AGI** worksheet. **For July 1, 2019 and later**, the 40% reduction shall not exceed 40% of federal taxable income or $350,000, whichever is less.

For 2001 only, Vermont has two ways of making adjustments to income and the tax. The first method (described above) requires the complete recomputation of federal taxable income. This method is required for non-Vermont municipal interest and is optional for U.S. Government interest.

The second method may be required in addition to or in lieu of the first method. The second method requires an adjustment of the total Vermont tax by a ratio of Vermont AGI over federal AGI (after adjustments for non-Vermont municipal interest and U.S. Government interest (if you make the adjustment above)). If you have adjustments reported on Vermont Form IN–113, Schedule II, you must make an adjustment on the "Other Taxes" row of the **State Tax – Main Worksheet** for the difference in the tax.

In most cases, you can accomplish the required result for the first method by making adjustments to income as discussed above. The program will automatically phase out the personal exemption and itemized deductions using state AGI. In most cases, the above calculation of state AGI will produce an accurate state tax liability. However, the result will only be an approximation in cases where other amounts are subject to phaseouts for federal purposes.

To obtain an accurate result in such situations you must recalculate the federal AGI without the exclusion for non-Vermont municipal interest and/or without the inclusion for U.S. Government interest, prepare two cases/files labeled Federal and Vermont, as described below:

1. In the Federal case/file, enter all federal and state amounts as you normally would (including the non-Vermont municipal interest and U.S. Government interest).

2. In the Vermont case/file, on the **Interest and Dividends** worksheet, enter all federal and state amounts as you normally would, except the U.S. Government interest and the non-Vermont municipal interest. Enter the non-Vermont municipal interest on the "Other Ordinary Income" row of the federal **Other Ordinary Income** worksheet. Do not enter U.S. Government interest.

3. In the "Federal" case/file, on the A**djustments for State AGI** worksheet, make an adjustment on either the "Other Additions" row or the "Other Subtractions" row for the difference in the amounts shown on the "State AGI" row of the **State Tax – Main Worksheet**.

4. In the "Federal" case/file, you must make an adjustment to "Other State Taxes" so that the amount on the "Total State Taxes" row equals the amount on the "Total State Taxes" row in the "State" case/file.

For years prior to 2001, the program uses the **Adjustments for State AGI** worksheet to prorate the Vermont tax, which is based on the federal tax liability. See the "Calculation of Federal Tax Liability" section, below.

ALTERNATE STATE TAX BASE

For years after 2014, if federal AGI is in excess of $150,000, the program will carry Federal AGI less U.S. Interest to the "AGI" row on the **Alternate State Tax Base** worksheet. This amount plus or minus any adjustment on the "Adjs to Alternate State Tax Base" row on that worksheet will be multiplied by 3%. The higher of this amount or the regular tax will be entered on the "State Regular Tax" row.

STANDARD DEDUCTION

For years after 2017, the program computes the Vermont standard deduction based on the Vermont filing status. Enter any additional standard deduction for aged or blind persons to the "Adjustment to Standard/ZBA" row of the **State Standard Deduction** worksheet. **For years after 2018**, also enter any excess medical expenses on the Adjustment to Standard/ZBA row of the **State Standard Deduction** worksheet.

For years after 2000 and before 2018, the Vermont standard deduction is handled automatically. In computing the standard deduction, the program allows the same number as for federal purposes, including the additional amounts allowed for elderly/blind and the additional deductions for residential property taxes, disaster casualty losses, and vehicle sales taxes. In the unusual situation in which the state filing status differs from the federal filing status, you must adjust the state standard deduction to allow the proper amount for the state filing status.

For years prior to 2001, this section does not apply. See the "Calculation of Federal Tax Liability" section, below.

ITEMIZED DEDUCTIONS

For years after 2017, Vermont has eliminated its itemized deductions.

For years after 2014, the program has changed Vermont to a recompute state. For Vermont purposes, the program allows, medical and dental expenses or allocated charitable contributions deducted from federal adjusted gross income for the taxable year, plus additional itemized deductions other than state income taxes that are not in excess of two and one half times the standard deduction allowable to the taxpayer. The State income tax amount is subtracted on the "IA-NY-VA-VT State Income Tax Adj" row of the **State Itemized Deductions** worksheet after reduction for the allocation of the 3% AGI Floor. Charitable deductions will also be subject to the 3% AGI Floor. For Vermont purposes you should not make any adjustments to the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet nor the "Adjustments to AGI" rows of any of the subworksheets that make up the total.

For years after 2000 and before 2015, the program has changed Vermont to a recompute state. For Vermont purposes, the program allows, medical and dental expenses or allocated charitable contributions deducted from federal adjusted gross income for the taxable year, plus additional itemized deductions other than state income taxes that are not in excess of two and one half times the standard deduction allowable to the taxpayer. The State income tax amount is subtracted on the "IA-VA-VT State Income Tax Adj" row of the State Itemized Deductions worksheet after reduction for the allocation of the 3% AGI Floor. Charitable deductions will also be subject to the 3% AGI Floor. For Vermont purposes you should not make any adjustments to the " Adjustment to AGI for Limits" row of the State Itemized Deductions worksheet nor the " Adjustments to AGI" rows of any of the subworksheets that make up the total.

For years after 2000 and before 2015, the program allows, for Vermont purposes, the total amount of federal itemized deductions (including the deduction for state income taxes or for the sales tax (except for 2009) whichever is elected on the taxpayer's federal return). **For years after 2008**, the deduction for the income tax is limited to $5,000 and the vehicle sales tax is not allowed. **For 2009**, the program applies the $5,000 floor to the sum of the income tax and the vehicle sales tax. If the income tax is less than $5,000, an adjustment to the amount computed by the program will be required on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet. **Also, for 2009** if the taxpayer used the Sales Tax on their federal return, make a positive entry on the "Other Adjs to Federal Itemized" row of the **State Itemized Deductions** worksheet.

Note. Vermont does not allow taxpayers to itemize unless they itemized for federal purposes. The program automatically applies this rule.

For 2001 only, the AGI limits are applied using state AGI, rather than federal AGI, as per Vermont law.

In computing the charitable deduction for state purposes, the program applies only the 50% of state AGI limit. Therefore, if the 20% or 30% limits apply to the taxpayer, enter the disallowed portion as a negative number on the "Adjustments to Federal Contributions" row of the **State Charitable Contribution Deduction** worksheet. Also include any allowable charitable contribution carryovers on this row.

You can make any adjustments to specific state itemized deductions on the "Adjustments" row of the individual subworksheets for the various types of itemized deductions. The program applies the appropriate limitations to these adjustments. However, the program will not apply any limitations to an amount entered on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

For years prior to 2001, this section does not apply.

VERMONT CAPITAL GAINS TAX

For 2001 only, the Vermont capital gains tax is handled automatically on the **State Alternative Capital Gains Tax** worksheet. Each type of federal capital gain is brought over to the **State Alternative Capital Gains Tax** worksheet. The tax shown is the applicable federal tax on that income multiplied by the Vermont percentage. If you are required to make any adjustments to the total state capital gains tax, enter them on the "Adjustment to Total St Cap Gain Tax" row of the **State Alternative Capital Gains Tax** worksheet. If you need to make any adjustments to the state ordinary income to calculate the state alternative capital gains tax, enter them on the "Adjustment To State Ordinary Income" row of the **State Alternative Capital Gains** worksheet.

The program automatically allows the lesser of the "State Regular Tax" or the "State Alternative Capital Gains Tax" when computing the total Vermont tax on the **State Tax – Main Worksheet**.

For all years except 2001, this section does not apply. See the "Calculation of Federal Tax Liability" section, below.

VERMONT MINIMUM TAX

For 2001 only, the program automatically computes the Vermont alternative minimum tax on the **State Minimum Tax** worksheet. The Vermont minimum tax is calculated as follows:

1. The federal tentative minimum tax (before the Foreign Tax Credit) is carried to the **State Minimum Tax** worksheet. The program does not recompute the federal tentative minimum tax for Vermont purposes; instead, it uses federal law in effect for the taxable year. Make any adjustments to the minimum tax base on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet.

