

WHAT'S NEW FOR 2003

BONUS DEPRECIATION

Idaho did not adopt the bonus depreciation provisions found in Internal Revenue Code (IRC) Section 168 (the 30% or the 50% additional first-year depreciation). If you are depreciating property for which you claimed the bonus depreciation in the current year or a previous year for federal purposes:

- Complete a separate federal Form 4562 for Idaho depreciation purposes as if the special depreciation allowance had not been claimed. Enter the difference between the federal and Idaho Forms 4562 as an "other" addition or subtraction on the Form 39R or 39NR.
- Compute the adjusted basis for Idaho separately from federal using the Idaho depreciation amounts. Enter the difference between Idaho gains and losses and the federal amounts from sales or exchanges of this property as an "other subtraction" on the Form 39R or 39NR.

SECTION 179 EXPENSE

When these instructions were printed, Idaho had not adopted the federal amendments to IRC Section 179 that increased the expensing limitation to \$100,000, allowed off-the-shelf computer software to qualify as Section 179 property, and increased the phase-out threshold amount. If the 2004 Idaho

legislature does not adopt these provisions retroactively, you must make adjustments to your Idaho return if you used these amended Section 179 provisions on your federal return.

If you claimed Section 179 expense for federal purposes, complete a separate federal Form 4562 for Idaho purposes using the Section 179 expensing provisions that were in effect prior to the Jobs and Growth Tax Relief Reconciliation Act of 2003.

PROPERTY TAX EXEMPTION

If you placed personal property in service during 2003 that qualifies for the investment tax credit, you may be able to elect a property tax exemption instead of earning the investment tax credit on the property. The property tax exemption is allowed for two years. To qualify, you must have had a loss in the second preceding tax year from the year the property was placed in service. The exemption is elected on Idaho Form 49E and is irrevocable. If you elect the property tax exemption, you cannot claim the investment tax credit on that property.

CREDIT FOR QUALIFYING NEW EMPLOYEES

The limitation of tax that applies when you earn the credit for qualifying new employees has increased from 45% to 50%.



Did you know you can file your Idaho income tax return electronically?

The benefits to you are:

- **FASTER REFUNDS.** The typical wait for e-filed refunds is 7-14 days. Taxpayers who file paper returns wait 6-10 weeks for their refunds.
- **FEWER ERRORS.** Computer calculations are automatic and virtually error-proof.
- **DIRECT DEPOSITS.** Refunds can be deposited directly into your bank account.
- **AVOID POST OFFICE LINES.** No more last-minute postal runs or doubt about correct postage.
- **IMMEDIATE VERIFICATION OF RECEIPT.** Returns can't be "lost in the mail."
- **FILE NOW, PAY LATER.** E-file accepts both refund and tax due returns.

Ways to access :

- **E-FILE FROM YOUR OWN COMPUTER.** Use our Web site at www2.state.id.us/tax and click on "**Electronic Filing**" to access e-file services available at no cost to eligible taxpayers or commercial tax preparation software for a modest fee.
- **E-FILE WITH YOUR TAX PREPARER.** Please request this service from your preparer. Refund and balance due returns may be e-filed. Payments on balance due returns must be made by April 15, 2004. Check out the electronic payment options on our Web site at www2.state.id.us/tax and click on "**Electronic Payments.**"

E-FILE IS FAST, SECURE, CONFIDENTIAL, AND EASY!

WHICH FORM TO USE

You may use Form 40EZ if you:

- Are a full-year resident, and
- Are single or married filing jointly with no dependents, and
- Are under age 65, and
- Are not blind, and
- Have taxable income of less than \$50,000, and
- Have only wages, salaries, tips, unemployment compensation, taxable scholarships or fellowships, and
- Have taxable interest income of \$1,500 or less.

You must use Form 40 if you:

- Are a full-year resident, and
- Are not eligible to file Form 40EZ.

You must use Form 39R if you file a Form 40 and claim any additions, subtractions, or certain credits.

You must use Form 43 if you or your spouse are a:

- Nonresident, or
- Part-year resident, or
- Resident in the military stationed outside Idaho for part or all of the year. Others see page 3.

You must use Form 39NR if you file a Form 43 and claim any additions, subtractions, certain credits, or recapture of credits.

GENERAL INFORMATION

INFORMATION AND FORMS

If you need information or assistance, call or visit an Idaho State Tax Commission office listed on the cover of this booklet.

Forms are available at Tax Commission offices or may be obtained:

- On the Internet at www2.state.id.us/tax
- By calling (208) 334-7660 in the Boise area or (800) 972-7660
- Most Idaho libraries have a copy of "Idaho Reproducible Forms" containing Idaho tax forms for individuals and businesses.

You may use photocopies of these tax forms. Your copy must be legible.

FILING REQUIREMENTS

Full-year Resident

If you are required to file a federal income tax return, you must file an Idaho return.

The filing requirement is based on gross income as shown on the following schedule. Gross income is defined on page 3. When using this schedule, do not include social security benefits as gross income unless you are married filing a separate return and lived with your spouse at any time during 2003.

STATUS

GROSS INCOME

MARRIED:

• filing separate returns	\$ 3,050
• filing jointly, both spouses under 65	\$ 15,600
• filing jointly, one spouse 65 or older	\$ 16,550
• filing jointly, both spouses 65 or older	\$ 17,500

HEAD OF HOUSEHOLD:

• under 65	\$ 10,050
• 65 or older	\$ 11,200

SINGLE:

• under 65	\$ 7,800
• 65 or older	\$ 8,950

QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD:

• under 65	\$ 12,550
• 65 or older	\$ 13,500

DEPENDENT CLAIMED ON SOMEONE ELSE'S RETURN:

Single dependents. Were you either age 65 or older or blind?

- No. You must file a return if any of the following apply:
- Your unearned income was over \$750.
 - Your earned income was over \$4,750
 - Your gross income was more than the larger of—
 - \$750, or
 - Your earned income (up to \$4,500) plus \$250.
- Yes. You must file a return if any of the following apply:
- Your earned income was over \$5,900 (\$7,050 if 65 or older and blind).
 - Your unearned income was over \$1,900 (\$3,050 if 65 or older and blind).
 - Your gross income was more than—

<u>The larger of:</u>	PLUS	<u>This amount:</u>
<ul style="list-style-type: none"> • \$750, or • Your earned income (up to \$4,500) plus \$250. 	}	\$1,150 (\$2,300 if 65 or older and blind)

Married dependents. Were you either age 65 or older or blind?

