

IOWA INCOME TAX

2016

VOLUNTEER TRAINING & REFERENCE BOOK

Recommendations for changes, corrections, or additions to this booklet may be submitted at any time to iowaVolunteerManual@gmail.com.

Note: this e-mail account is not monitored on a daily basis and individual replies are not to be expected.

Welcome Volunteers!

VITA and AARP Tax-Aide volunteers complete about 32,000 tax returns every year. Thanks in part to you, over 90% of Iowa income tax returns are e-filed. Obviously the need for and awareness of the programs' free tax preparation services continues to grow. Thank you for volunteering your time and expertise!

While much of the Iowa return follows along with the federal return, there are some differences. This training manual will teach you about the Iowa income tax return, it will give you hints on how and where to enter data into TaxSlayer software, and there are some exercises to help you practice what you've learned. The training book is broken into steps, following those on the IA1040 form. The book finishes with some useful miscellaneous information.

This book is focused on returns for individuals who are filing as residents of the State of Iowa for the full year. Part-year and nonresident taxpayer returns will also require a review of the materials in the Iowa Expanded Instructions. Preparation of those returns requires the approval of your site leadership.

The book has been prepared for the use of volunteers within the IRS VITA/TCE programs. It is not intended for use by taxpayers. All taxpayers should refer to the instructions for the Iowa form 1040 or the Iowa Expanded Instructions.

Using This Manual

Terms used throughout this book

Sch	schedule
SS	Social Security
Tax year	calendar year 2016
TS.....	TaxSlayer software
IDR	Iowa Department of Revenue
IRC	Internal Revenue Code
Current year.....	Tax year 2016
Prior year.....	Tax year 2015 and earlier

Preparation Site References

It is not recommended the federal VITA/TCE training manual be used as a reference at your site because of the availability of other, more useful and more current resources; however, it is recommended you keep this as a reference book at your site in addition to the **Iowa Expanded Instructions**. This manual is available as a searchable pdf file for those wishing to keep a copy on their tax preparation computer.

Site leaders may find it convenient to print out one or more copies of sections of this book for quick reference. Each can be protected by laminating or using top loading document protectors. Suggested items would include the following:

- Iowa Quality Review Sheet (Attachment A)
- Sheet for Calculation of Additional Federal Tax Paid (Attachment E)
- Tuition and Textbook Credit Sheet (Attachment F)

Remember that Iowa follows the federal definitions and instructions in many aspects; therefore IRS Pub 17 must also be available for reference.

The **Iowa Expanded Instructions** is available only online from the IDR income tax Web site. For TY 2016, a download of the complete file will, once again, not be available. It will be necessary for a Tax-Aide volunteer to download and assemble a pdf copy of the instructions file. When distributed, this can be copied and maintained on your tax preparation computer. In this format, it can be easily searched for specific words. Alternatively, you may wish to print off one copy of the document from the pdf file for retention and reference at your tax site. The website is:

tax.iowa.gov/expanded-instructions-view.

Recent Changes Affecting Returns

Reminder: New for 2014, and 2013

A US Supreme Court decision has changed the manner in which out-of-state tax credits are applied to any state income tax liability. A more detailed explanation is available in “Attachment K: The Wynne Decision – out-of-state tax credit” on page 78.

Some jurisdictions, within Iowa¹, impose an “instructional support income surtax” (School District Surtax) or an “emergency medical services (EMS) income surtax.” These taxes are based upon the amount of Iowa state income tax a taxpayer owes. The previous practice was to calculate the surtax prior to applying the out-of-state tax credit. This practice is inconsistent with the Supreme Court ruling. Accordingly, Iowa has changed the manner in which things are being done. A review of the “New for 2015” changes shows an adjustment to the Iowa 1040 in that out-of-state tax credit is now applied on Line 50. While TY 2015 (and subsequent years) is accommodated by the form changes, that DOES NOT affect the 1040 for prior years. Therefore, special instructions apply for the creation of a tax return for TY 2013, or 2014.

AMENDMENTS: Anyone who filed a return with an out-of-state tax credit for TY 2013 or 2014 may be entitled to a refund. These returns should not be attempted without the specific approval of the site coordinator for any VITA or Tax-Aide location. Details for this procedure are included within Attachment K: The Wynne Decision – out-of-state tax credit on page 78.

Reminder: New for 2015

- **Child/dependent care credit:** Eligible taxpayers may claim the full amount of the state credit irrespective of whether the federal credit was capped because it exceeded the taxpayer’s federal tax liability. The Federal form 2441, line 9, is the starting point for Iowa.
- **Extenders:** Effective with the enactment of House File 2433 on March 21, 2016, Iowa tax provisions are coupled with federal provisions retroactive to January 1, 2015 for tax year 2015 only for individual income tax filers only:
 - Deduction of educator expenses
 - Tuition and fees deduction for higher education
 - Election to deduct state sales/use tax as itemized deduction in lieu of state income tax
 - Treatment of mortgage insurance premiums as qualified residence interest
 - Tax free distribution from an IRA to certain charities for individuals 70½ and older
- **Iowa 529 Plan Contributions:** For tax years beginning on or after 1-1-15, contributions made by the Iowa income tax return filing deadline (April 30), EXCLUDING EXTENSIONS, can be treated as being made on the last day of the preceding calendar year and deductible on that year’s Iowa return.
- **Tax Form Changes:**
 - Line 28 was previously Self-employment/household employment. It is now Self-employment/household employment/other federal taxes.
 - Out-of-State Tax Credit (IA 130): This credit is computed using IA Form 130 and was reported on Line 57 in TY 2014. It is now reported on Line 50 of the IA 1040.
 - Other Nonrefundable Credits: These were previously reported on Line 50. They are now reported on Line 52.
 - School District Surtax or EMS Surtax: This was previously reported on Line 52. It is now reported on Line 54.
 - The total number of lines in Step 9 of the Iowa 1040 has been increased from 56 to 58.

¹ See “Iowa Counties, School District Numbers, Surtax Rates” tables accessible from the Iowa Expanded Instructions at tax.iowa.gov/expanded-instructions/school-district-surtaxemergency-medical-services-tax-0.

- The change in the number of lines in Step 9 necessitates renumbering of the lines in Steps 10 and 11.
- Step 10 now begins with Line 59. Other changes, since the movement of Out-of-state tax credit up to Line 50, include Line 64 which is now “Reserved for Future Use.”
- The Taxpayers Trust Fund Credit on Line 65 is zero for TY2015.
- The mailing address was previously printed below the total amount due on Line 75. It now appears at the lower-right on the back of the form.

New for 2016:

- **College Savings Iowa:** Tax-exempt, nonprofit organizations under IRC section 501(c)(3) were added to the list of entities that can open and contribute to an individual’s Iowa 529 plan on behalf of that individual. An individual can take an itemized deduction for the contribution to the 501(c)(3) if the individual did not designate the contribution be used for the direct benefit of any dependent of the individual or the individual did not designate any single beneficiary.
- At the time of publication, Iowa had not adopted federal Internal Revenue Code changes regarding the determination of income that occurred after January 1, 2016. Iowa did couple with federal changes relating to the solar energy system tax credit on May 27, 2016.
- Line 14: Iowa has not coupled with the 50% bonus depreciation provisions for assets acquired in 2016. The section 179 limit for Iowa for tax year 2016 is \$25,000.
- Line 23: If any deduction is reported on this line, the applicable Capital Gain Deduction form (IA 100A- IA 100F) must be completed and included with the return. Each eligibility category has a separate form. See Online Expanded Instructions.
- Line 24: Tax-exempt, Internal Revenue Code 501(c)(3) entities are eligible to participate in the Iowa 529 Plan.
- Line 24: Income earned by an out-of-state business that performs disaster and emergency-related work pursuant to a state-declared or presidential-declared disaster is exempt from income tax. An out-of-state employee performing disaster or emergency-related work during a disaster response period is not subject to income tax.
- Line 24: Beginning on or after January 1, 2016, contributions to a qualified ABLE savings plan trust made on or after July 1, 2015, on behalf of a designated beneficiary, are deductible from Iowa individual income tax up to a maximum amount, \$3,188, allowed per beneficiary per year for purposes of the Iowa education savings plan trust in Iowa Code chapter 12D. Interest and earnings income from ABLE are exempt from Iowa individual income tax.
- Line 59: The Iowa solar energy system tax credit is 50% of the federal solar energy credit. A tax credit certificate is required in order to claim the credit. To receive a certificate, an application must have been filed with the Department of Revenue before May 1, 2017.
- Line 62: To make a claim to the adoption tax credit equal to the first \$2,500 of unreimbursed expenses related to an adoption per each child adopted in Iowa, the IA 177 must be completed and included with the return beginning in tax year 2016.
- Line 65: The taxpayers’ trust fund tax credit is \$0 for 2016.

New for 2017

- The Iowa adoption tax credit is increased from \$2,500 per adoption to \$5,000 per adoption. The credit is equal to the amount of qualified adoption expenses paid or incurred by the taxpayer during the tax year in connection with the adoption of a child. This is effective for tax years beginning on or after January 1, 2017. This is out-of-scope and is provided for background only.

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IA REVIEWED

TaxSlayer (TS)

Some Hints Regarding TS

The screen captures that accompany this manual were created using “Access Link & Learn Taxes” otherwise known as the “Electronic Tax Software Practice Lab for VITA/TCE volunteers.” Since it uses the 2015 version of TS, one may encounter differences in various screens. For example, a check of Figure 10 would reveal references to 2014 and 2015 for refund and additional tax data. Obviously that would be incorrect for a 2016 tax return.

TaxSlayer maintains a knowledge base for guidance on individual items to help someone using the software. No link has been located within the TS Pro training version of the software, but it may be within the active version. If one wishes to access the site directly, use www.taxslayerpro.com/kb. There may be some differences between the screens referenced within the knowledge base and the TY software since the knowledge base appears to be for a prior year.

To find a calculator in TS, click the taxpayer name in the upper left. Choose Helpful Tools.

Pay very careful attention to things such as phone numbers, dates or social security numbers. The method for entering each varies as follows:

- Dates are entered with a digit representing the month, e.g. “3” for March. Then one must tab to the next field. A two digit entry e.g. “03” for March will not work.
- A phone number is entered with the three digit area code followed by the three digit prefix followed by the four digit suffix. TS automatically tabs from the first field to the second and then to the third.
- A SSN is entered with three digits followed by tabbing and then two digits followed by tabbing and then four digits.

Be careful making changes. For example if one entered a pension gross distribution of \$23,000, TS will automatically show the taxable amount as \$23,000. If the gross distribution was mistyped and was actually \$28,000 one will return to the gross distribution box and make the change. Note that the taxable amount **DOES NOT CHANGE** automatically and remains as \$28,000 until actually changed. One should verify these matters. If the change is not made, TS will eventually show you a screen as follows:

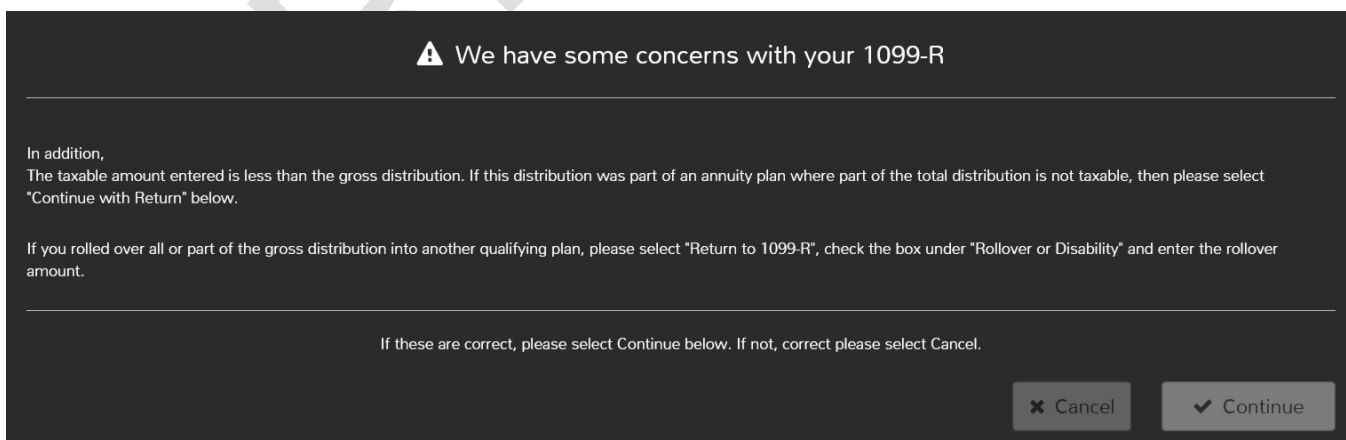


Figure 1- Warning Screen

Be very careful with the choice of filing status with the federal return. If you complete the state return and subsequently change the federal status, TS will remove all state returns and you must add the state(s) and complete **again**.

TS Screens

IMPORTANT: TS will reveal screens that are based upon the information that has been entered to that point. For example, if one selects a filing status of “single,” the screen shown in **Error! Reference source not found.** will be revealed. It is totally different than the screen one gets for a filing status of “married filing jointly” which is illustrated in **Error! Reference source not found.**. This is true for many other items within the Iowa return.

The screen captures herein will be examples from both the returns filed as “single” and those filed as “joint” (or MFSCR). Not every possible screen can be displayed, so expect some variations that will depend upon client data entered to that point.

The following screen contains a link to an important source of current information.

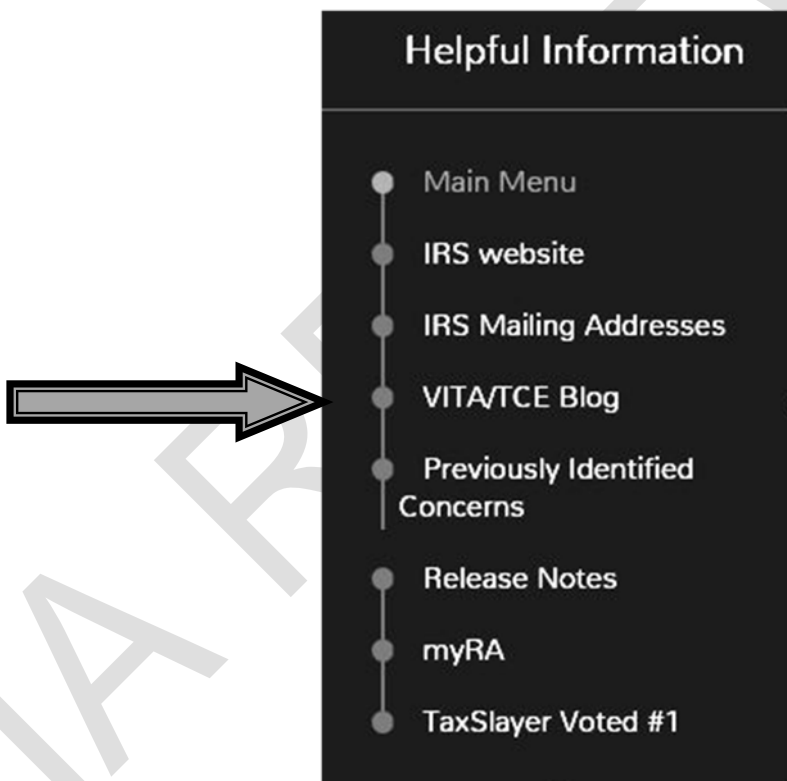


Figure 2 - Important Source of Info

CAUTION: All screen captures and TS guidance herein are based upon the 2015 version of TS as used in the practice lab. Obviously there will be some differences within the 2016 version of TS.

Personal Information

Taxpayer Information

Primary First Name MI Last Name Suffix (Jr, Sr, etc.)

Social Security Number

 - -

Date of Birth

Occupation

- Check here if the Taxpayer can be claimed as a dependent on someone else's return.
- Check here if Taxpayer is a student.
- Check here if Taxpayer is blind.
- Check here if Taxpayer is deceased.
- Check here if the Taxpayer wishes to contribute \$3 to the Presidential Election Campaign Fund.
- Check here if the Taxpayer or Spouse served in a Combat Zone during the current tax year.

Address and Phone Number

- Check here if Stateside Military address.
- Check here if foreign address

Address (Number and Street)

Apartment

Zip Code

 -

City, Town, or Post Office

State

Resident State as of 12/31/0}

Daytime Telephone Number

 () -

Secondary Telephone Number

 () -

After entering state (to left) be sure this also is correct

Figure 3 - Info Screen for Single Filing Statis

Taxpayer Information

Primary First Name MI Last Name Suffix (Jr, Sr, etc.)
 --

Social Security Number Date of Birth
 654 - 00 - 1234 MM DD YYYY

Occupation

Check here if the Taxpayer can be claimed as a dependent on someone else's return.
 Check here if Taxpayer is a student.
 Check here if Taxpayer is blind.
 Check here if Taxpayer is deceased.
 Check here if the Taxpayer wishes to contribute \$3 to the Presidential Election Campaign Fund.
 Check here if the Taxpayer or Spouse served in a Combat Zone during the current tax year.

Spouse Information

Spouse First Name MI Last Name Suffix (Jr, Sr, etc.)
 --

Social Security Number Date of Birth
 - - MM DD YYYY

Occupation

Check here if the Spouse can be claimed as a dependent on someone else's return.
 Check here if Spouse is a student.
 Check here if the Spouse is blind.
 Check here if Spouse is deceased.
 Check here if the Spouse wishes to contribute \$3 to the Presidential Election Campaign Fund.

Address and Phone Number

Check here if Stateside Military address.
 Check here if foreign address

Address (Number and Street) Apartment

Zip Code
 -

City, Town, or Post Office

State Resident State as of 12/31/04
 - Please Select - None

Daytime Telephone Number
 () -

Secondary Telephone Number
 () -

After entering state (to left) be sure this also is correct

Figure 4 - Info Screen for MFJ Filing Status

Overview for Iowa

This section has been added in an effort to acquaint the reader with TaxSlayer software. Experienced hands will note that it can be very different from the software previously in use. Therefore care should be used as one starts to make use of the new package. One point must be made and that is, quite simply: **READ EVERY LINE ON EACH SCREEN AND MAKE NO ASSUMPTIONS!!** The quality review will be extremely important this year. After a period of actually using the software, the logic of its construction will become more evident and work will progress faster. Make no assumptions as to what will happen when an entry is made or modified. The state software, in particular, was constructed with most other states' usual procedures in mind. Iowa has some unique features within its return (e.g. married filing separately on a combined return (MFSCR)) and also the requirement for a number of items to be prorated based upon the income of each individual.

The following is not a discussion of the federal return, except where it could affect the return for Iowa. Keep in mind one thing: **you** must add the state return(s) for every taxpayer. While one does enter the state of residence, for December 31st, when completing the taxpayer's personal information, this does not result in adding that state to the taxpayer's return!

There are some differences between the way TS works for the federal return and how it works for the state:

- When you choose Summary/Print on the left side and see the federal 1040, you can click on any blue amount to take you to the source of the amount (most of the time). No similar navigation can be done for state returns.
- To see state forms (or federal forms other than the 1040), choose Summary/Print on the left, Select "Preview the Return" and "Print Your 2016 Tax Return". This will give you a pdf of the return. TS has promised "view form" (without any links) to see what's on completed Schedules A, B, C, etc. It is not available at the time this is being prepared.
- When the Federal Section is open, there are five shortcut links at the top (just below the refunds): Income, Deductions, Other Taxes, Payments & Estimates, and Miscellaneous Forms. See Figure 5.