2. The amount on the "State Minimum Tax from Schedule" row of the **State Minimum Tax** worksheet equals the amount on the "Net State Minimum Tax Base" row multiplied by the Vermont AMT tax rate.

3. The program then subtracts the state regular tax from the "State Minimum Tax from Schedule" row of the **State Minimum Tax** worksheet. The state regular tax equals the lesser of the "State Regular Tax" row of the **State Minimum Tax** worksheet or the "State Alternative Capital Gains Tax" row of the **State Tax – Main Worksheet**. Make any adjustments to the state regular tax on the "Adjustment to State Regular Tax" row of the **State Minimum Tax** worksheet.

4. Note that the program calculates the net state minimum tax base before the Foreign Tax Credit and does not automatically add back the regular foreign tax credit nor the recapture of the federal investment tax credit,

therefore, you will need to make an adjustment for the difference between these credits.

5. The program carries the amount of any State Minimum Tax to the **State Tax – Main Worksheet**.

6. The program applies nonrefundable credits against both the regular tax and the minimum tax.

Note that Vermont starts with the federal tentative minimum tax. The program does not recompute the federal numbers. If you have non-Vermont municipal interest and/or U.S. Government interest that would cause an adjustment to the federal tentative minimum tax, you will be required to make an adjustment on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet. To determine the amount of the required adjustment, prepare two cases/files titled Federal and Vermont, as described below:

1. In the Federal case/file, enter all federal and state amounts as you normally would (including the non-Vermont municipal interest and U.S. Government interest).

2. In the Vermont case/file, enter the non-Vermont municipal interest on the "Other Ordinary Income" row of the federal **Other Ordinary Income** worksheet. Do not enter U.S. Government interest.

3. Compare the "Fed Tentative Minimum Tax" rows of the two cases. Make an adjustment for the difference on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet of the Federal case/file.

For all years except 2001, this section does not apply.

CALCULATION OF FEDERAL TAX LIABILITY

For years prior to 2001, for Vermont purposes, the program calculates the federal income tax liability as follows:

regular tax + lump sum tax + alternative minimum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes, *less* nonrefundable credits.

The program automatically handles the allocation of the federal tax liability by dividing state AGI by federal AGI and multiplying by the total federal tax liability. For this purpose, Vermont defines "Vermont income" as federal AGI less several "income adjustments." The program automatically subtracts the adjustment for U.S. Government interest (see Note 2 regarding Vermont Act 14, Laws 1993). If the taxpayer has any other income adjustments (state lottery winnings, age 65 capital gains deduction **for years before 1991**, military pay, etc.), enter the total (as a positive number) on the "Other Subtractions" row of the **Adjustments for State AGI** worksheet. (Make no entry on the other rows of this worksheet.)

For years after 2000, this section does not apply.

NOTE 1

The program automatically reduces the federal tax by all nonrefundable credits in computing the federal tax liability for state purposes. However, Vermont subtracts only the following: minimum tax credit (1989 and thereafter), ITC credit, credit for the elderly, child and dependent care credit, and the foreign tax credit (for years prior to 1990). Therefore, if the taxpayer's federal nonrefundable credits include other credits (foreign tax credit for years after 1989, jobs credit, residential energy credit, etc.), enter the total of such unallowable credits (as a positive number) on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet (accessed from the "Federal Tax" row of the **Alternate State Tax Base** worksheet). If you make an entry for the Social Security Tax on tips on the "SS Tip & Excess Plan Taxes" row of the **Self-Employment & Other Taxes** worksheet, make an adjustment (as a negative number) on this same adjustment row.

In addition, if the taxpayer received non-Vermont state municipal interest (or dividends from any source if the value of the assets is less than 50% comprised of Vermont state and local obligations) after 7/1/87, Vermont requires that the federal tax liability be recomputed as if such exempt amounts had been included in federal AGI. The state allows a maximum $5,000 exclusion of this amount for taxpayers age 62 or over (for years before 1991).

If a taxpayer has such non-Vermont municipal items, add the total (net of the age 62 exclusion **for years before 1991**) and multiply it by the taxpayer's applicable federal tax bracket (see the federal Summary Report for the marginal tax bracket). Enter the result (as a positive number) on the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet. The program uses this number to increase the federal tax liability before applying the Vermont tax rate.

(Do not enter such interest on the **Adjustments for State AGI** worksheet.)

NOTE 2

Vermont Act 14, Laws 1993, allows the Federal Tax for State Purposes to be recomputed without the inclusion of U.S. Government interest. If the U.S. Government interest would put the taxpayer in a higher federal tax bracket or reduce deductions subject to federal phaseout, it would be beneficial to recompute your federal tax without the inclusion of U. S. Government interest. (See Note 3 below.)

NOTE 3

In most cases, the above calculation will produce an accurate state tax liability. However, the result will only be approximate in some cases, for example, where the above adjustment moves the taxpayer into another tax bracket or if the taxpayer has both non-Vermont municipal interest and Vermont income adjustments, or has U.S. Government interest. (See Note 2, above.)

To obtain an accurate result in such situations and calculate the federal tax liability without the exclusion for non-Vermont municipal interest and/or without the inclusion for U.S. Government interest, prepare two cases/files labeled Federal and Vermont.

1. In the Federal case/file, enter all federal and state amounts as you normally would (including the non-Vermont municipal interest and U.S. Government interest).

2. In the Vermont case/file, enter all federal and state amounts as you normally would, **except** do not enter the U.S. Government interest and the non-Vermont municipal interest on the **Interest and Dividends** worksheet. Enter the non-Vermont municipal interest on the "Other Ordinary Income" row of the federal **Other Ordinary Income** worksheet. Do not enter U.S. Government interest.

3. On the "Adjustments to Federal Tax" row of the **Federal Tax for State Purposes** worksheet for the Federal case/file, enter an adjustment for the difference in the amounts shown on the "Total Federal Tax for State" row for the two cases.

AUTOMATIC DEDUCTION OF STATE TAX FOR FEDERAL PURPOSES

If you select either "Auto Prepay Current Year Tax" or "Auto Deduct Current Year Tax" on the federal R**esident State Estimated & Withholding Payments** worksheet, the program automatically carries the computed state tax as a federal itemized deduction and handles the resulting "circular calculation" automatically without additional entries.

INFLATION ADJUSTMENT

Vermont short form tax rate schedules are based on the federal brackets. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Vermont" in Help. If desired, you can estimate the inflation factor for future years and add future year Vermont tax specifications relating to rates. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

CREDITS

For years after 2017, Vermont allows a credit for charitable contributions. Enter the Vermont charitable contributions on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet. Do not enter more than $20,000, the Vermont limit on the charitable amount.

Enter other allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H" row or subworksheet of the federal **Main Worksheet**. Twenty-four percent of certain federal credits are allowed as a deduction from Vermont taxes. Amounts entered on the "Amount Subject to Credit Schedule" row of the **State Nonrefundable Credits** worksheet will be multiplied by 24% and posted to the "From Credit Schedule" row of that worksheet.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Vermont, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the lesser of the "State Regular Tax" row or the "State Alternative Capital Gains Tax" row of the **State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax" for years prior to 2004) plus any "State Minimum Tax" on that worksheet. **For years 2001 and 2002**, make an adjustment to the "Adjs to Resident Tax" row of the **Credit for Other Nonresident Tax** worksheet for the amount of any changes to the Vermont tax resulting from adjustments made on Vermont Form IN–111, § 7. **For years after 2003**, state credits are subtracted.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

SUPPLEMENTARY TAXES

For years after 2001, the Vermont tax liability is increased by 24% of the following:

- additional taxes on qualified retirement plans, including individual retirement accounts and medical savings accounts;

- recapture of federal investment tax credits; and

- tax on qualified lump-sum distributions of pension income not included in federal taxable income.