- No. You must file a return if any of the following apply:
- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - Your unearned income was over \$750.
 - Your earned income was over \$4,750.
 - Your gross income was more than the larger of—
 - \$750, or
 - Your earned income (up to \$4,500) plus \$250
- Yes. You must file a return if any of the following apply:
- Your earned income was over \$5,700 (\$6,650 if 65 or older and blind).
 - Your unearned income was over \$1,700 (\$2,650 if 65 or older and blind).
 - Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
 - Your gross income was more than—

<u>The larger of:</u>	PLUS	<u>This amount:</u>
<ul style="list-style-type: none"> • \$750, or • Your earned income (up to \$4,500) plus \$250. 	}	\$950 (\$1,900 if 65 or older and blind)

Part-year Resident/Nonresident

If you are a part-year resident, you are required to file an Idaho income tax return if your gross income from all sources while a resident and your gross income from Idaho sources while a nonresident total more than \$2,500.

If you are a nonresident, you are required to file an Idaho income tax return if your gross income from Idaho sources was more than \$2,500.

GENERAL INFORMATION

AMENDED RETURNS

Use Form 40 or 43 to amend your return. Check the amended return box at the top of the form. Enter the applicable reason(s) for amending, as listed below. Complete the entire form and schedules using the corrected amounts.

1. Federal Audit
2. Net Operating Loss Carryback - Attach Form 56C or a schedule showing the application of the loss.
3. Other - Attach an explanation.

Use Form 40 to amend your Form 40EZ.

If you are amending a Form 40 or 43 for a tax year prior to 2001, complete the appropriate Form 40 or 43 for that year and write the words "Amended Return" at the top of the return.

AMERICAN INDIANS

If you are an enrolled member of a federally recognized tribe and live on a reservation, all income received from reservation sources is exempt from Idaho taxation. If you have no other income, you are not required to file.

If you have other income in an amount that meets the federal filing requirement, you must file an Idaho return. For specific instructions, see Form 39R or Form 39NR.

ATTACHMENTS

Attach legible copies of Form(s) W-2, 1099, and other information forms that show Idaho withholding to the front of your return. A complete copy of your federal return should be attached to Form 40 or Form 43. If you are claiming credit for taxes paid to another state, you must attach Idaho Form 39R or 39NR and a copy of the other state's income tax return. If the credit applies to more than one state, use a separate Form 39R or 39NR for each state.

AUDITS

An audit is a review of a return to make sure it was prepared according to tax law. You will be contacted if your return is to be audited. The auditor will ask to see your records and compare them with your return. You may present your records yourself or have someone represent you or come with you. Any change to your return will be explained. Question anything you don't understand.

Federal Audit

If your federal taxable income or tax credits change because of a federal audit, you must send written notice to the Tax Commission within 60 days of the final federal determination. You must include copies of all schedules supplied by the Internal Revenue Service. If you owe additional Idaho tax and do not send written notice within 60 days, a 5% negligence penalty will be imposed. Interest applies on any tax due. If the final federal determination results in an Idaho refund and the statute of limitations is closed, you have one year from the date of the determination to file for the refund.

COMMUNITY PROPERTY

Because Idaho is a community property state, each resident spouse has a one-half interest in the earnings of the other resident spouse during the portion of the year they were married. If married for only a part of the year, the community income includes ONLY the income earned during the time the couple was married. When filing separate returns, the community income, withholding and deductions of both resident spouses must be divided equally between husband and wife.

Idaho law affects your federal return in the same manner. For more details, obtain federal Publication 555, Federal Tax Information on Community Property. If you were a resident of Idaho for only a portion of the year, Idaho law applies to that portion of the year you were a resident. Income is identified as community or separate income based on the laws of the state in which the

recipient is a resident. In the case of real property, the law of the state in which the property is located will apply.

Community property laws do not apply when the spouses have lived apart for the entire year, no part of the income earned by one spouse has been transferred to the other spouse, and the spouses do not file a joint income tax return.

Income, withholding and deductions received or paid after divorce are separate property and must be reported on the return of the person to whom it applies.

If you divorced during 2003 or are filing separately from your spouse, attach a schedule showing how community property income and deductions were divided.

DECEDENT'S TAX RETURN

If a taxpayer dies before filing his return, the return must be filed by the taxpayer's spouse or personal representative. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property.

If your spouse died in 2003 and you did not remarry in 2003, you can file a joint return. You can also file a joint return if your spouse died in 2004 before filing a 2003 return. A joint return should show your spouse's 2003 income before death and your income for all of 2003. Write "FILING AS SURVIVING SPOUSE" on the line where the decedent would have signed the return. If someone else is the personal representative, he must also sign the return.

If a refund is due, attach federal Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer. Form 1310 is not required when a surviving spouse files a joint return with the decedent or a personal representative files for the decedent.

ESTIMATED PAYMENTS

Idaho does not require estimated payments for personal income tax. If you wish to make a voluntary estimated payment, file Form 51 with your payment.

EXTENSION OF TIME FOR FILING

If you cannot file your return by the due date, Idaho allows you an automatic six-month extension of time to file. To avoid paying a penalty, the amount of tax withheld and other payments you have made must be at least 80% of your current year's tax liability or 100% of the total tax reported on your income tax return for the preceding tax year. File Form 51 with your payment.

Even though an extension gives you additional time in which to file, the tax is due on the original due date of the return. You must pay interest on any tax not paid by the original due date of the return.

FILING STATUS

Your Idaho filing status must be the same as the filing status used on your federal return. For example, if you file a joint federal return, you must also file a joint Idaho return.

FILING YOUR RETURN

When To File

You must file your return and pay any income tax due:

- On or before April 15, 2004, for the calendar year 2003, or
- On or before the 15th day of the fourth month following the close of the fiscal year, if you file on a fiscal year basis.