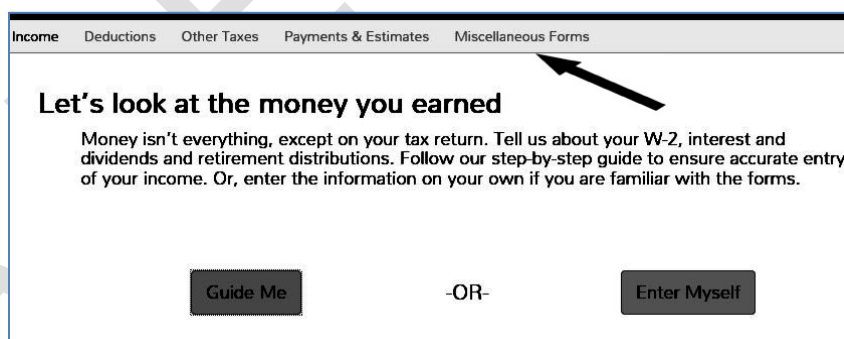


Figure 5 - Note Shortcut Links at Top

- On the vertical navigation bar (left side see **Error! Reference source not found.** below) are nine shortcut links: Basic Info, Federal Section, Health Insurance, **State Section**, Summary/Print, e-file, 2015 Amended Returns, Save, and Scanned Documents.

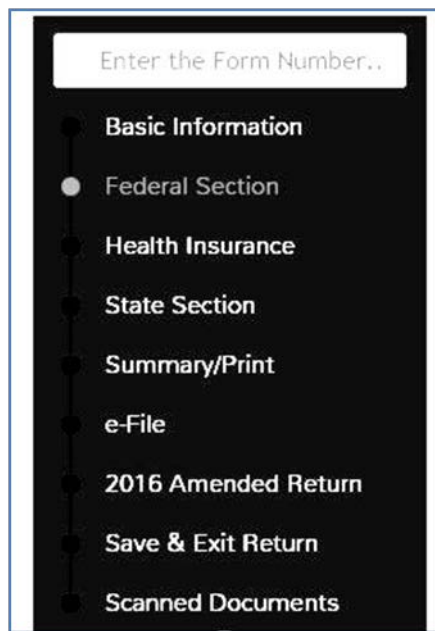


Figure 6 - Shortcut Links

- State estimated payments are actually under the Federal Section since the amount can affect the federal tax. Click “Payments & Estimates” (see Figure 5 - Note Shortcut Links at Top) and then “State Estimated Payments.”

When you finish entering information for the federal return, TaxSlayer will display the “Your Federal Return is Complete!” page shown below:

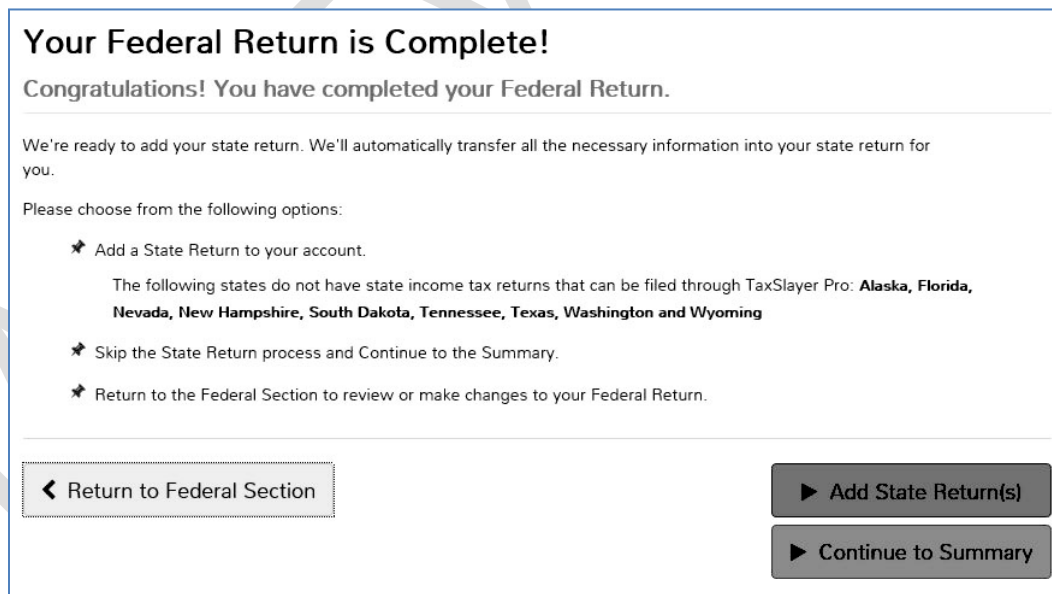


Figure 7 - Start of Preparing State Return

You may also click State Section in the vertical navigation bar to access this page. If the taxpayer does not need a state return, click Continue to Summary, otherwise, click Add State Return(s).

Just a brief caution before starting the state. IF the federal filing status is changed after beginning the state return, TS will automatically delete all state returns!

The state selection screen provides two options for selecting the state: you may click on the state within the map or you may select the state from the drop-down list. REMEMBER to click on *Continue* in order to proceed from this point. One should always click *Continue* in order to have the software record the data entered.

Select your State Return

Please select the state that you would like to complete below.

Only states that accept tax returns for which you have not already created a state tax return are listed here. The following states **do not** have individual income tax returns:
Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming

Choose State
- Please Select -

VT
MA
RI
CT
NJ
DE
MD
DC

Cancel Continue

Figure 8 - Adding A State to the Return

TS is set up so that you only deal with **one state at a time**. Completion of that state will allow you to access this page again and select a second state such as one may do for a non-resident filing for Illinois.

TS will now provide access to the Select your Iowa Return Residency

Select your Iowa Return Residency
Please choose a return type

Resident: You are a Resident of Iowa if you have a permanent place to live in Iowa for the entire tax year regardless of brief, infrequent absences.

Part Year: You are a Part Year Resident of Iowa if you have a permanent place to live in Iowa during any part of the tax year.

Non-Resident: You are a Nonresident of Iowa if you do not maintain a permanent place to live in Iowa during the tax year.

Figure 9 - Selecting Type of Iowa Residency

After checking the correct residency, click on Continue. Now *read every item* and answer the question. The following discussion focuses on those items either requiring an answer or are required for the Iowa return.

Iowa State Return

Select the County where you lived on December 31st

Select your School District as of December 31st

Do you want to carry Medical & Dental Insurance Deduction to Iowa, Schedule A?

Enter your 2014 Federal Income Tax Refund. (if you owed last year on the Federal return, please enter 0)

Enter Self-Employed/Household Taxes included in Federal tax payments

Enter additional Federal Estimated Tax Payments

Enter additional Federal Tax Paid in 2015 for 2014 or prior years

Expenses for care of disabled relative (Note: The total combined maximum deduction is limited to \$5,000)

Description for Expenses for care of disabled relative

Adoption Expenses (Note: Only the expenses which exceeds 3% of your total Iowa net income may be deducted)

Description of Adoption Expenses

Mileage deduction for Charitable purposes (Note: Iowa allows you an additional deduction for automobile mileage driven for charitable organizations. Please refer to instructions for worksheet)

mandatory response

Figure 10 - Basic Iowa Information (Read Each Line)

Take care to enter the correct county and school district. For example, if one entered Clinton County and Davenport School District, you will not find out about the error until you are completing the state portion of the tax return. When entering the county, one can enter the first letters of the county name. A single letter will not do, e.g. typing an "S" will get the first county with that name and not Scott County. In this case, it would be Sac. If you type the "S" and then realize the need for more letters and subsequently type a "C", you will find yourself with Calhoun County. Thus one must type an adequate number of letters without pausing between the entries. In this case, type "SCO" and you will get the desired result. The same holds true for the school district.

The third question: "Do you want to carry Medical & Dental Insurance Deduction to Iowa, Schedule A?" should be answered carefully. If one has entered health insurance costs on the federal Schedule A or had a Medicare cost on the SSA-1099, answering "yes" will have these costs transferred to the Iowa Schedule A. Normally it is more favorable when these are report on the face of the Iowa 1040 on Line 18, so the question is normally answered "No."

The fourth question **requires** an answer. If there was a federal refund, the amount is entered here. A "zero" must be entered when the taxpayer either had no refund or when an additional payment was made. See Line 27 Federal income tax refund on page 42.

Continue answering the questions carefully. Take note that the final question deals with a mileage deduction. Iowa allows a deduction of 39 cents per charitable mile. The federal rate for 2016 was 14 cents. Thus one must actually compute the value to be entered here. Using the 25 cents per mile difference, calculate the dollar value for charitable miles and enter it. For example, if the client drove 2300 charitable miles, the value to be entered here would be: \$575!

Now comes a part where extreme care is warranted. We all know that completing an Iowa return is not as simplistic as completing a single page. Despite the fact the heading is "**Congratulations! You have completed your standard Iowa state return!**" we are not yet done. Read each item on this page and determine whether any apply to your client. For example if the client "Lived or worked in another state(s)" there may be a need to file a part-year or nonresident return such as when Illinois withholding is mistakenly taken for an Iowa resident. In this case, the taxpayer would want to file an Illinois nonresident return to recover the money withheld. One might think that all you need do is click on the line to be taken to the data entry area, but that is not the case. **IF ANY** of the listed items applies, click on "**YES,**" otherwise click on "No." For example, we want to be sure any health insurance payments are properly reflected on Line 19 of the IA 1040 and we know that many IPERS pensions have a different state amount than the federal taxable amount. These and other topics will be discussed on the pages that follow in association with the appropriate line number on the IA 1040.

Congratulations! You have completed your standard Iowa state return!

Would you like to add any of the following items or any additional items not listed below to your Iowa state return?

- Military Deduction
- Expenses related to Early Childhood Development Credit
- Contributed to a college tuition savings program
- MFJ filing status for 2014 but not 2013
- Active duty National Guard or reserves
- IRS adjustment to a prior year return
- Donated to a tuition organization or endow IA fund
- Contribution to IA Political Fund
- Age 65 years or older
- Lived or worked in another state(s)
- Party to a same-sex marriage
- Charitable mileage deduction
- Married and you or your spouse had total income of less than \$5,000
- Filed an amended 2013 return or other earlier in 2014
- Volunteer firefighter or EMS
- Owe out of state sales tax
- Paid for the care of a disabled family member

No

Yes

Figure 11 - End of a Simple Return, But Do Not Stop Here!

Basic Screens for the Iowa Return

The starting screen for Iowa is presented below. Examples of the screens available upon clicking the various options within Screen Example 1, follow as subsequent screen captures. Some time should be spent studying Screen Example 1 to understand the location for entering items. Then review each of the screen examples to understand where information is to be placed. More detailed screens will be discussed and illustrated during the presentation of specific material that follows.

Since the 2016 TS was not available as this was prepared, PLEASE NOTE that the screen captures may show dates that have not been updated.

Enter the Form Number..

Iowa State Return

House File 2433 Effective with the enactment of House File 2433 on March 21, 2016, Iowa tax provisions are coupled with federal provisions retroactive to January 1, 2015 for tax year 2015 only.

Basic Information **EDIT**

Additions to Income **BEGIN**

Subtractions from Income **BEGIN**

Itemized Deductions **EDIT**

Credits **BEGIN**

Contributions **BEGIN**

Payments **BEGIN**

Miscellaneous Forms **BEGIN**

Cancel **Continue**

Screen Example 1 – The Start for Entering Data for Iowa

Iowa State Return

Additions to Income

[learn more](#)

All income entered on your Federal return is carried to your state return. If you selected "Married filing separate on this combined return" as your filing status, income that is not already assigned will be split 50% to each spouse. To adjust the split, enter the amount to allocate to each spouse below.

Capital Gain (Loss)

Taxpayer

Spouse

Other Gains (Loss)

Taxpayer

Spouse

Rents, Royalties, Partnerships, etc

Taxpayer

Spouse

Other Income

Taxpayer

Spouse

Amounts already entered for Health Insurance Expenses, Medicare Premiums from 1099-SSA and Self Employed Health Insurance are automatically carried to your Iowa Return.

IF you received reimbursement from Health Reimbursement Arrangements (HRAs), enter the amount as a negative number here to reduce the Health Insurance Deduction by the repayment amount.

IF you paid additional insurance premiums that are not already listed above, enter that amount as a positive number here to increase the Health Insurance Deduction amount. DO NOT include any amounts that were paid on a pretax basis.

Health Insurance Deduction Adjustment

Taxpayer

Spouse

[Continue](#)

Screen Example 2 – Additions to Income (Joint Return)

Iowa State Return

Subtractions from Income

[learn more](#)

Iowa carries over adjustments and certain deductions from your federal return. Entries made here will add to the amounts automatically carried over. Other adjustments not listed on your return but allowed as a subtraction from Iowa income are also listed below. Enter all that apply.

Pension and Retirement Income Exclusion

1099RRB Income Excluded From Taxable SSA

IA 4562B - Iowa Depreciation Accumulated Adjustment Schedule

1) Other Adjustments

2) Other Adjustments

Military Retirement Pay Included on Your Federal Return and/or the difference in Federal to State taxable retirement income from IPERS (Iowa Public Employees Retirement System)

Taxpayer

Spouse

Iowa Capital Gain Deduction (Form IA 100)

By default, the adjustment(s) below are split 50/50 between taxpayer and spouse. If you would like to allocate them yourself, enter the amounts below. If the total does not equal the federal amount the system will still use the default values.

Payments to an IRA, KEOGH or SEP

Taxpayer

Spouse

One-Half of Self-Employment Tax

Taxpayer

Spouse

Penalty on Early Withdrawal of Savings

Taxpayer

Spouse

Alimony Paid

Taxpayer

Spouse

Moving Expense Deduction

Taxpayer

Spouse

Student Loan Interest Deduction

Taxpayer

Spouse

Screen Example 3 – Subtractions from Income (Joint Return)

Iowa State Return

Itemized Deductions

[learn more](#)

If Iowa Filing status is Married Filing a Joint return, then only enter amounts in the "Taxpayer" column below:

Federal Tax Additions and Deductions

Health Insurance Deduction

EDIT

Enter your 2014 Federal Income Tax Refund. (If you owed last year on the Federal return, please enter 0)

Taxpayer	<input type="text" value="0"/>
Spouse	<input type="text" value="0"/>

Enter Self-Employed/Household Taxes included in Federal tax payments

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Enter additional Federal Estimated Tax Payments

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Enter additional Federal Tax Paid in 2015 for 2014 or prior years

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Expenses for care of disabled relative (Note: The total combined maximum deduction is limited to \$5,000)

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Description for Expenses for care of disabled relative

Adoption Expenses (Note: Only the expenses which exceeds 3% of your total Iowa net income may be deducted)

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Description of Adoption Expenses

Mileage deduction for Charitable purposes (Note:Iowa allows you an additional deduction for automobile mileage driven for charitable organizations. Please refer to instructions for worksheet)

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Iowa Itemized Deductions

Adjust state and local income tax paid (+/-)

Screen Example 4 – Itemized Deductions (Joint Return)

Iowa State Return

Credits

[learn more](#)

Certain credits are automatically calculated and carried from your Federal return to your Iowa return. Below are additional credits that are available through the state of Iowa. Please review each section and complete the necessary information as it is applicable to your tax situation.

Tuition and Textbook Credit	BEGIN
Early Childhood Development Credit	BEGIN
Other Credits - Form 148	BEGIN
Credit for Taxes Paid to Another State	BEGIN
Volunteer Firefighter/EMS Credit	BEGIN
IA 4136 - Motor Fuel Tax Credit	BEGIN

Screen Example 5 - Credits

Iowa State Return

Contributions

[learn more](#)

Enter any voluntary contribution amounts to the organizations listed below. This amount will add to your total balance due or reduce the amount of your refund. The amount you contributed on your 2015 and include it as a charitable contribution on your 2016 return.

Fish/Wildlife Contribution	\$ <input type="text"/>
State Fair Contribution	\$ <input type="text"/>
Firefighters/Veterans	\$ <input type="text"/>
Child Abuse Prevention	\$ <input type="text"/>

Screen Example 6 - Contributions

Iowa State Return

Payments

[learn more](#)

Your state withholdings and payments are automatically pulled from your Federal return. Please be sure that the state sections are completed on forms such as your W-2s and 1099s for accurate calculations. If you would like to apply all or part of your state refund to next year's state tax return, you can come back to this section to enter that amount. The refund generator will display your refund amount once you have completed and SAVED the State return. To come back, select State Section >> Edit >> Enter Myself >> Payments. Please note, if you enter an amount that is greater than your refund or you have a balance due on your state, the amount entered here will not be transferred to your state return.

Indicate the amount of state refund that you would like to apply to your 2016 Iowa state taxes \$

Estimated Payments are pulled from the Federal Return. The lines below are for adjusting those figures if need be. If you have no adjustment leave these lines blank.

Adjustments to Estimated Payments

Taxpayer	<input type="text"/>
Spouse	<input type="text"/>

Screen Example 7 - Contributions

Iowa State Return

Miscellaneous Forms

Below please find additional forms that are available to add to your state tax return.

Estimated Payment Vouchers, Form IA 1040ES	<input type="button" value="BEGIN"/>
Form IA 2210 Underpayment of Estimated Tax	<input type="button" value="BEGIN"/>

Screen Example 8 – Miscellaneous Forms

The material that follows is a line-by-line discussion of the Iowa return. The illustrations that accompany the discussion are keyed to a particular line and referenced from within that line discussion.

Step 1 Name/Address/Social Security (SS) Number

- Name, Address and SS Number(s) will carry over from the federal return.
- One of the first items encountered when beginning the state portion of a return is the need to enter the county and school district names. This information is required on the state form 1040 and must be provided to properly calculate any school district surtax on line 54. The county and school district² to enter are the ones in which the clients lived on December 31 of the tax year. This does not apply to nonresidents and part-year residents who have moved out of Iowa. This school district is not necessarily the one where their children attended school. Even if the client does not have children, you must enter the name of the school district. An individual's voter registration card is a good reference for the school district. Military personnel would enter the county of their Iowa residence, even if the service member is not physically present in Iowa on the last day of the tax year.

The screenshot shows the 'Iowa State Return' form with the following fields and callouts:

- Select the County where you lived on December 31st**: Dropdown menu with "--Select--". Callout: "See p42".
- Select your School District as of December 31st**: Dropdown menu with "--Select--". Callout: "See p42".
- Do you want to carry Medical & Dental Insurance Deduction to Iowa, Schedule A?**: Dropdown menu with "--Select--". Callout: "See p42".
- Enter your 2014 Federal Income Tax Refund. (if you owed last year on the Federal return, please enter 0)**: Text input field with "\$" prefix.
- Enter Self-Employed/Household Taxes included in Federal tax payments**: Text input field with "\$" prefix.
- Enter additional Federal Estimated Tax Payments**: Text input field with "\$" prefix.
- Enter additional Federal Tax Paid in 2015 for 2014 or prior years**: Text input field with "\$" prefix.
- Expenses for care of disabled relative (Note: The total combined maximum deduction is limited to \$5,000)**: Text input field with "\$" prefix.
- Description for Expenses for care of disabled relative**: Text input field.
- Adoption Expenses (Note: Only the expenses which exceeds 3% of your total Iowa net income may be deducted)**: Text input field with "\$" prefix.
- Description of Adoption Expenses**: Text input field.
- Mileage deduction for Charitable purposes (Note: Iowa allows you an additional deduction for automobile mileage driven for charitable organizations. Please refer to instructions for worksheet)**: Text input field with "\$" prefix.

Buttons: "x Cancel" and "✓ Continue".

Illustration 1 - Basic Iowa Information (Be Sure To Read Each Line)

²The listing is on the back pages of the Iowa 1040 Instructions Book. These can be copied for ready reference at the site. The listing is not available in the **Iowa Expanded Instructions**. It is also available on the IDR website. In search box put "school district surtax" and look for the 2016 list.