These amounts can be entered on the "Adj to State Supplementary Tax Base" row of the **State Supplementary Tax** worksheet. The program will multiply them by 24% and enter them on the "State Suppl Tax from Rate or Sched" row.

For years prior to 2002, this section does not apply.

OTHER TAXES

Enter any taxes not entered elsewhere (other than the use/sales tax) or any other adjustment to total Vermont taxes owed on the "Other State Taxes" row of the **State Tax – Main Worksheet**. (The use/sales tax should not be included here since sales taxes are no longer deductible for federal purposes and the program carries total state taxes as a federal itemized deduction when selected on the **Resident State Estimated & Withholding Payments** worksheet.)

For years after 2000, you must make a negative adjustment on the "Other State Taxes" row for the income adjustments reported on Vermont Form IN–113, Schedule II. The adjustment should equal the total Vermont tax times the ratio of the negative income adjustments over state AGI. Also enter on this row,

as a negative amount, 24% of the reduction in the taxpayer's federal tax liability due to farm income averaging.

Note. For years prior to 2001, in the unusual situation in which a taxpayer's Vermont income exceeds federal AGI, Vermont provides that the federal tax liability should not be reduced by the "income adjustments" described above. Also, in the event that the taxpayer has zero or negative Vermont income, and such income is less than adjusted gross income, the Vermont tax liability is zero. If either of these two situations apply, you should apply these rules yourself.

VERMONT NONRESIDENT REGULAR TAX

The following sections describe the calculation of the Vermont nonresident tax for residents of other states who have income from Vermont. In order to calculate the nonresident tax, first choose Vermont as the taxpayer's nonresident state and open the N**onresident State Tax – Main Worksheet**.

VERMONT NONRESIDENT TAX FOR YEARS AFTER 2000

VERMONT NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Vermont AGI as if the taxpayer were a full-year resident of Vermont. The program carries to this row the federal AGI after reducing it for the following:

   ▪ U.S. Government interest

   ▪ The Vermont Capital Gain Deduction

   ▪ Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-Vermont exempt interest and related expenses.

   Caution! For 2001, the adjustments for Nonresident State AGI and Nonresident State Minimum Tax Base may require recalculation. See "Adjustments to Federal Taxable Income" and "Vermont Minimum Tax" in the resident section above.

2. The program then subtracts from "Nonres State AGI" the personal exemption amount and the higher of the Vermont standard deduction (for the

selected filing status) or Vermont itemized deductions (computed as if the taxpayer were a resident) to derive the amount on the "Nonresident State Taxable Income" row.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the Vermont tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row. **For years after 2014**, this row will be the lesser of the Alternative Tax or the Regular Tax.

4. Next, on the **Nonresident Source Income** worksheet designate which income is Vermont-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row. Include, as a positive adjustment, any Vermont-sourced interest, dividends, or capital gains and any other Vermont-sourced income. Also include, as a negative adjustment, any Vermont-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates "Nonresident Regular Base Tax" (row 21) as the lesser of "Nonresident State Regular Tax" row 16 or "Nonresident State Alternative Capital Gains Tax" (row 17) after any adjustments for "Adjustments to Nonresident Regular Tax" (row 20).

   On the **Nonresident State Tax – Main Worksheet**, the program then calculates the "Allocated Nonresident Regular Tax" (row 24) as the amount on the "Nonresident Regular Base Tax" (row 21) multiplied by the ratio ("Nonresident Source Income" ÷ "Nonres State AGI") on row 23.

6. Enter any available Vermont nonrefundable credits, on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

7. If the taxpayer is allowed any refundable credits, enter them on the "Other Nonresident State Taxes" row as a negative number, also enter on this row any other taxes and credit recaptures as a positive number.

8. "Total Nonresident State Tax" (row 28) is the "Allocated Nonresident Regular Tax" (row 24) after any credits on row 25 ("Nonresident State Nonrefundable Credits").

VERMONT NONRESIDENT ALTERNATIVE MINIMUM TAX (2001 ONLY)

The program calculates the Vermont nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program first calculates the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies your adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched" after the exemption.

Caution! The adjustments for Nonresident State Minimum Tax Base may require recalculation. See "Vermont Minimum Tax" in the resident section above.

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2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by the same ratio used to calculate the Vermont nonresident regular tax. See step 5, above.

Note. Adjustments made on the "Adjs to State Minimum Tax AGI" row, the "Min Tax Adj to Nonres Source Income" row, and the "Nonres State Source Prefs & Adjs" row will have no effect on the minimum tax calculation.

VERMONT NONRESIDENT TAX FOR YEARS PRIOR TO 2001

For years prior to 2001, Vermont purposes, the program calculates the Vermont tax based on the federal income tax liability as follows:

regular tax + lump sum tax + alternative minimum tax + ITC recapture tax + tax on IRA and other taxes + Social Security tip and excess plan taxes, *less* nonrefundable credits.

The program primarily uses the **Alternate State Tax Base** worksheet in calculating the Vermont tax.

Enter any adjustments to this amount in the same manner as a resident. See **Calculation of Federal Tax Liability** on page 1154 and the **Other Taxes** on page 1158.

1. The program carries federal AGI to the "Nonres State AGI" row of the worksheet.

Enter any adjustments on the subworksheet accessed from the "Adjustments for Nonresident State AGI" row. Include any differences between federal and Vermont AGI that would be included in Schedule II for a nonresident (if they are part of Vermont source income). Nonresident State AGI is used to prorate the federal tax deduction. Include non-Vermont exempt interest and related expenses included in Form IN–112 Schedule A; for such differences the federal tax must be adjusted. This may best be accomplished by using two cases. See **Calculation of Federal Tax Liability** on page 1154.

2. On the "Nonresident State Regular Tax" row, the program displays the amount of the Vermont tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

3. Next, on the **Nonresident Source Income** worksheet designate which income is Vermont-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

    Include, as a positive adjustment, any Vermont-sourced interest, dividends, capital gains, and any other Vermont-sourced income. Also include, as a negative adjustment, any Vermont-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

4. On the **Nonresident State Tax – Main Worksheet**, the program calculates "Nonresident Regular Base Tax" (row 21) as "Nonresident State Regular Tax" row 16 after any adjustments for "Adjustments to Nonresident Regular Tax" (row 20).

    On the **Nonresident State Tax – Main Worksheet**, the program then calculates the "Allocated Nonresident Regular Tax" (row 24) (limited to not less than zero) as the amount on "Nonresident Regular Base Tax" (row 21) multiplied by the ratio ("Nonresident Source Income" ÷ "Nonres State AGI") on row 23.

5. Enter any available Vermont nonrefundable credits on the "Nonres State Nonrefundable Credits" row of this worksheet.

6. If the taxpayer is are allowed any Vermont refundable credits, enter the allowed amount on the "Other Nonresident State Taxes" row as a negative number. Also enter on this row any other taxes and credit recaptures as a positive number.

7. "Total Nonresident State Tax" (row 28) is the "Allocated Nonresident Regular Tax" (row 24) after any credits on row 25 ("Nonresident State Nonrefundable Credits").

VIRGINIA

OVERVIEW

When the Virginia specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Virginia:

- Automatic subtraction for personal exemptions

- Automatic calculation of standard deduction

- Itemized Deductions: Addback of Virginia taxes paid

- Tax Reduction for Joint Taxpayers filing as "Combined"

- Automatic adjustment of AGI for Virginia income tax refunds, U.S. government interest, and social security/railroad benefits

- Automatic addback of the Domestic Production Activities Deduction for years after 2009

- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Virginia. For more information on the Virginia tax rates and other state tax matters, refer to Virginia Form 760 and Instructions, as well as other official state publications.

You should review the default settings for Virginia state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Virginia tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet, where it may be adjusted for Virginia purposes. The program multiplies this

number by the exemption amount. Enter on the "Class 2 Exemptions" row the additional number of exemptions for a taxpayer or spouse who is elderly or blind. **Make no entries for the "Class 3" or "Class 4" exemption rows.**

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet. If the filing status is Married Filing Combined then enter Joint filing status and see below for Combined filing status instructions.

