

19; Form 1040A, line 13; or Form 1040EZ, line 3, that was issued by the Railroad Retirement Board. Instead, see the instructions for the *Railroad unemployment and sickness benefits* deduction on page 21 for more information.

Line 8 – Deferral of business indebtedness discharge and reacquisition add-back

Add an amount equal to any income not included as a result of the deferral of income arising from business indebtedness discharged in connection with the reacquisition of a debt instrument (as provided in Section 108(i) of the IRC). Subtract the amount added to income in a previous year to offset the amount included in federal gross income as a result of the deferral of income arising from business indebtedness discharged in connection with the reacquisition after Dec. 31, 2008, and before Jan. 1, 2011, of an applicable debt instrument.

Line 9 – Qualified restaurant property add-back

If you placed qualified restaurant property in service during the year that was classified as 15-year property under Section 168(e)(3)(E)(v) of the IRC, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the classification not applied to the property in the year that it was placed in service.

Line 10 – Qualified retail improvement property add-back

If you placed qualified retail improvement property in service during the year that was classified as 15-year property under Section 168(e)(3)(E)(ix) of the IRC, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the classification not applied to the property in the year that it was placed in service.

Line 11 – Qualified disaster assistance property add-back

If you claimed the special allowance for qualified disaster assistance property under Section 168(n) of the IRC, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the special allowance not been claimed for the property.

Line 12 – Qualified refinery property add-back

If you made an election under Section 179C of the IRC to expense costs for qualified refinery property, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the election not been made for that year.

Line 13 – Qualified film or television production add-back

If you made an election under Section 181 of the IRC to expense costs for a qualified film or television production tax purposes, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the election not been made for that year.

Line 14 – Qualified preferred stock add-back

You may have had a loss from the sale or exchange of preferred stock in:

- The Federal National Mortgage Association, established under the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.), or
- The Federal Home Loan Mortgage Corporation, established under the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1451 et seq.).

If you treated this as an ordinary loss under Section 301 of the Emergency Economic Stabilization Act of 2008 in the current taxable year or in an earlier taxable year, add an amount equal to the amount of adjusted gross income that would have been computed had the loss not been treated as an ordinary loss.

Schedule 2: Deductions

Line 1 – Renter's deduction

You may be able to take the renter's deduction if:

- You paid rent on your principal place of residence, **and**
- The place you rented was subject to Indiana property tax.

Your "principal place of residence" is the place where you have your true, fixed, permanent home and where you intend to return after being absent.

If you rented a manufactured home or paid rent for your manufactured home lot, you may claim the renter's deduction if the above requirements are met.

Rent paid for summer homes or vacation homes is *not* deductible.

You cannot claim the renter's deduction if the rental property was not subject to Indiana property tax. Examples of this type of property are:

- Government owned housing,
- Property owned by a nonprofit organization,
- Student housing,
- Property owned by a cooperative association, and
- Property located outside of Indiana.

How do I report my deduction? First, complete the information area by entering:

- The address where rented if it's different from the address on the front of the return (leave blank if it is not different),
- The landlord's name and address,
- The total amount of rent paid, and
- The number of months you lived there.

If you moved during the year or had more than one landlord, you must list the same information for each place that you rented. Enclose additional pages if necessary.

How much rent can I deduct? You can deduct up to \$3,000 or the amount of rent paid, whichever is less.

Example. Emily paid \$4,800 in rent on her principal place of residence. She will claim a \$3,000 renter's deduction.

Example. Bill paid \$400 rent for his first apartment. He moved to another location during the year and paid \$2,800 rent for the rest of the year. His deduction will be limited to \$3,000, even though he paid \$3,200 altogether.

Important: Keep copies of your rental receipts, landlord identifying information and lease agreements as the Department can require you to provide this information.

For more information about this deduction, see Income Tax Information Bulletin #38 at www.in.gov/dor/3650.htm

Line 2 – Homeowner's residential property tax deduction

You may be able to take a deduction of up to \$2,500 of the Indiana property taxes (residential real estate taxes) paid on your principal place of residence. Your *principal place of residence* is the place where you have your true, fixed home and where you intend to return after being absent.

Note about last year's property tax: Most property tax statements for the 2007 tax year were issued and payable in 2008. However, some of those statements were not issued (and payable) until sometime in 2009. If you received and paid one of these catch-up bills in 2009, you may be eligible for an additional deduction. See *Catch-up deduction* in the next column for details.