- If the client was not a resident on December 31st, “Part Year / Non Resident” should be entered for the county. That item is first in the drop down list. Similarly, “Part Year” should be entered for the school district. This item is located alphabetically in the drop down list. Be sure to answer the question regarding dependents and health care coverage.
- If either a non resident or part year resident, another screen will appear and must be completed. Note that part-year residents who entered Iowa and were resident on December 31st will have to select the county and school district. Illustration 2 is an example of an individual who left Iowa during the year and was not a resident on December 31st.

Iowa State Return

Basic Information

[learn more](#)

Most of your Personal Information is carried to your Iowa return from your Federal return. Please complete the additional information below as they apply to your tax return.

Enter the date moved INTO State (Enter as follows: MMddyyyy)	<input type="text"/>
Enter the date moved OUT of State (Enter as follows: MMddyyyy)	<input type="text" value="06302016"/>
Select the County where you lived on December 31st	<input type="text" value="PART YEAR / NON RE"/> ▼
Select your School District as of December 31st	<input type="text" value="PART-YEAR"/> ▼
Enter the number of dependent children you claimed on your return that do not have health care coverage	<input type="text"/>

There are dependents on the federal return.

Illustration 2- Non Resident or Part Year Resident

Iowa State Return

Select the County where you lived on December 31st

SCOTT



Select your School District as of December 31st

DAVENPORT



Do you want to carry Medical & Dental Insurance Deduction to Iowa, Schedule A?

No



The medical and dental insurance amounts are automatically pulled as a 50/50 split for joint filers filing a combined tax return. If you would like to use a different allocation of expenses in accordance to Iowa law, enter the amount allocated to each spouse below.

Enter the amount to adjust the 50/50 split

Taxpayer

Spouse

Enter your 2014 Federal Income Tax Refund. (if you owed last year on the Federal return, please enter 0)

Taxpayer

Spouse

Enter Self-Employed/Household Taxes included in Federal tax payments

Taxpayer

Spouse

Enter additional Federal Estimated Tax Payments

Taxpayer

Spouse

Enter additional Federal Tax Paid in 2015 for 2014 or prior years

Taxpayer

Spouse

Expenses for care of disabled relative (Note: The total combined maximum deduction is limited to \$5,000)

Taxpayer

Spouse

Description for Expenses for care of disabled relative

Adoption Expenses (Note: Only the expenses which exceeds 3% of your total Iowa net income may be deducted)

Taxpayer

Spouse

Illustration 3- Basic Iowa Information (Joint Return) Top of Screen

Expenses for care of disabled relative (Note: The total combined maximum deduction is limited to \$5,000)

Taxpayer

Spouse

Description for Expenses for care of disabled relative

Adoption Expenses (Note: Only the expenses which exceeds 3% of your total Iowa net income may be deducted)

Taxpayer

Spouse

Description of Adoption Expenses

Mileage deduction for Charitable purposes (Note:Iowa allows you an additional deduction for automobile mileage driven for charitable organizations. Please refer to instructions for worksheet)

Taxpayer

Spouse

Illustration 4 - Basic Iowa Information (Joint Return) Bottom of Screen

TS provides the following guidance while entering the basic information for Iowa:

When filing a joint federal return, you are given a choice on how to file your state return. If you select "Married Filing a Combined Return", your spouse's income will be allocated to the spouse column based on the assignment made in the Federal return. If no assignment was made, the income will be equally split between the taxpayer and spouse. To alter the amount of income allocated to the spouse, you will need to complete the spouse lines in the subsequent screens for income and deductions that apply to your return. Note: If you do not choose a filing status, your return will be calculated using both filing status and it will generate your return using the lowest tax.

- After entering the foregoing, you return to the basic Iowa information screen and enter your 2015 Federal Income Tax Refund. If you paid last year on the Federal return you **MUST** enter a zero! If you click “Continue” and nothing happens, be sure to scroll over the entire page looking for the missing items. This procedure should be followed whenever “Continue” does not result in an action. Errors will probably be indicated in red at the site where there is an error or may have a red explanation at the top of the page.

Step 2 Filing Status

- See the **Iowa Expanded Instructions** for additional information on filing status.
- Married taxpayers have the option of either filing jointly (status 2) or filing separately (statuses 3 or 4) on the Iowa return, no matter how they filed on the Federal return. If both have income, married couples may reduce their tax liability by using filing status 3 rather than filing status 2. TS will choose the most advantageous (status 2 or 3) automatically. There is no “what if” capability in TS. Married filing separately (status 4) is not currently available for Iowa within the current structure of TS unless one has selected that status for the federal return! TS says they are going to work on providing this capability.³
- Iowa does not follow the Federal “Injured Spouse” rule. The taxpayers must use filing status 4 to avoid their refund being used to pay spousal debt⁴. Also, when using Status 4, Iowa requires the spouse’s income, in addition to the spouse’s SSN, to be listed in Step 2. Failure to list this income could result in delays processing refunds or in an incorrect calculation of the low-income exemption and precludes the use of the alternate tax computation for line 39. See filing guidance in “Attachment H: Special Instructions for Injured Spouse Filings” on page 74.
- Iowa filing status 4 may also be beneficial in situations similar to those wherein a taxpayer finds it best to use married filing separately on the federal return.
- Same-sex marriage. Federal returns recognized same-sex marriages beginning with TY 2013. This means that Iowa returns and federal returns may be prepared using the usual procedures for married couples. That is, married same-sex couples must use filing status 2, 3, or 4.

There is additional discussion of same-sex marriages covering the federal return and states other than Iowa and prior year returns along with federal amendments for those years. See Attachment B: Tax Treatment of Same-Sex Marriages on page 64.

Step 3 Exemption Credits

- Each personal exemption credit is \$40, with the exception of the additional \$20 credit for those 65 or older on or before January 1st following the reporting tax year and/or blind on the last day of the tax year. Remember: TS carries this over automatically, based on the birthdates input to the federal return. Dependents filing their own returns should claim a \$40 personal exemption credit even though they are claimed as a dependent on another person’s Iowa return. TS will do this automatically.

Step 4: Reportable Social Security Benefits

The benefits reported here are calculated on line 11 of the Iowa Social Security worksheet. TS should complete this automatically. While Social Security benefits are excluded from income when computing

³ Most states require the federal filing status to be used for the state. This is not true for Iowa! This is particularly applicable when there is an injured spouse since protection of one’s refund requires the individual to file separately.

⁴ At the time this is being drafted, the filing status in the federal return is that used in the Iowa return. TS will check to see whether MFJ or MFSCR provides the lower tax. Injured spouse filings may require special procedures (Attachment H: Special Instructions for Injured Spouse Filings on page 55).

tax, some Social Security benefits are included as income in determining whether a taxpayer has sufficient income to file an Iowa return, and are included as income for purposes of computing the alternate tax on line 39.

Step 5 Gross Income

(All taxpayers, including nonresidents, report income from all sources)

Line 1 Wages, salaries, tips, etc

Report the same W-2 income as shown on the Federal income tax return.

Line 2 Taxable interest income

Interest income may be different than on the Federal return. For example, you must enter interest from U.S. Savings Bonds, but it is not taxable to Iowa. If properly entered in TS (see Illustration 5), the correct taxable amount will carry to the Iowa return. Refer to the **Iowa Expanded Instructions** for detailed information on exempt securities. Note: A copy of the new Iowa Sch B must be attached if total Iowa taxable interest is more than \$1,500. Iowa no longer allows the federal form to be used. TS will do this automatically providing all entries are made on the interest statement.

The screenshot shows a form titled "Interest Income". The "Type of transaction" is "Interest Income". The "Payer's Name" is "US TREASURY". The form includes several input fields for interest income components: "Interest Income (Box 1)" is empty, "Early Withdrawal Penalty (Box 2)" is empty, "Interest on U.S. Savings Bonds and Treasury obligations (Box 3)" is \$432, "Federal Tax Withheld (Box 4)" is empty, "Foreign Tax Withheld (Box 6)" is empty, and "Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return" is \$432. At the bottom, there is a dropdown menu for "Please select your state" with "Iowa" selected.

Illustration 5 - Entering US Bond Interest

Line 3 Ordinary dividend income

Report the same dividends as shown on the Federal return. In rare situations, dividends may be different than on the federal return. See **Iowa Expanded Instructions** for more detail, particularly as a client is reporting mutual fund dividends that are attributable to direct federal securities. Note: A copy of the new Iowa Sch B must be attached if total Iowa taxable dividends are more than \$1,500. Iowa no longer allows the federal form to be used. TS will do this automatically providing all entries are made on the dividend statement.

Line 4 Alimony received

Same as on federal return. This is entered through the Income menu of the Federal Section. Note that Alimony Paid is accessed through the federal menu sequence: Deductions/ Adjustments/Alimony Paid.

Line 5 Business income or loss

From federal Sch C or C-EZ.

Line 6 Capital gain or loss

Enter 100% of any capital gain or loss as reported on line 13 of the Federal 1040. Iowa tax law follows the Federal guidelines on the exclusion of gain on the sale of a principal residence.

Line 7 Other gains or losses

Other gains or losses from federal form 4797 (*out of scope*).

Line 8 Taxable IRA distributions

IRA distributions to certain military personnel called to active duty may be exempt. Refer to **Iowa Expanded Instructions** for more detail. Military returns should be completed only by volunteers certified for Military and authorized to complete those returns.

Line 9 Taxable pensions and annuities

The same amounts of pensions and annuities are taxable for Iowa as are taxable for federal, with the exception of military retirement pay. Retirement pay for military service in the United States Armed Forces, the Armed Forces Military Reserve, or the National Guard is eligible for exemption from Iowa income tax and is not included on line 9, without regard for age or disability. The Army, Navy, Air Force, Marine Corps, and Coast Guard make up the Armed Forces. Only military retirement pay received from the Defense Finance and Accounting Service (DFAS), or a similar source, is eligible for the exemption. Retirement pay received from other sources, including the Office of Personnel Management (OPM), does not qualify for the exemption. In particular, retirement pay resulting from participation in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) does not qualify for the exemption.

Do not subtract Iowa pension exclusion on this line; it is deducted on line 21. (See *Line 21 Pension exclusion on page 37).

Railroad Retirement (RR) benefits are not taxable by Iowa. You must also use the Subtractions From Income page (see Illustration 6) to enter the RRB equivalent to SS to be excluded from the state return.

If the client is a state or local government employee who retired after December 31, 1994, the 1099-R may show Iowa taxable income different than on the federal return. In this case, when entering IPERS pensions and the Iowa taxable amount is different than the federal amount, it will be necessary to address this in the same location as one addresses the military retirement pay.

Line 10 Rents, royalties, partnerships, estates, etc

Out of scope

Line 11 Farm income or loss

Out of scope

Line 12 Unemployment compensation

Enter the amount of unemployment compensation that was taxable on the federal return except do not include unemployment compensation and sickness insurance benefits paid by the Railroad Retirement Board.

Line 13 Gambling Winnings (this line was formerly taxable SS⁵)

Gambling winnings are now reported here rather than on line 14. TS should do this automatically for a W-2G, if entered correctly on the federal return. As this is written, there is no way to enter gambling winnings that are not reported on a W-2G and have them appear on this line.

Line 14 Other income

Other Income includes all "other income" reported on line 21 of the Federal 1040 except gambling winnings. TS should automatically insert winnings on the correct line. Following items are "other income." See **Iowa Expanded Instructions** for more information. All other items are *out of scope*.

- Babysitting income not reported on federal Sch C or C-EZ.
- College Savings Iowa or Iowa Advisor 529 Plan from cancellation of plan.
- Director's fees
- Executor's fees
- Jury Duty pay

⁵ Social Security benefits are no longer taxable beginning with TY 2014.

- Refunds
- Meskwaki “Per Cap” Income (see Meskwaki Settlement Residents – Special Treatment of Income: “Per Cap” on page 39).

Step 6 Adjustments to Income

All taxpayers, including nonresidents, report adjustments from all sources.

TaxSlayer Basics. *With one exception, state adjustments to income are entered in the State Return data entry section titled “Subtractions from Income” (see Illustration 6 below). NOTE: The exception is Line 18 (Health Insurance); see discussion on page 36.*

Illustration 6 - Subtractions from Income (top)

TaxSlayer Hint for Married Couples. *State Adjustments to Income have been allocated by TS to each spouse in a 50-50 split in the 2015 Practice Lab and may be changed in the 2016 version. An even split is frequently incorrect, and will need to be manually adjusted during the data entry for the state return, if the couple chooses (or might benefit from choosing) Filing Status 3 - Married Filing Separately on this Combined Return.*

The screen below shows six adjustments to income which must be allocated to the appropriate spouse during data entry for the state return.

However, based on experience with the Practice Lab, it appears that IRA/Keogh/SEP contributions and Self-Employment tax are both allocated properly without any intervention by the preparer.

By default, the adjustment(s) below are split 50/50 between taxpayer and spouse. If you would like to allocate them yourself, enter the amounts below. If the total does not equal the federal amount the system will still use the default values.

Payments to an IRA, KEOGH or SEP

Taxpayer

Spouse

One-Half of Self-Employment Tax

Taxpayer

Spouse

Penalty on Early Withdrawal of Savings

Taxpayer

Spouse

Alimony Paid

Taxpayer

Spouse

Moving Expense Deduction

Taxpayer

Spouse

Student Loan Interest Deduction

Taxpayer

Spouse

In the Practice Lab, these two were allocated properly with no intervention.

These four will be allocated equally between spouses unless preparer enters actual figures here.

Illustration 7 – Iowa - Subtractions from Income (bottom)

Line 16 Payments to an IRA

Enter amount claimed on federal return for payments to IRA, SEP, Keogh, SIMPLE, or Qualified plan. Payments to a ROTH IRA are not deductible. *TS hint: Federal data entry for IRA contributions separates taxpayer contributions from spouse contributions, so should carry over in correct allocation.*

Line 17 Self-employment tax

The amount of self-employment tax that was deductible on line 27 of the federal 1040. *TS hint: Federal data for self-employment tax is calculated per earner, so should carry over to the correct spouse.*

***Adjustments marked with an asterisk (*) BEFORE THE LINE NUMBER, for lines that follow, are those likely to require adjustment to spousal allocation.**

***Line 18 Health insurance deduction**

TS Hint: Data carries forward from federal return, but is split 50-50 between spouses unless the preparer modifies the split. Surprisingly, this data entry option is not included in the “subtraction from income” section. Instead...

- *If the “Guide Me” method is selected, it is included in the first screen of data for the state return.*
- *If “Enter Myself” is selected, it is found if you scroll down on the “Additions to Income” screen (see **Error! Reference source not found.**).*

Do not include health insurance premiums that were paid on a pretax basis, any insurance premiums which are later reimbursed (including the federal Health Insurance Premium Assistance Credit), or are taken on IA Sch A. It is typically more advantageous to take the deduction here instead of IA Sch A, due to the Sch A reduction of medical and dental expenses by 10% or 7.5% of Federal AGI. Health insurance premiums include: Medicare Part B, Medicare Part D, Long-Term Care insurance, dental, vision, accident, hospitalization, etc.

Special Attention is required if Premium Tax Credit is used in current year or prior year return.

Any Excess Advance Premium Tax Credit repayment from line 46 of the federal 1040 will be entered on line 18 of the IA 1040 **in the year paid**. Any repayment calculated on the federal return cannot be included on line 18 of the current tax year IA 1040, but will be entered on line 18 of the return filed for next tax year. It may be advantageous to note the amount on the face of the taxpayer’s copy of this year’s return so that it is not overlooked next year.

Before entering the health insurance deduction in the “Itemized Deductions” section of the federal return, be sure to review last year’s return to determine whether there is any value entered on either Line 46 or Line 69 of the federal 1040. Line 46 contains the excess advance premium credit that is being repaid by the taxpayer. Line 69 shows the additional premium tax credit being paid to the taxpayer.

When entering the health insurance deduction, it is recommended that the amount paid by the taxpayer be entered in the federal return **ONLY AFTER** the appropriate adjustment is made using L46 or L69 data from last year’s return.

For example, assume that John is single and anticipated his current tax year household income to be \$28,725. He enrolled into a health care plan via the exchange and it was determined he was to receive \$2,888 of premium tax credit assistance and that he must pay \$2,312. He opted to have all of his credit provided as a monthly advance payment and he paid the \$2,312 personally.

When John filed his taxes, if he reported actual income of \$30,000, it would be determined that he had received a monthly advance payment that was larger than entitled. Line 46 of the federal 1040 shows he must repay \$199. This would not be entered on the current year’s return, but should be noted as an item for next year’s return. It would be entered on Line 18 of the next year’s return since it an additional amount he is paying, but it actually took place **AFTER** the current tax year.

On the other hand, assume that John filed his taxes and reported actual income of \$26,000. Here it was determined that he had received less assistance than entitled and Line 69 shows he will be receiving an additional \$437. This amount should be noted as an item for next year’s tax return. It would be entered as “other income” on Iowa Line 14 on that return since he is being reimbursed, but the reimbursement took place **AFTER** the current tax year.

***Line 19 Penalty on early withdrawal of savings**

The penalty is entered on the interest statement.

TS hint: Even though Federal data on penalty for early withdrawal is attached to taxpayer, spouse, or joint accounts, accurate allocation between spouses does not automatically carry to the state return. Preparers must allocate penalty on the “subtraction” worksheet according to account ownership.

***Line 20 Alimony paid**

Alimony paid will require the recipient’s SS number. *TS Hint: Allocate to the appropriate spouse on the state “subtractions from income” screen.*

***Line 21 Pension exclusion**

Iowa pension exclusion is up to \$6,000 for individuals who file status 1, 5, or 6 and up to \$12,000 for married taxpayers who file status 2, 3, or 4. Military retirement benefits are automatically exempt and do not have to be reported on this line. To take this exclusion the pensioner or retirement income recipient must meet one of the following conditions:

- 55 years of age or older on December 31st of the tax year.
- disabled, or
- a surviving spouse or a survivor⁶ having an insurable interest in an individual who would have qualified for the exclusion in the tax year on the basis of age or disability.

TS hint: Appropriate spousal allocation must be designated on the “subtraction” worksheet. The rules below should be consulted.

NOTES:

- Beginning with tax year 2010, only the pension income of the spouse who meets the eligibility requirements can be shown on line 21. Please see examples below and in the **Iowa Expanded Instructions**
- Married Separate Filers (filing status 3 or 4): If both spouses have pension income, and both meet the eligibility requirements, the exclusion of up to \$12,000 is prorated between them in the ratio that each spouse’s pension relates to the total pension received by both spouses. If only one spouse has pension income and meets the eligibility requirements, that spouse takes the entire exclusion of up to \$12,000. The spouse who has no pension income receives no exclusion.

Example 1 - Pension Exclusion (Line 21)

John, 50, is retired, and receives a pension of \$15,000. John is not disabled. Mary, 55, is not retired. Will John and/or Mary receive the pension exclusion? No. John does not qualify for the pension exclusion because of age and Mary does not receive any pension. Since the spouse receiving the pension was not 55 years of age, no exclusion is allowed on the Iowa return.

⁶ A survivor other than the surviving spouse is considered to have an “insurable interest” if the survivor is a son, daughter, mother, or father of the annuitant or pensioner.

Example 2 - Pension Exclusion (Line 21)

Fred and Sue elect to file using filing status 3. Fred is 52 years of age and received a pension income of \$12,000. Sue was 55 years of age and received a pension of \$7,000. Since only Sue was 55 years of age, an exclusion of \$7,000 would be allowed on the Iowa return and that would be shown on line 21 in column reporting Sue's income.

Practical Exercise 1 -Determining Pension Exclusion Amounts (Line 21)

Consider Sam and Lois receive pensions and wish to file using filing status 3. Sam has a pension of \$15,000 while Lois receives a pension of \$5,000. Both individuals are at least 55 years of age. Determine the exclusion amounts for Sam and Lois. See Attachment J: Answers to Exercises on page 77.