Virginia does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to Single, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following adjustments:

- State income tax refunds
- U.S. government interest
- Social security/railroad benefits
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet
- Unemployment income
- Addback of the Domestic Production Activities Deduction, **for years after 2009 and before 2013**

The other Virginia adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-Virginia portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating Virginia adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Lump sum distributions from federal Form 4972 or 5544 (after Virginia adjustments)
- Accumulation distributions (federal Form 4970)
- Other Virginia additions to federal AGI

OTHER SUBTRACTIONS

Enter the following "subtractions":

- Elderly subtraction (Part 1 of VA Form 760, **for years after 1989**)
- Deductible amounts of disability income
- Deductible Virginia lottery winnings
- Foster parent subtraction
- Charitable mileage deduction (amount above federal deduction)
- Wage expense disallowed for federal purposes due to the jobs credit
- **For years after 2009 and before 2013**, enter the allowable portion of the Domestic Production Activities Deduction
- Other subtractions from federal AGI

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program starts with total federal itemized deductions except for any sales taxes elected as a deduction on the taxpayer's federal return, and automatically subtracts state income taxes paid. **For years after 1999 and before 2003**, the program applies the 3% AGI floor and automatically reduces the subtraction for state taxes paid by a proportionate part of the federal floor. The proportion is computed by dividing the federal deduction for state income taxes by total itemized (other than medical, casualty, investment interest and gambling losses) and multiplying the result by the federal floor. There could be a slight rounding error because the instructions for Virginia's Form 760 indicate that when the fraction is divided, it should be rounded to the nearest three decimal places. The program does not round this number.

Note. Virginia requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program automatically applies this rule.

For years after 2002, the program recomputes Virginia itemized deductions generally following the federal rules. However, Virginia no longer conforms to

federal AGI in certain areas. Virginia requires an adjustment to income for what they call "Fixed Date Conformity Modifications" for purposes of computing the itemized deduction limits. Make any adjustment to Federal AGI for this amount on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheets. Specific deductions are handled by the program as follows:

MEDICAL

For years after 2002, the AGI limits to federal medical expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to the Federal Medical Deductions may be entered on the "Adjustments to Federal Medical" deduction row of the **State Medical Expense** worksheet.

TAXES

For years after 2002, all tax expense amounts entered on the federal **Itemized Deductions** worksheet including any sales taxes elected as a deduction on the taxpayer's federal return are allowed in full for Virginia purposes. **For years before and after 2018**, the State income tax amount is then subtracted on the "IA-NY-VA-VT State Income Tax Adj" row of the **State Itemized Deductions** worksheet after reduction for the allocation of the recomputed 3% AGI Floor. **For 2018**, the state income tax amount is subtracted on the **State Taxes Deduction** worksheet. Make any necessary adjustments on the "Other Adjustments to Taxes" row of the **State Taxes Deduction** worksheet. **For years after 2018**, the State Taxes from Federal row will not be limited by IRC § 164(b)(6), the federal 10,000 limit for state and local taxes (5,000 for married filing separate).

INTEREST

For years after 2002, the full amount of all interest expense amounts allowed on the federal **Itemized Deductions** worksheet, including investment interest, personal, and other interest, are carried by the program as Virginia deductions. If you need to make any adjustment to this amount make an adjustment on the "Adj to Investment Interest" row of the **State Interest Deduction** worksheet. If you make any adjustments, you will also need to adjust the carryover amounts in future years.

CHARITABLE CONTRIBUTIONS

For years after 2002, Virginia allows the same amount as allowed for federal purposes. The program carries this number as a Virginia itemized deduction. The program does not adjust charitable contributions for the fixed date conformity modifications entered on the "Adjustment to AGI for Limits" row of the

State Itemized Deductions worksheets. If an adjustment to federal charitable contributions is necessary, make any adjustment on the "Adj to Federal Contributions" row of the State Itemized Deductions worksheet.

CASUALTY

For years after 2002, the AGI limits to federal casualty expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to federal casualty deductions may be entered on the "Adjustments to Federal Casualty" deduction row of the **State Casualty Expense** worksheet.

MISCELLANEOUS ITEMIZED DEDUCTIONS

For years after 2002, the AGI limits to federal miscellaneous itemized deductions expense amounts entered on the federal **Itemized Deductions** worksheet are recomputed taking into account any amount entered on the "Adjustment to AGI for Limits" row of the **State Itemized Deductions** worksheet. Any other adjustments to federal miscellaneous itemized deductions may be entered on the "Adjs to Federal Misc & Employee" deduction row of the **State Misc & Employee Business Expense** worksheet.

OTHER ITEMIZED

For years after 2002, the total amount of federal other itemized deductions expense amounts entered on the federal **Itemized Deductions** worksheet are allowed in full. Any adjustments to this amount may be entered on the "Adj to Federal Other Itemized" row of the **State Other Itemized** deduction worksheet.

ADJUSTMENTS

For years after 2002, enter any other adjustments to the total Virginia itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

For years after 2018, the program reduces the itemized deductions by the Virginia itemized deduction floor on the "3%/6%" row of the **State Itemized Deductions** worksheet, and reduces the add back of the Federal Virginia itemized deductions using the method set forth on the Virginia Schedule A and **Itemized deduction limitation** worksheet on the "IA-NY-VA-VT" row of the of the **State Itemized Deductions** worksheet. The program takes into account the federal limit on the deduction for state and local taxes while computing the reduction on the add-back.

STATE TAX
CALCULATIONS

STANDARD DEDUCTION

The Virginia standard deduction is handled automatically. In computing the standard deduction, the program allows the appropriate amount based on the tax year and filing status. "Head of household" status is deemed to have received the same standard deduction amount as single taxpayers. The program selects the higher of the standard deductions or the Virginia itemized deductions. (See Note above.)

COMBINED FILING STATUS

The program automatically calculates the tax reduction for taxpayers filing a "combined separate" return. The program handles this calculation by computing a credit in the amount of the tax reduction resulting from the "combined" option. The computed credit appears on the "Other Joint Filing Credit" row of the **State Nonrefundable Credits** worksheet.

Generally, the federal filing status will be "joint" and will be carried automatically from the federal return; no adjustment to the filing status is required. The only entry required for the program to compute the credit is to enter the separate taxable income of either spouse on the "Amount to be Separately Taxed" row of the **State Nonrefundable Credits** worksheet. You may need to adjust the calculated amount for certain items where they apply disproportionately to one spouse, including NOLs, capital loss limitations, and itemized deduction limitations.

CREDITS

Enter any allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the S**tate Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

In certain cases, Virginia does not give the credit for the nonresident tax. Instead, the nonresident state gives the credit as part of its nonresident computation. For example, when California is the nonresident state, California gives the credit rather than Virginia. In such cases, choose "Nonresident" on the "Cr Allowed by Res or Nonres State" row of this worksheet.

In other states, Virginia has reciprocal agreements for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. However, if the taxpayer has other types of income in one of these states, a credit may still be available.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the N**ew York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Virginia, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident State Taxable Income" row of the **Nonresident State Tax – Main Worksheet** multiplied by the Ratio row of that worksheet. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

- **Adjusted Resident Income** — the amount on the "State Taxable Income" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax" on that worksheet).

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits and **for years after 2014**, plus any "Nonresident State Minimum Tax" on that worksheet.

VIRGINIA NONRESIDENT TAX

The following sections describe the calculation of the Virginia nonresident tax for residents of other states who have income from Virginia. In order to

calculate the nonresident tax, first choose Virginia as the taxpayer's nonresident state, then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Virginia, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

For some states (e.g., California), Virginia allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident state). For such cases, see the "Credit for Other State Tax" section below.

VIRGINIA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows Adjusted Total Income from all sources. The program carries to this row the federal AGI after reducing it for the following:

    - State income tax refunds,

    - U.S. Government interest,

    - Social security/railroad benefits, and

    - Pension income included on the "State Exempt Pensions" row of the Other Ordinary Income worksheet.