Note: Property tax paid for summer homes or vacation homes is *not* deductible.

Important: You cannot claim this deduction for property tax paid in 2009 if you are claiming the Lake County residential income tax credit on Schedule 5, line 6.

How do I claim my deduction? Complete the information area on Schedule 2, line 2. Enter the address of your principal residence where the Indiana property tax was paid if it is different from the address on the front of the return. If you had more than one principal residence during the year, and you paid Indiana property tax on both residences, list the additional residence on a separate piece of paper.

Example. Sue and Mack each owned their own home; they married in 2009. They sold both of their homes during the year and began renting. They are eligible to claim a property tax deduction on the combined property taxes paid on both homes if they are filing a joint return (limited to \$2,500 altogether).

- Enter the number of months you lived there. If you claim more than one residence, enter the number of months lived at the other residence(s) on a separate sheet of paper.
- Enter the amount of Indiana property tax paid. If you lived in more than one residence during the year, enter the combined amount of Indiana property tax paid on all principal residences.

- Enter the smaller of \$2,500 or the amount of Indiana property tax paid in Box A.

No double benefit allowed. If any portion of property taxes paid on your principal residence was deducted as an expense on federal Schedule C, C-EZ, E or F, then do not deduct that amount on this line.

Example. Jean paid \$1,200 in Indiana property tax on her home. She used one room of her home for her business, and deducted \$200 Indiana property tax as an expense on her federal Schedule C. Jean is allowed a deduction of \$1,000 (\$1,200 minus the \$200 deduction already taken on federal Schedule C).

How do I find out how much I paid in Indiana property tax on my principal residence? Indiana counties send statements to homeowners showing how much property tax is due on their property. Add together the 2009 spring and fall installments, if you paid both of them. If you received just one installment statement this year for your 2009 property taxes, use the amount paid for that installment.

Sometimes mortgage companies pay the Indiana property tax from an escrow account. If your mortgage company pays it, they should send you a Form 1098 (or its equivalent) showing the amount of property tax paid. If you cannot locate the information, contact your local county treasurer's office or your mortgage company.

Important: You must maintain copies of proof that you paid your Indiana property tax as the Department can require you to provide this information. This could include the Form 1098, the property tax statement from your local assessor's office, cancelled checks, etc.

Catch-up deduction. Most Indiana property tax statements for the 2007 tax year were issued and payable in 2008. However, some of those statements were not issued (and payable) until sometime in 2009. If you received and paid one of these catch-up bills in 2009, you may be eligible for a deduction.

You cannot take a catch-up deduction:

- For any property taxes already claimed on your 2008 tax return, or
- If you claimed the Lake County residential income tax credit on your 2008 tax return.

Complete the *Catch-up property tax deduction worksheet* on page 16 to see if you are eligible to claim a 2008 property tax deduction on this year's tax return, and to figure your deduction.

Important: Do not complete the worksheet if you claimed the **Lake County** credit on line 28 of your 2008 Form IT-40. *You are not eligible for the catch-up deduction.*

Catch-up property tax deduction worksheet

Step 1	Maximum deduction	\$ 2,500
Step 2	Enter any property tax deduction claimed on your 2008 tax return, Schedule 1, line 2, Box A (or Schedule D, line 2, Box A if you filed Form IT-40PNR)	\$ _____
Step 3	Subtract Step 2 from Step 1 (if zero or less, STOP. You are not eligible for this deduction)	\$ _____
Step 4	Enter the amount of 2007 property tax due in 2008 but not paid until 2009	\$ _____
Step 5	Enter the smaller of Step 3 or Step 4 here and on Schedule 2, line 2, Box B	\$ _____

Example. Spencer paid \$2,100 in property taxes on his home in 2008, and claimed a \$2,100 homeowner's property tax deduction on his 2008 tax return. He got a catch-up bill in 2009, and had to pay an additional \$514 in 2008 property tax. Here is his completed *Catch-up property tax deduction worksheet*:

Step 1	Maximum deduction	\$ 2,500
Step 2	Enter any property tax deduction claimed on your 2008 tax return, Schedule 1, line 2, Box A (or Schedule D, line 2, Box A if you filed Form IT-40PNR)	\$ 2,100
Step 3	Subtract Step 2 from Step 1 (if zero or less, STOP. You are not eligible for this deduction)	\$ 400
Step 4	Enter the amount of 2007 property tax due in 2008 but not paid until 2009	\$ 514
Step 5	Enter the smaller of Step 3 or Step 4 here and on Schedule 2, line 2, Box B	\$ 400

Spencer is eligible to claim \$400 as a deduction on Schedule 2, line 2, Box B.