***Line 22 Moving expenses**

This is *out of scope* for volunteers, except for individuals certified for Military and authorized to complete those returns.

Line 23 Iowa capital gain deduction

Capital gains from the sales of certain stocks, bonds, and investment property do not qualify. If any deduction is reported on this line, the applicable Capital Gain Deduction form (IA 100A – IA 100F) must be completed and included with the return. Each eligibility category has a separate form. (*Out of scope*)

***Line 24 Other adjustments**

There are more than 30 possible adjustments. The following covers some of the more likely adjustments we may see at our volunteer sites. See the **Iowa Expanded Instructions** for a complete listing and details. Access to the screen for these adjustments is made through “Subtractions from Income” and then selecting either of the two “Other Adjustments.”

Iowa State Return
1) Other Adjustments

Amount: \$

Owner: --Select--

Adjustment Type: --Select--

- Accrual Method
- Active Duty Military Pay
- Alt Motor Vehicle Deduction
- College Savings Iowa
- Disability Income Exclusion
- Domestic Production Activities
- Employee Benefits for same-sex married couples
- Employer Social Security credit
- Injured Veterans Program Contributions
- Injured Veterans Program Grants
- Military Exemptions
- Other Federal Adjustments not already taken

Owner field appears only when return includes both TP and SP

This option did not work in the practice lab!

Illustration 8 - Other Adjustment Choices

TS Hint: when you select to enter “Other Adjustments,” the screen in Illustration 8 appears, allowing you to designate the type of adjustment within the drop-down menu.

ALERT!

For some of the “other adjustments” typically seen in VITA/TCE sites, a specific designation is present, (e.g. “College Savings Iowa”).

Where a specific designation is not present, the “Other...” designation did NOT work in the practice lab. The dollar amount entered was NOT included on Line 24 in the final Iowa return nor anywhere else on the Iowa return! Unless the final in-season version of the software works differently, preparers will need to select some other designation in order to ensure correct results on the tax return. The recommendation at this time is that one select “Accrual Method.” See Illustration 9.

The screenshot shows a software interface titled "Iowa State Return" with a sub-section "1) Other Adjustments". It contains three input fields: "Amount" with a text box containing "\$ 500", "Owner" with a dropdown menu showing "Spouse", and "Adjustment Type" with a dropdown menu showing "Accrual Method". A blue box highlights the "Accrual Method" dropdown, with a callout box pointing to it.

Illustration 9 – Other Adjustments

Alternative for
“Other
Adjustments”

***Student loan interest deduction**

TS will complete with the same figure allowed on the federal return. Even though Student Loan Interest is reported on Line 24 of the finished return, the state-level data is entered on the bottom half of the regular “subtractions” screen, rather than by selecting “other adjustments.”

TS Hint: For married couples, the correct amount for each spouse must be entered on the “subtractions from income” screen.

College Savings Iowa Advisor 529 Education Savings Plans

If the client or spouse participate in the College Savings Iowa 529 Plan (Iowa Educational Savings Plan Trust) or the Iowa Advisor 529 Plan, each participant may deduct an amount contributed not to exceed the 2016 amount of \$3,188 per beneficiary. These are Iowa Section 529 Plans. Please note: A rollover from the 529 plan of another state does qualify toward the deduction for Iowa income tax. For tax years beginning on or after 1-1-2015, contributions made by the Iowa income tax return filing deadline (April 30), excluding extensions, can be treated as being made on the last day of the preceding calendar year and deductible on that year’s return. Contributions can only be deducted one time.

Meskwaki Settlement Residents – Special Treatment of Income: “Per Cap”

Many members of the Meskwaki tribe receive unearned "Per Cap" income each year, distributed by the tribe. It is reported on a 1099-MISC. For those who reside off the settlement, it

is simply reported as "other income" on Federal Line 21, which transfers appropriately to Iowa Line 14. It is taxable for federal purposes.

HOWEVER, for those who actually reside ON the settlement in Tama County, the income is NOT taxable for state purposes. In these cases, it should be entered on Federal Line 21, but then entered as an adjustment to income on Iowa Line 24, so that it is not included in Iowa Taxable Income.

In addition, certain other income is exempt from Iowa tax for Meskwaki members residing within the settlement (see following). All exempt income should be included as an adjustment on Iowa Line 24, ensuring that it will not be taxed.

- **American Indians⁷ Residing on the Settlement of their own tribe⁸**
 - Taxable Income:
 - Wages for working off the settlement
 - Income from business or real estate located off the settlement
 - Income Exempt from Iowa tax:
 - Wages from working on the settlement
 - Income from business or property located on the settlement
 - Interest, dividends, and other income from intangibles, regardless of where the bank accounts, etc., are located
- **American Indians Residing off the Settlement**
 - If Residents of Iowa:
 - Taxed in the same manner as other residents. (Income from working on the settlement is taxable.)
 - If Nonresidents of Iowa:
 - Taxed in the same manner as other nonresidents. (Income from working on the settlement is taxable.)

NOTE: Individuals must be members of the Native American Tribes living on their Sovereign Settlement within the State of Iowa to be exempt from income earned from that same settlement within Iowa. If the individual is not a member of that recognized Native American settlement in Iowa, then income from that settlement in Iowa is Iowa-source income to Iowa residents and nonresidents.

- **Native Americans Living off the Settlement of their own Tribe**
 - If Residents of Iowa: Taxed in the same manner as other residents (Income from working on the settlement is taxable.)
 - If Nonresidents of Iowa: Taxed in the same manner as other nonresidents (Income from working on the settlement is taxable.)

Disability income exclusion

The client may exclude from Iowa tax a portion of the disability pay received in the tax year if meeting ALL of the following conditions:

- The client received disability pay, and
- The client was not yet 65 when the tax year ended, and
- The client retired on disability and was totally and permanently disabled, and
- On January 1 of the year following the reporting tax year, the client had not yet reached the age when his employer's retirement program would have required him to retire.

⁷ "Native Americans" means all persons of Native American Indian descent who are members of any recognized tribe.

⁸ "Settlement" means all land within the boundaries of any recognized Native American settlement or reservation within the State of Iowa.

If the client meets all of these conditions IA form 2440 MUST be completed and included with the tax return in order to take this exclusion. A doctor's statement must accompany each year's return attesting to the taxpayer's complete and permanent disability. The recommended procedure is to complete the tax return, prepare it for paper filing, and provide copies to the client. This must include a copy of the face of IA Form 2440⁹. Be sure to provide the client with a copy of the instructions for the 2440. Ask the client to get the doctor's signature and then include with the IA 2440 to the Iowa return and mail the completed return.

Educator expenses (K-12)

Iowa frequently passes coupling legislation after the start of the New Year and makes it retroactive to the tax year in question. Therefore, preparers might advise clients that they might wish to submit an amendment if they file before any authorization. Alternatively, they might opt to wait awhile to see what happens.

Health savings account (HSA)

The deduction from line 25 of the federal 1040 is entered here.

In-home health care

To the extent included in Iowa gross income, deduct any State Supplementary Assistance payments received for unskilled in-home health-related care services to a family member. Supplemental assistance payments are exempt from state income tax to the extent that the caregiver is not a licensed health care professional. This includes medical doctors, doctors of osteopathy, physician assistants, psychologists, podiatrists, chiropractors, physical therapists, occupational therapists, nurses, dental hygienists, optometrists, speech pathologists and audiologists.

A member of the caregiver's family includes a spouse, parent, stepparent, child, stepchild, brother, stepbrother, sister, stepsister, lineal ancestor such as grandparent or great-grandparent and lineal descendent such as grandchild and great-grandchild and those previously described relatives that are related by marriage or adoption.

Military

Members of the armed forces, armed forces military reserve, and the National Guard in an active duty status can exclude pay received from the federal government for military service performed. (*Out of scope unless certified for military and authorized to complete those returns*).

Tuition and fees deduction

The federal provision has expired and this deduction is no longer available. If the federal government authorizes these items, Iowa frequently passes coupling legislation after the start of the New Year and makes it retroactive to the tax year in question. Therefore, preparers might advise clients that they might wish to submit an amendment if they file before any authorization. Alternatively, they might opt to wait awhile to see what happens.

Small Business Health Insurance

Do not include any deduction for the small business health insurance tax credit that was not allowed as a deduction on the federal return (*out of scope*).

Nonresident Utility Workers

Effective with TY2015, the income a nonresident individual earns for performing emergency response work for an electric utility in Iowa under a mutual aid agreement between Iowa and the state in which the nonresident lives is excluded from Iowa individual income tax. Income received by a nonresident individual for training by an electric utility in Iowa is also excluded.

⁹ Download a copy of the form from the IDR web site. Copies can be kept at the preparation site. Be sure the client gets the back (instructions) of the form. This form is not readily accessible within TS.

In addition, if a nonresident qualifies for the income exclusions above, the nonresident is not subject to withholding by the electric utility for those sources of income. The electric utility must apply to the Department for an exemption from withholding and the Department must determine that the income exclusion applies to the nonresident.

Line 25 Total adjustments

Total Adjustments from lines 16 through 24 are added.

Line 26 Net income

Net Income is obtained by subtracting line 25 from line 15. Enter the result.

Step 7 Federal Tax Addition and Deduction

Lines 27, 28, and 33 require special attention. Volunteers: you may need to help taxpayers understand that the Federal tax addition and deduction will balance out from year-to-year to result in a correct net deduction for Federal tax paid.

Line 27 Federal income tax refund

Typically last year's refund is entered here, but Line 27 must also include *all federal refunds received* during this tax year, including any received for earlier years.

Modify the Federal Refund Amount: Exclude any part of the refund that is received due to refundable credits [Earned Income Credit, Additional Child Tax Credit, First-Time Home-Buyer Credit, Existing Homebuyer Credit, Refundable Education Credit, or Net Premium Tax Credit].

Do not include the Federal refund in the following situations:

- Do not include any federal tax refund received for any year in which the client was a nonresident or not required to file an Iowa return.
- Do not include any part of the federal refund received in a year for which the client was eligible for the Iowa Low-Income Exemption; that is, the client's income was below the minimum threshold for paying Iowa tax.
- Do not include any federal refund received for a year in which the client's Iowa tax was calculated using the alternate tax computation. Volunteers may need to compute the tax for the refund year since there is no indication on the form to show whether the alternate tax computation was used.

Do Include

- Any refund (or portion) which was retained by the government to pay a debt owed by the client (e.g. child support, student loans, repayment of First-Time Homebuyer Credit).
- Any portion of the federal refund received due to the motor vehicle fuel tax credit.

When a married couple files separately (status 3 or 4) for Iowa, but filed jointly on the Federal return for the year of the refund, the refund received last tax year must be divided between the spouses in the ratio of the spouses' Iowa net incomes in the year for which the refund was issued. Note: The sum must be prorated in this manner, even if the couple divided the actual refund differently. See Attachment D: How to Prorate on page 66.

Tip: You must have a copy of the taxpayer's prior year Iowa return to make this calculation.

Practical Exercise 2- Prorating prior-year refund for married separate filers (Line 27)

The previous year tax return shows:

Line 26 Col B:	\$12,000
Line 26 Col A:	\$18,000
Federal refund adjusted per state instructions	\$960

What is Line 27 Col B for the current tax year? _____

What is Line 27 Col A for the current tax year? _____

See Attachment J: Answers to Exercises on page 77.

Line 28 Self-employment, Household Employment, other federal taxes

Do not overlook this line. Federal self-employment tax, federal household employment taxes and *other federal taxes* are not allowed as a deduction in this step of the Iowa return. Taxpayers can deduct their entire withholding, estimated payment, and additional federal tax paid amounts on lines 31, 32, and 33, but certain amounts must be added back on line 28, including the following:

- Excess advance premium tax credit repayment reported on line 46 of the federal 1040
- Federal self-employment tax reported on line 57 of the federal 1040
- Unreported social security and Medicare tax on line 58 of the federal 1040
- Additional tax on IRAs and other qualified retirement plans reported on line 59 of the federal 1040
- Federal household employment tax reported on line 60a of the federal 1040
- First-time homebuyer credit repayment reported on line 60b of the federal 1040
- Individual responsibility payment reported on line 61 of the federal 1040
- Additional Medicare tax from the federal form 8959
- Other additional federal taxes reported on line 62 of the federal 1040

Line 31 Federal Tax Withheld

TS will carry all federal tax withheld on W-2 and 1099 forms when correctly entered. Additional information concerning possible adjustments is contained within the instructions for line 28. Please consider that information.

Line 32: Federal estimated taxes paid in the tax year

TS does not prorate any federal estimated tax payments. Consequently, all federal estimated tax payments made in 2016 must be divided between spouses in the same ratio as their incomes not subject to federal withholding for the 2016 tax year. The total amount will fill from the federal return if entered in the Federal **Payments and Estimates** section. See Illustration 10 for an example of the initial screen. Refer to Attachment D: How to Prorate on page 68 for guidance on pro rating data.

Payments and Estimates

Federal Estimated Payments for 2015	BEGIN
State Estimated Payments	BEGIN
Other Federal Withholding	BEGIN
Other State Withholdings	BEGIN
Underpayment of Estimated Tax	BEGIN
Apply Overpayment to Next Year's Taxes	BEGIN
Vouchers for Next Year's Estimated Payments	BEGIN
Amount Paid with Extension	BEGIN
	<input checked="" type="checkbox"/> Continue

Illustration 10 - Payments and Estimates

The screen for adjusting the amounts that were originally entered is shown in Illustration 10. It is important to enter the amounts as an **adjustment** to the original amount showing on the state return. For example, Illustration 11 - Adjustment of Estimated Taxes is used to ensure estimated tax payments are attributed to the correct individual.

That is, an adjustment either adds or subtracts the amount entered from the amount shown for the TP and spouse on Line 67! Take care to ensure you are aware of the filing status for the state return. If MFSCR, then the payments will need to be prorated between the individuals. On the other hand, if the filing status is MFJ, you can create an error by making entries. That is, the amount shown as a negative can result in an error since it will be subtracted, but if that individual is the spouse, it will not show up since it results in a negative value and it will therefore be ignored since there are no entries in the Spouse column on the IA 1040. An illustration of that follows:

		<u>TP</u>	<u>SP</u>
Total Payments Made	\$400		
TS split (TS automatic allocation)		\$200	\$200
Let's assume for Iowa it should be		\$100	\$300
Make adjustment as follows		-100	+100
Value after adjustment		\$100	\$300
Values shown if MFSCR is filing status		100	300
Incorrect values shown if MFJ is filing status		0	300

Iowa State Return

Payments

[learn more](#)

Your state withholdings and payments are automatically pulled from your Federal return. Please be sure that the state sections are completed on forms such as your W-2s and 1099s for accurate calculations. If you would like to apply all or part of your state refund to next year's state tax return, you can come back to this section to enter that amount. The refund generator will display your refund amount once you have completed and SAVED the State return. To come back, select State Section >> Edit >> Enter Myself >> Payments. Please note, if you enter an amount that is greater than your refund or you have a balance due on your state, the amount entered here will not be transferred to your state return.

Indicate the amount of state refund that you would like to apply to your 2016 Iowa state taxes

Estimated Payments are pulled from the Federal Return. The lines below are for adjusting those figures if need be. If you have no adjustment leave these lines blank.

Adjustments to Estimated Payments

Taxpayer

Spouse

Illustration 11 - Adjustment of Estimated Taxes

Line 33: Additional federal tax paid in 2015 for 2014 and prior years

With TS this is entered in the Basic Iowa Information section (see Figure 10 on page 18).

Do not include: Any portion of a payment that covered penalty or interest charges.

Do include: Any additional tax payments (for any prior year) made by check, credit card, or electronic transfer are entered here. Also, it is important to include additional tax that was paid from refundable credits via the client's prior-year tax return (*This is easy to overlook*). See "Attachment E: Calculating Additional Federal Tax Paid (IA Line 33)" on page 69. Additional information concerning possible adjustments is contained within the instructions for line 28. Please consider that information.

Example 3- Calculation of additional federal tax (Line 33)

A close look at this client's prior-year federal return shows that the client "owed" an additional \$2,000 tax, which was "paid" from the client's refundable credits.

Line 61 Total Tax	\$2,500
Line 62 Federal Tax Withheld	\$500
Line 63 Estimated Tax Payments	\$0
<i>Note that the taxpayer still owes federal tax (\$2,500 - \$500)</i>	\$2,000
<i>Taxpayer's refundable credits include:</i>	
Line 64 EITC	\$2,000
Line 65 Add'l Child Tax Credit	\$500
Line 66 American Opportunity Credit	\$200
Total Refundable Credits	\$2,700
Line 74 Amount to be refunded	\$700

Analysis: Even though the client received a \$700 federal refund for that year, the client actually "paid" \$2,000 extra in federal tax for that year. The amount of \$2,000 should be entered on IA 1040 Line 33.

Practical Exercise 3 - Calculation of additional federal tax paid (Line 33)

A taxpayer's Federal return, for last year, shows the following:

Line 61 Total tax	\$500
Line 62 Tax withheld	\$0
Line 63 Estimated tax.....	\$0
Line 64a Earned income credit.....	\$250
Line 65 Add'l Child Tax Credit.....	\$0
Line 66 American opportunity credit.....	\$500
Line 73 Amount overpaid	\$250

Determine the amount to be shown on IA line 27 _____
Determine the amount to be shown on IA line 33 _____

See Attachment J: Answers to Exercises on page 77.

Practical Exercise 4 - Additional Federal Tax Paid for Multiple Years (Line 33)

Taxpayer filed 3 years' tax returns last year (the 2015 filing year and two prior year returns) and received refunds of \$200, \$700, and \$1,900. Use the taxpayer's federal returns from those years to calculate the amounts to be entered on lines 27 and 33 of their current year Iowa return. Note: no self-employment tax was paid in any of those years.

TIP: Figure each year separately, and then total the results.

2015 Federal 1040

Line 61 Total Tax	\$1,400
Line 62 Taxes Withheld	\$1,600
Line 63 Estimated Taxes	\$0
Line 74 Amount to be refunded	\$200

First Prior Year Federal 1040

Line 60 Total Tax	\$1,800
Line 61 Taxes Withheld	\$1,400
Line 62 Estimated Taxes	\$0
Line 64 Earned Income Credit	\$700
Line 74 Amount to be refunded	\$300

Second Prior Year Federal 1040

Line 60 Total Tax	\$0
Line 61 Taxes Withheld	\$500
Line 62 Estimated Taxes	\$0
Line 65 Additional Child Tax Credit	\$300
Line 74 Amount to be refunded	\$800

What figure should be entered on Line 27 of this current year IA 1040?

What figure should be entered on Line 33 of this current year IA 1040?

See Attachment J: Answers to Exercises on page 77.

Line 34 Deduction for federal taxes

Add lines 31, 32 and 33

Line 35 Balance

Subtract Line 34 from line 30

Step 8 Taxable Income

Background for Deductions:

Taxpayer can itemize for Iowa even if he/she did not for Federal (and many do!). If one spouse itemizes, then both must itemize.

Information transfers from Deductions input in the Federal section

Also, some taxpayers may not qualify to itemize on federal, but since the Iowa standard deduction is relatively small, they may qualify on the state return. Consequently, it is a good idea to enter all deductions even though one cannot itemize for the federal return. Everything will flow over from the Federal Sch A. If you should need to file the Iowa return on paper, you must print out the Iowa Sch A and include it with the return. Use of the Iowa Sch A is mandatory when itemizing deductions. The Federal Sch A MAY NOT be substituted for the state form.

