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.
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 1
**Iowa and Federal Standard Deductions**

<table>
<thead>
<tr>
<th>Standard Deductions</th>
<th>Iowa</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$1,440</td>
<td>$4,250</td>
</tr>
<tr>
<td>Married Joint / Qualifying Widow(er)</td>
<td>3,550</td>
<td>7,100</td>
</tr>
<tr>
<td>Head of Household</td>
<td>3,550</td>
<td>6,250</td>
</tr>
<tr>
<td>Married Separate</td>
<td>1,440</td>
<td>3,550</td>
</tr>
<tr>
<td>Married Separate - Joint Return</td>
<td>1,440 *</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Federal Definition</th>
<th>Approximate Number of Lines Eliminated from Iowa Tax Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross Income</td>
<td>25</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>41</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>59</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Starting Point</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Iowa Tax Structure (Tax Year 1995)</td>
<td>3.98%</td>
</tr>
<tr>
<td>Federal AGI</td>
<td>3.46%</td>
</tr>
<tr>
<td>Federal Taxable Income</td>
<td>5.38%</td>
</tr>
<tr>
<td>Federal Tax Liability</td>
<td>26.35%</td>
</tr>
</tbody>
</table>

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

STAFF CONTACT: Larry Sigel (Ext. 14611)
**IA 1040 1997**

**IOWA INDIVIDUAL INCOME TAX RETURN**

For calendar year 1997 or fiscal year beginning ___/___, 1997 and ending ___/___, 1998

### STEP 1

<table>
<thead>
<tr>
<th>Name and Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check if you are a first time Iowa filer [ ]</td>
</tr>
</tbody>
</table>

**Step 1**

<table>
<thead>
<tr>
<th>Your first name, middle initial</th>
<th>Last name</th>
<th>Your Social Security Number [ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spouse's first name, middle initial</td>
<td>Last name</td>
<td>Spouse's Social Security Number [ ]</td>
</tr>
<tr>
<td>B.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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. [ ]**

**School District Name [ ]**

### STEP 2

**Filing Status**

- Single: Were you claimed as a dependent on another person's Iowa return? [ ] Yes [ ] No
- Marital filing joint return
- Married filing separately on this combined return (Spouse use column B)

**Mark one box only**

- 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
- Qualifying widow(er) with dependent child

### STEP 3

**Figure your exemption credits**

**YOU (and spouse if filing jointly)**

<table>
<thead>
<tr>
<th>PERSONAL CREDITS</th>
<th>DEPENDENT CREDITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter 1 2 if filing joint or head of household</td>
<td>65 or Over</td>
</tr>
<tr>
<td>Enter No. of Credits Below</td>
<td>Blind</td>
</tr>
</tbody>
</table>

**SPouse (IF filing status 3)**

<table>
<thead>
<tr>
<th>PERSONAL CREDITS</th>
<th>DEPENDENT CREDITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>First names of dependents</td>
<td></td>
</tr>
</tbody>
</table>

### STEP 4

**Figure your gross income**

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

### STEP 5

**Figure your adjustments to income**

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

### STEP 6

**Figure your Federal Tax**

27. FEDERAL INCOME TAX REFUND received in 1997
28. SELF-EMPLOYMENT/HOUSEHOLD EMPLOYMENT TAXES
29. ADDITION FOR FEDERAL TAXES (ADD lines 27 and 28)
30. TOTAL (ADD lines 26 and 29) 30. FEDERAL TAX WITHHELD
31. 31. FEDERAL TAX WITHHELD
32. FEDERAL ESTIMATED TAX PAYMENTS made in 1997
33. ADDITIONAL FEDERAL TAX PAID in 1997 for 1996 & prior years
34. DEDUCTION FOR FEDERAL TAXES. (ADD lines 31, 32, & 33)
35. BALANCE (SUBTRACT line 34 from line 30 enter here and on line 38, add 2)
**Step 7**