Line 3 – State tax refund reported on federal return

If you entered a state tax refund amount on line 10 of your federal Form 1040, then enter that amount here.

Line 4 - Interest on U.S. government obligations deduction

If the amount on line 1 of Form IT-40 includes interest income, you may be able to take a deduction. If any part of your interest income included on line 1 is from a direct obligation of the U.S. government, you can deduct this amount.

Examples of U.S. government obligations include U.S. savings bonds, U.S. Treasury bills and U.S. government certificates. This interest is usually reported on federal Schedule B.

Interest income reported from a trust, estate, partnership or S corporation that is from U.S. government obligations is also deducted on this line.

Note: When certain U.S. savings bonds are redeemed to pay expenses for higher education, the interest may be excluded from federal adjusted gross income. Therefore, do not enter any interest from U.S. savings bonds that is shown on your federal Schedule B, line 3 (because it has already been excluded from income).

For more information about this deduction see Income Tax Information Bulletin #19 at www.in.gov/dor/3650.htm

Lines 5 and 6 – Taxable Social Security and/or railroad retirement benefits deduction

Indiana does not tax Social Security income or the railroad retirement benefits that are issued by the U.S. Railroad Retirement Board. To figure your deduction:

- Enter the amount from Form 1040, line 20b (Form 1040A, line 14b), on Indiana's Schedule 2, line 5.
- If you have included railroad retirement benefits that are issued by the U.S. Railroad Retirement Board on line 16b of your federal Form 1040, or on line 12b of your federal Form 1040A, then enter that amount on Indiana's Schedule 2, line 6.

Important: Do not enter any other types of pension or retirement income on these lines.

Note: See the Railroad unemployment and sickness benefits deduction instructions on page 21 if you have received unemployment and/or sickness benefits from the Railroad Retirement Board.

Line 7 – Military service deduction

The income on line 1 of Form IT-40 may include active or reserve military pay. If it does, you will be able to take a deduction (regardless of your age).

Also, if you are retired from the military or are the surviving spouse of a person who was in the military, you may be able to take this deduction. You will be eligible if:

- You were at least 60 years of age by Dec. 31, 2009,
- You received military retirement or survivor's benefits in 2009, and
- The benefits received as retirement income were reported on your federal return.

Your deduction will be the actual amount of military income received (i.e. military pay, retirement pay and/or survivor's benefits) or \$5,000, whichever is *less*. If both you and your spouse received military income, you may each claim the deduction for a maximum of \$10,000.

Important: If you served in the Indiana National Guard or the reserve component of the armed forces during 2009, see the *National Guard and reserve component members deduction* on page 20.

Note: Military income earned while in a **combat zone** is not taxable on your federal or state income tax returns. Since Indiana is not taxing this income, your combat zone income is not eligible for a deduction.

Example. Jim was on active duty the first month of the year. He was stationed in a combat zone the rest of the year. His military W-2 form shows regular military wage income of \$950, and \$19,000 income earned while being stationed in a combat zone. Only \$950 of his income is taxed on his federal return; likewise, Indiana will only initially tax \$950. Jim should claim a \$950 military deduction (the lesser of the income being taxed [\$950] or \$5,000).

Important: You **must** enclose your military W-2 form, retirement pay statement and/or survivor's benefit statement with the tax return if you are claiming this deduction.

Note: If you received a combination of military pay, retirement pay and/or survivor's benefits during the tax year, the total deduction cannot be greater than \$5,000 per qualifying person. For example, if you earned \$6,000 in military pay and \$1,500 in retirement pay, you can deduct only \$5,000 of your military income.

For more information about this deduction see Income Tax Information Bulletins #6 and #27 at www.in.gov/dor/3650.htm

Line 8 – Non-Indiana locality earnings deduction

You may be allowed a deduction if you have income being taxed by a locality (local governmental unit) located in another state. A "locality" could be a city, county, parish, etc.

Example. You earned wages in Louisville, KY. Your employer withheld a Louisville city (locality) tax. Since your wages were taxed by a non-Indiana locality (Louisville), you are eligible to take a deduction.

