
Iowa Legislative Fiscal Bureau

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Des Moines, IA 50319
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Income Tax Simplification

ISSUE

This *Issue Review* examines alternatives for simplification of the individual income tax return.

AFFECTED AGENCIES

Department of Revenue and Finance

CODE AUTHORITY

Chapter 422, Code of Iowa

INDIVIDUAL INCOME TAX SIMPLIFICATION

Simplification of the tax code can be done in various ways. As most often used, it can be the simplification of the forms used by the public to file their personal income taxes. In Iowa, due to a number of differences between Iowa and federal treatment of income, preferences, and credits, a significant difference in the calculation of tax liability occurs. The result is that Iowa's 1040 form contains 75 lines while the federal 1040 form contains 59 comparable lines. Simplification can also mean simply reducing the number of credits, exemptions, and preferences contained in the Iowa tax form.

Benefits of Simplification

The primary benefits resulting from simplification of the Iowa tax system would be to allow more taxpayers to prepare their own return and reduce processing and compliance costs to the Department. Other advantages include increased compliance on the part of taxpayers due to reducing the number of errors possible, and reduced preparation fees paid by taxpayers.

Individual income tax return processing, associated compliance issues, and taxpayer services are a significant, although unquantified, expense to the Department of Revenue and Finance (DRF). Relatively more complex tax requirements result in reduced compliance through errors on the part of the taxpayer. To reduce the number of errors or complexity, many Iowans utilize a preparer to simplify their tax filing. Iowa's rate of federal returns with a

preparer's signature is higher than the national average for the federal return. Nationally, 44.0% of federal returns include a preparer's signature, while Iowa's rate is 58.0%. If Iowa's rate fell to the national average, approximately 182,000 returns would be completed by the taxpayer rather than turning to a third party. If it is assumed that each return costs, on average, \$75 to complete; the overall savings to Iowa taxpayers would be approximately \$13.7 million annually.

There are three main ways to simplify the Iowa income tax form. All of these options will in one way or another be achieved by fully coupling Iowa's definitions to federal definitions. The three options include:

- Coupling to the federal definition of Adjusted Gross Income (AGI)
- Coupling to the federal definition of Taxable Income
- Coupling with the federal definition of Tax Liability

In the broadest sense, complexity is a function of defining taxable income, not multiple rates.

Coupling to Federal Definition of Adjusted Gross Income

For the most part, there are few differences between Iowa AGI and federal AGI. The 1998 General Assembly removed one of the major differences when it made public employee pension contributions pre-tax for State income tax purposes effective for calendar year 1999. Another major difference is the treatment of Social Security benefits. Iowa taxes up to 50.0% of the benefit, while the federal government taxes up to 85.0% of the benefit. The third major difference is the treatment of capital gains on the Iowa form. Iowa has a relatively limited capital gains exclusion which applies only to a relatively small set of activities qualifying for the exclusion. The final difference between Iowa and the federal form is the 100.0% exclusion of health and nursing home insurance.

There are also a number of items which Iowa cannot include in income due to constitutional restrictions. These include federal railroad retirement benefits, interest from federal securities, and foreign dividend tax credits, to cite a few. No matter what starting point Iowa chose for individual income taxes, these items would have to be reduced from federal AGI to achieve an Iowa AGI.

Coupling with the federal definition of AGI would require relatively minor revisions (compared to the other two options) in the tax brackets if the proposal's goal was to remain revenue neutral.

Coupling to the Federal Definition of Taxable Income

Coupling with Federal Taxable Income (FTI) would result in adopting the federal definitions and amounts contained in the standard deduction and the phase out of deductions above certain income levels. If this definition were adopted, it would still permit Iowa credits and surtaxes currently in place, except for deductibility of federal taxes. Those credits which would still be available include the earned income credit, the tuition and textbook credit, and the school district and emergency medical services surtax. If Iowa adopted the federal definition of taxable income, rates would decrease due to eliminating federal deductibility, 41 lines would be removed, and the form would be one page.

Table 1 on the following page shows the tax year 1998 standard deduction for Iowa and the federal return.

Table 1
Iowa and Federal Standard Deductions

Standard Deductions	Iowa	Federal
Single	\$ 1,440	\$ 4,250
Married Joint / Qualifying Widow(er)	3,550	7,100
Head of Household	3,550	6,250
Married Separate	1,440	3,550
Married Separate - Joint Return	1,440 *	N/A

*Amount per taxpayer, total \$2,880 for a couple.
N/A = not applicable

Another significant change resulting from coupling with the federal definition of taxable income would be the extension of the federal rate difference in the taxation of capital gains. It is assumed, under this option, that inherent in fully coupling with FTI is fully coupling with the federal Schedule C, which includes the 20.0% capital gains tax rate. In 1997, Congress reduced the maximum long-term capital gains tax rate of most taxpayers to 20.0% for assets held longer than 18 months. Iowa has a very limited capital gains exclusion, which benefits a relatively narrow set of circumstances. For example, stocks held longer than 18 months would be eligible for the federal rate of 20.0%, while in Iowa they are taxed as ordinary income at the taxpayers marginal tax rate (maximum of 8.98%).