For guidance on the following **out of scope** topics, see **Iowa Expanded Instructions**:

- Taxpayers with bonus depreciation/Section 179 must reflect this on the Iowa Sch A.
- School Tuition Organization, Charitable Conservation Tax Credit Contributions, Farm to Food Donation Credit and Endow Iowa Tax Credit: Do not include as an itemized deduction any contributions for which a credit is claimed on line 52 of the IA 1040.
- Injured Veterans Grant Program Contributions: These contributions do not qualify as itemized deductions.
- Taxpayers with the mortgage interest credit deduction can claim on their Iowa return a deduction on the appropriate line 9a or line 9b of Sch A for all home mortgage interest paid in the tax year and not just the home mortgage interest that was deducted on the federal Sch A.
- When federal AGI is more than \$309,900 for married filers (\$154,950 for married taxpayers filing separate returns) or qualified widow(er), \$284,050 for head of household filers and \$258,250 for single filers and the taxpayer itemizes deductions since an Itemized Deduction Worksheet must be used.

Line 37 Deductions

Itemized deductions

Iowa follows Federal guidelines for Sch A itemized deductions with certain exceptions. To complete Iowa Sch A, enter all information in the federal Itemized Deductions section and follow the federal 1040 instruction book or Pub 17. The Iowa Sch A is the required form for the Iowa return. The federal form may not be used. TS should take care of this for e-filing and when printed for a return to be mailed to the state.

State Sales and Use Tax– Iowa is not currently coupled for tax year 2016

Iowa also allows deduction for State sales and use tax if used on the Federal return rather than taking a deduction for State and Local Income Tax. This will transfer to Iowa Sch A from amounts you entered under Taxes Paid in the Federal Itemized Deduction section.

Medical, Dental and Insurance Expenses

Iowa allows Health Insurance premiums paid to be fully deducted as an Adjustment to Income on Line 18 when you properly answer No to the TS question “Do you want to carry Medical and Dental Insurance Deduction to Iowa Schedule A?” See **Error! Reference source not found..** One hundred percent of the amount paid for health insurance premiums is deductible on line 18, IA 1040. It is generally to the client’s advantage to take this deduction on line 18 instead of IA Sch A. Note that if one spouse pays the entire cost of these expenses through their wages, it is reported for that spouse. If both pay health or dental insurance premiums through their wages, each spouse will claim what that individual paid. Take care to make note of the filing status assigned by TS. If one were to make the entries as shown in Illustration 12 before determining whether the filing status of MFSCR is being used, it could result in incorrect data on Line 18.

The medical and dental insurance amounts are automatically pulled as a 50/50 split for joint filers filing a combined tax return. If you would like to use a different allocation of expenses in accordance to Iowa law, enter the amount allocated to each spouse below.

Enter the amount to adjust the 50/50 split

Taxpayer	-583
Spouse	583

Illustration 12 - Correcting Health Insurance for Iowa

Vehicle Registration Fee Deduction and Worksheet

If you itemize deductions, a portion of the automobile or multipurpose vehicle annual registration fee you paid in 2016 may be deducted as personal property tax on your Iowa Schedule A, line 6, and federal Schedule A, line 8.

This deduction is for annual registration fees paid based on the value of qualifying automobiles and multipurpose vehicles. Multipurpose vehicles are defined as motor vehicles designed to carry not more than 10 people, and constructed either on a truck chassis or with special features for occasional off-road operation [Iowa Code section 321.1(44)].

Annual registration fees on the following vehicles are not deductible: pickups (model year 2009 or older), motor trucks, work vans, ambulances, hearses, non-passenger-carrying vans, campers, motorcycles, or motor bikes.

- **Newer Vehicles:**

Use the following worksheet to calculate the deductible amount of annual registration fees paid in 2016 for qualifying automobiles and multipurpose vehicles (model year 2006 or newer), pickups (model year 2010 or newer).¹⁰

More specifically, only 2010 and newer trucks that weigh in at 10,000 pounds or less when empty are registered based on weight, list price, and model year. All other trucks are still subject to a registration fee based on weight. Consequently, certain 2010 model year and newer trucks may use the Vehicle Registration Deduction Worksheet.

¹⁰ For tax years 2008 and earlier, pickup truck registration fees could not be taken as an itemized deduction, because the fees were structured as a flat fee and were not based on value. However, beginning with the 2009 tax year, there was a change in the registration fee structure for pickups.

1. Enter the actual annual registration fee paid.	1.	
2. Take the weight of your automobile and divide it by 250. The weight is found on your automobile registration certificate.	2.	
3. Subtract line 2 from line 1. This is the deductible amount for line 37.	3.	

○ **Example**

Malia purchased an automobile from Jennifer. The actual fee Malia paid to register the automobile at the courthouse was \$150. The weight of the automobile is 3,000 pounds. The deductible amount is calculated as follows:

1. Enter the actual annual registration fee paid.	1.	150
2. Take the weight of your automobile and divide it by 250. The weight is found on your automobile registration certificate.	2.	12
3. Subtract line 2 from line 1. This is the deductible amount.	3.	138

Practical Exercise 5 - Calculation of deductible vehicle registration fee (Line 37)

A taxpayer has a Toyota Camry SE several years old. It weighs 3,200 pounds. The registration fee for this tax year was \$205. Calculate the deductible part of this expense:

Enter the registration fee paid _____
 Divide weight of vehicle by 250 _____
 Subtract to get deductible amount _____

See Attachment J: Answers to Exercises on page 77.

○ **Older Vehicles:**

For qualifying automobiles and multipurpose vehicles (model year 2005 or older) the deductible amount is 60% of the annual registration fees paid in 2016.

Deductions (Line 27 of Iowa Schedule A):

If itemizing deductions for Iowa, one should consider the following:

Adoption Expenses (out of scope):

If the client adopted a child during the tax year, he/she may be eligible for an additional itemized deduction for a portion of the adoption expenses paid during the tax year. This deduction is taken in the year that the expenses are paid even if the child is not placed in the client's home during that year or if the adoption does not occur (*out of scope*). The deduction is not available for amounts on which the Iowa Adoption Tax Credit is claimed.

Care for Disabled Relative:

Expenses, not to exceed \$5,000, incurred in caring for a disabled relative in the client's home may be deducted. The expenses which may be claimed are those for the care of a person who is the client's grandchild, child, parent, or grandparent. The disabled person must be unable, by reason of physical or mental disability, to live independently and must be receiving or be eligible to receive medical assistance benefits under Title XIX of the U.S. SS Act.

An itemized schedule of expenses must be included with the return and may include items such as food; clothing, medical expenses not otherwise deductible, and transportation for medical reasons (see IRS guidelines for medical mileage rate). Expenses not directly attributable to the care of the relative, such as rent, mortgage payments, interest, utilities, house insurance, and taxes cannot be included. Only expenses which are not reimbursed may be claimed.

A statement from a qualified physician certifying that the person with the disability is unable to live independently must be submitted with the return the first year a deduction is taken and every third year thereafter. These expenses are also entered Iowa State Return page as shown in Illustration 1 on page 27.

Mileage Deduction

Mileage deduction for charitable purposes (note this is an additional deduction – it is the difference between the federal rate or 14 cents and the State rate of 39 cents). In TS, enter total charitable mileage on the Federal Sch. A, but you must also enter the dollar value of the Iowa charity mileage deduction on the Iowa State Return page (illustrated above). This would be multiplying the charity miles used on Federal Sch A by \$.25 per mile.

Standard Deductions

Tax year 2016, the standard deduction is:

Filing Status 1:	\$1,970
Filing Status 3 & 4:	\$1,970 for each spouse
Filing Status 2, 5 or 6:	\$4,860

Step9 Tax Credits and Checkoff Contributions

Line 39 Tax

Taxpayers using filing statuses 2, 3, 4, 5, or 6, without a net operating loss, may be able to use an alternate tax computation. The client may owe less tax by completing the worksheet to compute tax liability. Refer to **Iowa Expanded Instructions** for detailed instructions. TS will calculate this automatically.

Taxpayers who file status 4 and do not provide the other spouse's income in Step 2 cannot use the alternate computation.

Line 40 Iowa lump-sum tax

Out of scope.

Line 41 Iowa alternative minimum tax

Out of scope.

Line 42 Total tax

Add lines 43, 44 and 45.

Line 43 Total exemption credits

Total exemption credit amounts from Step 3.

Line 44 Tuition and textbook credit

The tuition and textbook credit has no income limits. Taxpayer must provide you the amount of expenses. Maximum credit is 25 percent of the first \$1,000 paid for qualifying expenses for each dependent (max is \$250 credit per child). Applies to dependents K-12. Some items may or may not qualify, so be sure to check “Attachment F: Tuition and Textbook Credit (Line 44)” on page 70 and **Iowa Expanded Instructions**. See also Line 59 on page 56 for preschool and pre-K children. NOTE: Although Pre-K programs are typically run by the school district, Pre-K expenses are not eligible for the K-12 credit. Instead, qualifying expenses can be applied to the Early Childhood Development Credit (Line 59). This credit can only be taken by the TP claiming the dependent. Any unused part of this credit cannot be used by any other TP. This, and other unique Iowa credits, is elected by clicking Yes to the following State page (Illustration 14 below):

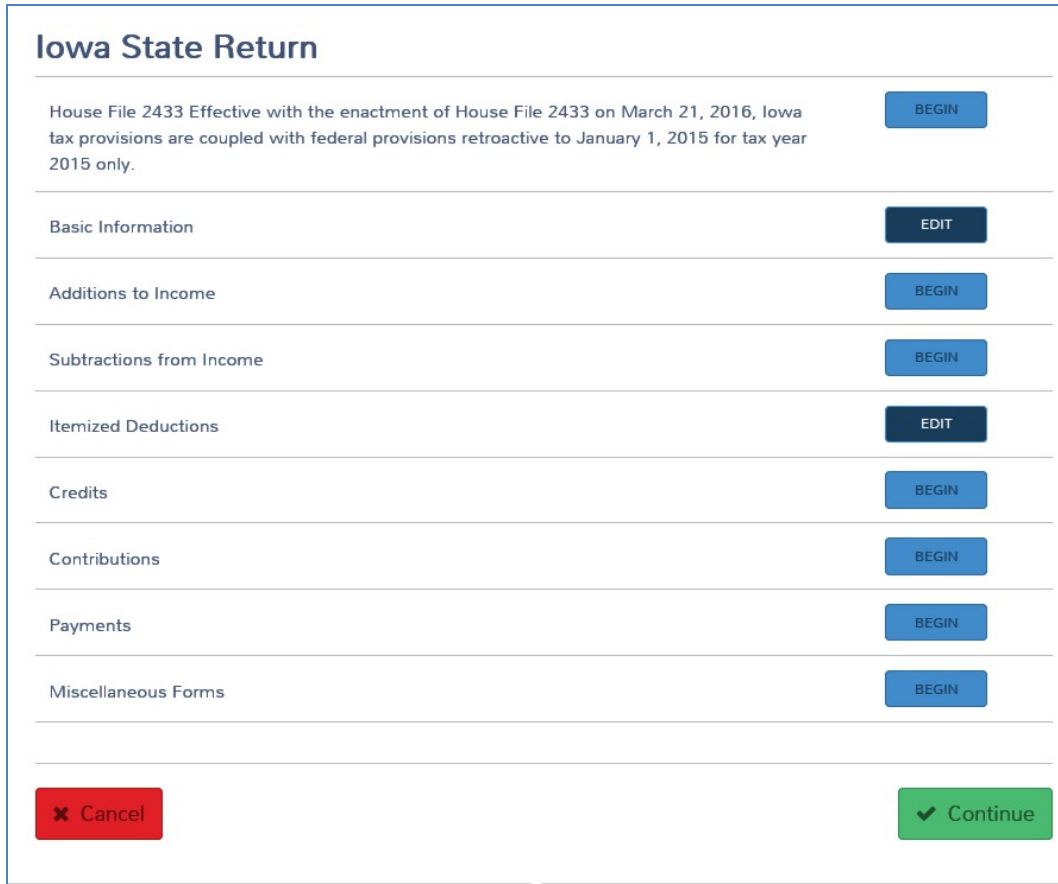
The screenshot shows the 'Iowa State Return' interface. On the left is a dark sidebar with a search bar and a list of sections: Basic Information, Federal Section, Health Insurance, State Section (highlighted with a red dot), Summary/Print, e-File, 2015 Amended Return, Save & Exit Return, and Scanned Documents. The main content area is titled 'Iowa State Return' and contains a list of sections with corresponding buttons: 'House File 2433 Effective with the enactment of House File 2433 on March 21, 2016, Iowa tax provisions are coupled with federal provisions retroactive to January 1, 2015 for tax year 2015 only.' (BEGIN), 'Basic Information' (EDIT), 'Additions to Income' (BEGIN), 'Subtractions from Income' (BEGIN), 'Itemized Deductions' (EDIT), 'Credits' (BEGIN, with a black arrow pointing to it), 'Contributions' (BEGIN), and 'Payments' (BEGIN).

Illustration 13 - Note the Item Titled Credits

The screenshot shows a page titled 'Would you like to add any of the following items or any additional items not listed below to your Iowa state return?'. On the left is the same sidebar as in Illustration 13, with 'State Section' highlighted. The main content area contains a list of 15 items, each with a green checkmark icon: Military Deduction, Contribution to IA Political Fund, Expenses related to Early Childhood Development Credit, Age 65 years or older, Contributed to a college tuition savings program, Lived or worked in another state(s), MFJ filing status for 2014 but not 2013, Party to a same-sex marriage, Active duty National Guard or reserves, Charitable mileage deduction, IRS adjustment to a prior year return, Married and you or your spouse had total income of less than \$5,000, Donated to a tuition organization or endow IA fund, Filed an amended 2013 return or other earlier in 2014, Volunteer firefighter or EMS, Owe out of state sales tax, and Paid for the care of a disabled family member.

Illustration 14 - Do Not Overlook Any That Apply

Once you click on Yes, the following page returns:



Iowa State Return

House File 2433 Effective with the enactment of House File 2433 on March 21, 2016, Iowa tax provisions are coupled with federal provisions retroactive to January 1, 2015 for tax year 2015 only. BEGIN

Basic Information EDIT

Additions to Income BEGIN

Subtractions from Income BEGIN

Itemized Deductions EDIT

Credits BEGIN

Contributions BEGIN

Payments BEGIN

Miscellaneous Forms BEGIN

✖ Cancel ✔ Continue

Illustration 15 - Adjustments to Iowa Data

Now click on Credits and when the “Credits” screen (see to enter the both the Tuition and Textbook credit as well as the Volunteer firefighter/EMS/Reserve Peace Officer credit explained below)

Iowa State Return

Credits

[learn more](#)

Certain credits are automatically calculated and carried from your Federal return to your Iowa return. Below are additional credits that are available through the state of Iowa. Please review each section and complete the necessary information as it is applicable to your tax situation.

Tuition and Textbook Credit	BEGIN
Early Childhood Development Credit	BEGIN
Other Credits - Form 148	BEGIN
Credit for Taxes Paid to Another State	BEGIN
Volunteer Firefighter/EMS Credit	BEGIN
IA 4136 - Motor Fuel Tax Credit	BEGIN

[Continue](#)

Illustration 16 - Adjustments to Iowa Data

Enter the Form Number...

- Basic Information
- Federal Section
- Health Insurance
- State Section**
- Summary/Print
- e-File
- 2015 Amended Return
- Save & Exit Return
- Scanned Documents

Iowa State Return

Tuition and Textbook Credit

The Tuition and Textbook Credit for grades K-12 is equal to 25% of the expenses up to \$250 per dependent claimed on the tax return. The amount entered will not be prorated, you must prorate the amount before inputting. If you did not claim the dependent you cannot claim the expenses.

Enter 25% of total expenses, but not more than \$250 per dependent

[Continue](#)

Illustration 17 - Tuition and Textbook Credit (Single Return)

Line 45 Volunteer firefighter/EMS/Reserve Peace Officer credit

A tax credit of up to \$100 is available for volunteer firefighters, volunteer EMS personnel and reserve peace officers. A volunteer firefighter must be an active member of an organized volunteer fire department in Iowa who has met minimum training standards. Volunteer EMS personnel must be individuals trained to provide emergency medical care, who are certified as first responders, and have been issued certificates by the Iowa Department of Public Health. Reserve peace officers must be state certified. Full-time firefighters who volunteer for another fire department are also eligible for the credit. A person who volunteers as a firefighter, for a fire department by which they are employed, is eligible for the credit if they are employed in a capacity other than as a firefighter. A person who volunteers as an EMS personnel member, for a department by which they are employed, is eligible for the credit if they are employed in a capacity other than as an EMS personnel member. A person who volunteers as a reserve peace officer, for a department by which they are employed, is eligible for the credit if they are employed in a capacity other than as a peace officer. The tax credit equals \$100 if the volunteer served for all of the tax year. The credit is prorated based on the number of months the volunteer served, and is rounded to the nearest dollar. If an individual is both a volunteer firefighter and a volunteer EMS, or Reserve Peace Officer, the credit is limited to \$100 in total. The individual is required to have a written statement from the fire chief or other appropriate supervisor verifying that the individual was a volunteer fire fighter or volunteer emergency medical services personnel for the months for which the credit is claimed. The credit is limited to the tax liability for the tax year, and there is no carry forward of any excess credit to a subsequent tax year. Remember, only one credit is allowed if the individual is a multiple volunteer. Information for the credit is input as shown in Illustration 18.

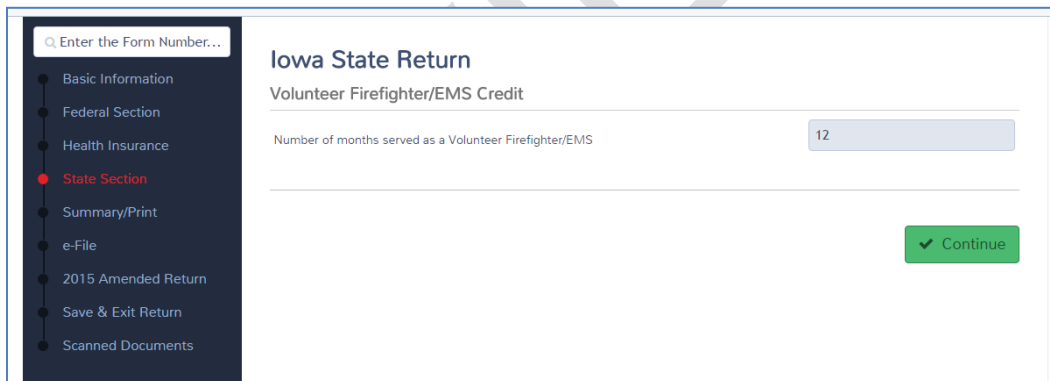


Illustration 18 - Volunteer Firefighter/EMS Credit (Single Return)

Line 50 Out of state tax credits

All income an Iowa resident earns is taxable to Iowa to the same extent that it is taxable on the federal return even if the income was earned in another state, a local jurisdiction in another state, or foreign country. If another state, a local jurisdiction in another state, or foreign country taxes that same income, then the Iowa resident may be able to claim a credit on this line. This is computed on form IA 130. The IA 130 is calculated automatically by TS when you add an additional State tax return.

See **Iowa Expanded Instructions and Attachment K for detail on the Wynne Decision**. This change in the placement of the IA 130 was required because of a US Supreme Court decision. This decision can also affect returns for the TY 2012, 2013 or 2014. See “Attachment K: The Wynne Decision – out-of-state tax credit” on page 78 for a more complete explanation. Because of this decision, it is important that the site coordinator specifically authorize the preparation or amendment of any return for prior years wherein the out-of-state tax credit is involved.

Line 52 Other nonrefundable Iowa credits

Out of scope. If client requires IA form 148, refer to a paid preparer. See **Iowa Expanded Instructions**.