36. BALANCE (from line 35, side 1)  
37. TOTAL ITEMIZED DEDUCTIONS from Schedule A  
38. IOWA INCOME TAX if included in line 37  
39. BALANCE. (SUBTRACT line 38 from line 37)  
40. OTHER DEDUCTIONS (see instructions, page 12)  
41. DEDUCTION check one box  
42. TAXABLE INCOME. (SUBTRACT line 41 from line 36)  

**Step 8**

43. TAX OR ALTERNATE TAX (see page 13)  
44. IOWA LUMP-SUM TAX (25% of Federal tax from Form 42CD)  
45. IOWA MINIMUM TAX Attach IA 6251 (see page 14)  
46. TOTAL TAX. (ADD lines 43, 44, 45)  
47. TOTAL EXEMPTIONS CREDIT (Step 3, side 1)  
48. IOWA EARNED INCOME CREDIT 6.5% of Federal credit  
49. TUITION AND TEXTBOOK CREDIT  
50. TOTAL CREDITS (ADD lines 47, 48 and 49)  
51. BALANCE. (SUBTRACT line 50 from line 48. If less than zero, enter zero.)  
52. CREDIT FOR NONRESIDENT OR PART-YEAR RESIDENT (Attach IA 12B and Federal return)  
53. BALANCE. (SUBTRACT line 52 from 51.)  
54. OTHER IOWA CREDITS (see page 14)  
55. BALANCE. (SUBTRACT line 54 from 53.)  
56. SCHOOL DISTRICT SURTAX/EMERGENCY MEDICAL SERVICES SURTAX (see page 15)  
57. TOTAL TAX. (ADD lines 55 and 56)  
58. TOTAL TAX BEFORE CONTRIBUTIONS. (ADD Columns A & B on line 57 and enter here)  
59. CONTRIBUTIONS (see page 15). Contributions will reduce your refund or add to amount you owe.  

**Step 9**

60. TOTAL TAX AND CONTRIBUTIONS. (ADD lines 58 and 59)  
61. IOWA INCOME TAX WITHHELD  
62. ESTIMATE AND VOUCHER PAYMENTS  
63. OUT-OF-STATE TAX CREDIT (Attach IA 130)  
64. MOTOR VEHICLE FUEL TAX CREDIT (Attach IA 4138)  
65. CHILD & DEPENDENT CARE CREDIT (see page 15)  
66. OTHER REFUNDABLE CREDITS (see page 15)  
67. TOTAL. (ADD lines 61-65)  
68. TOTAL CREDITS. (ADD columns A and B on line 67 and enter here)  

**Step 10**

69. If line 68 is more than line 60, SUBTRACT line 60 from line 68. This is amount you OVERPAID.  
70. Amount of line 69 to be REFUNDED to you  
71. Amount of line 69 to be applied to your 1998 estimated tax.  
72. If line 68 is less than line 60, SUBTRACT line 60 from line 68. This is the AMOUNT OF TAX YOU OWE  
73. Penalty for underpayment of estimated tax (from IA 2201 or IA 2202)  
74. Penalty and Interest (see page 16)  
75. TOTAL AMOUNT DUE. (ADD lines 72, 73, and 74 and enter here) ATTACH PAYMENT TO PAY VOUCHER IA 1040V-1997  

**IOWA ELECTION CAMPAIGN FUND**

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

- $1.50 to Democratic Party  
- $1.50 to Republican Party  
- $1.50 to Campaign Fund  

**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  
SPOUSE  
Spouse  
Taxpayer  

(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 is 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  
Spouse's Signature  
Date  

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.
1997 Individual Income Tax

State Elections Campaign Fund
If you want $5 to go to help candidates for state office, pay campaign expenses, you may each check one box. This will not increase your tax or reduce your refund.