Coupling with the Federal Definition of Tax Liability

If Iowa chose to couple with federal tax liability, there would be a significant change in tax rates, even if the amount of overall tax receipts remained the same. The effective rate would be approximately 27.0% of federal tax liability. This method would have the advantage of eliminating the most lines from the tax form. The State could still have as many or as few brackets as it chose, although by using federal tax liability at a flat rate, much of the progressivity that exists in the federal system would be retained in the Iowa system. One change from the current system is that reductions in federal tax liability would also reduce State revenues, compared to the current system where reductions in federal taxes result in increased revenues. To retain adequate revenues, it may be necessary to change the tax rate on a more frequent basis than has been done under the current system. However, under this system, there would be no need to pass an Internal Revenue Code (IRC) update bill every year, because coupling would be an automatic process.

Table 2 illustrates the number of lines which could be eliminated from the Iowa 1040 tax form if the State chose to fully couple with federal definitions. Currently, the Iowa 1040 tax form contains 75 lines, while the federal return contains 59 comparable lines. The number of lines eliminated assumes the State form utilized the federal figure for each of the definitions listed in the table. It also assumes that no adjustment lines are added due to the constitutional restrictions on state taxation listed on page 2, which would result in the addition of a few lines to the tax form.

Table 2
Lines Eliminated from the Iowa 1040 Tax Form by Coupling to Federal Definitions

Federal Definition	Approximate Number of Lines Eliminated from Iowa Tax Form 1040
Adjusted Gross Income	25
Taxable Income	41
Tax Liability	59

Computed Tax Rates

Utilizing federal Statistics of Income (SOI) data, it is possible to calculate the revenue neutral average tax rate for each of the three alternatives discussed above. These include coupling with:

- Federal AGI
- Federal Taxable Income
- Federal Tax Liability

By utilizing three years (tax years 1992 - 1995) federal income data and State personal income tax collections, it is possible to arrive at an effective tax rate which is roughly revenue neutral. A significant limitation of the data is that it does not include nonresidents who file Iowa income taxes. However, it does provide the relative scale of each option. For the option of Federal Tax Liability, it is important to note that because tax liability (amount a taxpayer actually pays) is much smaller than the taxpayer's income, it is necessary to have a much higher rate, although the amount the taxpayer pays is roughly the same, regardless of the rate. It should be noted that the data for the available years does not include the recent changes in either the federal or State tax systems (e.g., the federal capital gains tax rate or the State 10.0% income tax reduction). Adjusting for this, it is very likely that the effective tax rates for the three options would increase to remain revenue neutral. Because long term capital gains are taxed at a lower rate, the overall effective tax rate would have to increase to collect the same amount of revenue.

Table 3
Revenue Neutral Average Tax Rates

Starting Point	Effective Tax Rate
Current Iowa Tax Structure (Tax Year 1995)	3.98%
Federal AGI	3.46%
Federal Taxable Income	5.38%
Federal Tax Liability	26.35%

Eliminating or Reducing the Number of Brackets

On the federal level there has been significant discussion concerning moving to a single tax bracket, the so-called "flat tax." In Iowa's case, unless there are changes in how tax liability is calculated, a single bracket will not result in any simplification in the Iowa tax code. Because virtually all individuals either use a computer program or the tax tables at the back of the tax booklet in determining their tax liability, changing the number of brackets makes no difference in complexity of the calculation. Whether there is one tax bracket, nine, or 100, only one tax table is created.

Any time the number of tax brackets is reduced, there is going to be significant differences in the tax liability of income groups. When reducing the number of brackets from nine to three (for example) and assuming such a proposal would be revenue neutral, there will certainly be shifts in tax liability among different income classes. While the overall impact may be revenue neutral, it is difficult to eliminate tax shifts among groups. The issue is minimizing these shifts as much as possible.