Line 54 School surtax

Any school district surtax or emergency medical services (EMS) surtax are computed automatically providing the correct school district is entered on the Iowa Form 1040. At this time, only Appanoose levies an EMS surtax. The EMS surtax is included in the school district surtax list.

Line 57 Contributions

Voluntary contributions may be made in the categories as shown in Illustration 19 below. The amount increases the total tax amount.

Illustration 19 - Voluntary Contributions

Step 10 Credits¹¹

Line 59 Fuel tax credit

Out of scope.

Line 60 Child and Dependent Care credit OR Early Childhood Development Tax credit

- Eligible clients may **take only one** of the two credits, and are advised to choose the most advantageous one. Note that effective for TY2015 and subsequent years, the Child and Dependent Care credit may be taken on the Iowa return even if the taxpayer was unable to take it on the federal return.
- Only taxpayers with net income of less than \$45,000 are eligible. Married taxpayers must consider spouse’s income even if filing separately, or if spouse is not filing at all. This credit is refundable. Eligible clients are advised to file in order to receive this credit, even if they are not otherwise required to file.

Child and Dependent Care Credit

TS calculates this amount automatically based on data entered on Federal form 2441. The starting point to calculate the Iowa credit is line 9 of Federal Form 2441. To ensure the state credit is considered, all child care information should be entered on the federal return.

¹¹ Note that the line numbers have been changed beginning with the TY 2015 Iowa 1040.

Early Childhood Development Credit

The client may take a credit equal to 25% of the first \$1,000 of qualifying expenses for each dependent aged three through five. (Maximum credit is \$250 per child). The entry screen is shown as Illustration 20. This can be accessed from Credits (see Illustration 13) on the Iowa return

Iowa State Return

Early Childhood Development Credit

The Early Childhood Development credit is equal to 25% of the first \$1,000 of qualifying expenses paid in 2015 for each dependent from the ages of three through five. The amount entered will not be prorated, you must prorate the amount before inputting.

To claim the Early Childhood Development Credit, select YES and enter the credit amount below

Yes

Early Childhood Development Credit

\$ 250

Continue

Illustration 20 - Early Childhood Credit

Tuition and required supplies for preschool (including Pre-K) are the most common qualifying expenses. In addition, certain expenses incurred by families to promote child development may qualify (instructional materials for a learning activity, educational activities such as museums, drama or art programs, etc.). See **Iowa Expanded Instructions** for more details on qualifying expenses.

Expenses that do NOT qualify:

- Membership fees, or food or lodging expenses relating to child development/educational activities outside the home (e.g. museum membership, or lunch costs for a zoo trip).
- Any expenses related to the teaching of religious tenets.

Line 61 Earned income tax credit

The Iowa Earned Income Tax Credit is refundable and is calculated automatically by TS. This credit is available only to taxpayers who qualify for the federal Earned Income Tax Credit (EITC). The Iowa EITC is 15% of federal EITC.

Line 62 Other refundable credits

Out of scope.

Line 64 Reserved for future use.

Line 65 Taxpayers trust fund tax credit

A tax credit can normally be claimed for each taxpayer who files a tax return when there are available funds. No funds exist for TY 2016!

Line 66 Tax Withheld

Iowa income tax withheld.

Line 67 Estimated and voucher payments

Estimated tax payments made for the tax year are entered on Payments and Estimates section of the Federal section in TS. Click "State Estimate Payments" on the screen in Illustration 21.

Q Enter the Form Number...

- Basic Information
- Federal Section**
- Health Insurance
- State Section
- Summary/Print
- e-File
- 2015 Amended Return
- Save & Exit Return
- Scanned Documents

Payments and Estimates

Federal Estimated Payments for 2015	BEGIN
State Estimated Payments	BEGIN
Other Federal Withholding	BEGIN
Other State Withholdings	BEGIN
Underpayment of Estimated Tax	BEGIN
Apply Overpayment to Next Year's Taxes	BEGIN
Vouchers for Next Year's Estimated Payments	BEGIN
Amount Paid with Extension	BEGIN

Illustration 21 - Federal & State Payments and Estimates

This will open in screen shown in Illustration 22. This includes all 2016 estimated tax payments, to include any payment made in January 2017 for 2016 and any payments made with the IA 1040V Payment Voucher for 2016. Also include any amount applied to your 2016 tax Iowa estimated tax from line 71 on your 2015 Iowa income tax return.

Q Enter the Form Number...

- Basic Information
- Federal Section**
- Health Insurance
- State Section
- Summary/Print
- e-File
- 2015 Amended Return
- Save & Exit Return
- Scanned Documents

Payments - State Estimated Payments

Amount Applied from Prior Year Refund	\$ 100
Estimated State Tax Paid on(4/15/2015)	\$
Estimated State Tax Paid on(6/15/2015)	\$
Estimated State Tax Paid on(9/15/2015)	\$
Estimated State Tax Paid ON or BEFORE(12/31/2015)	\$
Estimated State Tax Paid AFTER(12/31/2015)	\$
State Name	Iowa

Cancel Continue

Illustration 22 - Entering State Payments

Step 11 Refund or Amount You Owe

Line 71 Refund

Amount to be refunded: If paper filing, mailing address for returns is at the very bottom of the form.

Direct deposit of Iowa refunds is available only on electronically filed returns and can be deposited in only one account.

Line 72 Applied to next year

Amount to be applied to client's estimated tax for the next tax year.

Line 73 Tax owed

Amount of tax owed.

Line 74 Penalty

The penalty for underpayment of estimated tax.

Note to Volunteers: **Do not allow** the software to assess this penalty.

Line 75 Penalty and interest

Penalty and Interest should be shown as zero. See Line 74 above.

Line 76 Total due

Total Amount due. If paper filing, mailing address for tax due returns is at the very bottom of the form.

Note: ePay (direct debit) -- file *and* pay electronically. For more information log on at <https://tax.iowa.gov/>. ePay is for final individual/corporation income tax payments and is also available for estimated individual/corporation payments

Miscellaneous Topics

Who Must File an Iowa Return?

A client must file an Iowa return if they were a resident or part-year resident of Iowa during the tax year and meet any of the following requirements. Nonresidents, see items f and g below.

In meeting the filing requirements below, you must add back the pension exclusion (line 21, IA 1040) and the reportable Social Security benefits from Step 4 of the IA 1040 (*out of scope* if any lump-sum distribution separately taxed on federal form 4972 or any net operating loss carryover). The SS amount must be included even though SS is no longer taxed by the State of Iowa.

The military retirement pay, unlike other pension income, is not included in the calculation of the filing threshold.

Note to married couples: Incomes of both spouses must be included when determining who must file, even if choosing filing status 4, married filing separately.

- a. The client had a net income (line 26 of the IA 1040) of more than \$9,000 and the filing status is single. (\$24,000 if 65 or older on the last day of the tax year)
- b. They had a net income (line 26 of the IA 1040) of more than \$13,500 and the filing status is other than single. (\$32,000 if client or spouse is 65 or older on the last day of the tax year.)
- c. The client was claimed as a dependent on another person's Iowa return and had a net income on line 26 of the IA 1040 of \$5,000 or more.
- d. The individual was in the military service with Iowa shown as the legal residence even though stationed outside of Iowa. For information about military spouses, please see information on the Military Spouses Residency Relief Act. Military returns are *out of scope* for volunteers except for individuals certified for military and authorized to complete those returns. See **Iowa Expanded Instructions** for additional information regarding military personnel.
- e. The client is subject to Iowa lump-sum tax. (*out-of-scope*)
- f. The client was a nonresident or part-year resident and the net income from Iowa sources (line 26 of the IA126) was \$1,000 or more, unless below the income thresholds above. In the case of married nonresidents, the spouses' combined income is used to determine if their income is high enough to require them to file an Iowa return. To understand "Iowa-source income," see the instructions for lines 1-26 of the IA 126.
- g. The client was a nonresident or part-year resident and subject to Iowa lump-sum tax or Iowa alternative minimum tax (even if Iowa-source income is less than \$1,000).

Nonresident and Part-Year Resident Returns

The completion of returns for nonresidents or part-year residents can be a complicated procedure that can involve multiple returns and substantially different rules than for Iowa.

Example 1: Consider a married couple residing in Kansas with the husband employed in that state and the spouse employed in Kansas City, MO. This couple obtains Iowa employment and moves into Iowa during the tax year. These clients would have the following returns:

- Kansas part-year resident (taxpayer has option of choosing nonresident filing using special instructions)
- Missouri nonresident (Kansas City, MO also has a city tax)
- Iowa part-year resident
- Federal return

Example 2: Consider a retired, married couple who resides in Illinois and has only pension income and gambling winnings from Iowa. The clients wish to file their federal return for their refund and to also file a state of Iowa return since Iowa taxes were withheld from their winnings. This couple must file the federal return, a state of Illinois (resident) return and an Iowa (nonresident) return. The Illinois return is required since they are Illinois residents who filed a federal return.

Example 3: Consider an individual who resides in Iowa and is employed in Illinois. His income is sufficient to require tax returns. His Illinois employer withholds and submits Iowa taxes. This individual will file a federal return and an Iowa return. No Illinois return is required since there is a reciprocity agreement between the states of Iowa and Illinois. This is the only state with which Iowa has such an agreement. See **Iowa Expanded Instructions** for additional information.

Example 4: Consider an individual who resides in Iowa and is employed in Illinois. His income is sufficient to require tax returns. His Illinois employer mistakenly withholds and submits Illinois taxes and does not withhold and submit Iowa taxes. This individual will file a federal return and an Iowa return. There must also be a nonresident Illinois return filed in order to secure a refund of the mistakenly withheld taxes. The TP will undoubtedly not get an Iowa refund and will have to pay his Iowa taxes. If the returns are being filed early enough, the Illinois refund might be received before the Iowa tax payment must be made (normally April 30th).

The process of filing returns involving other states can be quite complex as the foregoing examples illustrate. Additionally, the e-filing of returns for other states may follow different procedures and should not be undertaken without knowledge of the state's requirements and the appropriate permissions. Accordingly, volunteers should not undertake nonresident or part-year resident returns without the proper training and the approval of the site leadership. Iowa nonresidents and part-year residents are required to file form IA 126 and could also be required to file form IA 130. Information is available within the **Iowa Expanded Instructions**.

Supporting Documentation

When e-filing, supporting documents / explanations must be retained with the IA 8453 until the IDR specifically requests them. This would apply to all of the documentation "required" to be submitted such as the physician statement for a disabled person or the list of expenses for care of a disabled relative in the TP home. Iowa follows the revised federal procedure and does not require VITA / TCE volunteer preparers to retain the IA 8453, but instead to provide it and supporting documentation to the taxpayer for retention¹⁴.

Amending a Return

- If the original return requested a refund, wait until the client receives the refund before filing an amended return to make sure no errors were made on the original return.
- Processing time: Amended returns usually take at least six months to process.
- Amendment Forms: To amend any return using paper forms, use an IA 1040X or the appropriate-year IA 1040 with the word "Amended" written at the top. Include an explanation of the change(s). Include the federal 1040X and any amended supplementary federal or Iowa forms.
- Caution: Do not send amended returns with the current-year return.
- Additional Tax Owed: If the client owes additional tax with the amended return, calculate the tax due and include both check and the IA 1040XV payment voucher with the amended return. The client may make the tax payment online through ePay (free direct debit) on the Iowa Department of Revenue website or with a credit / debit card.
- Penalties: No penalty for additional tax is due if the client voluntarily files an amended return and pays all tax due prior to any contact by the Department. However, interest will be due.

Volunteers cannot prepare an amendment unless approved by their site leadership and they must have been certified at the appropriate level for the year being amended.

Iowa Quality Review

All returns should be subject to an independent quality review. Refer to "Attachment A: Iowa Quality Review Sheet for" on page 63. There is no requirement to provide the taxpayer a copy of a completed review sheet unless the site leadership determines that is appropriate. Leaders may wish to print and laminate several review sheets for use at the site.

State Only E-Files Using TS

It is now possible to submit an Iowa return without having previously e-filed the federal return; however, it is necessary to complete the federal return since that is the source of information within the Iowa return. See Attachment G: Creating a State Only Return for E-File on page 73.

¹⁴ Please refer to Iowa Department of Revenue Publication 41-180, *Iowa Modernized e-File (MeF) Developer Guide and Information for eFile Providers* at tax.iowa.gov.

Accrued Interest Paid (AIP) on Bonds

This information is provided to identify clients who may benefit from the recognition of AIP. At the time of a bond sale, the accrued interest that the seller is owed for the period from the last coupon date to the date of sale is paid to the seller by the buyer. It is usually automatically added to the seller's interest income total as reported by the brokerage firm, and the seller does not have to make any further adjustments on the tax return. The accrued interest the buyer paid is returned to the buyer in full at the next coupon date that occurs after the purchase date. The buyer can claim the accrued interest paid to the seller as a reduction of his taxable interest income at the time of the next coupon payment. A likely area of confusion is that the accrued interest paid at purchase is deductible based only when the bond next pays interest, which is not necessarily in the same tax year as when the buyer bought the bond or note. Bonds with AIP are considered to be *out of scope* for volunteers.

Consumer's Use Tax

Consumer's use tax is not a part of the Iowa income tax return and is *out of scope* for volunteer preparers. The following is provided for general information only since some states include the use tax as a part of that state's income tax return, e.g. Illinois or Nebraska.

Sales tax is imposed on a sales transaction of taxable services or goods. The seller of the goods or services is responsible for collecting, reporting, and remitting the sales tax. The tax is imposed when the service is first used, or potentially could be first used, in Iowa or when the tangible property is delivered in Iowa.

Consumer's use tax, on the other hand, is imposed after the sale takes place and only on the goods and services that have not been subjected to sales tax. Taxable goods or services are subject to either sales or use tax, but not both. In most cases, these are purchases made from an out-of-state supplier not collecting Iowa tax and that are for use in Iowa. Ordinarily, the retailer is responsible for collection of the tax; however, if the retailer is not required by law to collect the tax or the Iowa retailer fails to collect the tax, the purchaser is then responsible for the consumer's use tax.

Use tax applies to, but is not limited to, purchases made tax free through mail-order catalogs, television shopping programs, the Internet, toll-free 800 numbers, magazine subscriptions, and untaxed purchases made while in another state and shipped or otherwise brought into Iowa.

If possession is taken in another state and sales tax has already been paid to the other state on the goods or services, no additional tax is due if the tax paid is the same or more than Iowa's state rate. If the tax is less, the buyer owes Iowa the difference. It is the purchaser's responsibility to show where delivery took place and that the sales tax has been paid.

More information on consumer's use tax, including reporting and payment options, can be found here: <https://tax.iowa.gov/consumers-use>.

Attachment A: Iowa Quality Review Sheet for TS

Form Loc ¹⁵	Check each item as you verify that step	Yes	No	N/A
Current Year	If the client is receiving Federal EITC, have you prepared an Iowa return? Iowa EITC is refundable.			
Step 1	Have you selected the correct County and School District Names?			
Step 1	Have you answered the dependent health care questions?			
Step 2	Did you select the correct filing status? Remember that TS follows the federal status except that federal MFJ can become either MFJ or MFSCR.			
Step 2	If filing MFS, is other spousal data, to include income, being provided?			
L2	Is state and municipal interest ¹⁶ included unless specifically exempt?			
L18	Have you included allowable health insurance premiums as an adjustment if not taking as an itemized deduction?			
L21	Have you included pension income exclusion for eligible taxpayers and is it properly prorated? Note: Military pension does not get included here.			
L24	Has the individual made contributions to College Savings Iowa and have those adjustments been included?			
L27	Was TP eligible for Low-Income Exemption last year? If yes, this line should be zero (skip to L32).			
L27	Was alternate tax computation used last year? If yes, this line should be zero (skip to L32). (There is a MS Access worksheet that can be used to make a determination.)			
L27	Have you included the federal refund received and reduced it by exempt amounts, if applicable? Is it prorated correctly?			
L32	If estimated payments were made and filing status is 3 or 4, are the payments prorated correctly?			
L33	Have any of the client's refundable credits been used to pay federal income tax? If so, has that been recognized on this line?			
L37	Have you considered itemized deductions, even if not able to itemize on federal return? Enter all data on federal schedule.			
Sch A L27	If charitable mileage was entered on the input sheet for the Fed Sch A, is the adjustment for IA's larger amount entered here? This is an additional 25¢ per mile.			
L41	If entry exists, refer to paid preparer.			
L44	Have you included tuition and textbook credit (K-12 students)?			
L60	Have you considered early childhood development credit as an alternative to child and dependent care credit (only returns with net income less than \$45K)?			
L66	Is the withholding for Iowa shown correctly?			
L67	Have Iowa estimated tax payments been included, if appropriate?			
L71	Have you asked the taxpayer if they want direct deposit of their refund?			
L74 L75	If a penalty or interest is shown, be sure to have Line 19 on Form 2210 as \$0. TS should do this automatically.			

¹⁵ Refer to 2016 IA Form 1040 for the step or line identification.

¹⁶ See instructions for Line 2 (page 34) and Iowa Expanded Instructions for a list of exempt items.

Attachment B: Tax Treatment of Same-Sex Marriages

Update Information

Since the federal government now recognizes same sex marriages, Iowa returns for same-sex marriages will be treated in the same manner as other married couples.

The U.S. Department of the Treasury and the Internal Revenue Service (IRS) ruled that same-sex couples, legally married in jurisdictions that recognize their marriages, will be treated as married for federal tax purposes. The ruling applies regardless of whether the couple lives in a jurisdiction that recognizes same-sex marriage or a jurisdiction that does not recognize same-sex marriage.

The ruling implements federal tax aspects of the June 26 Supreme Court decision invalidating a key provision of the 1996 Defense of Marriage Act. Under the ruling, same-sex couples will be treated as married for all federal tax purposes, including income and gift and estate taxes. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions, taking the standard deduction, employee benefits, contributing to an IRA and claiming the earned income tax credit or child tax credit.

Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country will be covered by the ruling. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law. Legally-married same-sex couples generally must file their 2013 and later year federal income tax return using either the married filing jointly or married filing separately filing status.

Individuals who were in same-sex marriages may, but are not required to, file original or amended returns (Form 1040X) choosing to be treated as married for federal tax purposes for one or more prior tax years still open under the statute of limitations.

Generally, the statute of limitations for filing a refund claim is three years from the date the return was filed or one year from the date the tax was paid, whichever is later. As a result, refund claims can still be filed for amendable prior tax years.

Taxpayers of other states face a very confusing venue and Iowa volunteers should seek site coordinator approval before undertaking any returns involving registered domestic partnerships, civil unions and similar relationships. For example under the Illinois Religious Freedom Protection and Civil Union Act, partners in a civil union must file a joint Illinois Income Tax return as a married couple.

States may have different procedures for tax filings and may not even recognize domestic partnerships or civil unions. It should also be noted that domestic partnerships and civil unions are not necessarily between same-sex partners.

Attachment C: Entering Interest in TS

Entering interest within TS is process where each federal taxable interest payment is entered on one screen. There is a different screen for each payer. Federal tax exempt items are entered on a totally different screen. Start the process in the federal section with the screen for interest and dividend income (see Illustration 23). Note that the exclusion of interest from Series EE & US Savings Bonds is where one would enter the information when using the savings bond education tax exclusion.