The deduction is limited. You may deduct the amount of your income that was taxed by a non-Indiana locality **or** \$2,000, whichever is *less*. If you and your spouse both qualify, you may each claim the deduction for a maximum of \$4,000 (limited to no more than \$2,000 per person).

You must enclose proof that the tax was paid to a locality outside Indiana to be allowed this deduction. A W-2 form is proof as long as the W-2 form shows a withholding amount and the name of the non-Indiana locality where the tax was paid. The name of the locality is usually found in box 20, Locality Name, on the W-2 form. A copy of a non-Indiana locality tax return will also serve as proof of tax paid.

For more information see Income Tax Information Bulletin #28 at www.in.gov/dor/3650.htm

Line 9 – Insulation deduction

You may be able to take this deduction if you installed new insulation in your Indiana home during 2009. Insulation includes weather stripping, double pane windows, storm doors and storm windows. To take this deduction the following requirements must be met:

- The insulating items must have been installed in your principal place of residence located in Indiana,
- The part of your home where the insulating items were installed must have been built *before* Jan. 1, 2006,
- The insulating items must be an *upgrade* and not a replacement **or** like-kind item (e.g., replacing a double pane window with a new

double pane window won't qualify, but replacing a double pane window with a triple pane window will qualify), and

- The deduction must be taken in the year the insulating items were installed.

You are allowed to deduct the actual cost of the qualifying items, including labor, up to a maximum of \$1,000.

Important: When claiming this deduction, maintain with your records the following information (as the Department can require you to provide this information at a later date):

- Item(s) purchased
- Purchase price
- Place of purchase
- Date of purchase
- Date of installation
- Amount paid for labor (you cannot include the cost of labor that you did yourself)

For more information about this deduction see Income Tax Information Bulletin #43 at www.in.gov/dor/3650.htm

Line 10 – Nontaxable portion of unemployment compensation

You may be eligible for a deduction if you reported unemployment compensation on your federal income tax return. Complete the worksheet on page 18 to see if you are eligible.

***Important:** Do not include any unemployment compensation issued by the U.S. Railroad Retirement Board on lines 2 or 6 of the worksheet. Instead, see the instructions for the *Railroad unemployment and sickness benefits* deduction on page 21 for more information.

Line 11 – Other deductions

Each of the following deductions has been assigned a three-digit code number. When claiming the deduction on Schedule 2 under line 11, write the name of the deduction, the three-digit code number and the amount claimed.

Example. Enter the following information on line 11a to claim a \$130 civil service annuity deduction and on 11b to claim a \$5,200 NOL deduction:

11a. Civil Service Annuity	6 0 1	11a	130
b. Indiana Net Operating Loss	6 0 7	11b	5,200

Airport development zone employee deduction 600

Certain areas within Indiana have been designated as airport development zones. If you lived in an airport development zone and worked for a qualified employer in that zone, you may be able to take this deduction.

Your *employer* will provide Form IT-40QEC to you if you are eligible to claim this deduction.

Unemployment Compensation Worksheet

Note: If you were married but filing separately, and you lived with your spouse at any time during 2009, enter -0- on line 4 of the worksheet.

However, if you were married but filing separately, and lived apart from your spouse the entire year, enter \$12,000 on line 4.

Important: Do not include any unemployment compensation issued by the U.S. Railroad Retirement Board on line 1. Instead, see the instructions for the *Railroad unemployment and sickness benefits* deduction on page 21 for more information.

1. Enter the amount from Form IT-40, line 1	1		
2. Enter the amount from Schedule 1, line 7	2		
3. Add lines 1 and 2.....	3		
4. Enter \$12,000 if single, or \$18,000 if married filing a joint return.....	4		
5. Subtract line 4 from line 3. If zero or less, enter -0-	5		
6. Enter the amount from Schedule 1, line 7, Box A.....	6		
7. Enter one-half of line 5 (divide line 5 by 2).....	7		
8. Subtract line 7 from line 6 (if zero or less, you are not eligible for a deduction). Carry this amount to Schedule 2, line 10.....	8		

The amount of the deduction is one-half (½) of the earned income shown on that form or \$7,500, whichever is less. You must enclose Form IT-40QEC with the Form IT-40 to support any claimed deduction.

Enter 6 0 0 on Schedule 2 under line 11 if claiming this deduction.