Married Filing Separately on a Combined Return

One aspect of the Iowa System which results in significant complexity for the average taxpayer is Filing Status 3 (Married Filing Separately on a Combined Return). From the taxpayer's perspective this adds to the complexity of filing because many taxpayers must figure their taxes two ways, separate on a combined return and married joint, to figure their minimum tax liability. Couples must also apportion their income and deductions to take advantage of Filing Status 3, which is something that is not done on the federal level (unless they choose to file Married Separate on the federal level). Filing Status 3 provides for reduced tax burden for many individuals because each taxpayer is able to take advantage of the lower rates in the brackets. For couples where one spouse earns most of the income, this may not be a benefit because the standard deduction on the individual level is \$1,440 for each filer versus \$3,550, resulting in a lower standard deduction and hence higher tax liability. Eliminating Filing Status 3 would make computation of State tax liability much easier, but would result in increased tax liability for some taxpayers.

Federal Deductibility

Iowa is one of nine states that permits either full or partial deductibility of federal income tax liability in computing State tax liability. Coupling with the federal AGI would not affect federal deductibility, but coupling with federal taxable income or federal tax liability (if no other changes were made to the structure of the forms) would eliminate federal deductibility. This does not mean it is impossible to couple to one of these two federal definitions and then make an adjustment which would in effect allow for continued federal deductibility. Please see the *Issue Review* titled "State Deduction for Federal Income Tax" issued June 15, 1994, for a more complete discussion of the issues surrounding federal deductibility.

Transition Issues

A number of issues exist any time significant changes are made in a taxation system. In Iowa's case any change in the starting point which eliminates federal deductibility would result in significant difficulties for different taxpayers. The last federal estimate payment for a calendar year is not due until after the beginning of the next calendar year. If federal deductibility were eliminated (e.g., on January 1), the taxpayer would not receive credit for federal taxes paid during the preceding tax year when federal deductibility was still allowed. Also, since taxpayers pay their liabilities using different payment methods (withholding, declarations, or final payments) this can result in equity problems between taxpayers who pay differently. One option for coping with this problem is to allow deductibility of payments (final payments, estimated tax payments, and audit payments) made only for those years previously deductible.

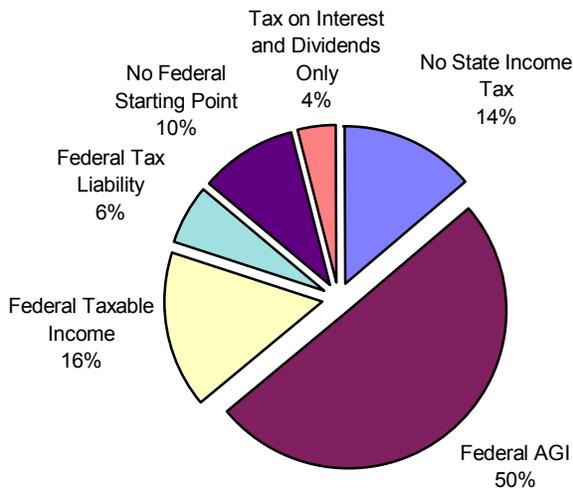
Other States

Iowa is in the majority of states which use federal AGI as the starting point in determining tax liability. Approximately 22.0% of the states use either federal tax liability or federal taxable income. For example, Minnesota uses federal taxable income as the starting point. The charts on the following page show the distribution of starting points in determining state tax liability and a map of the states surrounding Iowa. Few states use federal tax liability as the starting point, but both Rhode Island and Vermont are good examples of this method. Included as **Attachments A, B, and C** are copies of the Iowa 1040 tax form (A), Minnesota's tax form (B), and Rhode Island's tax form (C).

Key Decisions

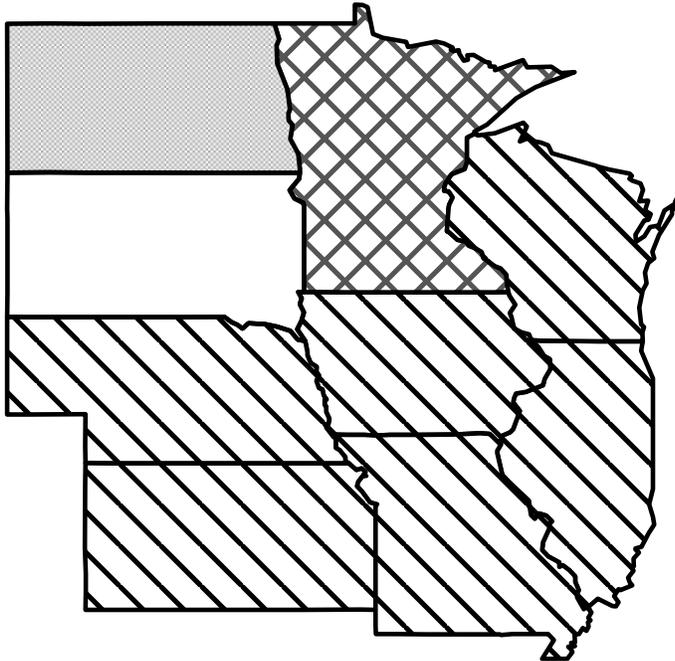
The key decision which needs to be made regarding simplification is the overall method which is most desirable to policy makers (i.e., coupling with federal AGI, taxable income, or tax liability). Each revenue neutral option has it's own set of related issues, including federal deductibility, married separate - combined return and transition issues, to name a few. Once the overall course is decided upon, it allows both the LFB and the DRF to begin a thorough analysis of the impact on a variety of taxpayers and the overall State budget.