    - Unemployment income (**years after 1999**)

    Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" interest and related expenses on the "Out of State Interest" row. Enter any additions to income on the "Other Additions" row. Enter any other subtractions from income on the "Other Subtractions" row.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Virginia-sourced. Enter "Yes" in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonresident Source Income" row. Include, as a positive adjustment, any Virginia-sourced interest, dividends, capital gains, and any other Virginia-sourced income.

    The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate nonresident state taxable income (referred to below as the Ratio) on the **Ratio: Nonres Source Inc/Total Inc** worksheet accessed from the **Nonresident State Tax – Main Worksheet**. The amount on the "Nonresident Source Income" row is brought into this worksheet and used as the numerator. The Denominator is calculated by starting with Federal AGI before the Federal Adjustments. Enter any other adjustments on the "Other Adjustments" row of the **Ratio** worksheet.

4. The program computes the **Nonresident State Itemized Deductions** worksheet in the same manner as for a resident (see Virginia Itemized Deductions).

5. The Virginia nonresident standard deduction is handled automatically and allows the appropriate amount per filing status.

6. Virginia requires that the choice of standard vs. itemized deductions for state purposes conform to the federal choice. The program applies this rule automatically.

7. The program calculates Virginia personal exemptions for residents and nonresidents in the same manner. The program carries the federal number of personal exemptions to the state exemptions (see Exemptions) for needed adjustments.

8. The program calculates Nonresident State Taxable Income in the same way as a resident and then multiplies Nonresident State Taxable Income by the Ratio computed above to arrive at Allocated Nonresident State Taxable Income.

9. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Virginia tax, based on the amount on the "Allocated Nonresident State Taxable Income" row.

10. If the taxpayer is entitled to any Virginia nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

11. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Virginia refundable credits, enter them as a negative number on this row.

CREDIT FOR OTHER STATE TAX

For some states (e.g., California), Virginia allows the Credit for Other State Tax to be applied against its own nonresident state tax (as opposed to the more frequent case of the Credit for Other State Tax being allowed by a resident

state). To compute the credit for these states, answer "Yes" on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Resident State Tax" row of the **Nonresident State Nonrefundable Credits** worksheet). Choose "Nonresident" on the "Cr Allowed by Res or Nonres St" row. Otherwise, the Credit is computed in the same manner as for a Virginia resident except that it uses the tax due to the resident state after all credits including the other state tax credit.

WEST VIRGINIA

OVERVIEW

When the West Virginia specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for West Virginia:

- Automatic calculation of personal exemption deduction
- Automatic adjustment of AGI for West Virginia income tax refunds and U.S. government interest
- Automatically adds back the federal domestic production activities deduction
- Calculates West Virginia minimum tax
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to West Virginia. For more information on the West Virginia tax rates and other state tax matters, refer to West Virginia Form IT–140 and Instructions, as well as other official state publications.

You should review the default settings for West Virginia state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes (see the program's online help).

TAX RATES

The West Virginia tax rates are automatically loaded into the program. The program uses the state tax rate schedule for all taxpayers, regardless of whether the use of state tax tables is required.

EXEMPTIONS

The program automatically carries the number of federal exemptions to the "Class 1 Exemptions" row of the **State Tax Personal Exemptions** worksheet. This entry generally will not require adjustment in West Virginia. The program multiplies this entry by $2,000.

If the taxpayer is the dependent of another, enter a "1" in the "Class 2 Exemptions" row. The program will multiply the entry by $500 (Class 1 for such

taxpayers should be 0). Otherwise, make no entries for the other "Class #" exemptions rows.

If you change the number of personal exemptions on the federal worksheet, you should review the state personal exemptions and change the number if necessary.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

If you chose Qualifying Widow(er) as the federal filing status, the program changes the state filing status to Joint, which will properly reflect state treatment.

ADJUSTMENTS FOR STATE AGI

The program automatically makes the following adjustments:

Subtraction of:

- State income tax refunds
- U.S. government interest, and
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

Addition of:

- The federal domestic production activities deduction

The other West Virginia adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the non-West Virginia portion of municipal interest that was not taxed at the federal level. The program adds this amount in calculating West Virginia adjusted gross income.

ADDITIONS

Enter the following "additions":

- Interest expense on West Virginia exempt income
- Recovery of income associated with ACRS property

- Depreciation adjustments
- Differences in gain/loss on sale of assets
- Lump sum distributions not included in federal AGI (1990 and thereafter), and
- Any other addition to federal AGI

OTHER SUBTRACTIONS

Enter the following "subtractions":

- Portion of the railroad retirement benefits added for federal AGI
- West Virginia lottery winnings
- Depreciation adjustments
- differences in gain/loss on sale of assets
- senior citizen or disability deduction, and
- any other subtraction from federal AGI

STANDARD AND ITEMIZED DEDUCTIONS

The program allows no standard or itemized deductions. These were both eliminated in 1987 state tax legislation.

WEST VIRGINIA MINIMUM TAX

For years after 2009 the minimum tax has been eliminated. **For years prior to 2010**, the program automatically computes the West Virginia minimum tax, calculated as 25% of the federal alternative minimum tax. The program will not recompute the federal numbers; instead, it will use federal law in effect for the taxable year. Make any adjustments to the minimum tax or its tax base on the **State Minimum Tax** worksheet. The program applies nonrefundable credits against both the regular tax and minimum tax.

CREDITS

Enter the allowable state nonrefundable credits on the "Other Credits and Adjustments" row of the **State Nonrefundable Credits** worksheet. Enter state refundable credits (including state withholding and estimated tax payments) on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other**

State Tax worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

West Virginia has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double-taxed income. However, if the taxpayer has other types of income in one of these states, a credit may still be available.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for West Virginia, the program uses a combination of Method 1 and Method 3: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount, the "Adjusted Nonresident Tax," or an additional Method 3 limitation, which further limits the credit to the "Difference Between Taxes." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the bottom of the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident State Taxable Income" row of the **Nonresident State Tax – Main Worksheet** multiplied by the Ratio row of that worksheet. If the Ratio row on that worksheet is N/A because the nonresident state calculates the ratio for each spouse separately, the program will use a ratio based on the incomes of both spouses from the **Ratio:Nonres Source Income/Total Income** worksheet.

- **Adjusted Resident Income —** the amount on the "State Taxable Income" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "State Minimum Tax" (for years prior to 2010) on that worksheet.

- **Adjusted Nonresident Tax —** the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less

any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

- **Difference Between Taxes —** the difference between the "Adjusted Resident Tax" row and the "Adjusted Tax on Net Resident Income" row on the **Credit for Other State Tax** worksheet. The "Adjusted Tax on Net Resident Income" is the tax on "Adjusted Resident Income" less "Adjusted Nonres Income" computed using the resident state regular tax schedule.

OTHER STATE TAXES

Enter any other state taxes (other than the minimum tax), on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

WEST VIRGINIA NONRESIDENT TAX

The following sections describe the calculation of the West Virginia nonresident tax for residents of other states who have income from West Virginia. The program calculates the tax using the West Virginia form IT–140NR/PY not the IT–140NRS. In order to calculate the nonresident tax, first choose West Virginia as the taxpayer's nonresident state then open the **Nonresident State Tax – Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet**.

Note. To compute the credit against the taxpayer's resident state tax for tax paid to West Virginia, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

WEST VIRGINIA NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax – Main Worksheet**. The program also carries the federal number of personal exemptions (after applying the West Virginia rules in the same manner as for residents). The tax is then calculated as follows:

1. The "Nonres State AGI" row of the worksheet shows West Virginia AGI as if the taxpayer were a full-year resident of West Virginia. The program carries to this row the federal AGI after reducing it for the following items:

   - State income tax refunds
   - U.S. government interest, and
   - pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

   The program automatically adds back the federal domestic production activities deduction.

Enter any other adjustments on the subworksheet accessed from the "Adjustments for Nonres State AGI" row. Include non-West Virginia exempt interest and related expenses, depreciation, railroad retirement benefits, and any other differences between federal and West Virginia AGI.