Civil service annuity deduction 601

The income on line 1 of Form IT-40 may include federal civil service annuity payments. If it does, you may be able to take a deduction if you were at least 62 years of age by Dec. 31, 2009.

To figure your deduction, begin with the amount of annuity payments received or \$2,000, whichever is less. Subtract from that amount any Social Security and railroad retirement benefits (issued by the Railroad Retirement Board) you received.

Example. Your civil service annuity is \$6,000. Your Social Security income is \$1,200. Here is how to figure your deduction:

Lesser of the amount of the annuity (\$6,000) or \$2,000	\$2,000
Social Security benefits	<u>\$1,200</u>
Allowable deduction	\$ 800

If you and your spouse both received civil service annuities, you may each take this deduction for a maximum of \$4,000 (no more than \$2,000 per qualifying person), provided you both meet the age requirement.

This deduction is available only to the annuitant and is not available to the annuitant's beneficiary. For more information about this deduction see Income Tax Information Bulletin #6 at www.in.gov/dor/3650.htm

Enter 6 0 1 on Schedule 2 under line 11 if claiming this deduction.

Disability retirement deduction 602

To take this deduction you must have:

- Been permanently and totally disabled at the time of retirement,
- Retired on disability before Dec. 31, 2009, and
- Received disability retirement income during 2009.

If you meet these qualifications, you must complete Schedule IT-2440 and have it signed by your doctor to claim this deduction. Schedule IT-2440 **must** be enclosed with your tax return when claiming this deduction.

For more information about this deduction see Income Tax Information Bulletin #70 at www.in.gov/dor/3650.htm and Schedule IT-2440 at www.in.gov/dor/4167.htm

This deduction is limited to a maximum of \$5,200 per qualifying individual.

Note: Social Security disability income does not qualify for this deduction because Indiana does not tax this income.

Enter 6 0 2 on Schedule 2 under line 11 if claiming this deduction.

Enterprise zone employee deduction 603

Certain areas within Indiana have been designated as enterprise zones. Enterprise zones are established to encourage investment and job growth in distressed urban areas.

Enterprise zones have been established in areas of certain cities/locations. See About Enterprise Zone Credits on page 32 for a list of those cities/locations.

Your *employer* will provide Form IT-40QEC to you if you are eligible to claim this deduction.

The amount of the deduction is one-half (½) of the earned income shown on that form or \$7,500, whichever is less. You must enclose Form IT-40QEC to the Form IT-40 to support any claimed deduction.

Enter 6 0 3 on Schedule 2 under line 11 if claiming this deduction.

Human services deduction 605

The human services deduction is intended to eliminate any individual income tax imposed on Medicaid recipients who are living in a:

- Hospital,
- Skilled nursing facility,
- Intermediate care facility,
- Licensed county home,
- Licensed boarding or residential home, or
- Certified Christian Science facility.*

The goal of the human services tax deduction is to reduce the affected individual's adjusted gross income tax liability to zero (0).

*An eligible Christian Science facility must be listed with and certified by the Commission for Accreditation of Christian Science Nursing Organizations/Facilities, Inc.

Generally, the deduction should not be used in conjunction with most tax credits in order to create a refund.

If you are a Medicaid recipient and live in one of the facilities listed above, to determine whether you are eligible for the deduction you must first prepare your tax return without claiming a human services deduction. Generally, if a refund is due, you are not eligible for a deduction. File your return without claiming the deduction and a refund will be issued. However, if an amount is due, you are eligible to use a deduction.

Enter 6 0 5 on Schedule 2 under line 11 if claiming this deduction.

Indiana lottery winnings deduction 606

If you win any prize money from the Indiana Hoosier Lottery Commission, either by winning an instant game, an online game such as Hoosier Lotto, Powerball, Lucky 5, Daily 3 & 4, Max 5, etc., you must report those winnings as income on your federal income tax return.

Most of these winnings are fully taxable by Indiana. However, some of the winnings may be exempt from Indiana tax. Also, annuity payments received for drawings held before July 1, 2002, are exempt from Indiana tax.

Complete the worksheet below to see if you are eligible for a deduction.

Note: Winnings from other state lotteries, Indiana pari-mutuel horse races or out-of-state tracks, Indiana and out-of-state riverboats and other gambling winnings, are fully taxable in Indiana and should not be deducted from your taxable income.

Enter 6 0 6 on Schedule 2 under line 11 if claiming this deduction.