Starting Point for State Income Taxes



Starting Point for State Income Tax

-  Federal AGI
-  Federal Taxable Income
-  Federal Taxable Liability
-  No State Income Tax



STAFF CONTACT: Larry Sigel (Ext. 14611)

For calendar year 1997 or fiscal year beginning ____/____, 1997 and ending ____/____, 19 ____

STEP 1
Name and Address

Check if you are a first time Iowa filer

YOUR INFORMATION

A. Your first name, middle initial _____ Last name _____ Your Social Security Number • _____

B. Spouse's first name, middle initial _____ Last name _____ Spouse's Social Security Number • _____

Current mailing address (number & street) or PO Box _____

Apt., Suite, Lot, R.R., etc. (street address if delivery is to PO Box) _____

City, town or post office, state and ZIP code _____

Are your name, your spouse's name, if applicable, and your address the same as on last year's return? Yes No

Your Occupation _____

Spouse's Occupation _____

Residence on 12/31/97 _____

County No. _____ Sch Dist No. _____

STEP 2
Filing Status

1 Single: Were you claimed as a dependent on another person's Iowa return? Yes No

2 Married filing joint return

3 Married filing separately on this combined return (Spouse use column B)

4 Married filing separate returns:
Enter spouse's SSN and name _____

5 Head of household (with qualifying person). If qualifying person is not claimed as a dependent on this return, enter the person's name and Social Security Number here _____

6 Qualifying widow(er) with dependent child

Spouse's income \$ _____

STEP 3
Figure your exemption credits

YOU (and spouse IF filing jointly)

PERSONAL CREDITS → _____ + _____ + _____ = X \$20 = \$ _____

DEPENDENT CREDITS → First names of dependents: _____

SPOUSE (IF filing status 3)

PERSONAL CREDITS → _____ + _____ + _____ = X \$20 = \$ _____

DEPENDENT CREDITS → First names of dependents: _____

Enter 1 if filing joint or head of household

Enter 2 if filing joint or head of household

65 or Over

Blind

Enter No. of Credits Below

TOTAL EXEMPTION CREDIT

Add \$ amounts from left and enter here and on line 47, COLUMN A. _____

Add \$ amounts from left and enter here and on line 47, COLUMN B. _____

STEP 4
Figure your gross income

	B. Spouse-filing status 3 only	A. You or Joint	B. Spouse-filing status 3 only	A. You or Joint
1. WAGES, SALARIES, TIPS, ETC.	1. .00	.00		
2. TAXABLE INTEREST INCOME	2. .00	.00		
3. DIVIDEND INCOME	3. .00	.00		
4. ALIMONY RECEIVED	4. .00	.00		
5. BUSINESS INCOME/(LOSS) from Fed. Schedule C or C-EZ	5. .00	.00		
6. CAPITAL GAIN/(LOSS) from Fed. Schedule D or B (see page 6)	6. .00	.00		
7. OTHER GAINS/(LOSSES) from Fed. Form 4797 (see page 6)	7. .00	.00		
8. TAXABLE IRA DISTRIBUTIONS	8. .00	.00		
9. TAXABLE PENSIONS AND ANNUITIES	9. .00	.00		
10. RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, ETC. (see page 7)	10. .00	.00		
11. FARM INCOME/(LOSS) from Federal Schedule F	11. .00	.00		
12. UNEMPLOYMENT COMPENSATION (INSURANCE)	12. .00	.00		
13. TAXABLE SOCIAL SECURITY BENEFITS	13. .00	.00		
14. OTHER INCOME (see page 8)	14. .00	.00		
15. GROSS INCOME (ADD lines 1-14)			15. .00	.00