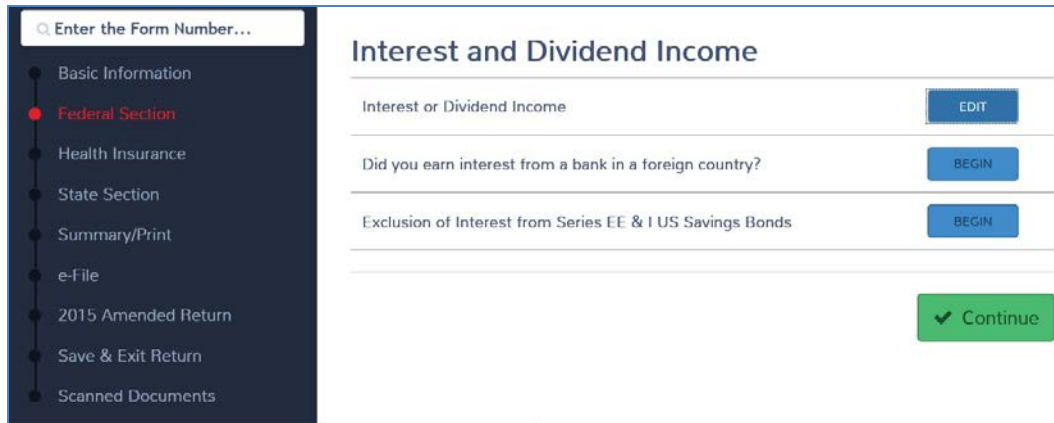


Illustration 23 - Interest and Dividend Income

Taxable Interest

Illustration 24 – Federal Taxable Interest shows the screen used to enter interest that is federally taxable. Note that the 6th line is where one reports the amount of US Savings Bonds interest reported that is not to be taxed by the state. TS does not automatically report US Savings Bond interest as not taxable by the state.

Tax Exempt Interest

Illustration 25 - Federal Tax Exempt Interest depicts the screen for entering federally tax exempt interest. Note that many bonds that are federally tax exempt are taxed by the State of Iowa (see discussion Line 2 Taxable interest income on page 32). Accordingly, it is necessary to add or edit state taxable interest by clicking on the appropriate item on this screen.

Out of scope bonds. Bonds *out of scope* on federal returns are also *out of scope* on Iowa returns. Additionally, for background information, refer to “Accrued Interest Paid (AIP) on Bonds” on page 62.

Interest Income

Type of transaction: **Interest Income**

Payer's Name:

Taxpayer, Spouse, or Joint?

Interest Income (Box 1)	\$ <input type="text"/>
Early Withdrawal Penalty (Box 2)	\$ <input type="text"/>
Interest on U.S. Savings Bonds and Treasury obligations (Box 3) <i>(Note: Enter Taxable amount only)</i>	\$ <input type="text"/>
Federal Tax Withheld (Box 4)	\$ <input type="text"/>
Foreign Tax Withheld (Box 6)	\$ <input type="text"/>
Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return	\$ <input type="text"/>
Nominee Interest	\$ <input type="text"/>
OID Adjustment	\$ <input type="text"/>
Accrued Interest	\$ <input type="text"/>
ABP Adjustment	\$ <input type="text"/>
Accrued Market Discount	\$ <input type="text"/>

Illustration 24 – Federal Taxable Interest

Enter the Form Number...

- Basic Information
- Federal Section
- Health Insurance
- State Section
- Summary/Print
- e-File
- 2015 Amended Return
- Save & Exit Return
- Scanned Documents

Schedule B Other Interest

Type of transaction: **Tax Exempt Interest, Box 8**

Payer's Name:

Taxpayer, Spouse, or Joint?

Interest Income \$

To add/edit state taxable interest items, click here

Illustration 25 - Federal Tax Exempt Interest

Special attention must be paid to a couple items that were part of the interest statement within TW.

Private Activity Bond Interest (PAB)

This interest is not taxable, but is considered when an AMT calculation is done. From the Main Menu of the Tax Return (1040), select:

- **Income Menu**
- **Interest and Dividends (1099-INT, 1099-DIV)**
- **Interest or Dividends**
- Select **Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10** and fill in the information from the Form 1099-INT.

Original Issue Discount (OID)

Original Issue Discount is normally offered on some bonds and similar obligations in lieu of those bonds earning interest. OID is reported on Form 1099-OID and is to be reported as interest income to the taxpayer. To input these amounts in TS, from the Main Menu of the Tax Return (Form 1040) select:

TBD

Attachment D: How to Prorate

Taxpayers using filing status 3 or 4 may be required to prorate (divide) certain entries on the IA 1040, such as taxable SS benefits, federal income tax refunds, estimated federal tax payments, itemized deductions, etc.

Example A: How a husband and wife would prorate a federal refund (Line 27):

- Prior Year Federal refund received during current tax year from a jointly-filed return: \$1,000
- Husband's net income on the prior year IA 1040. \$15,000
- Wife's net income on the prior year IA 1040. \$30,000
- Total net income (husband and wife) on the prior year IA 1040 \$45,000
 1. Divide wife's net income by total income. The result is the percent of total income earned by the wife: $\$30,000 \div \$45,000 = 0.667^{17}$ (66.7%)
 2. Multiply total refund received by wife's percentage: $\$1,000 \times 66.7\% = \667 . This is the wife's portion of the refund, reported on line 27 in her column.
 3. Subtract to find husband's portion: $\$1,000 - \$667 = \$333$. Enter on line 27 in other column. These two amounts are entered on line 27 of the current year IA 1040.

Example B. Federal estimated tax payment proration (Line 32)

- Husband has income of \$75,000 that is not subject to federal withholding.
- Wife has income of \$8,000 that is not subject to federal withholding.
- Their total income not subject to federal withholding is \$83,000.
- Their estimated federal tax payments for this year totaled \$18,000.
 1. Divide the husband's income by the total. The result is the percent of income earned by the husband. $\$75,000 \div \$83,000 = 90.36\%$ (90.4%) This is the husband's percentage of income not subject to federal withholding
 2. Multiply $\$18,000 \times 90.4\% = \$16,272$. This is husband's portion of the estimated tax payments. Enter on line 32.
 3. Subtract to find the wife's portion ($\$18,000 - \$16,272 = \$1,728$). Enter on line 32 in the other column.

¹⁷ Round to the nearest one-tenth of a percent. Ex: 66.74% becomes 66.7% and 66.75% becomes 66.8%

Attachment E: Calculating Additional Federal Tax Paid (IA Line 33)¹⁸

Did the taxpayer have a federal tax liability (line 60) on any **federal return** filed in the tax year (generally this will be just the return for the prior tax year, e.g. a filing in 2016 for tax year 2015)?

- NO: Record zero on Iowa line 33
- YES: Complete calculation for line 33 amount below (line numbers and titles are for TY 2016 return¹⁹). Do one worksheet for each year filed.

1. Total Federal Tax Liability (line 63) _____
2. Less: First-time homebuyer credit repayment (line 60b) _____
3. Actual Federal tax liability _____
4. Less: Federal income tax withheld (line 64) _____
5. Less: Estimated taxes paid (line 65) _____
6. Line 3 – line 4 – line 5 = Amount not paid by withholding or estimated taxes (zero if negative) _____

IF line 6 is zero, skip lines 7-13

7. Earned Income credit (line 66a) _____
8. Additional child tax credit (line 67) _____
9. American opportunity credit (line 68) _____
10. Total Federal Credits (sum lines 7 through 9 above) _____
11. The smaller of line 6 and line 10 above _____
12. Federal taxes paid for any other year tax year filed (during this tax year) _____
13. Total Federal Tax Paid (sum lines 11 and 12 and enter this amount on Iowa 1040 L33) _____

¹⁸ See the discussion for Line 33 on page 16

¹⁹ See prior year versions of this manual for earlier years.

Attachment F: Tuition and Textbook Credit (Line 44)

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

Calculating the Credit

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

Keep records of your calculation, showing the name of each dependent, school(s) attended, and an itemized list of qualifying expenses.

Enter the total allowable credit on line 44.

Example

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

Divorced or separated parents

Only the spouse claiming the dependent can claim the amounts paid by that spouse for tuition and textbooks for that dependent.

Home schooling

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

Married Separate Filers:

This credit must be taken by the spouse claiming the dependent. Any unused part of this credit cannot be used by the other spouse.

ELIGIBLE & INELIGIBLE EXPENDITURES FOR THE IOWA TUITION AND TEXTBOOK TAX CREDIT

EXPENSE	ELIGIBLE EXPENDITURES	INELIGIBLE EXPENDITURES
Tuition	Tuition for any K-12 school that is accredited. Tuition includes any charges for the expense of personnel, buildings, equipment, and other expenses that relate to the teaching of only those subjects legally and commonly taught in Iowa's public elementary and secondary schools.	Any amount for food, lodging, or clothing or amounts paid relating to the teaching of religious tenets, doctrines or worship; amounts for private instruction, including home schooling, or tutoring not paid to a school
Textbooks and Publications	Textbooks and other instructional materials used in teaching subjects legally and commonly taught in Iowa's public elementary and secondary schools, including those needed for extracurricular activities (including fees for required textbooks and supplies); computers, if required	Yearbooks or annuals; textbook fines
Clothing	Rental or purchase of "non-street" costumes for a play or special clothing for a concert not suitable for everyday wear; rental of prom dresses and tuxedos	Clothes which can be used for street wear, such as T-shirts for extracurricular events; clothing for a play or concert that is suitable for everyday wear; purchase of prom dresses and tuxedos
Driver's Education	Only if paid to the K-12 school	Paid to other than a K-12 school
Dues, Fees and Admissions	Annual school fees; fees or dues paid for extracurricular activities ; booster club dues (for dependent only); fees for athletics; activity ticket or admission for K-12 school athletic, academic, music, or dramatic events and awards banquets or buffets; fees for a physical education event such as roller skating; advanced placement fees if paid to high school; fees for homecoming, winter formal, prom, or similar events; fees required to park at the school and paid to the school	Sports-related socials; special education programs like career conferences; special testing like SAT, PSAT, ACT and Iowa talent search tests; fees paid to K-12 schools for college credit or special programs at colleges and universities; advanced placement fees if paid to a college or a university
Materials for Extracurricular Activities	Materials for extracurricular activities, such as sporting events, speech activities, musical or dramatic events, awards banquets, homecoming, prom, and other school-related social events	Class rings

EXPENSE	ELIGIBLE EXPENDITURES	INELIGIBLE EXPENDITURES
Music	Rental of musical instruments for school or band; music / instrument lessons at a school; sheet music used in a school; music books and materials used in school bands or orchestras for maintenance of instruments, including reeds, strings, picks, grease, and other consumables	Purchase of musical instruments (including rent-to-own contracts); music lessons outside of school; sheet music for private use
Religion	-----	Amounts paid are not allowed if they relate to teaching of religious tenets, doctrines, or worship
Shoes	Football, soccer, and golf shoes; other shoes with cleats or spikes not suitable for street wear for teams associated with the school	Basketball shoes and other shoes suitable for everyday wear
Supplies for Industrial Arts, Home Economics or Equivalent Classes	Cost of required basic materials for classes such as shop class, mechanics class, agricultural class, home economics class, or equivalent classes	Optional expenditures for materials used for personal projects of the dependents or for family benefit
Travel	Fees for transportation to and from school if paid to the school; fees for field trips if the trip is during school hours	Travel expenses for overnight trips which involve payment for meals and lodging
Uniforms	Band and athletic uniforms	-----

Attachment G: Creating a State Only Return for E-File

The IDR participates in the Federal/State eFile program. The federal and state income tax returns may be filed simultaneously or as two separate transmissions. A transmission of the state return without transmitting the federal is called a State Only return. Iowa requires copies of relevant federal forms and schedules, even when filing a State Only return. This may be necessary for individuals who have already filed a federal return, but no state return has been filed. If this is the case, it will be necessary to create the entire federal return to match that previously submitted. Another possibility is that federal filing is not required and they are filing the state only for some other reason. In this case, it will still be necessary to create a federal return since the entry of data into the federal serves to feed the data to the state.

Once the state return has been fully completed, one continues through the normal process until the E-File screen becomes available (see Illustration 26). One need only check the box to **Send State Only**.

E-File ← Back ✓ Save

Return Type

Your return is now ready to be e-Filed to the IRS.

Please make sure that all information you enter below is correct.

In order for us to transmit your client's return to the IRS you must complete all Steps in the e-File Process.

CAUTION: Your client's return will not be sent to the IRS unless you complete ALL steps. None of the information is saved until all information is entered and the "Continue" button below is clicked.

To continue the e-File process, please first select a return type and the form will ask for all required information.

Refund summary

Send State Only

Federal Return Type Please Select ▼

ERO Information

Efin#: 369258

EroName#: Practice Lab

Next

← Back ✓ Save

Illustration 26 - Preparing a State Only E-file

Attachment H: Special Instructions for Injured Spouse Filings

1. A federal taxpayer may be an “injured spouse” if they file a joint tax return and all or part of their portion of the overpayment was, or is expected to be, applied (offset) to their spouse’s legally enforceable past-due federal tax, state income tax, child or spouse support, or a federal nontax debt, such as a student loan.
2. This discussion deals solely with the filing of An Iowa return with an injured spouse. IT DOES NOT apply to innocent spouse relief:

Innocent Spouse (provided for information only – refer applicable clients to paid preparer)
A client may be allowed innocent spouse relief only if all of the following apply.

- They filed a joint return for the applicable year(s).
 - There is an understated tax on the return(s) that is due to erroneous items of the person with whom they filed the joint return.
 - They can show that when they signed the return(s) they did not know and had no reason to know that the understated tax existed (or the extent to which the understated tax existed).
 - Taking into account all the facts and circumstances, it would be unfair to hold them liable for the understated tax.
3. THE PROBLEM: The IRS provides a special form for an injured spouse (Form 8379) and this form can be included with the e-filing of the federal joint return. On the other hand, the “injured spouse” designation is not recognized at all by the State of Iowa and special procedures must be followed to avoid having the State of Iowa collect a spouse’s refund for payment of debts.
 - a. Debts that may be offset from an Iowa refund include:
 - taxes owed the State of Iowa
 - taxes owed the Internal Revenue Service
 - unpaid child support
 - overpayment of unemployment
 - fines owed to counties
 - unpaid college aid loans
 - food assistance/SNAP overpayment
 - ADC/FIP²⁰ overpayment
 - any other debt owed to an Iowa state or municipal agency
 - b. If a spouse’s refund will be used to pay one of the foregoing debts, the taxpayer and spouse should consider using the IA 1040, filing status 4, “married filing separate returns” to prevent the taxpayer’s refund from being applied to the spouse’s debt.
 - c. It would be wise to first discuss the matter thoroughly with the taxpayer and spouse to ensure the state will actually use the spouse’s portion of the refund to pay any or all of the taxpayer’s debt. Additionally, it may also be appropriate to compute the return for filing status 2 and filing statuses 3 or 4, since the amount of refund owed the taxpayer(s) may make one option more financially advantageous.

²⁰ Family Investment Program (FIP) formerly known as Aid to Dependent Children (ADC)

4. The following is a discussion of the method to prepare returns as the capability exists at the time this is being prepared. Refer to the footnote 4 above on page 3.
 - a. Prepare the federal return using the MFJ filing status. If another status is to be used, this discussion does not apply.
 - b. Complete the state return and let TS determine the best Iowa filing status. Review the amount of federal and state refund available (or additional amount to be paid) using that status and make a note of that amount.
 - c. Begin a second (new) return for one of the two individuals and use the MFS filing status for the federal return. Do not worry; this federal return will not be filed. Complete an Iowa return for the individual and make note of the amount of refund (or additional tax to be paid).
 - d. Begin a third (new) return for the other of the two individuals and use the MFS filing status for the federal. Once again, this federal return will not be filed. Complete an Iowa return for this individual and make note of the amount of refund (or additional tax to be paid).
 - e. Now take the original return and determine the total refund (federal plus state).
 - f. Determine the total refund (federal plus state) for the second return prepared.
 - g. Determine the total refund (federal plus state) for the third return prepared.
 - h. Comparing the results of the three foregoing calculations and discussing with the client will enable the prepared to select the option that best suits the client.
5. **ELECTRONIC FILING:** There is an additional complication for the State of Iowa returns in TS in that there is no means whereby the joint federal return can be e-filed along with the two separate returns (filing status 4) necessary to protect the spouse's refund from the state. The usual way of addressing this situation has been to complete the federal return and file that electronically. The separate state returns for the taxpayer and spouse were then prepared and can be filed on paper. That procedure can still be used.
6. **VERY IMPORTANT:** The initial step begins when the federal return is being prepared. Before starting a return with an injured spouse, ensure that the federal return has the injured party as the primary taxpayer and not as the spouse. (This was the procedure under TaxWise since a selection of MFS could be made for one of the joint federal filers. This is not possible at this time within TS, but it might be a good procedure to file in the anticipation of TS developing the means to do this filing.

Attachment I: Sample Iowa Pension Withholding Form W-4P

Iowa Department of
REVENUE

2017 IA W-4P
Withholding Certificate for Pension of Annuity Payments

<https://tax.iowa.gov>

Instructions

Eligibility Requirements

Military retirement pay for service in the United States Armed Forces, the Armed Forces Military Reserve, or the National Guard is eligible for exemption from Iowa income tax. Only military retirement pay received from the Defense Finance and Accounting Service (DFAS), or a similar source is eligible for the exemption.

Railroad Retirement benefits paid by the Railroad Retirement Board are not taxable on the Iowa Return.

If you or your spouse receives a pension, an annuity, a self-employed retirement plan, deferred compensation, IRA distribution, or other retirement plan benefits, you may be eligible for a partial exemption for qualified Iowa residents. To qualify you must be 55 years of age or older or disabled. If you are a surviving spouse or survivor of an individual who would have qualified for the exclusion you may also be eligible for a partial exemption. To be considered disabled you must be receiving retirement income on the basis of a documented disability or you must meet federal or state criteria for disability. Federal Civil Service annuitants who want Iowa tax withheld from federal pensions should call the Office of Personnel Management toll free at 888-767-6738 or e-mail retire@opm.gov.

Withholding Rates

Payers have the option of withholding at a rate of 5%, using the withholding formula, or using the withholding tables.

Low-Income Exemption

Taxpayers 65 years of age or older are exempt if:

- You are single and your net income is \$24,000 or less,
- Your filing status is other than single and your total net income is \$32,000 or less. Only one spouse must be 65 or older to qualify for this exemption.

Note: Pension exclusion and any reportable Social Security amount must be added to net income for purposes of determining the low-income exemption.

Taxpayers under 65 are exempt if:

- Your net income is less than \$5,000 and you are claimed as a dependent on another person's Iowa return.
- You are single and your net income is \$9,000 or less and you are not claimed as a dependent on another person's Iowa return.
- Your filing status is other than single and your total net income is \$13,500 or less.

Claiming No Exemption

Iowa income tax will be withheld on the entire amount of taxable benefits received if this box is checked below.

Withholding Choices

Unmarried Iowa residents may choose to have Iowa tax withheld on the annual taxable amount excluding up to \$6,000. Married taxpayers may exclude up to \$12,000 from the annual taxable amount.

Name _____ SSN _____

Address _____

City _____ State _____ ZIP _____

Iowa Income tax is withheld for Iowa residents only.

Are you an Iowa resident? Yes No

I choose **not to have** Iowa income tax withheld from my pension/annuity.

Note: If you are an Iowa resident and the taxable portion of your annual distribution is greater than \$6,000 (\$12,000 married Iowa filers), Iowa tax must be withheld if federal tax is being withheld unless you qualify for the low-income exemption. See Eligibility Requirements above.

I choose **to have** Iowa income tax withheld from my pension/annuity at a rate of 5% (or based on the withholding formula if the payer so chooses). Select one of the following:

- claiming no exemption (see instructions)
- excluding \$6,000 in benefits each year
- excluding \$12,000 in benefits each year (married – status 2, 3, or 4)

Additional amount, if any, to be withheld from each benefit payment (whole dollars): \$ _____ .00

Signature: _____ Date: _____

Where to Send the IA W-4P

Return the completed form to the person who handles your pension/retirement check, or, if planning to retire, your current payroll officer. If you are a federal employee, return it to the Office of Personnel Management.