Indiana net operating loss deduction 607

You may take a deduction for the Indiana portion of the federal net operating loss deduction you added back on line 2 of Schedule 1. (This will be a net operating loss deduction from an earlier year(s) carried forward to 2009.) Write the amount you deduct as a positive figure. Enclose the following with your tax return:

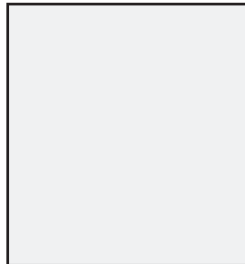
- A copy of the federal Form 1040 from the loss year;
- Schedule A from federal Form 1045, and
- A completed Indiana Schedule IT-40NOL.

Important: The deduction will be denied if these schedules are not enclosed with your tax return.

Enter 6 0 7 on Schedule 2 under line 11 if claiming this deduction.

Lottery Winnings Worksheet

A. Enter the amount of winnings from the Hoosier Lottery Commission that you have reported on your federal Form 1040, line 21	A \$	
B. Locate those W-2Gs (issued by the Hoosier Lottery Commission) showing Indiana <u>state</u> withholding in Box 14. Add the amounts from Box 1 of each of those W-2G's; enter total here.....	B \$	
C. Exemption	C \$	1,200
D. How <u>many</u> W-2Gs did you locate in step B above (e.g. 1, 2, etc.)?..	D X	
E. Multiply line C by line D; enter result here	E \$ -	
F. Subtract line E from line B; enter result here	F \$ -	
G. Subtract line F from line A. Enter here and on Schedule 2 under line 11	G \$	



Indiana partnership long-term care policy premiums deduction 608

You may take a deduction for the amount of premiums paid for Indiana partnership long-term care insurance.

Important: The Indiana partnership policy will have the following box of information on the outline of coverage, the application or on the front page of the policy:

This policy qualifies under the Indiana Long-Term Care program for Medicaid Asset Protection. This policy may provide benefits in excess of the asset protection provided in the Indiana Long-Term Care program.

If the information shown in the box above is **not** located in a box on your policy, you do not have a qualifying policy, and are not eligible to take this deduction.

The deduction is the amount of premiums paid during the year on the policy for the taxpayer and/or spouse.

No double benefit allowed. Certain self-employed individuals will claim these premiums as a deduction on the front page of federal Form 1040. The Indiana deduction will be the actual amount of these premiums paid, minus any amount of these already reported on federal Form 1040.

Example. Sam paid \$645 in Indiana partnership long-term care premiums. He deducted \$400 of those premiums on the front page of Form 1040. He should deduct the \$245 difference (\$645 - \$400) on Indiana Schedule 2 under line 11.

More information about this program is available at the following Web site www.in.gov/fssa/iltcp

Important: Keep a copy of the premium statements as the Department can require you to provide this information.

Enter 608 on Schedule 2 under line 11 if claiming this deduction.

Law enforcement reward deduction 611

You may be eligible for this deduction if you reported an amount you received as a reward as “other income” on line 21 of your federal Form 1040.

You may be able to deduct the *lesser* of the amount received or \$1,000 if:

- You received a reward for providing information to a law enforcement official or agency,
- You the information assisted in the arrest, indictment or the filing of charges against a person, and
- You are not compensated for investigating crimes, the person convicted of the crime or the victim of the crime.

Enter 611 on Schedule 2 under line 11 if claiming this deduction.

Medical savings account deduction 612

You may be eligible for a deduction if your employer deposited funds in certain medical care savings accounts. If you received Form IN-MSA from the account provider you should deduct any medical withdrawals and exempt interest income reported in Box 2 and/or Box 7.

Note: You are not eligible to claim this deduction if you also claimed a medical savings account deduction on the front page of federal Form 1040.

Make sure you enclose Form IN-MSA or your claimed deduction will be denied.

Enter 612 on Schedule 2 under line 11 if claiming this deduction.

National Guard and reserve component members deduction 621 (also see the *Military service deduction* on page 16)

There is a deduction available for certain members of the reserve components of the armed forces and the Indiana National Guard.

Who is eligible?

You must be a member of the reserve components of:

- the Army;
- the Navy;
- the Air Force;
- the Coast Guard;
- the Marine Corps;
- the Merchant Marine.

Or, a member of:

- the Indiana Army National Guard; or
- the Indiana Air National Guard.

What is eligible to be deducted?