Where To File

Mail the return and payment to:

IDAHO STATE TAX COMMISSION
PO BOX 56
BOISE ID 83756-0056

GENERAL INFORMATION

INCOME

An Idaho resident is taxed on all income, including income from outside the state. A nonresident of Idaho is taxed only on income from Idaho sources. An Idaho part-year resident is taxed on all income received while living in Idaho plus any income received from Idaho sources when not living in Idaho.

Gross Income

Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax. Gross income is measured before subtracting allowable deductions. Gross income includes, but is not limited to:

- All income from wages, salaries, tips, interest and dividends that is not exempt from tax
- Self-employment income before expenses
- Farm income before expenses
- Rental income before expenses
- Shareholders and partners include their share of the gross income from the S corporation and partnership
- Unemployment compensation
- Certain scholarship and fellowship grants
- Gains derived from sales of property
- Pensions and annuities

Scholarships received by degree candidates that are used for tuition, fees, supplies, books, and equipment required for particular courses are not included in gross income.

INTEREST

Interest applies on delinquent tax from the original due date of the return until the tax is paid at the rate of 6% per year (rate effective 1-1-2004 to 12-31-2004).

MILITARY PERSONNEL

Idaho law generally follows federal law regarding which type of military pay (active duty, disability, reserve and retirement) is taxable.

You are a military service member if you are a member of the United States Army, Navy, Marine Corps, Air Force, Coast Guard, or an officer of the Public Health Service detailed for duty with the Army or Navy.

The residency of a qualified service member is presumed to be that member's military home of record.

Idaho resident on active duty stationed in Idaho

If Idaho was your military home of record and you were on active duty stationed in Idaho, all of your military wages and all nonmilitary income, regardless of the source, are subject to Idaho tax. File Form 40

Idaho resident on active duty stationed outside of Idaho

- You joined the armed forces while a resident of Idaho and Idaho is your military home of record; and
- You were on active duty for 120 or more consecutive days; and
- You were stationed outside of Idaho for all or a portion of the year.

All of your income is reportable to Idaho. However, only military wages received while stationed in Idaho and all nonmilitary income, regardless of the source, will be subject to Idaho tax. File Form 43 and check the "Idaho Resident on Active Military Duty" residency status box.

If you joined the armed forces while an Idaho resident and Idaho is your military home of record, you are considered a nonresident if you meet all the requirements for "Special-case Idaho Residents" shown on page 4. As a nonresident, you are required to file an Idaho income tax return if your gross income from Idaho sources exceeds \$2,500.

Nonresident on active duty stationed in Idaho.

If your military home of record is not Idaho and you were on active duty stationed in Idaho for all or a portion of the year, Idaho does not tax your military income. Nonmilitary income from Idaho sources is subject to Idaho tax. File Form 43 if your gross income from Idaho sources exceeds \$2,500. The instructions for Form 43 begin on page 10.

NET OPERATING LOSS

A net operating loss is the excess of business deductions (computed with certain modifications) over total gross income in a particular tax year. Use Form 56 to compute your loss and Form 56C, or a schedule showing the application of the loss.

The net operating loss generally must be carried back to the two preceding years. The carryback is limited to a maximum of \$100,000. Any remaining loss may be carried forward until used, but no longer than 20 years.

- You may elect to forego the two-year carryback provisions and carry the loss forward up to 20 years.
- This election must be made before the due date, including extensions, of the loss year return and may not be revoked.
- To make the election, check the box on line 13, Form 40, or line 29, Form 43, or attach a copy of the federal net operating loss election, or attach a statement to the loss year tax return clearly indicating that you elect to forego the carryback. Include your name, address, social security number, and the amount of loss.

PAYMENTS

Make your check or money order payable to the Idaho State Tax Commission and attach it to your tax return. Write your social security number on your check, cashier's check or money order.

The Idaho State Tax Commission accepts Mastercard and Visa credit and debit cards for payment of taxes. To pay by credit card, complete and attach Form CCV, Credit Card Payment Voucher; visit our Web site at www2.state.id.us/tax and click on the "Electronic Payments" button; or call (800) 972-7660. You may also make credit card payments in person at any Tax Commission office.

PENALTIES

Penalties may be imposed on the tax due as follows:

- 0.5% per month or fraction of a month to a maximum of 25% for failure to pay the tax due (if return is filed)
- 2% per month or fraction of a month for failure to meet the extension criteria (the return must be filed and the taxes paid by the extended due date)
- 5% per month or fraction of a month to a maximum of 25% for failure to file the return timely
- 5% for negligence or disregard of rules
- 10% for substantial understatement of tax
- 50% for filing a false or fraudulent return

The minimum penalty is \$10.

RECORDKEEPING

You are required by law to keep records that will enable you to prepare a complete and accurate income tax return. Although the law does not require any special form of records, you must retain all receipts, canceled checks, and other evidence to prove amounts claimed as deductions. Keep all supporting records for income or deductions until the statute of limitations for the return expires. Usually this is three years from the due date or the date the return was filed. In property transactions, the basis of new or replacement property may be determined by the basis of the old property. Keep these records as long as they are needed to determine the basis of the original or replacement property.

GENERAL INFORMATION

REFUNDS WHEN NOT REQUIRED TO FILE

If you are not required to file an Idaho return, no tax is due even if the calculation shows taxable income. If you are filing only to receive a refund of amounts withheld, you do not pay the \$10 permanent building fund tax or receive the grocery credit. Write "NRF" (Not Required to File) on the lines for "Tax from tables or rate schedule" and "Permanent building fund tax."

REFUND SEIZURE

Under state law, the Tax Commission may retain state income tax refunds to satisfy other outstanding tax debts. The Department of Health and Welfare and the Department of Labor may seize all or part of your income tax refund to offset debts you may owe these agencies. Also, refunds may be seized to satisfy bankruptcy claims, sheriff's garnishments, or debts owed to the Internal Revenue Service. The agency or party seizing the refund is required to send you notice of the action. Questions regarding a refund seizure should be directed to the agency or party that initiated the claim for seizure.

ROUNDING AMOUNTS

The amounts on your return must be rounded to the whole dollar. An amount less than 50 cents is reduced to the whole dollar. Amounts of 50 cents or more are increased to the next whole dollar.