Political party: You: Spouse:
Reform
Republican
Democratic Farmer-Labor
Grassroots
Libertarian
Progressive Minnesota
General Campaign Fund

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

1 Federal taxable income (from line 38 of your federal Form 1040, line 22 of Form 1040A, line 6 of Form 1040EZ, or line 1 of telefile tax record) ........................................... 1

2 State income tax addition. If you itemized deductions on federal Form 1040, fill out the worksheet on page 7 of the Form M-1 instructions to determine the amount to fill in here ... 2

3 Other additions to your income (see instructions on page 8) ........................................... 3

4 Add lines 1, 2, and 3 ........................................... 4

5 Subtractions (see page 8): a State income tax refund from line 10 of Form 1040 b Other subtractions ........................................... 5

6 Subtract line 5 from line 4. This is your Minnesota taxable income ........................................... 6

7 Tax: from the table on pages 15 through 19 of the instructions, or from Schedule (check boxes): M-1MT ☐ M-1NR ☐ M-1S ☐ M-1CR ☐ ........................................... 7

8 If you wish to donate to the Nongame Wildlife Fund, fill in the amount here. This will reduce your refund or increase the amount you owe ........................................... 8

9 Add lines 7 and 8 ........................................... 9

10 Minnesota income tax withheld (from your 1997 W-2 forms) ........................................... 10

11 Minnesota estimated tax and Form M-13 payments you made for 1997 ........................................... 11

12 Child and dependent care credit (attach Schedule M-1CD) ........................................... 12

13 Minnesota working family credit (if you claimed the federal earned income credit, see page 11) ........................................... 13

14 Property tax rebate (complete the Rebate Schedule on back of this form.) Check the box(es) that apply: ☐ Homeowner ☐ Renter ........................................... 14

15 Add lines 10 through 14 ........................................... 15

16 If line 15 is more than line 9, subtract line 9 from line 15
This is your REFUND (see instructions on page 12) ........................................... 16

17 Amount from line 16 you want sent to you.
If you want it directly deposited, fill in 17a, 17b and 17c ........................................... 17
   a Routing number __________________________ b ☐ Checking ☐ Savings Indicate type of account
c Account number __________________________

18 Amount from line 16 you want applied to your 1998 estimated tax ........................................... 18

19 If line 9 is more than line 15, subtract line 15 from line 9. This is the AMOUNT YOU OWE ........................................... 19

20 If you underpaid your estimated tax for 1997, fill in your penalty from Schedule M-15 (see instructions on page 12) ........................................... 20

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.

Your signature __________________________ Spouse’s signature __________________________ Date __________________________

Paid preparer’s signature ONLY MN tax ID or Social Security no. Date __________________________

Daytime phone __________________________

I authorize the MN Department of Revenue to discuss my tax return with the preparer.

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
# Rhode Island

**R-1040** For 1997 or other tax year ____________ ending ________

<table>
<thead>
<tr>
<th>First Name</th>
<th>Initial</th>
<th>Last Name</th>
<th>Your Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial</td>
<td>Last Name</td>
<td>Spouse's Social Security Number</td>
<td></td>
</tr>
</tbody>
</table>

| 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 |

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>1</th>
<th>Single</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Please check one: 2</td>
<td>Married filing joint return</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Head of Household</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Qualifying widow(er) with dependent child</td>
</tr>
</tbody>
</table>

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

* 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 & 26c; 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/Sealea Tax - Attach Form T-205 P. (SEE INSTRUCTIONS) ✓ 2A.

2B. Total Tax - Line 2 Plus Line 2A. ✓ 2B.

A. Rhode Island 1997 Income Tax withheld. (Please attach forms) ✓ 3A.

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 ☐ 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.

**ELECTORAL SYSTEM**

A. CONTRIBUTION $6.00 ($10.00 if a joint return) (See instructions) NOTE: This will not increase your tax or reduce your refund. Check one. ✓ 7B.