2. The program then subtracts the "Nonres State Personal Exemption Deduction" from Nonresident State AGI to arrive at Nonresident State Taxable Income.

3. On the "Nonresident State Regular Tax" row, the program displays the amount of the West Virginia tax as if the taxpayer had been a resident. Enter any adjustments to this amount on the "Adjs to Nonresident Regular Tax" row.

4. Next, on the **Nonresident Source Income** worksheet designate which income is West Virginia-sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any West Virginia-sourced interest, dividends, or capital gains and any other West Virginia-sourced income. Also include, as a negative adjustment, any West Virginia-sourced "adjustments to income," including IRA or Keogh deductions, self-employed health insurance deductions, etc.

5. On the **Nonresident State Tax – Main Worksheet**, the program calculates the "Allocated Nonresident Regular Tax" (limited to not less than zero) as the amount on the "Nonresident Regular Base Tax" row after any adjustments you made, multiplied by the Ratio ("Nonresident Source Income" ÷ "Federal AGI").

6. Enter any available West Virginia nonrefundable credits on the "Nonres State Nonrefundable Credits" row of this worksheet.

7. If the taxpayer owes any other West Virginia taxes or credit recaptures, enter them on the "Other Nonresident State Taxes" row as a positive number.

WEST VIRGINIA NONRESIDENT ALTERNATIVE MINIMUM TAX

For years after 2009 the minimum tax has been eliminated. **For years prior to 2010**, the program calculates the West Virginia nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program calculates the "Net Nonres State Minimum Tax Base" as the federal alternative minimum tax plus any adjustments you made. The "Nonres State Minimum

Tax from Sched" is calculated as 25% of the "Net Nonres State Minimum Tax Base" computed as if the taxpayer were a resident. The program will not recompute the federal numbers; instead, it will use federal law in effect for the taxable year. The program applies nonrefundable credits against both the regular tax and minimum tax.

2. The program then calculates the allocated nonresident portion of the tax (limited to not less than zero) by multiplying the "Nonres State Minimum Tax from Sched" by the ratio used to calculate the West Virginia regular tax.

STATE TAX CALCULATIONS

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WISCONSIN

OVERVIEW

When the Wisconsin specifications are selected for use with **Income Tax Planner with Fifty States**, the program handles the following state tax calculations for Wisconsin:

- Automatic calculation of personal exemption credit
- Automatic phaseout of state standard deduction
- Wisconsin itemized deductions credit
- Wisconsin capital gains deduction
- Automatic adjustment of AGI for Wisconsin income tax refunds and U.S. government interest
- For years after 2007, Social security/railroad benefits
- For years after 2008, Domestic Production Activities Deduction
- Wisconsin alternative minimum tax
- Calculates credit for other state tax

The following notes provide a guide for entering specific items relating to Wisconsin. For more information on the Wisconsin tax rates and other state tax matters, refer to Wisconsin Form 1 and Instructions, as well as other official state publications.

You should review the default settings for Wisconsin state specifications to check that they accurately reflect current state law for the situations you will be running. If you believe that modifications are required, you can make the changes yourself (see the program's online help).

TAX RATES

The Wisconsin tax rates are loaded into the program automatically. The state tax rates have been reduced and are no longer subject to inflation indexing (see 1987 Act 27). The program uses the state tax rate schedules for all taxpayers, regardless of whether the use of state tax tables is required. These schedules are used with taxable income after subtracting the zero bracket amount, which is handled automatically.

EXEMPTIONS

Wisconsin follows the federal rules for the number of personal exemptions. The program enters the number of federal exemptions in row 1 ("Class 1 Exemptions") of the **State Tax Personal Exemptions** worksheet. On row 3 ("Class 3 Exemptions") of the same worksheet, enter 1 for the additional exemption allowed for taxpayers who are over 65.

Make no entries on the other "Class #" exemptions rows.

FILING STATUS

The program automatically carries the federal filing status to the state worksheet, where it may be changed if necessary. Subsequent changes on the federal worksheet are not carried to the state worksheet. Therefore, if you change the filing status on the federal worksheet, you should review the filing status on the state worksheet.

Wisconsin does not have a separate filing status for Qualifying Widow(er). The program will change the state filing status to "Head of Household".

ADJUSTMENTS FOR STATE AGI

The program makes the following adjustments automatically:

- Subtraction of capital gains deduction
- State income tax refunds
- U.S. government interest
- Capital gain exclusion
- For years after 2007, Social security/railroad benefits
- For years after 2008, Domestic Production Activities Deduction
- Pension income included on the "State Exempt Pensions" row of the **Other Ordinary Income** worksheet

The other Wisconsin adjustments to AGI are handled on the following rows of the **Adjustments for State AGI** worksheet:

OUT OF STATE INTEREST

Enter the amount of municipal interest that was not taxed at the federal level, but is taxed at the state level. Wisconsin apparently requires the addback of **most** municipal interest, including amounts from Wisconsin sources. The program adds this amount in calculating Wisconsin adjusted gross income.

OTHER ADDITIONS

Enter the following:

- Lump sum distribution not included in federal AGI. You can elect to add the ordinary portion and only 40% (i.e., taxable amount after the 60% deduction) of the capital gains portion

- Depreciation adjustments

- Differences in gain/loss on sale of assets

- Adjustment for farm loss limits

- Capital loss adjustment (i.e., where federal capital losses exceed the $500 Wisconsin limit)

- Additions for certain Wisconsin credits

- Federal – Wisconsin differences due to nonrecognition of the Federal Excess Business Loss Limitation under IRC § 461(l) by Wisconsin

- Other additions to federal AGI

OTHER SUBTRACTIONS

Enter the following:

- Railroad retirement benefits added for federal AGI

- Depreciation adjustments

- Recovery of federal itemized deductions not deducted in Wisconsin

- Disability exclusion (amount included in federal AGI that is excludable under 12/31/82 IRC)

- Unemployment exclusion (amount included in federal AGI that is excludable under 12/31/85 IRC)

- For years after 2008, the capital gain adjustment for the sale of farm assets

- Differences in gain/loss on sale of assets

- The amount, if any, of Social Security income currently taxable for federal AGI that exceeds the Social Security income that would have been included if inclusion continued to follow the IRS Code as amended on January 1, 1993.

- Federal – Wisconsin differences due to nonrecognition of the Federal Excess Business Loss Limitation under IRC § 461(l) by Wisconsin

- Other subtractions from federal AGI

STATE TAX CALCULATIONS

> **Note.** For taxpayers electing to include minor child unearned income in federal AGI, you may need to enter such amount as an "other subtraction" for state purposes.

STANDARD DEDUCTION

The special phaseout of the Wisconsin standard deduction is handled automatically. The percentages used vary by year and filing status.

Any additional deduction allowed for real-estate taxes paid or state and local sales taxes allowed on the purchase of a new motor vehicle purchased after February 16, 1009 may be entered on the "Adjustment to STD/ZBA" row of the **State Standard Deduction** worksheet.

The program calculates the standard deduction according to the Wisconsin statute, which may differ by a few dollars from the amount using the standard deduction table in Wisconsin Form 1. Also, the program subtracts the standard deduction in computing taxable income and then applies the statutory rate schedules. Wisconsin Form 1 instead builds the standard deduction into the tax rate table, which produces the same result (subject to minor rounding differences).

ADJUSTMENTS TO FEDERAL ITEMIZED DEDUCTIONS

The program subtracts the state standard deduction from Wisconsin itemized deductions. The result is multiplied by 5% and allowed as an itemized deduction credit. The program does not apply the 3% AGI floor **for years before 2013. For years after 2012**, Wisconsin will phase-out itemized deductions for high-income individuals. This amount will be calculated on the 3% AGI Floor row of the **State Itemized Deduction** worksheet. **For years after 2017 and before 2026**, the program assumes Wisconsin conforms to the 2017 tax act (Pub. L. No. 115-97), which enacts several changes to itemized deductions.