STEP 5
Figure your adjustments to income

16. PAYMENTS TO AN IRA, KEOGH or SEP	16. .00	.00		
17. ONE-HALF OF SELF EMPLOYMENT TAX	17. .00	.00		
18. HEALTH INSURANCE DEDUCTION (see page 8)	18. .00	.00		
19. PENALTY ON EARLY WITHDRAWAL OF SAVINGS	19. .00	.00		
20. ALIMONY PAID	20. .00	.00		
21. PENSION/RETIREMENT INCOME EXCLUSION (see page 9)	21. .00	.00		
22. MOVING EXPENSE DEDUCTION from Federal Form 3903 or 3903F	22. .00	.00		
23. IOWA CAPITAL GAINS DEDUCTION (see page 9)	23. .00	.00		
24. OTHER ADJUSTMENTS (see page 9)	24. .00	.00		
25. TOTAL ADJUSTMENTS (ADD lines 16-24)			25. .00	.00
26. NET INCOME (SUBTRACT line 25 from line 15) (see instructions for possible exemption from tax)			26. .00	.00

STEP 6
Figure your Federal Tax addition and deduction

27. FEDERAL INCOME TAX REFUND received in 1997	27. .00	.00		
28. SELF-EMPLOYMENT/HOUSEHOLD EMPLOYMENT TAXES	28. .00	.00		
29. ADDITION FOR FEDERAL TAXES. (ADD lines 27 and 28)			29. .00	.00
30. TOTAL. (ADD lines 26 and 29)			30. .00	.00
31. FEDERAL TAX WITHHELD	31. .00	.00		
32. FEDERAL ESTIMATED TAX PAYMENTS made in 1997	32. .00	.00		
33. ADDITIONAL FEDERAL TAX PAID in 1997 for 1996 & prior years	33. .00	.00		
34. DEDUCTION FOR FEDERAL TAXES. (ADD lines 31, 32, & 33)			34. .00	.00
35. BALANCE (SUBTRACT line 34 from line 30 enter here and on line 36, side 2)			35. .00	.00

ATTACH W-2s HERE

B. Spouse-filing status 3 only	A. You or Joint	B. Spouse-filing status 3 only	A. You or Joint
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Step 7
Figure your taxable income

36. BALANCE (from line 35, side 1)	36.	.00	.00	
37. TOTAL ITEMIZED DEDUCTIONS from Schedule A	37.	.00	.00	
38. IOWA INCOME TAX if included in line 37	38.	.00	.00	Complete lines 37 to 40 only if you itemize
39. BALANCE. (SUBTRACT line 38 from line 37)	39.	.00	.00	
40. OTHER DEDUCTIONS (see instructions, page 12)	40.	.00	.00	
41. DEDUCTION check one box <input type="checkbox"/> ITEMIZED (ADD lines 39-40) <input type="checkbox"/> STANDARD (see page 13)	41.	.00	.00	
42. TAXABLE INCOME. (subtract line 41 from line 36)	42.	.00	.00	

Step 8
Figure your tax, credits and checkoff contributions

43. TAX OR ALTERNATE TAX (see page 13)	43.	.00	.00
44. IOWA LUMP-SUM TAX (25% of Federal tax from Form 4972)	44.	.00	.00
45. IOWA MINIMUM TAX Attach IA 6251 (see page 14)	45.	.00	.00
46. TOTAL TAX. (ADD lines 43, 44, 45)	46.	.00	.00
47. TOTAL EXEMPTION CREDITS (Step 3, side 1)	47.	.00	.00
48. IOWA EARNED INCOME CREDIT 6.5% of Federal credit	48.	.00	.00
49. TUITION AND TEXTBOOK CREDIT	49.	.00	.00
50. TOTAL CREDITS (ADD lines 47, 48 and 49)	50.	.00	.00
51. BALANCE. (SUBTRACT line 50 from line 46. If less than zero, enter zero.)	51.	.00	.00
52. CREDIT FOR NONRESIDENT OR PART-YEAR RESIDENT (Attach IA 126 and Federal return)	52.	.00	.00
53. BALANCE. (SUBTRACT line 52 from 51.)	53.	.00	.00
54. OTHER IOWA CREDITS (see page 14)	54.	.00	.00
55. BALANCE. (SUBTRACT line 54 from 53.)	55.	.00	.00
56. SCHOOL DISTRICT SURTAX/EMERGENCY MEDICAL SERVICES SURTAX (see page 15)	56.	.00	.00
57. TOTAL TAX. (ADD lines 55 and 56)	57.	.00	.00
58. TOTAL TAX BEFORE CONTRIBUTIONS. (ADD Columns A & B on line 57 and enter here)	58.		.00
59. CONTRIBUTIONS (see page 15). Contributions will reduce your refund or add to amount you owe. Fish & Wildlife Fund State Fairgrounds Renovation Domestic Abuse Services	59.		.00
59a. <input type="checkbox"/> .00 59b. <input type="checkbox"/> .00 59c. <input type="checkbox"/> .00 Enter total of boxes 59a., 59b. & 59c.	59.		.00
60. TOTAL TAX AND CONTRIBUTIONS. (ADD lines 58 and 59)	60.		.00