B. NonPartisan General Account (See Instructions) Party ☐ NonPartisan General Account ☐ ✓ 7B.

C. NOTE: This contribution will reduce your refund. $1.00 $5.00 $10.00 Other (Write in amount) ✓ 7C.

D. NOTE: This contribution will reduce your refund. $1.00 $5.00 $10.00 Other (Write in amount) ✓ 7D.

E. R.I. ORGAN TRANSPLANT FUND ✓ 7E.

F. Arts and Tourism Development Appropriation ✓ 7F.

G. R.I. NONGAME WILDLIFE APPROPRIATION ✓ 7G.

H. CHILDHOOD DISEASE VICTIMS' FUND ✓ 7H.

I. If you wish the first $7.00 ($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. ✓ 7I.

YOUR SIGNATURE DATE SPOUSE'S SIGNATURE DATE

IF YOU DO NOT NEED FORMS MAILED TO YOU NEXT YEAR, CHECK BOX (SEE INSTRUCTIONS) ✓

SIGNATURE & ADDRESS OF PAID PREPARER SSN OR FE I # DATE
### SCHEDULE I

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

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9A.</td>
<td>Income from obligations of any state or its political subdivisions, other than Rhode Island</td>
</tr>
<tr>
<td>9B.</td>
<td>Income from U.S. obligations exempt from Federal income tax but not exempt from state income tax. (Attach explanation)</td>
</tr>
<tr>
<td>9C.</td>
<td>Other modifications (See instructions - attach explanation)</td>
</tr>
<tr>
<td>9D.</td>
<td>Total adjustments - add Lines 9A, 9B, and 9C.</td>
</tr>
<tr>
<td>10.</td>
<td>Add Lines 8 and 9C.</td>
</tr>
<tr>
<td>11.</td>
<td>Modifications decreasing federal adjusted gross income.</td>
</tr>
<tr>
<td>11A.</td>
<td>Income from obligations of the U.S. Government included in Line 8 above but exempt from state income taxes. (Submit explanation)</td>
</tr>
<tr>
<td>11B.</td>
<td>Other Modifications (See instructions - submit explanation).</td>
</tr>
<tr>
<td>11C.</td>
<td>Total adjustments - add Lines 11A and 11B.</td>
</tr>
<tr>
<td>13.</td>
<td>Enter your deduction from Federal Form 1040 Line 35, Form 1040A Line 19, Form 1040EZ Line 5 or amount of deductions recomputed (See instructions).</td>
</tr>
<tr>
<td>14A.</td>
<td>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).</td>
</tr>
<tr>
<td>14B.</td>
<td>Taxable Income Subtract Line 14A from Line 14, and enter here.</td>
</tr>
<tr>
<td>15A.</td>
<td>Federal income tax on amount on line 148 (see federal instructions). Include any tax from federal form(s) 8814 &amp; 4972. Also include taxes from federal form 4970 and any recapture taxes reported on your Federal income tax return.</td>
</tr>
<tr>
<td>15B.</td>
<td>Enter amount of alternative minimum Tax on federal form 1040 line 48 (recompute if necessary).</td>
</tr>
<tr>
<td>15C.</td>
<td>Total Federal Income tax before credits. Add Lines 15A and 15B.</td>
</tr>
<tr>
<td>16.</td>
<td>Credits - Enter total from federal form 1040 line 45 less line 42 plus line 56a; or total from federal form 1040A lines 24a, 24b &amp; 29c; or federal form 1040EZ line 8a.</td>
</tr>
<tr>
<td>17.</td>
<td>Total Federal Income tax - Line 15C less Line 16. (Enter here and on Page 1, Line 1.)</td>
</tr>
</tbody>
</table>

### SCHEDULE II

**CREDIT FOR INCOME TAXES PAID TO ANOTHER STATE - RHODE ISLAND RESIDENTS ONLY**

Attach copy of return filed with other state.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.</td>
<td>Rhode Island income tax (Page 1 - Line 2 this return)</td>
</tr>
<tr>
<td>19.</td>
<td>Adjusted Gross Income from other state(s).</td>
</tr>
<tr>
<td>20.</td>
<td>TAX CREDIT COMPUTATION [ \text{Line 19} \div \text{Line 8 or Line 12} \times \text{Line 10} = ]</td>
</tr>
<tr>
<td>21.</td>
<td>Tax due and paid to other state(s). (See specific instructions) Insert Name of State(s). Paid</td>
</tr>
<tr>
<td>22.</td>
<td>Maximum tax credit (Line 18, 20 or 21 whichever is smaller) Enter here and at Line 3D, page 1</td>
</tr>
</tbody>
</table>

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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