Wisconsin itemized deductions differ substantially from federal itemized deductions. However, the program retrieves much of the required state tax data from the federal entries so that a minimum of adjustment is required. Specific deductions are handled by the program as follows:

MEDICAL

Because Wisconsin allows medical expenses to a similar extent as those allowed for federal purposes, the program carries the federal amount to the state worksheet. If this amount requires adjustment for items such as the amount of medical or long term care insurance allowed for federal purposes, enter the amount as a negative number on the "Adjustments to Federal Medical" row of the **State Medical Expense Adjustment** worksheet.

TAXES

Wisconsin allows no deduction for taxes under IRC § 164 and the program, therefore, carries none of the federal amounts as a state deduction.

INTEREST

Wisconsin allows the federal interest deduction, except interest paid on a second home located outside Wisconsin or a residence which is a boat, and interest paid to purchase or hold government securities. The program carries as a Wisconsin itemized deduction the full amount of interest expense allowed for federal purposes. Enter any reduction to the allowable interest deduction (as a negative number) on either the "Adj to Investment Interest" or "Adjustments to Interest" rows of the **State Interest Deduction** worksheet, whichever is applicable.

CHARITABLE CONTRIBUTIONS

Wisconsin generally allows the same amount of charitable deductions as allowed for federal purposes; the program, therefore, carries the federal amount to the state worksheet. If this amount requires any adjustment, make any adjusting entries on the "Adjs to Federal Contributions" row of the **State Charitable Contribution Adjustment** worksheet. The program assumes that Wisconsin conforms to the federal disaster relief legislation which allows qualified charitable contributions entered on federal Schedule A, row 15b, up to 100% of federal AGI. To calculate allowable Wisconsin charitable deductions assuming noncompliance with the federal disaster relief legislation you must make an adjustment for 2005 Qualified Charitable Contributions when the federal charitable contribution deduction exceeds 50% of the taxpayer's contribution base. Make all adjustments for the difference between the Wisconsin and federal charitable contributions deduction, including the adjustment for the amount of charitable contributions to which the credit applies, on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet. Remember to also adjust allowable Wisconsin charitable contribution carryovers in future years.

CASUALTY

Prior to 2009, Wisconsin allowed no deduction for casualty or theft losses and the program, therefore, carries none of the federal amounts as a state deduction. **In years after 2008**, Wisconsin will allow casualty losses that are directly related to a presidentially declared disaster under 26 USC 7508A. Enter any allowed amounts on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

MISCELLANEOUS ITEMIZED DEDUCTIONS

These deductions are not allowed.

OTHER ITEMIZED

These deductions are not allowed.

ADJUSTMENTS

Enter any other adjustments to the total Wisconsin itemized deductions by entering a positive or negative number on the "Additional State Itemized" row of the **State Itemized Deductions** worksheet.

STATE 3% ITEMIZED FLOOR

For years after 2012, the program applies the 3% AGI floor. When Itemized deductions are reduced for federal purposes, the program allocates the 3% AGI floor amongst the reducible itemized deductions and allocates the reduction based on the amount of itemized deductions allowed for Wisconsin. For example, since taxes are not an allowed deduction for Wisconsin, the portion of the floor allocated to taxes would not be included in the 3% floor for Wisconsin. Also when the taxpayer is subject to the Federal AMT the 3% floor will not be deducted from State Itemized Deductions pursuant to Colton v. Dept. of Rev., Wis. Tax App. Comn., No. 15-I-023, 05/10/16. **For years after 1991 and before 2013**, the program does not apply the 3% AGI floor. Any necessary adjustments should be entered on the "Adjustments" row of the **State Other Itemized Deductions** worksheet.

CAPITAL GAINS AND LOSSES

The program automatically applies as a subtraction on the **Adjustment for State AGI** worksheet the 60% Wisconsin long-term capital gains deduction. The program uses federal amounts in computing net capital gain and in keeping track of net capital loss carryovers (including reduction for the $3,000 maximum federal capital loss deduction). Because Wisconsin does not follow the federal rules (e.g., the capital loss limit is $500, the test for "long-term" gains is one year, etc.), an adjustment to the allowable current deduction and future year carryovers at the state level may be required.

WISCONSIN ALTERNATIVE MINIMUM TAX

The program automatically computes the Wisconsin AMT. The tax is calculated as 6.5% of the Wisconsin alternative minimum taxable income, after reduction for the Wisconsin exemption amount. Wisconsin requires that this amount be adjusted for NOLs and any of the Wisconsin adjustments referenced in § 71.60 of the Wisconsin statutes, including the additions and subtractions from state

AGI for state regular tax purposes. The program carries the calculated amount on the "Adjustments for State AGI" row (i.e., U.S. Government interest, social security benefits, etc.) to the state AMT base automatically. Enter any other adjustments (e.g., state tax refunds, NOLs, exempt interest) on the "Adjs to State Minimum Tax Base" row of the **State Minimum Tax** worksheet.

In computing the AMT exemption, the program applies the Wisconsin rule requiring that the phaseout be based on state AMTI rather than federal AMTI. **For years after 1988,** the program applies the TAMRA rule increasing federal AMTI for certain "married filing separate" taxpayers in Wisconsin. Also, if you enter on the **State Nonrefundable Credits** worksheet an amount for the married wage-earner credit, manufacturer's sales tax credit, earned income credit, farmland tax relief credit, homestead credit, or credit for tax paid to other states, enter such amounts again (as a positive number) on the "Adjustment to State Regular Tax" row. This is necessary because these credits are exceptions to the general rule that the regular tax is reduced by nonrefundable credits before being subtracted from the tentative alternative minimum tax.

Note. For years after 2018, Wisconsin has eliminated the Wisconsin Alternative Minimum Tax.

IRA TAX

The 33% rate for the Wisconsin additional tax on IRA distributions is contained in the state specifications. Enter the amount of the federal IRA tax on the "Adjustments" row of the **State Supplementary Tax** worksheet. The program multiplies this entry by 33% and carries the result as an additional tax.

CREDITS

Enter any allowable Wisconsin nonrefundable credits, including the married wage-earner credit, on the **State Nonrefundable Credits** worksheet. Enter any Wisconsin refundable credits, such as state withholding and estimated payments, on the "State Estimated & W/H Payments" row or subworksheet of the federal **Main Worksheet**.

CREDIT FOR OTHER STATE TAX

The program computes the credit for taxes paid to another state. To compute the credit, answer Yes on the "Compute Credit" row of the **Credit for Other State Tax** worksheet (accessed from the "Credit for Other Nonresident Tax" row of the **State Nonrefundable Credits** worksheet).

Wisconsin has reciprocal agreements with certain states for wages and other income from personal or professional services. Since no tax is payable by the nonresident state, there is no double taxed income. If the taxpayer has other types of income in one of these states there could still be a credit.

Note. If the calculation includes New York as a nonresident state, the credit for the New York nonresident tax is computed separately on the **Credit for NY Nonresident Tax** worksheet (accessed from the "Credit for NY Nonresident Tax" row of the **State Nonrefundable Credits** worksheet). The row references below are to that worksheet and to the **New York Nonresident Tax** worksheet. Rows are appropriately labeled "NY."

When calculating the credit for Wisconsin, the program uses Method 1: First, it determines the ratio of "Adjusted Nonresident Income" to "Adjusted Resident Income" on this worksheet and applies the resulting ratio to the "Adjusted Resident Tax." The program then allows as the credit the lesser of that amount or the "Adjusted Nonresident Tax." The credit is shown on the "Credit for Other State Tax" row at the bottom of the worksheet. The amount is also posted to the resident **State Nonrefundable Credits** worksheet.

For purposes of the above paragraph, the program uses the following amounts (after any adjustments you made on this worksheet):

- **Adjusted Nonresident Income** — the "Nonresident Source Income" row on the **Nonresident State Tax – Main Worksheet**.

- **Adjusted Resident Income** — the "State AGI" row of the **State Tax – Main Worksheet**.