Step 9
Figure your credits

61. IOWA INCOME TAX WITHHELD	61.	.00	.00
62. ESTIMATE AND VOUCHER PAYMENTS	62.	.00	.00
63. OUT-OF-STATE TAX CREDIT (Attach IA 130)	63.	.00	.00
64. MOTOR VEHICLE FUEL TAX CREDIT (Attach IA 4136)	64.	.00	.00
65. CHILD & DEPENDENT CARE CREDIT (see page 15)	65.	.00	.00
66. OTHER REFUNDABLE CREDITS (see page 15)	66.	.00	.00
67. TOTAL (ADD lines 61-66)	67.	.00	.00
68. TOTAL CREDITS. (ADD columns A and B on line 67 and enter here)	68.		.00

Step 10
Figure your refund or amount you owe

69. If line 68 is more than line 60, SUBTRACT line 60 from line 68. This is amount you OVERPAID.	69.	▲	.00
70. Amount of line 69 to be REFUNDED to you	70.	▲	.00
71. Amount of line 69 to be applied to your 1998 estimated tax.	71.	.00	.00
72. If line 68 is less than line 60, SUBTRACT line 68 from line 60. This is the AMOUNT OF TAX YOU OWE	72.	▲	.00
73. Penalty for underpayment of estimated tax (from IA 2210 or IA 2210F)	73.	▲	.00
74. Penalty and Interest (see page 16) 74a. Penalty <u>00</u> ▲ + 74b. Interest <u>00</u> ▲ =	74.		.00
75. TOTAL AMOUNT DUE. (ADD lines 72, 73, and 74 and enter here) ATTACH PAYMENT TO PAY VOUCHER IA 1040V-1997	75.	▲	.00

Make check payable to: **TREASURER, STATE OF IOWA.**

IOWA ELECTION CAMPAIGN FUND

(See Instructions Page 17) This checkoff does not affect your refund or amount you owe.

SPOUSE	<input type="checkbox"/>	\$1.50 to Democratic Party	<input type="checkbox"/>	\$1.50 to Democratic Party
	<input type="checkbox"/>	\$1.50 to Republican Party	<input type="checkbox"/>	\$1.50 to Republican Party
	<input type="checkbox"/>	\$1.50 to Reform Party	<input type="checkbox"/>	\$1.50 to Reform Party
	<input type="checkbox"/>	\$1.50 to Campaign Fund	<input type="checkbox"/>	\$1.50 to Campaign Fund

YOURSELF ▲

Next year, I would like to receive (see instructions, page 17):

Check one —> 0.) a booklet with preprinted label OR 2.) a label only OR 1.) neither a booklet nor a label ▲

OW-CALF

DO NOT use these amounts to increase your overpayment, line 69, or reduce the amount you owe, line 72. (see instructions page 18)

Cow-calf Refund	<u>00</u> ▲	Spouse	Taxpayer
(attach IA 132)			

(We), the undersigned, declare under penalty of perjury that I(we) have examined this return and attachments, and, to the best of my (our) knowledge and belief, it a true, correct, and complete return. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

Your Signature _____	Date _____	Preparer's Signature _____	Date _____
Spouse's Signature _____	Date _____	Firm & Address _____	
Daytime Telephone Number _____			

MAIL TO: IOWA INCOME TAX PROCESSING
DEPARTMENT OF REVENUE AND FINANCE
HOOVER STATE OFFICE BUILDING
DES MOINES, IOWA 50319-0120

This return is due by April 30, 1998.

Preparer's Telephone Number _____ Employer Identification or Social Security Number _____

1997 Individual Income Tax

State Elections Campaign Fund M-1

If you want \$5 to go to help candidates for state offices pay campaign expenses, you may check one box. This will not increase your tax or reduce your refund.

Political party: You: Spouse: Reform [] 1 [] Republican [] 2 [] Democratic Farmer-Labor [] 3 [] Grassroots [] 4 [] Libertarian [] 5 [] Progressive Minnesota [] 6 [] General Campaign Fund [] 7 []

Use label or print

Form fields for name, address, and Social Security numbers.

Check your 1997 federal filing status:

- Single Married filing joint Married filing separate Head of household Qualifying widow(er)

If filing separately, enter your spouse's Social Security number and name

Main calculation table with lines 1-20 for income, tax, and refund.

Please staple your W-2 and 1099 forms here. Place check or money order here but do not staple.

Your Minnesota income

Your tax and credits

Refund or amount due



Rebate

I declare that this form is correct and complete to the best of my knowledge and belief. I admit I owe the tax listed above, and confess judgment to the commissioner for the tax shown on the return to the extent not timely paid.

Signature and contact information fields.

Attach a copy of your 1997 federal income tax return and schedules or your federal telefile worksheet.