RESIDENCY

Are you a resident, a nonresident, or a part-year resident?

The following will help you decide:

- You are an Idaho resident, even though you live outside Idaho, if the following are true:
 - You think of Idaho as your permanent home.
 - Idaho is the center of your financial, social, and family life.
 - Idaho is the place you intend to return to when you are away.
- You are also an Idaho resident if the following are true:
 - You maintained a home in Idaho the entire year.
 - You spent more than 270 days in Idaho during the tax year.
- You are a nonresident if your permanent home is outside of Idaho all year.

- You are a part-year resident if you moved into or out of Idaho during the tax year. You are still a full-year resident if:
 - You temporarily moved outside of Idaho, **or**
 - You moved back to Idaho after a temporary absence.

Special-case Idaho Residents

You are considered a nonresident if **all** of the following are true:

- You are an Idaho resident who lived outside of Idaho for at least 445 days in a 15-month period.
- After satisfying the 15-month period, you spent less than 60 days in Idaho during the year.
- You did not have a personal residence in Idaho for yourself or your family during any part of 2003.
- You did not claim Idaho as your federal tax home.
- You were not employed on the staff of a U.S. senator or representative.
- You did not hold an elective or appointive office of the U.S. Government other than the armed forces or a career appointment in the U.S. Foreign Service.

SIGNATURES

You must sign your return. Your spouse also must sign if you file a joint return. If your return is prepared by a paid preparer, he must enter his name, address, and identification number. If a taxpayer is deceased or cannot sign his return, an authorized person may sign the return indicating his status or relationship. Write "FILING AS SURVIVING SPOUSE" or "unable to sign" in the signature space. If a taxpayer signs with an "X", his mark must be witnessed.

TAX PREPARER CONTACT BOX

This box applies only if you paid a tax preparer to complete your return. If you check the box, you are authorizing the Tax Commission to discuss your return with the paid preparer identified on the return.

This authorization is valid for up to 180 days from the date the Tax Commission receives the return. If you want the Tax Commission to contact you rather than your preparer, leave the box blank.

TAX YEAR AND ACCOUNTING METHOD

The tax year and accounting method used on your Idaho return must match those used on your federal return.

FORM 40EZ

Instructions are on the back of the form.

You can file on the Internet at www2.state.id.us/tax. Click on "**Electronic Filing.**"

You can file Form 40EZ if you meet all of the following requirements:

- (1) You are a full-year resident;
- (2) Your filing status is single or married filing jointly;
- (3) You do not claim any dependents;
- (4) You are under age 65 and not blind;
- (5) Your taxable income on line 8 is under \$50,000;
- (6) Your only taxable income is from wages, salaries, tips, unemployment compensation, and taxable fellowships and scholarships; and
- (7) Your taxable interest income is \$1,500 or less.

Do not use this form if you and your spouse are filing separate returns.

FORM 39R

Complete Form 39R if you are filing a Form 40. If you are filing a Form 43, complete 39NR.

PART A. ADDITIONS

LINE 1 FEDERAL NET OPERATING LOSS CARRYOVER

Generally the allowable federal net operating loss carryover is not the same amount allowed on the Idaho return. Therefore, you must enter on line 1 any net operating loss carryover included on your federal return. The allowable Idaho net operating loss carryover will then be claimed as a subtraction on line 1, Part B.

LINE 2 CAPITAL LOSS CARRYOVER

Enter on line 2 any capital loss claimed on your federal return (Schedule D) incurred before you became a resident of Idaho, or capital losses from activities that were not taxable by Idaho.

LINE 3 NON-IDAHO STATE AND LOCAL BOND INTEREST AND DIVIDENDS

Enter the amount of interest and dividends you received from municipal bonds of other state governments, including their counties or cities, or from obligations of any foreign country. This income is not reported on your federal return.

LINE 4 IDAHO COLLEGE SAVINGS ACCOUNT WITHDRAWAL

If you make a nonqualified withdrawal from an Idaho college savings account, enter the amount withdrawn less any amounts reported on your federal Form 1040.

LINE 5 OTHER ADDITIONS

RETIREMENT PLAN LUMP-SUM DISTRIBUTIONS

Enter the taxable amount of a lump-sum distribution from a retirement plan reported on federal Form 4972. The amount subject to Idaho tax includes the ordinary income portion and the amount eligible for the federal capital gain election.

PARTNER AND SHAREHOLDER ADDITIONS

Partners and shareholders must include their share of the Idaho additions to partnership and S corporation income not included on the federal Schedule K-1. This information is available from the preparer of the partnership or S corporation return. For example: Interest income from other state governments not taxable for federal purposes is not included on a federal Schedule K-1. The partner or shareholder must report that interest income here.

IDAHO MEDICAL SAVINGS ACCOUNT WITHDRAWALS

If you withdraw funds from an Idaho medical savings account and do not use the funds to pay eligible medical expenses, the withdrawal is subject to Idaho tax. Report this amount as an other addition. Eligible medical expenses include medical, vision and dental care, medical insurance premiums, and long-term care expenses.

If you make a withdrawal that is subject to tax and you are under age 59 1/2, the withdrawal is subject to penalty. The penalty is 10% of the amount withdrawn. Report the penalty on line 54, Form 40, and check the box for an ineligible withdrawal.

FEDERAL BONUS DEPRECIATION

If you claimed federal bonus depreciation, you must complete a separate federal Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is more than the Idaho depreciation, include the difference as an addition on this line. Attach the federal Form 4562 used to compute the Idaho depreciation.

EDUCATOR EXPENSES

If you are claiming the deduction up to \$250 for educators for out-of-pocket expenses allowed by the Internal Revenue Code, report this amount as an other addition.

PART B. SUBTRACTIONS

LINE 1 IDAHO NET OPERATING LOSS CARRYOVER AND CARRYBACK

Enter the Idaho net operating loss carryover. Attach Form 56C or

a schedule showing the application of the loss.

If this is an amended return to claim a net operating loss (NOL) carryback, enter the amount of the NOL carryback. Attach Form 56C or a schedule showing the application of the loss.

Enter the total of the NOL carryover and carryback amounts.