If you are eligible (based on the above requirements), your deduction is the qualified military income* received as a result of service on involuntary orders:

- During the period you were deployed or mobilized for full time service, or
- During the period your Indiana National Guard unit was federalized.

* Military income received due to service in a **combat zone** is not taxable on your federal or state income tax returns. Since Indiana is not taxing this income, your combat zone income is not eligible for this deduction.

What is qualified military income?

Qualified military income is military wages paid:

- to a member of a reserve component of the armed forces or the Indiana National Guard,

- for the period during the member's full-time service on involuntary orders in a reserve component of the armed forces or the period when Indiana National Guard unit was federalized.

Note: You cannot claim both this deduction and the *Military service deduction* (see page 16) based on the same income. See the following example.

Example. Brandon is a member of the Indiana National Guard.

- From January through Oct. 15, 2009, Brandon earned \$6,000 from the guard.
- His unit was federalized on Oct. 16, 2009. He earned \$7,000 from that point through Dec. 1, 2009.
- His unit was assigned to a combat zone on Dec. 2, 2009, and he earned \$3,000 from then until the end of the year.
- Brandon's military W-2 shows \$13,000 in *Box 1, Wages, tips, other compensation* (the combat zone income is not included in Box 1 because it is not taxable).

Brandon is eligible for both Indiana military deductions. First, he will claim the \$5,000 maximum military service deduction on Schedule 2, line 7, based on the \$6,000 income earned through October 15. Then, he will claim the National Guard and reserve components deduction of \$7,000 (full amount of income earned after his unit was federalized) under line 11. Note: He will not deduct the \$3,000 income earned while stationed in a combat zone because it was not taxed to begin with.

Military withholding statements must be attached to the tax return when claiming this deduction.

Enter 6 2 1 on Schedule 2 under line 11 if claiming this deduction.

Qualified patents income exemption deduction 622

Some of the income from qualified patents included in federal taxable income may be exempt from Indiana adjusted gross income tax. A qualified patent is a utility patent or a plant patent issued after Dec. 31, 2007, for an invention resulting from a development process conducted in Indiana. The term does not include a design patent.

The exemption includes licensing fees or other income received for the use of the patent, royalties received for the infringement, receipts from the sale of a qualified patent, and income from the taxpayer's own use of the patent to produce the claimed invention.

Complete Schedule IN-PAT and enclose with your tax return when claiming this deduction. You may get Schedule IN-Pat at www.in.gov/dor/4167.htm

For more information about this deduction see Income Tax Information Bulletin #104 at www.in.gov/dor/3650.htm

Enter 6 2 2 on Schedule 2 under line 11 if claiming this deduction.

Railroad unemployment and sickness benefits 624

Benefits issued by the U.S. Railroad Retirement Board are not taxable to Indiana.

Deduct unemployment and/or sick pay benefits issued by the U.S. Railroad Retirement Board on this line if:

- You included these benefits as taxable income on your federal tax return, and
- You did not already deduct these benefits on Schedule 2, lines 5 and/or 6.

Do not include any supplemental sick pay benefits on this line.

Make sure to keep the statements (such as Form 1099G) issued by the U.S. Railroad Retirement Board as the Department may request them at a later date.

Enter 6 2 4 on Schedule 2 under line 11 if claiming this deduction.

Recovery of deductions 616

You are not eligible for this deduction if you did not complete the "other income" line on your federal Form 1040.

Generally, Indiana **does not** allow you to claim itemized deductions from federal Schedule A. However, if you reported *recovered* itemized deductions as "other income" on line 21 of your federal Form 1040, enter that amount on this line.

A *recovery* is a return of an amount you deducted in an earlier year. The most common recoveries are refunds (see Schedule 2, line 3), reimbursements and rebates of deductions previously itemized on federal Schedule A.

Enter 6 1 6 on Schedule 2 under line 11 if claiming this deduction.

Solar powered roof vent or fan deduction 623

An Indiana resident may be eligible for a deduction up to \$1,000 if a solar powered roof vent or fan was installed on a building owned or leased by the individual. A *solar powered roof vent or fan* is a roof vent or fan that is powered by solar energy and used to release heat from a building.

The deduction must be claimed in the installation year, and is limited to the **smaller** of:

- One-half of the amount paid for labor and materials for the installation of a solar powered roof vent or fan, or
- \$1000.