Mail this form to: Minnesota Individual Income Tax, St. Paul, MN 55145-0010

PRINT OR TYPE	First Name Initial Last Name	Your Social Security Number
	If a joint return, spouse's first name Initial Last Name	Spouse's Social Security Number
	Present Home Address (Number and Street, including Apartment No. or Rural Route)	
	Daytime Telephone Number ()	
City, Town, or Post Office State Zip Code		City or Town of Legal Residence

A Filing Status: 1 Single, 2 Married filing joint return (even if only one had income), 3 Married filing separate return, 4 Head of Household (with qualifying person), 5 Qualifying widow(er) with dependent child (Year spouse died 19)

B Total exemptions claimed (1997 Federal 1040 Line 6d or Federal Form 1040A Line 6d.) Enter number.	B
C1 Federal AGI, Federal Form 1040 Line 32, 1040A Line 16, 1040 EZ Line 4.	C1
C2 Modified Federal AGI- from Page 2, Schedule 1, Line 12.	C2
D Enter your deduction from Federal Form 1040 Line 35, Form 1040A Line 19, Form 1040EZ Line 5 or recomputed.	D
E Enter amount of Line 8B of Federal Form 1040 or 1040A.	E
F Enter amount of Line E above subject to R.I. Taxation (enter here and on Line 9 A, Schedule 1, Page 2).	F

- If you do not have any modifications to Rhode Island Income and/or are not claiming any out of state credit complete front page only.
- If you have modifications to Rhode Island Income, Complete Schedule 1 on Page 2 before entering your federal income tax liability on Line 1 below.
- If you have no modifications to Rhode Island Income, but claim an out of state credit, complete Lines 1 and 2 below, then complete Schedule II on Page 2.

1. 1997 Federal Income Tax - Federal Form 1040 Line 53 Plus Line 42 Less Lines 47, 49, 50, 51, 52 & 56a; 1040A Line 23 less lines 24a, 24b & 29c; 1040EZ Line 10 Less Line 8a; or Page 2, Schedule 1, Line 17. (If \$0 or less, enter \$0)	1.
2. Rhode Island Income Tax - 27.5% of amount on Line 1. (if \$0, enter \$0)	2.
2A. RHODE ISLAND Use/Sales Tax - Attach Form T-205 P. (SEE INSTRUCTIONS)	2A.
2B. Total Tax - Line 2 Plus Line 2A.	2B.

PLEASE ATTACH W-2 FORMS HERE

3.	A Rhode Island 1997 Income Tax withheld. (Please attach forms)	3A.	Check if Extension is Attached. <input type="checkbox"/>
	B Payments on 1997 Form R. I. 1040ES and credits carried forward from 1996.	3B.	
	C Property Tax Relief Credit (Attach Form R.I. 1040H) ATTN: Persons over 65 or disabled.	3C.	
	D Credit for Income Taxes paid to other states - Schedule II - Line 22 - Attach signed copy of other state return.	3D.	
	E Other Credits - Indicate Credit Form Numbers.	3E.	
	F Other Payments.	3F.	
	G Total - add Lines 3A, 3B, 3C, 3D, 3E and 3F.	3G.	

4. If Line 2B is larger than Line 3G, enter BALANCE DUE and pay in full with return. CHECK <input type="checkbox"/> If Form 2210 is attached - INTEREST DUE OR -0-\$	4.
5. If Line 3G is larger than Line 2B, enter OVERPAYMENT .	5.
6. Amount of overpayment to be refunded.	6.
7. Amount of overpayment to be credited to 1998 Estimated Tax.	7.

7 A. ELECTORAL SYSTEM CONTRIBUTION \$5.00 (\$10.00 if a joint return)(see instructions) NOTE: This will not increase your tax or reduce your refund. Check one. <input type="checkbox"/> YES <input type="checkbox"/> NO	7 B. If you wish the first \$2.00 (\$4.00 if a joint return) to be paid over to a specific political party, check the first box and fill in the name of the political party. If you wish it to be paid over to a nonpartisan general account, check second box. (1) <input type="checkbox"/> (Do not specify name of any particular candidate) Party (2) <input type="checkbox"/> NonPartisan General Account (See Instructions)
7 C. DRUG PROGRAM ACCOUNT NOTE: This contribution will reduce your refund. \$1.00 \$5.00 \$10.00 Other \$ (write in amount)	
7 D. OLYMPIC CONTRIBUTION \$1.00 (\$2.00 if a joint return) (See instructions) NOTE: This contribution will reduce your refund. <input type="checkbox"/> YES <input type="checkbox"/> NO	
7 E. R.I. ORGAN TRANSPLANT FUND NOTE: This contribution will reduce your refund. \$1.00 \$5.00 \$10.00 Other \$ (write in amount)	
7 F. ARTS AND TOURISM DEVELOPMENT APPROPRIATION NOTE: This contribution will reduce your refund. \$1.00 \$5.00 \$10.00 Other \$ (write in amount)	
7 G. R.I. NONGAME WILDLIFE APPROPRIATION NOTE: This contribution will reduce your refund. \$1.00 \$5.00 \$10.00 Other \$ (write in amount)	
7 H. CHILDHOOD DISEASE VICTIMS' FUND NOTE: This contribution will reduce your refund. \$1.00 \$5.00 \$10.00 Other \$ (write in amount)	