LINE 2 STATE INCOME TAX REFUND

Enter the amount of all state income tax refunds included in income on line 10 of federal Form 1040. If you are filing federal Form 1040A or 1040EZ, enter zero.

LINE 3 INTEREST FROM U.S. GOVERNMENT OBLIGATIONS

Interest income you received from obligations of the U.S. Government is not subject to the Idaho tax. Deduct any U.S. Government interest included in federal adjusted gross income, line 9, Form 40. Examples of obligations of the U.S. Government include but are not limited to:

- Banks for Cooperatives
- Federal Farm Credit Banks
- Federal Financing Bank
- Federal Homeowners Loan Bank
- Federal Intermediate Credit Bank
- Federal Land Bank
- Guam
- Puerto Rico
- Student Loan Marketing Association
- Tennessee Valley Authority Bonds
- Territory of Alaska
- Territory of Hawaii
- Territory of Samoa
- U.S. Series EE and HH Bonds
- U.S. Treasury Bills and Notes
- Virgin Islands

Interest income received from the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA) is not paid by the U.S. Government and is subject to Idaho income tax.

LINE 4 INSULATION OF AN IDAHO RESIDENCE

To qualify for this deduction, your Idaho home must have existed, been under construction, or had a building permit issued on or before January 1, 1976. The insulation must be in addition to any existing insulation and may not be a replacement.

Insulation means any material commonly used in the building industry and installed to retard the passage of heat into or out of a building, such as fiberglass, rock wool, weather stripping, double-pane windows, storm doors and storm windows.

Insulated siding does not qualify unless the cost of the siding and the insulating material is separately stated, in which case the cost of the insulating material alone qualifies. The amount charged for labor to install the insulation is also deductible.

LINE 5 ALTERNATIVE ENERGY DEVICE DEDUCTION

If you install an alternative energy device in your Idaho residence, you may deduct a portion of the amount actually paid or accrued (billed but not paid). Qualifying devices include:

- a system using solar radiation, wind or geothermal resource primarily to provide heating or cooling, or produce electrical power, or any combination
- a fluid-to-air heat pump operating on a fluid reservoir heated by solar radiation or geothermal resource but not an air-to-air heat pump unless it uses geothermal resources as part of the system
- a natural gas or propane heating unit that replaces a noncertified wood stove
- an Environmental Protection Agency (EPA) certified wood stove or pellet stove meeting the most current industry and state standards that replaces a noncertified wood stove

FORM 39R

A noncertified wood stove is a wood stove that does not meet the most current EPA standards. The noncertified wood stove must be taken to a site authorized by the Division of Environmental Quality (DEQ) within 30 days from the date of purchase of the qualifying device.

The natural gas or propane heating unit, the EPA-certified wood stove, or pellet stove must be installed the same tax year that the nonqualifying wood stove is turned in to the DEQ.

In the year the device is placed in service, you can deduct 40% of the cost to construct, reconstruct, remodel, install or acquire the device, but not more than \$5,000.

In the next three years after installation, you can deduct 20% of these costs per year, but not more than \$5,000 in any year.

Lines a - d Complete the line(s) that apply to the year you acquired the device(s). For example, if your device was acquired in 2000, complete line d. Enter the type of device and total cost. Multiply the total cost by the appropriate percentage.

Line 5e Total your deduction on line 5e.

LINE 6 CHILD AND DEPENDENT CARE

If you were able to claim the federal Credit for Child and Dependent Care Expenses, you are allowed an Idaho deduction for the child care expenses you paid for the care of your dependents. The Idaho deduction is a different amount than the federal credit.

Complete this worksheet to determine your Idaho child or dependent care deduction. Refer to federal Form 2441 or Form 1040A, Schedule 2, to determine amounts to enter on lines 1 through 6.

1. Enter the amount of qualified expenses you incurred and paid in 2003. Do not include amounts paid by your employer or excluded from taxable income.
2. Enter \$3,000 for one child or dependent, \$6,000 for more than one child or dependent, cared for during the year.
3. Enter excluded benefits from Part III of Form 2441, or Form 1040A, Schedule 2
4. Subtract line 3 from line 2. If zero or less, stop. You cannot claim the deduction.
5. Enter your earned income.
6. If married filing a joint return, enter your spouse's earned income. All others enter the amount from line 5.
7. Enter the smallest of line 1, 4, 5, or 6 here and on line 6, Form 39R, Part B.

Attach federal Form 2441 or Form 1040A, Schedule 2, Child and Dependent Care Expenses, to your return.

LINE 7 SOCIAL SECURITY AND RAILROAD BENEFITS

Idaho does not tax social security benefits, benefits paid by the Railroad Retirement Board or Canadian social security benefits (OAS or CPP) that are taxable on your federal return.

Enter the taxable amount of social security benefits shown on your federal Form 1040, line 20b, or Form 1040A, line 14b. Do not enter the amount reported on line 20a, Form 1040, or line 14a, Form 1040A.

Enter the taxable amount of railroad benefits shown on your federal Form 1040, lines 16b, or Form 1040A, line 12b. Do not enter the amount reported on line 16a, Form 1040, or line 12a, Form 1040A.

If subtracting benefits from the Railroad Retirement Board, attach Form RRB-1099 or RRB-1099-R.

Disability pension paid by the Federal Railroad Retirement Act may be included on line 7 of Form 1040 as wages, if you are under the minimum retirement age.

LINE 8 RETIREMENT BENEFITS DEDUCTION

If you are age 65 or older, or if you are disabled and age 62 or older, you may be able to deduct some of the retirement benefits and annuities you receive. You cannot claim this deduction if you file married filing separate.

Only the following are qualified retirement benefits:

- Civil Service Employees: Retirement annuities paid by the United States to a retired civil service employee or the unmarried widow of the employee if the recipient is age 65 or older, or disabled and age 62 or older.
- Idaho Firemen: Retirement benefits paid from the firemen's retirement fund of the state of Idaho to a retired fireman or the unmarried widow of a retired fireman if the recipient is age 65 or older, or disabled and age 62 or older.
- Policemen of an Idaho city: Retirement benefits paid from the policemen's retirement fund of a city within Idaho to a retired policeman or the unmarried widow of a retired policeman if the recipient is age 65 or older, or disabled and age 62 or older.
- Servicemen: Retirement benefits paid by the United States to a retired member of the U.S. military service or the unmarried widow of such member if the recipient is age 65 or older, or disabled and age 62 or older.