Important: When claiming this deduction, maintain with your records the following information (as the Department can require you to provide this information at a later date):

- The installation date(s),
- Proof of your costs for the installation of a solar powered roof vent or fan, and

- A list of the persons or corporation that supplied labor or materials for the installation of the solar powered roof vent or fan.

Enter 6 2 3 on Schedule 2 under line 11 if claiming this deduction.

Schedule 3: Exemptions

Important: Keep detailed information about the exemption(s) you are claiming, such as full name(s), age(s), Social Security number(s), etc. The Department can require you to provide this information at a later date.

Line 1 – Exemptions

You are allowed \$1,000 for each exemption claimed on your federal return. Enter in the box on line 1 the total number of exemptions claimed on your federal return. Multiply \$1,000 by that number, and enter the answer here.

Example. John and Lisa have a 12-year-old daughter. On John and Lisa's joint federal return they claim themselves and their daughter as exemptions. They'll enter 3 in the box on line 1 for a total of \$3,000.

If you do not have to file a federal return, you will need to complete a "sample" federal return to see how many federal exemptions you are allowed to claim.

Important: If no exemption is claimed on your federal return, you can still claim yourself (even if you are claimed on a parent's or guardian's return).

Line 2 – Additional exemption for dependent child

An additional \$1,500 exemption is allowed for certain dependent children. Carefully read the following *Dependent Child Definition* to see if you are eligible for this additional exemption(s).

Dependent child definition: According to state statute, a dependent child must be a son, stepson, daughter, stepdaughter and/or foster child (and/or your spouse's child, if filing a joint return). He/she must be either under the age of 19 by Dec. 31, 2009, or be a full-time student who is under the age of 24 by Dec. 31, 2009.

If any dependent(s) you are eligible to claim on your federal return also meets the *Dependent Child Definition* above, enter that number in the box on line 2.

Example. John and Lisa claimed their 12-year-old daughter as an exemption on their federal return. Since their daughter is under the age of 19, John and Lisa will claim one exemption on line 2 for a total of \$1,500.

Example. Jessie's elderly father and her nine-year-old daughter lived with her the entire year. She claimed both as dependents on her federal return. Jessie will claim her daughter for the additional exemption on line 2. She is not allowed to claim the additional exemption for her father.

Note: Not all dependent children are eligible for this additional exemption. For instance, if you claimed a grandson or nephew as an exemption on your federal return, you should also claim an exemption for him on line 1. However, since he doesn't qualify under the *Dependent Child Definition* above, you will not be able to claim the additional exemption for him on line 2.

Line 3 – Age 65 or older or blind

If you and/or your spouse (if filing a joint return) are age 65 or older, you and /or your spouse can take an additional \$1,000 exemption. If you and/or your spouse (if filing a joint return) are legally blind, you and/or your spouse can take an additional \$1,000 exemption. Place an "X" in the boxes that apply to you and/or your spouse. Enter the total number of boxes marked on this line and multiply by \$1,000.

Line 4 – Additional exemption for age 65 or older

An additional \$500 exemption is available for you and/or your spouse (if filing a joint return) if you are age 65 or older and the amount on Form IT-40, line 1, is less than \$40,000. Place an "X" in the boxes that apply to you and/or your spouse. Enter the total number of boxes marked on this line and multiply by \$500.

Schedule 4: Other Taxes

Line 1 – Use tax on out-of-state purchases

If you have purchased items while you were outside Indiana, through the mail (for instance, by catalog or offer through the mail), through radio or television advertising and/or over the Internet, these purchases may be subject to Indiana sales and use tax, if sales tax was not paid at the time of purchase. This tax, called "use" tax, is figured at 7 percent.

When you make purchases from a company in Indiana, that company is responsible for collecting the Indiana sales tax from you. When you make purchases from an out-of-state company, *you* are responsible for making sure the use tax is paid. Either the out-of-state company collects the tax from you, or you must pay the tax directly to the State of Indiana.

Complete the worksheet on page 23 to figure your tax. If you paid sales tax to the state where the item was originally purchased, you are allowed a credit against your Indiana use tax for an amount paid up to 7 percent.

Line 2 – Household employment taxes

If you paid cash wages during 2009 to an individual who is *not*

- Your spouse,
- Your child under age 21,
- Your parent,
- An employee under age 18;

And the individual worked in and around your home as a baby-sitter, nanny, health aide, private nurse, maid, caretaker, yard worker or someone who does similar domestic duties, then that individual may be defined as your employee.