- **Adjusted Resident Tax** — the "State Regular Tax" row of the **State Tax – Main Worksheet** (after subtracting any "State Supplementary Tax") plus any "State Minimum Tax" on that worksheet). **For years prior to 2013**, make a negative entry on the "Adjs to Resident Tax" row for the credits that are required to be subtracted. **For years after 2012**, make a positive entry on the "Adjs to Resident Tax" row for the credits that are not required to be subtracted.

- **Adjusted Nonresident Tax** — the "Allocated Nonresident Regular Tax" row of the **Nonresident State Tax – Main Worksheet** (after subtracting the allocated portion of any "Nonresident State Supplementary Tax") less any nonrefundable credits plus any "Nonresident State Minimum Tax" on that worksheet.

Note. If Wisconsin taxed all of the income taxed by the other state, no adjustment is required. If Wisconsin did not tax all such income, you will need to calculate the Wisconsin ratio (income taxable by both Wisconsin and the nonresident state ÷ total income taxable by the other state × net income tax paid to the other state), then enter the result as an adjustment to the credit on the "Adjs to Credit for Othr St Tax" row.

Note. For years after 2016, for states other than adjacent states Wisconsin further limits the credit for taxes paid to another state to amount equal to the Adjusted Nonresident Tax multiplied by a fraction derived by dividing the income subject to tax in the other state that is also subject to tax in Wisconsin (the Adjusted Nonresident Income) while the taxpayer is a resident of Wisconsin by the taxpayer's Wisconsin adjusted gross income (the Adjusted Resident Income). The program performs this computation.

OTHER STATE TAXES

Enter any other state or local income taxes (other than the alternative minimum tax or the IRA tax), on the "Other State Taxes" row of the **State Tax – Main Worksheet**.

INFLATION ADJUSTMENT

Wisconsin provides for an annual inflation adjustment for the tax rate brackets and standard deduction amounts, **in years beginning after 1998**. Each program version uses inflation adjustment amounts that are current through specific years. To verify the years used in your version of the program, see the "Inflation Adjustment" subtopic under "Wisconsin" in Help. If desired, you can estimate the inflation factor for future years and add future year Wisconsin tax specifications relating to rates and standard deduction. For more information, see "Resident and Nonresident State Specifications Overview" in Help.

WISCONSIN NONRESIDENT TAX

The following sections describe the calculation of the Wisconsin nonresident tax for residents of other states who have income from Wisconsin. In order to calculate the nonresident tax, first choose Wisconsin as the taxpayer's nonresident state, then open the **Nonresident State Tax - Main Worksheet** from the "Other Nonresident Tax" row of the **State Tax – Main Worksheet.**

Note. To compute the credit against the taxpayer's resident state tax for tax paid to Wisconsin, see the discussion under "Credit for Other State Tax" in the taxpayer's resident state section of the manual.

WISCONSIN NONRESIDENT REGULAR TAX

The program automatically carries the federal filing status to the **Nonresident State Tax - Main Worksheet**. The tax is then calculated as follows:

1. The program automatically carries federal AGI from the federal **Main Worksheet**. The program modifies it by the state adjustments which may include items such as an Other Addition amount for educator expenses,

health savings account deductions, and tuition and fees deductions. Nonresident State AGI is used as the denominator of the ratio that is discussed in step 3, below.

2. On the subworksheet accessed from the "Nonresident Source Income" row, designate the amount of federal income that is Wisconsin sourced. Enter Yes in the appropriate row to carry the federal amount of the taxpayer or spouse's wages or self-employment income. Enter any adjustments to these amounts on the "Adjustments to Nonres Source Inc" row.

   Include, as a positive adjustment, any Wisconsin-sourced interest, dividends, capital gains, and any other Wisconsin-sourced income. Also include, as a negative adjustment, any Wisconsin-sourced "adjustments to income", including IRA or Keogh deductions, self-employed health insurance deductions from Wisconsin earnings.

   The program uses the amount on the "Total Nonresident Source Income" row as the numerator of the ratio described below.

3. The program computes the ratio used to allocate the standard deductions and itemized deduction credit (referred to below as the Ratio) on the "Ratio: Nonres Source Inc/Total Inc" row of the **Nonresident State Tax - Main Worksheet**. The amount on the "Nonresident Source Income" row is used as the numerator and the amount on the "Nonresident State AGI" row is used as the denominator.

4. No adjustments should be required on the **Deductions for Nonresident State Taxable Income** worksheet,

5. The Wisconsin nonresident standard deduction is handled automatically and allows the appropriate amount per filing status. The allowed standard deduction is computed using the higher of Nonresident State AGI or Source income. The Wisconsin nonresident standard deduction is multiplied by the Ratio when computing the standard deduction allowed in Wisconsin.

6. The program carries to the **Nonresident State Itemized Deductions** worksheet amounts from federal itemized deductions in the same way as for a resident, so be sure to see the Resident section to determine how specific deductions are handled by the program. If any of the deductions are disallowed they can be adjusted in the subworksheets. Once the itemized deductions are calculated, the program subtracts the allocated Standard Deduction. If the amount is greater than 0 it multiplies the remainder by the 5% credit and then multiplies the resulting credit by the ratio, prior to entering it on the "Utah/Wisconsin Credit" row of the **Nonres State Nonrefundable Credits** worksheet.

7. The program calculates Wisconsin personal exemptions for residents and nonresidents in the same manner. The program carries the federal number

of personal exemptions to the state exemptions (see Exemptions). The total exemption amount is then carried to the "Nonres State Personal Exemption Ded" row on the **Nonresident State Tax - Main Worksheet**.

8. On the "Nonresident State Regular Tax" row, the program calculates the amount of the Wisconsin tax, based on the amount on the "Nonresident State Taxable Income" row.

9. If the taxpayer is entitled to any Wisconsin nonrefundable credits, enter them on the "Other Nonres Credits and Adjustments" row of the **Nonresident State Nonrefundable Credits** worksheet.

10. If the taxpayer is required to pay any other taxes or credit recaptures, enter them as a positive number on the "Other Nonresident State Taxes" row on the **Nonresident State Tax – Main Worksheet**. Likewise, if the taxpayer is allowed any Wisconsin refundable credits, enter them as a negative number on this row.

WISCONSIN NONRESIDENT ALTERNATIVE MINIMUM TAX

The program calculates the Wisconsin nonresident minimum tax as follows:

1. On the **Nonresident State Minimum Tax** worksheet, the program starts with Federal Alt Min Taxable Income.

2. The program makes an adjustment on the "Nonresident State Taxable Income" row. It starts with Source income, adds the State Tax Refund, and Subtracts Nonres State AGI.

3. It also makes an adjustment on the Fed Itemized Deduction Adjustments row. This amount is calculated as follows: It Starts with Total Federal itemized, and subtracts the Federal AMT Itemized Adjustments for medical, casualty, misc, taxes, investment interest, housing interest and charitable. The resulting amount is then multiplied by one minus the ratio from the **Nonresident State Tax – Main Worksheet**.

4. It then subtracts the Nonresident Wisconsin AMT Exemption. The Nonresident Wisconsin AMT Exemption is first multiplied by the regular tax ratio before the Wisconsin phaseout of the exemption is subtracted from it. The program uses the "Net Nonres State Minimum Tax Base" and the "Nonres State Minimum Tax from Sched" as if the taxpayer were a resident. It then applies any additional adjustments to the tax base and recalculates the "Nonres State Minimum Tax from Sched""after the exemption.

Note. For years after 2018, Wisconsin has eliminated the Wisconsin Alternative Minimum Tax.

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OTHER STATES

The following states do not currently impose an individual income tax. The specification files for these states are included in **Income Tax Planner with Fifty States** as "0" or "No" settings for all items and the tax rate is set at 0%.

- Alaska
- Florida
- Nevada
- South Dakota
- Texas
- Washington
- Wyoming

When you load the file for any of these states, the program computes a state income tax of 0.

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INDEX

B

C

INDEX

E

INDEX

INDEX

J

K

L

INDEX

INDEX

INDEX

T

INDEX