The amount deducted must be reduced by retirement benefits paid under the Federal Social Security Act and the Federal Railroad Retirement Act.

Disability pension paid by the Federal Railroad Retirement Act may not be included in Box 5 of your Form RRB-1099, if you are under the minimum retirement age. Instead it may be included on line 7 of Form 1040 as wages.

The maximum amounts that may be deducted for 2003 are:

Married filing jointly:

- age 65 or older \$31,338
- age 62 or older and disabled \$31,338

Single:

- age 65 or older \$20,892
- age 62 or older and disabled \$20,892

LINE 9 TECHNOLOGICAL EQUIPMENT DONATION

Enter the fair market value of technological equipment donated to a public elementary or secondary school, public or private college or university, public library, or library district located in Idaho. Items that qualify for this deduction are limited to computers, computer software, and scientific equipment or apparatus manufactured within five years of the date of donation. The amount deducted may not reduce Idaho taxable income to less than zero. Any unused deduction cannot be carried to another year.

LINE 10 IDAHO CAPITAL GAINS DEDUCTION

If you had a net capital gain from the sale of qualified Idaho property described below, you may deduct 60% of the net capital gain that has not already been deducted on federal Schedule D.

- (a) Real property held for at least 18 months, or
- (b) Tangible personal property used in a revenue-producing enterprise and held for at least 12 months. A revenue-producing enterprise means:
 - 1) Producing, assembling, fabricating, manufacturing or processing any agricultural, mineral or manufactured product;
 - 2) Storing, warehousing, distributing or selling at wholesale any products of agriculture, mining or manufacturing;
 - 3) Feeding livestock at a feedlot;
 - 4) Operating laboratories or other facilities for scientific, agricultural, animal husbandry or industrial research, development or testing.
- (c) Cattle and horses held for at least 24 months, and other livestock used for breeding held for at least 12 months, if the owner received more than one-half of his gross income from farming or ranching in Idaho, or

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(d) Timber held for at least 24 months.

NOTE: Gains from the sale of stocks and other intangibles do not qualify.

Complete Idaho Form CG to compute your capital gains deduction.

LINE 11 ADOPTION EXPENSES

If you adopt a child, you may deduct the expenses incurred in the adoption. You may claim legal and medical expenses incurred up to a maximum of \$3,000 per adoption. Travel expenses do not qualify. If the expenses are incurred in two or more years, deduct the costs in the year paid until the \$3,000 limit has been met. The expenses related to an unsuccessful attempt to adopt are not deductible. If expenses were claimed in a year prior to such a determination, file an amended return to add back any deduction claimed for the unsuccessful attempt.

LINE 12 IDAHO MEDICAL SAVINGS ACCOUNT CONTRIBUTIONS AND INTEREST

You may contribute up to \$2,000 (\$4,000 if married) to an Idaho medical savings account and deduct the contribution. Deductible contributions do not include reimbursements that were redeposited into your Idaho medical savings account. Do not include amounts deducted on line 33, federal Form 1040.

An Idaho medical savings account is generally established with a bank, savings and loan, or credit union. The account is established to pay eligible medical expenses of the account holder and the account holder's dependents.

Interest earned on the account is included on line 12, but only if included on line 9, Form 40. Add your qualifying contributions to the interest earned on the account. Enter the name of the financial institution and your account number in the spaces provided.

LINE 13 IDAHO COLLEGE SAVINGS PROGRAM

You may contribute up to \$4,000 (\$8,000 if married filing a joint return) per year to a qualified Idaho college savings program and deduct the contribution. The account must be established with TIAA-CREF Tuition Financing, Inc. The account owner and beneficiary will be designated at the time the account is established. The account owner will have the right to make withdrawals for payment of higher education expenses for the beneficiary. A nonqualified withdrawal will result in an additional tax of up to 10% of the earnings portion of the nonqualified withdrawal amount. The person that withdraws the funds must report the withdrawal amounts as income in accordance with Internal Revenue Code Section 529.

Additional information can be obtained at www.idsave.org or by calling (866) 433-2533.

LINE 14 MAINTAINING A HOME FOR AGED AND/OR DEVELOPMENTALLY DISABLED

You may deduct \$1,000 for each family member, not including yourself or your spouse, who is age 65 or older and for whom you maintain a household and provide more than one-half of his support for the year.

You may deduct \$1,000 for each family member, including yourself and your spouse, who is developmentally disabled and for whom you maintain a household and provide more than one-half of his support for the year.

No more than three deductions of \$1,000 are allowed. If you claim this deduction, you cannot claim the \$100 credit in Part D.

Developmental disability means a chronic disability which:

1. Is attributable to an impairment such as:

- Mental retardation
- Cerebral palsy

- Epilepsy
- Autism
- Other condition found to be closely related to, or similar to, one of these impairments; and

2. Results in substantial functional limitation in three or more of the following areas of life activity:

- Self-care
- Receptive and expressive language
- Learning
- Mobility
- Self-direction
- Capacity for independent living
- Economic self-sufficiency; and

3. Reflects the need for a combination and sequence of special, interdisciplinary or generic care, treatment or other services which are of lifelong or extended duration and individually planned and coordinated.

If the home was maintained for the family member for less than a full year, the deduction is allowed at the rate of \$83.33 for each month the home was maintained.

A family member is any person who meets the relationship test to be claimed as a dependent on income tax returns. Refer to the federal Form 1040 instructions for more information on dependents.

Maintaining a household means paying more than one-half the expenses incurred for the benefit of all the household's occupants. Social Security benefits are not support provided by you but must be included in the computation of total support provided. Some examples of expenses of maintaining a household include: property taxes, mortgage interest, rent, utility charges, upkeep and repairs, property insurance and food consumed on the premises.

LINE 15 IDAHO LOTTERY WINNINGS

You may deduct Idaho lottery prizes of less than \$600 per prize included in federal adjusted gross income on line 9, Form 40. You cannot deduct lottery prizes from other states.