44-020 (07/26/16)

Attachment J: Answers to Exercises

Practical Exercise 1

Sam's pension	\$15,000
Lois' pension.....	\$5,000
Total pension	\$20,000

Determine Sam's pension to total pension:
 $15,000/20,000 = 0.750$ (75.0%)

Sam will receive 75.0% of the total exclusion amount and Lois will get 25.0%. If both spouses have pension income, and both meet the eligibility requirements, the exclusion of up to \$12,000 is prorated (see on page 66) in the ratio that each spouse's individual pension relates to the total pension received by both parties.

Sam will therefore receive 75.0% of the total exclusion amount; Lois receives 25.0% of the total exclusion amount.

Sam:	$75.0\% \times \$12,000 =$	\$9,000
Lois:	$25.0\% \times \$12,000 =$	\$3,000
Total Exclusion:.....			\$12,000

Practical Exercise 2

The amounts to be entered on the current year tax form are:

Line 27 Col B.....	\$384	$= 12000 / 30000 \times 960$
Line 27 Col A.....	\$576	$= 960 - 384$

Practical Exercise 3

Iowa line 27 is used to report the amount of federal tax refunded. The refund is \$250; however, all of the refund is attributable to refundable credits (line 61 is zero). Therefore line 27 is \$0.

The entry on line 33 should be \$500. The calculation follows. Refer to Attachment E: Calculating Additional Federal Tax Paid (IA Line 33) on page 69:

1	500	7	500
2	0	8	0
3	0	9	250
4	500	10	500
5	250	11	0
6	0	12	500 (to L33)

Practical Exercise 4

	Line 27 (Fed refund received)	Line 33 (Add'l federal tax paid)
Filing Year	\$200	\$0
First Prior year	\$0	\$400
Second Prior Year	\$500	\$0
Total (Enter on 2014 IA 1040)	\$700	\$400

Practical Exercise 5

1. Enter the annual registration fee paid.....\$205
2. Take the weight of your vehicle and divide it by 250 (rounded) \$13
3. Subtract line 2 from line 1. This is the deductible amount.....\$192

Attachment K: The Wynne Decision – out-of-state tax credit

The Wynne Decision

Recently the United States Supreme Court issued a ruling in the case of *Comptroller of the Treasury of Maryland v. Wynne*, 135 S. Ct. 1787 (May 18, 2015). The State of Maryland imposes both a state income tax and a county income tax on its residents. Maryland allowed a credit for tax paid to another state to be applied to any state income tax liability. However, the state did not allow that same out-of-state tax credit to be applied to any county tax liability. The Court found that this practice could lead to double taxation. As a result, Maryland is changing its practice and refunding money to taxpayers whose out-of-state tax credits were not properly applied to any county income tax liability.

How does this apply to Iowans?

While Iowa does not allow counties to impose a separate, local income tax, it does allow school districts to impose a local “instructional support income surtax” (“the surtax”) upon residents of the district. Iowa counties are also allowed to impose an “emergency medical services (EMS) income surtax” (“the surtax”). The surtax is based upon the amount of Iowa state income tax a taxpayer owes. Like Maryland, Iowa allows a credit for tax paid to another state. The Iowa Department of Revenue’s (“the Department”) previous practice was to calculate the surtax prior to applying the out-of-state tax credit. This produced a similar result to Maryland’s; that is, Iowa’s out-of-state tax credit was only being applied to state income tax liability, not local tax (surtax) liability. Because this practice is inconsistent with the Supreme Court ruling, the Department must change its practice. The result is that the out-of-state tax credit calculated on form IA 130 must be applied prior to other nonrefundable Iowa tax credits and before calculation of any school district surtax or EMS surtax.

Who is entitled to a tax refund?

Any Iowa resident who has paid taxes on income earned in any other state, a local jurisdiction of any other state, the District of Columbia, or a foreign country may be eligible for a refund.

The decision has no impact on Iowa residents who earned only wages or salaries in Illinois, as this state has a reciprocal arrangement with Iowa and doesn’t require these Iowans to also file or pay income taxes in Illinois.

What if I live in Iowa, but work in a state other than Iowa or Illinois? Taxpayers who live in Iowa and earn wages or salaries in another state, other than Illinois, must file income tax returns with both states. Any Iowa resident who worked in and paid taxes to another state, other than Illinois, may be entitled to a refund for these tax years.

What if I live in Iowa, but receive income from another state, other than wages or salaries? Taxpayers, who live in Iowa and receive income, other than wages or salaries, from another state, including Illinois, must file income tax returns with both states. Any Iowa resident who paid taxes in another state may be entitled to a refund for these tax years.

How do I obtain a refund?

To obtain a refund you will need to file amended tax returns for each applicable year. You may use the Iowa 1040X form for any of those years, but you will need to submit a separate return for each year. As stated earlier, you must apply the out-of-state tax credit prior to any other nonrefundable Iowa tax credits and before calculation of any school district surtax or EMS surtax. This means on the IA 1040X, the out-of-state tax credit calculated on form IA 130 should be entered on line 17. You may want to have a tax preparer or attorney assist you in completing the forms.

For more information, please review the following Frequently Asked Questions (FAQs):

FAQs

Q: What did the Supreme Court decide in this case?

A: Maryland’s personal income tax on state residents consists of a state income tax and a local tax. Residents who pay income tax to another state were allowed a credit against the state income tax, but not against the local tax. The Supreme Court determined this taxing scheme was unconstitutional because it discriminated in favor of intrastate over interstate economic activity in violation of the

dormant Commerce Clause. The Court found this inherently discriminatory as it operates as an impermissible tariff against residents who earn income in interstate commerce

Q: How are lowans affected by this decision?

A: Residents of Iowa who paid income tax in another state and who reside in a school district with income surtax or a county with an EMS surtax may be impacted by this decision. Also impacted are lowans who paid income taxes to local jurisdictions in other states.

Q: Will I be able to claim a credit for income taxes paid to local jurisdictions in other states?

A: Yes. Follow the instructions on form IA 130 to claim credit for income taxes paid to other states and to local jurisdictions in other states.

Q: How can I claim a refund?

A: For years within the statute of limitations, you may request a refund in the following ways:

- If you have already filed Iowa individual income tax returns, file a separate form IA 1040X for each year you are claiming a refund.
- If you have not yet filed an Iowa individual income tax return, file form IA 1040 for each year.

Don't forget:

You must indicate the tax year on the top of each IA 1040X.

A completed, signed copy of the income tax return filed in the other state, a local jurisdiction in another state, or foreign country must also be attached.

If you are claiming credit for taxes paid in more than one state, a separate form IA 130 must be completed for each state.

Q: Will the Iowa Department of Revenue issue refunds automatically?

A: No. You must file a return for each year for which you are requesting a refund.

Q: How far back can I file a claim for refund?

A: Amended returns must be filed within the normal three (3) year statute of limitations.

Q: When can I expect to receive my refund?

A: The Department will process claims for refunds as soon as possible. All claims will be processed in the order received.

Preparing Returns for TY 2013, or 2014

The following procedures are only applicable for the locations wherein the site coordinator has specifically authorized the preparation or amendment of returns for the aforementioned years and that include the out-of-state tax credit²¹. You may want to refer the client to a paid preparer to assist in completing the returns.

Clients who have previously submitted a tax return and who calculated an out-of-state tax credit may find it beneficial to submit an amendment to those returns. In this case, the out-of-state tax credit should be entered on line 17 of the IA 1040X. Once again, a scratch pad or override may be necessary to accomplish this.

IA REVIEWED

²¹ The affected returns are those that involve the School District Surtax or the EMS surtax. Also affected are lowans who paid income taxes to local jurisdictions in other states.

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UNDER REVIEW

Observations on TaxSlayer

The following vignettes are individual observations on the use of the 2015 practice lab version of TaxSlayer. They are not necessarily authoritative and have not been blessed by anyone, but are intended to throw up a bit of a caution as one begins using TS. They touch upon things that may function in a manner that is different than what we have been accustomed to with the previous software. There is no specific order to the material presented and nothing should be assumed from the sequencing other than that they were added as encountered. The 2016 production version of TaxSlayer may well have addressed many of the concerns discussed below.

Knowledge Base:

- TaxSlayer maintains a knowledge base for guidance on individual items to help someone using the software. No link has been located within the TS Pro training version of the software, but it may be within the active version.
- If one wishes to access the site directly, use www.taxslayerpro.com/kb.
- There may be some differences between the screens referenced within the knowledge base and the TY software since the knowledge base appears to be for a prior year.

Calculator

- To find a calculator in TS, click the taxpayer name in the upper left. Choose Helpful Tools

Numbers: SSN, Dates, Phone

- Pay very careful attention to things such as phone numbers, dates or social security numbers. The method for entering each varies as follows:
- Dates are entered with a digit representing the month, e.g. "3" for March. Then one must tab to the next field. A two digit entry e.g. "03" for March will not work.
- A phone number is entered with the three digit area code followed by the three digit prefix followed by the four digit suffix. TS automatically tabs from the first field to the second and then to the third.
- A SSN is entered with three digits followed by tabbing and then two digits followed by tabbing and then four digits.

Reentering Data

- Be careful making changes. For example if one entered a pension gross distribution of \$23,000, TS will automatically show the taxable amount as \$23,000. If the gross distribution was mistyped and was actually \$28,000 one will probably return to the gross distribution box and make the change. Note that the taxable amount WILL NOT CHANGE automatically and remains as \$28,000 until actually changed. One should verify these matters. If the change is not made, TS will eventually show you an error message screen, but it will be much after the actual entry was made.

Filing Status

- Be very careful with the choice of filing status with the federal return. If you complete the state return and subsequently change the federal status, TS will remove all state returns and you must add the state(s) and complete again.

Injured spouse return for Iowa.

- Iowa has six filing statuses:
 - Single
 - Married filing a joint return
 - Married filing separately on combined return
 - Married filing separate returns
 - Head of household

- Qualifying widow(er) with dependent child
- The software makes use of the filing status selected for the federal return. So, if we have MFJ on the federal, the software does make an automatic selection of status 2 or 3 depending upon the lowest tax; however, that is not the end of the story. Iowa does not have an injured spouse filing capability. If one of a married couple wish to protect their refund, it is necessary to use married filing separate returns. Iowa provides that one does not have to follow the filing status MFJ from the federal.
- In order to file a return with an injured spouse it will be necessary to:
- Prepare the federal return for the joint status and with the injured spouse. File only the federal return.
- Start anew and prepare a federal return for one of the individuals using MFS as the filing status and prepare the state return for that individual. File only the state return
- Start anew and prepare a federal return for the second of the individuals using MFS as the filing status and prepare the state return for that individual. File only the state return.

Retired Public Safety Officer

- To take the Retired Public Safety Offer deduction for up to \$3000 you will need to reduce the amount in box 2a on the entry screen for the 1099-R by the amount of the deduction, and once you have continued out of the 1099-R, you can go to Nontaxable Distributions and check the box for the PSO exception.
- Currently, if you need to use the simplified method worksheet, you will complete it to get the number for box 2a. If you click continue, it will carry that number to box 2a for you, but will not allow you to edit it. You will need to delete the worksheet once you have the number and go back and enter the number minus the deduction amount of up to \$3000. We understand that this is cumbersome and are working to find a way for this to flow easier. In the meantime, this is how you will need to do it to get the calculation to work correctly. Please make note of the data from the Simplified Worksheet since that information will probably be needed next year and the deletion ensures it will not carry over.
- A summary of the foregoing is that TaxSlayer DOES NOT check for whether you have more than \$3000 of insurance deduction. The only reason for accessing the Nontaxable Distributions screen is to check the PSO box which will add those initials to the pension line.
- Note that it is possible to subtract more than \$3000 from the taxable pension and it will not be caught by the software. In this situation, the software is solely acting as a form filling device!

Gambling winnings

- At the present time, it is not possible to enter gambling winnings unless there has been a W-2G issued. If a client has gambling winnings that were not reported on a W-2G, one cannot get the correct amount on the proper line of the Iowa 1040.

Retirement Contributions

- When we enter a W-2 and the client has made retirement contributions (e.g. Box 12 Code D) we have been accustomed to an adjustment for SS Wages and Medicare Wages being made automatically. This is no longer true. You must make the changes manually.

Tax Exempt Interest

- This interest must be entered on the separate tax exempt screen under all circumstances. It cannot be entered on the same screen as the taxable interest from a paying entity. When entering the data, one must also enter the amount of taxable state interest. The software does not use the amount of the tax exempt as the taxable amount. In other words, federally tax exempt will be state tax exempt unless adjusted.

Data Entry

- When data is entered and then subsequently altered, do not assume that corrections have been made within the entry form. For example, if the incorrect TIN is entered and the payer's name is filled, it will not be automatically corrected when a correct TIN is entered. It will be necessary to

delete the content of cells for payer's name, address, etc and enter the correct information. The lone exception is that the city and state will be corrected when the ZIP is changed.

- Software fails to "continue" when this is clicked. This is normally due to some information that was omitted on the screen. Scroll across the screen and look for the aberration
- Accessing input screens from the federal 1040. The federal 1040 has blue characters for the various line entries in the "Calculation Summary" screen. This is the one that shows only the federal 1040. Clicking of the blue entry will take you to the input screens for that entry. There is no equivalent for state returns.

The State Return

- Keep in mind that entering the state name within the federal portion does not automatically create the state return. You must individually select the state return to be completed at the start of the state section. You must return to this point to begin a second return, if necessary.

Input Screens within TS

- TS will reveal screens that are based upon the information that has been entered to that point. For example, if a single filing status is selected the screens will be different than if married filing jointly is the selected filing status. This manual has shown screens from both statuses in order to draw attention to that fact.

Prorating Iowa Data

- Input data does not necessarily get prorated by TS. In many cases, the data is simply split 50-50 between the TP and SP. There are many screens wherein adjustments or data entries can be made to items that do not prorate as required by the State of Iowa.

Variations in the handling of data within the same screen

- There may be some variation in the handling of data from the same input screen. For example, there is an Iowa "Subtractions from Income" screen (see Illustration 6 and Illustration 7). In the Practice lab, the payments to an IRA, KEOGH or SEP and the one-half of the self-employment tax were correctly allocated; however, the following were allocated 50-50 between TP and SP unless an entry was made to adjust:
 - Penalty on Early Withdrawal of Savings
 - Alimony Paid
 - Moving Expense Deduction
 - Student Loan Interest Deduction

Possible Data Loss When TS Selects MFJ

- TS will automatically select either MFJ or MFSCR depending upon which is best. Keep in mind that if you have made entries to adjust the data for MFSCR in consideration of proration, any such adjustment affecting the spouse will probably be lost whenever the software selects MFJ. An example of that is provided on page 44.

Rounding of Input Data

- TS does not round numbers as they are input. Therefore, the pennies will show on the input screens. Be cautious when referring to these values. The numbers are rounded for the tax return.

Shortcut Key to Advance to Next Required Entry

- There are no shortcut keys. A Tab is required to advance to the next cell (not necessarily the next required entry). As a side note, the spacebar can be used to check or uncheck a cell.

Make Notes of Certain Data as Entered

- It will be important to retain certain data as it is entered. For example, assume TP pays \$1,534 for his Medicare and SP pays \$2,700 for her part-year policy. TS will take the total (\$4,234) and enter a value of \$2,117 for both TP and SP. Obviously this is not correct when preparing a return with the filing status of MFSCR. In order to correct the entries one must know the amount being entered as 50-50 or continue to the print screens

wherein the Iowa forms are displayed and view it. Then adjust to correct. In this situation, the amount for the TP is too large and the amount for the SP is too small. The entries needed to correct are shown in Illustration 27.

The medical and dental insurance amounts are automatically pulled as a 50/50 split for joint filers filing a combined tax return. If you would like to use a different allocation of expenses in accordance to Iowa law, enter the amount allocated to each spouse below.

Enter the amount to adjust the 50/50 split

Taxpayer	-583
Spouse	583

Illustration 27 – A Caution for Adjusting Health Insurance for Iowa

- There is a note of caution to be observed here. If you make the foregoing adjustments and then TS selects a filing status of MFJ, the software will enter \$3651 in the column label “You or Joint.” TS takes the total amount of health insurance costs and subtracts the amount shown for the TP above ($\$4234 - 583 = \3651). It ignores the amount for the spouse since that column is empty. That means that one needs to keep notes and it is important to determine the actual filing status selected by TS. Also, you need to check the Iowa return to be sure the correct values are being displayed.

Low Income Exemption

- The only location that it is revealed the client has a low income exemption is on the IA 1040 when the printed version of that form is displayed.

Line 24 – Other Adjustments

- Line 24 provides the opportunity to make over 30 other adjustments. One of the items that would be done here is the state nontaxable portion of the Meskwaki Settlement Per Cap income. This is taxable on the Federal 1040 Line 21 at “other income.” Under certain circumstances (see a foregoing discussion on page 39) that income is not taxed within Iowa. Therefore, an adjustment is necessary on Iowa 1040 Line 24. Unfortunately, the “Other Federal Adjustments not already taken” selection within TS does not work. Any entry in that section just disappears. Since there is no way to override the entry on Line 24 and make a correction, it will (as things now stand) be necessary to select one of the other options, e.g. “Accrual Method” and use that to make the adjustment.

No Overt Visible Indicator as to filing status selected by TS

- Given that adjustments to various entries required by the proration requirements, e.g. health insurance et al, it would be convenient to see the actual filing status before making those entries. This is important since an entry made based upon the filing status of MFSCR can lead to errors in that line should TS be using MFJ as the filing status. There are several examples of that in the preceding discussions. Absent that ability, the presence of Iowa forms that allowed one to click on a line in a manner similar to the federal would be useful. TS has been asked to provide this (but don’t hold your breath)!

Error within Simplified Method Worksheet

- An error was encountered when computing the nontaxable portion of a pension with joint and survivor status. This specific error happened when combined ages was 111 (table range is from 111 through 120). TS seemed to be actually using a divisor that would

- apply for ages 110 and down. This means the taxable portion would be too large. TS reports: “This is a known issue and has been previously reported to Development. The taxable amount that displays on the *General Simplified Worksheet screen is incorrect*²². The correct taxable amount will display on the 1040 in the PDF of the forms, which is most important because that is what is sent to the IRS when the return is e-filed.”
- What you are really telling me is that anytime I need to make an adjustment for PSO insurance and must calculate the simplified method worksheet, I have to remember to go all the way to displaying the 1040 in order to get the correct taxable amount and then go back and delete, adjust, etc.”
 - Pay careful attention to the distribution reported for Iowa on the 1099R input screen also. You will want to ensure it is the same taxable amount as recorded for the federal.

Pension Exclusion Remainder

- We have been accustomed to having the pension exclusion remainder calculated and carried over to the following year, once it has been entered in the software. TS does not seem to have that capability and it appears the accumulated pension exclusion must be entered into the Simplified Method Worksheet every year so that TS can be sure the pension exclusion is not exceeded. That means it is incumbent upon the preparer to be fully aware of the remaining exclusion and to be sure that the total pension exclusion does not get exceeded.
- Accordingly, it appears that preparers should have some method of recording the pension status and exclusion remainder, if applicable. This record should probably be in written form and should be included on top of the client’s tax materials for review next year.
- Determining the annual nontaxable portion is further complicated by the items discussed in the paragraph above: *Error within Simplified Method Worksheet*. One must also remember to calculate the monthly amount since that will make a difference when nearing the end of the exclusion period.
- There is an additional problem in that the preparer must be aware that any pension with a starting date before 1987²³ is able to take the exclusion as long as the annuity is received. In other words, the exclusion remainder does not apply for this unique situation.

²² Emphasis added.

²³ Pub 575 (2015)