PLEASE ATTACH CHECK HERE

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct and complete.

YOUR SIGNATURE	DATE	SPOUSE'S SIGNATURE	DATE
IF YOU DO NOT NEED FORMS MAILED TO YOU NEXT YEAR, CHECK BOX (SEE INSTRUCTIONS) <input type="checkbox"/>			
SIGNATURE & ADDRESS OF PAID PREPARER		SSN OR FEI #	
		DATE	

**RHODE ISLAND MODIFICATIONS TO
FEDERAL ADJUSTED GROSS INCOME**

8.	Federal adjusted gross income- Federal Form 1040 Line 32; 1040A Line 16; 1040EZ Line 4. ENTER HERE AND LINE C1 PAGE 1.	▶	8.	
9.	Modifications increasing federal adjusted gross income. (See specific instructions)			
A.	Income from obligations of any state or its political subdivisions, other than Rhode Island	▶	9A.	
B.	Income from U.S. obligations exempt from Federal income tax but not exempt from state income tax. (Attach explanation)	▶	9B.	
C.	Other modifications (See instructions - attach explanation)	▶	9C.	
D.	Total adjustments - add Lines 9A, 9B, and 9C.		9D.	
10.	Add Lines 8 and 9D.		10.	
11.	Modifications decreasing federal adjusted gross income.			
A.	Income from obligations of the U.S. Government included in Line 8 above but exempt from state income taxes. (Submit explanation)	▶	11A.	
B.	Other Modifications (See instructions - submit explanation).	▶	11B.	
C.	Total adjustments - add Lines 11A and 11B.	▶	11C.	
12.	Modified federal adjusted gross income (Line 10 less Line 11C). ENTER HERE AND ON LINE C2 PAGE 1.	▶	12.	
13.	Enter your deduction from Federal Form 1040 Line 35, Form 1040A Line 19, Form 1040EZ Line 5 or amount of deductions recomputed (See instructions).	▶	13.	
14.	Subtract Line 13 from Line 12.	▶	14.	
14A.	Multiply \$2650 by the number of exemptions entered on Form 1040 Line 6d or 1040A Line 6d or enter amount of phase out exemption (See instructions).	▶	14A.	
14B.	Taxable income Subtract Line 14A from Line 14, and enter here.	▶	14B.	
15A.	Federal income tax on amount on line 14B (see federal instructions). Include any tax from federal form(s) 8814 & 4972. Also include taxes from federal form 4970 and any recapture taxes reported on your Federal income tax return.	▶	15A.	
15B.	Enter amount of alternative minimum Tax on federal form 1040 line 48 (recompute if necessary).	▶	15B.	
15C.	Total Federal income tax before credits. Add Lines 15A and 15B.	▶	15C.	
16.	Credits - Enter total from federal form 1040 line 45 less line 42 plus line 56a; or total from federal form 1040A lines 24a, 24b & 29c; or federal form 1040EZ line 8a.	▶	16.	
17.	Total Federal income tax - Line 15C less Line 16. (Enter here and on Page 1, Line 1.)		17.	

SCHEDULE II CREDIT FOR INCOME TAXES PAID TO ANOTHER STATE - RHODE ISLAND RESIDENTS ONLY
Attach copy of return filed with other state.

18.	Rhode Island income tax (Page 1 - Line 2 this return)	▶	18.	
19.	Adjusted Gross income from other state(s).	▶	19.	
20.	TAX CREDIT COMPUTATION (See instructions) $\frac{\text{Line 19}}{\text{Line 8 or Line 12}} = \square.\square\square\square\square \times \text{Line 18} =$	▶	20.	
21.	Tax due and paid to other state(s). (See specific instructions) Insert Name of State(s). Paid	▶	21.	
22.	Maximum tax credit (Line 18, 20 or 21 whichever is smaller)	▶	22.	

Enter here and at Line 3D, page 1

**Make check payable to R.I. Division of Taxation. Mail check and this return to
R.I. Division of Taxation One Capitol Hill Providence, RI 02908-5801**