LINE 16 INCOME EARNED ON A RESERVATION BY AN AMERICAN INDIAN

American Indians who are enrolled members of a federally recognized tribe and who live and work on a reservation may deduct all income received from reservation sources if the income is included on line 9, Form 40. Income earned off the reservation cannot be deducted, nor can income earned on the reservation if you live off the reservation.

LINE 17 HEALTH INSURANCE PREMIUMS

Deduct premiums you paid for health insurance for yourself, your spouse, and your dependents if those premiums have not already been deducted or excluded from your income.

If you claimed a deduction for health insurance premiums on your federal Form 1040, Schedule A, calculate the health insurance premiums allowed as a deduction by using the worksheet on page 20.

IDAHO MEDICAL SAVINGS ACCOUNT

If you take money out of your Idaho medical savings account to pay medical insurance premiums, no deduction is allowed. Since the health insurance costs are already deducted or accounted for, they cannot be deducted a second time.

SALARY REDUCTION PLANS

Premiums paid through a cafeteria plan or other salary-reduction arrangement cannot be included in the Idaho deduction for health insurance costs.

BUSINESS DEDUCTIONS

Premiums deducted as a business expense cannot be included in

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the Idaho deduction for health insurance costs since these amounts are already deducted.

SOCIAL SECURITY MEDICARE A AND B

No deduction is allowed for the amount paid for employer-required Social Security Medicare A. This is the amount listed as a deduction on almost every federal W-2.

If you voluntarily enroll in Medicare B, or are not covered under Social Security and voluntarily enroll in Medicare A, the premiums you paid may be deducted.

IDAHO STANDARD DEDUCTION

If you do not itemize deductions for Idaho income tax purposes, but instead use the Idaho standard deduction, you do not have to reduce your health insurance costs by any amount claimed as a federal itemized deduction.

FEDERAL ITEMIZED DEDUCTION LIMITATIONS

For federal purposes, the amount of medical expenses allowed as a deduction on the federal Form 1040, Schedule A, is required to be reduced by 7.5% of adjusted gross income. The following worksheet shows how the limitation of the 7.5% of adjusted gross income required for federal purposes, affects the amount of health insurance costs deductible for Idaho purposes.

If you are not itemizing deductions for Idaho, skip lines 1-6 and enter zeros on lines 8, 12, and 13.

HEALTH INSURANCE AND LONG-TERM CARE INSURANCE DEDUCTION LIMITATIONS

- | | |
|---|-------|
| 1. Amount claimed for health insurance costs on federal Form 1040, Schedule A | _____ |
| 2. Amount claimed for long-term care insurance on federal Form 1040, Schedule A | _____ |
| 3. Additional medical expenses claimed on federal Form 1040, Schedule A | _____ |
| 4. Total medical expenses. Add lines 1, 2 and 3. .. | _____ |
| 5. Enter 7.5% of federal adjusted gross income. | _____ |
| 6. Medical expense deduction allowed on the federal Form 1040, Schedule A. (Line 4 less line 5. If less than zero, enter zero.) | _____ |

HEALTH INSURANCE

- | | |
|---|-------|
| 7. Enter the total paid for health insurance. | _____ |
| 8. Portion of health insurance deduction allowed on federal Form 1040, Schedule A. Enter the lesser of line 1 or line 6. | _____ |
| 9. Enter the total health insurance costs deducted elsewhere on the federal return. | _____ |
| 10. Idaho health insurance deduction allowed. Line 7 less lines 8 and 9. Enter this amount on Form 39R, line 17. | ===== |

LONG-TERM CARE INSURANCE

- | | |
|---|-------|
| 11. Enter the total paid for long-term insurance. | _____ |
| 12. Medical expense deduction not allocated to health insurance costs. Line 6 less line 1. If less than zero, enter zero. | _____ |
| 13. Portion of long-term care insurance deduction allowed on federal Form 1040, Schedule A. Enter the lesser of line 2 or line 12. | _____ |
| 14. Enter the total long-term care insurance costs deducted elsewhere on the federal return. Line 11 less lines 13 and 14. | _____ |
| 16. Multiply line 11 by 50%. | _____ |
| 17. Long-term care insurance deduction allowed. Enter the lesser of line 15 or line 16 on this line and on Form 39R, line 18. | ===== |

LINE 18 LONG-TERM CARE INSURANCE

You may deduct 50% of the amount you paid in premiums for long-term care insurance that are not otherwise deducted or accounted for.

If you claimed a deduction for long-term care insurance on your federal Form 1040, Schedule A, calculate the long-term care insurance allowed as a deduction by using the worksheet in the instructions for line 17.

LINE 19 WORKER'S COMPENSATION INSURANCE

A self-employed individual may deduct the actual cost of amounts paid for worker's compensation insurance coverage in Idaho, if the cost is not deducted elsewhere.

LINE 20 OTHER SUBTRACTIONS FEDERAL BONUS DEPRECIATION

If you claimed federal bonus depreciation, you must complete a separate federal Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is less than the Idaho depreciation, include the difference as a subtraction on this line. Attach the federal Form 4562 used to compute the Idaho depreciation. If you sold or exchanged property on which you claimed the bonus depreciation, compute the difference in the Idaho gain or loss and the federal amount and subtract the difference. Attach all applicable forms.

Identify any other subtraction to which you are entitled and claim the amount on this line. Do not include income earned in another state as a subtraction.

LINE 21 TOTAL SUBTRACTIONS

Total your subtractions and enter the amount on line 12, Form 40.

PART C. CREDIT FOR INCOME TAX PAID TO OTHER STATES

When the same income is taxed by both Idaho and another state, you may be entitled to a credit for tax paid to the other state. Use this section to compute the credit. You must attach a copy of the other state's income tax return and Idaho Form 39R to your income tax return. If your S corporation or partnership paid income tax to another state, attach a copy of your Schedule K-1. If credit applies to more than one state, use a separate Form 39R for each state.

Examples of income that may be taxed by both Idaho and another state include:

- Wages earned in another state that has an income tax, such as Oregon or Utah, while living in Idaho.
- Income from a business or profession earned in another state that has an income tax, while a resident of Idaho.

LINE 1 Enter the tax shown on line 22, Form 40.

LINE 2 Enter the total portion of federal adjusted gross income derived in the other state, modified to reflect Idaho additions and subtractions. In computing the income derived in the other state, you must reverse any adjustments to federal taxable income allowed by the other state that are not applicable to Idaho. If you reported your income derived in the other state by filing an:

- individual return, enter your adjusted gross income from the other state restated to a basis comparable to Idaho adjusted income. For example, if the other state taxes interest received from U.S. obligations, deduct this amount from the other state's adjusted gross income as Idaho does not tax this interest.
- S corporation or partnership composite or group return, enter your pro rata share of the S corporation or partnership income derived in the other state. The corporation's or partnership's income must be restated to a basis comparable to Idaho adjusted income. For example, if the S corporation or partnership deducted state income taxes in computing its income, add this amount to the S corporation or partnership income and recompute your pro rata share as Idaho does not allow this deduction in computing Idaho adjusted income.

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LINE 3 Enter your Idaho adjusted income from line 13, Form 40.

LINE 4 Divide line 2 by line 3. Round the percentage to the nearest whole number. For example, 45.49% should be entered as 45%; 45.50% should be entered as 46%. The percentage cannot exceed 100%.

LINE 6 Enter the other state's tax due from its tax table or rate schedule less its income tax credits. If your income derived in the other state was reported on a composite or group return filed by an S corporation or partnership, enter your pro rata share of the tax paid by the S corporation or partnership less your pro rata share of the income tax credits. Income tax credits are those credits that relate to income tax. An example of a credit that is not an income tax credit is a special fuels or gasoline tax credit or refund.

LINE 7 Your allowable credit for tax paid to other states is the smaller of line 5 or line 6. Enter this amount on line 24 of Form 40.

PART D. MAINTAINING A HOME FOR A FAMILY MEMBER AGE 65 OR OLDER OR A FAMILY MEMBER WITH A DEVELOPMENTAL DISABILITY

If you did not claim the \$1,000 deduction on line 14 of Part B, you may claim a \$100 credit for maintaining a home for an immediate

family member age 65 or over or a family member with a developmental disability. Refer to the instructions for Part B, line 14. If the home was maintained for the family member less than a full year, the credit is allowed at the rate of \$8.33 for each month the home was maintained.

You may claim this credit if your gross income is less than the filing requirement. File Form 40 and attach Form 39R to your return. Only full-year residents, including Idaho residents on active military duty outside Idaho, may claim this credit.

LINE 1 and 2 Answer the two questions. If you answer yes to either question, you qualify.

LINE 3 Enter the name, social security number, relationship, and date of birth of your family member(s) for whom you maintain a home and provide more than one-half of their support. If the claim is for a family member with a developmental disability, check the box.

LINE 4 Enter the total on line 48, Form 40.

PART E. RETIREMENT BENEFITS DEDUCTION

Complete the worksheet and enter the amount from line 6 on line 8, Part B. See page 18 for qualified retirement benefits.

FORM 39NR

Complete Form 39NR if you are filing Form 43. If you are filing a Form 40, complete Form 39R.

PART A. ADDITIONS

LINE 1 NON-IDAHO STATE AND LOCAL BOND INTEREST

Column A: Enter the amount of interest and dividends you received from municipal bonds of other state governments, including their counties or cities, or from obligations of any foreign country. This income is not taxed on your federal return.

Column B: Enter any amount in Column A earned while an Idaho resident or part-year resident.

LINE 2 IDAHO COLLEGE SAVINGS ACCOUNT WITHDRAWAL

Column A: If you make a nonqualified withdrawal from an Idaho college savings account, enter the amount withdrawn less any amounts reported on your federal Form 1040.

Column B: If you make a nonqualified withdrawal from an Idaho college savings account, enter the total amount withdrawn.

LINE 3 OTHER ADDITIONS

Complete this worksheet, using the instructions below to determine your other additions.

	Column A	Column B
1. Net operating loss carryforward	-----	-----
2. Capital loss carryforward	-----	-----
3. Retirement plan lump-sum distributions	-----	-----
4. Partners and shareholders Idaho additions	-----	-----
5. Idaho medical savings account withdrawals	-----	-----
6. Federal bonus depreciation	-----	-----
7. Total. Add lines 1 through 6. Enter these amounts in the appropriate columns on line 3.	-----	-----

NET OPERATING LOSS CARRYFORWARD

Column A: Enter the net operating loss carryforward included on your federal return. The federal net operating loss carryforward is not the same as Idaho's. The Idaho net operating loss carryforward is reported on line 1, Part B.

Column B: Enter any portion of the federal net operating loss carryforward included on line 21, Form 43.

CAPITAL LOSS CARRYFORWARD

Column A: Enter any capital losses included on line 13, federal Form 1040 that were incurred in another state or capital losses from activities not taxable by Idaho.

Column B: Make no entry in Column B.

RETIREMENT PLAN LUMP-SUM DISTRIBUTIONS

Column A: Enter the taxable amount of a lump-sum distribution from a retirement plan not included on line 16a, federal Form 1040 or line 12a, federal Form 1040A. This is the amount eligible for the federal capital gain election or 10-year tax option on federal Form 4972.

Column B: Enter any amount in Column A received while an Idaho resident.

PARTNER AND SHAREHOLDER IDAHO ADDITIONS

Column A and Column B: Partners and shareholders must include their share of the Idaho additions to partnership and S corporation income not included on the federal Schedule K-1. This information is available from the preparer of the partnership or S corporation return. For example, interest income from other states not taxable for federal purposes is not included on a federal Schedule K-1. The partner/shareholder must report that interest income on this line.

IDAHO MEDICAL SAVINGS ACCOUNT WITHDRAWALS

Columns A and B: If you withdraw funds from an Idaho medical savings account and do not use the funds to pay eligible medical expenses, the withdrawal is subject to Idaho tax. Report this amount as an other addition. Eligible medical expenses include medical, vision and dental care, medical insurance premiums and long-term care expenses.

If you make a withdrawal that is subject to tax and you are under age 59 1/2, the withdrawal is subject to penalty. The penalty is 10% of the amount withdrawn. Report the penalty on line 72, Form 43, and check the box for an ineligible withdrawal.