



2005

# Massachusetts Nonresident or Part-Year Resident Income Tax Form 1-NR/PY

Nonresident and Part-Year Residents Only  
All Schedules and Instructions

See back cover for important information on tax law changes.



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# Completing Your Form 1-NR/PY

Please read this page carefully as it explains the correct method of completing your return.

**Form 1-NR/PY Mass. Nonresident/Part-Year Resident Tax Return 2005**

PRINT IN BLACK INK

FOR PRIVACY ACT NOTICE, SEE INSTRUCTIONS.

Ovals must be filled in completely. Example:  For the year January 1–December 31, 2005 or other taxable year beginning 2005, ending

FIRST NAME: MICHAEL MURRAY  
 LAST NAME: MURRAY  
 YOUR SOCIAL SECURITY NUMBER: 012345678

SPOUSE'S FIRST NAME: PEGGY MURRAY  
 LAST NAME: MURRAY  
 SPOUSE'S SOCIAL SECURITY NUMBER: 987654321

MAILING ADDRESS: 123 ANY STREET, ANYTOWN, MA 02345  
 CITY/TOWN/POST OFFICE/FOREIGN COUNTRY: ANYTOWN STATE: MA ZIP + 4: 02345

ADDRESS OF LEGAL RESIDENCE OR DOMICILE (IF FILING AS NONRESIDENT): CITY/TOWN/POST OFFICE/FOREIGN COUNTRY: STATE OR FOREIGN COUNTRY:

If name and/or address has changed since 2004, fill in oval:  If taxpayer(s) is deceased, fill in appropriate oval(s) (see instructions): 1.  2.

Select only one:  Nonresident  Part-year resident  Filing as both a nonresident and part-year resident (see instructions — you must enclose Schedule R/NR)  
 Nonresident composite return (see instructions) (This contribution will not change your tax or reduce your refund.)

State Election Campaign Fund: (for part-year residents only)  \$1 You  \$1 Spouse, if filing jointly. Total ▶ \$

1 Filing Status: (select one only)  Single  Married filing joint return  Married filing separate return. (Enter spouse's Head of household (both must sign return))

2 Part-Year residents only: Enter dates as Massachusetts resident \_\_\_\_/\_\_\_\_/\_\_\_\_ to \_\_\_\_/\_\_\_\_/\_\_\_\_  
 Total days as Massachusetts resident 177 ÷ 365 = 4849 ÷ 2

3 Total Income from U.S. 1040, line 22; 1040A, line 15; 1040EZ, line 4; 1040NR, line 23; or 1040NR-EZ, line 7. If married filing separately, see instructions. ▶ 3 75000

4 Exemptions:  Fill in if noncustodial parent  
 a. Personal exemptions. If single or married filing separately, enter \$3,575. If head of household, enter \$5,525.  
 If married filing jointly, enter \$7,150. a 71500  
 b. Number of dependents. (Do not include yourself or your spouse.) Enter number ▶ 1 × \$1,000 ..... b 10000  
 You must enclose Schedule DI.  
 c. Age 65 or over before 2006:  You  Spouse. Enter number ▶ × \$700 ..... c  
 d. Blindness:  You  Spouse. Enter number ▶ × \$2,200 = ..... d  
 e. Other: 1. Medical/Dental ▶ (from U.S. Sch. A, line 4) 2. Adoption ▶ (see instructions) 1 + 2 = e  
 f. Total exemptions. Add items a, b, c, d and e. Enter here and on line 22a ..... ▶ 4f 81500

Nonresidents report in lines 5 through 11 Massachusetts source income only. Use line 13 if appropriate. Part-year residents report in lines 5 through 11 income earned and/or received while a resident. Do not use lines 13 or 14. If filing both as a nonresident and part-year resident, be sure to complete Schedule R/NR, Resident/Nonresident Worksheet, before proceeding any further.

5 Wages, salaries, tips and other employee compensation (from all Forms W-2 or line 13g) ..... ▶ 5 40000

6 Taxable pensions and annuities (see instructions) ..... ▶ 6

7 Mass. bank interest: a. ▶ 15000 - b. exemption 20000 = 7  
 Exemption: if married filing jointly, subtract \$200 from Total; otherwise subtract \$100 & enter result Not less than "0."

8 Business/profession or farm income/loss (enclose Mass. & U.S. Sch. C or C-EZ or U.S. Sch. F) ... ▶ 8

9 Rental, royalty, REMIC, partnership, S corp., trust income/loss (enclose Massachusetts Sch. E) ... ▶ 9 25000

10 a. ▶ Unemployment Compensation + b. ▶ Massachusetts state lottery winnings ..... a + b = 10

SIGN HERE. Under penalties of perjury, I declare that to the best of my knowledge and belief this return and enclosures are true, correct and complete.

Your signature: Michael Murray Date: 2 / 1 06 Print paid preparer's name: Preparer's SSN or PTIN:  
 Spouse's signature (if filing jointly): Peggy Murray Date: 2 / 1 06 Paid preparer's phone: Paid preparer's EIN:  
 May DOR discuss this return with the preparer?  Yes  No ▶ Paid preparer's signature: Date:  Fill in if self-employed  
 I do not want my preparer to file my return electronically

## Name and Address

Print in black ink the name, address and Social Security number of each person filing the return in the space provided. Enter names as they appear on your federal tax return.

## Social Security Number

Be sure to enter the Social Security number of each person filing the return in the space provided.

## Filling in the Ovals

Make sure all ovals applicable to your filing situation are filled in completely, as shown:

## Whole-Dollar Method

If using the whole-dollar method, be sure to fill in the appropriate oval. Then round off, to the nearest dollar, all amounts on the return and on any schedules. Do not use the whole-dollar method on worksheets that you use to reach amounts shown on your return.

\$1.00–\$1.49 =

\$1.50–\$1.99 =

## Filling in Dollar Amounts/Reporting Losses

When entering amounts on Form 1-NR/PY and schedules, print your numbers in black ink as shown below. Be sure there is only one number per box. Numbers must be written completely within the boxes and should not touch them.

If you are reporting a loss in any line, mark over the "X" in the far left box for that line. Failure to do so will result in the loss being machine-read as a gain. Also, be sure to mark over the "X" boxes in the supporting schedules. Do not use parentheses or minus signs to indicate losses.

▼ If showing a loss, mark over X in box at left

1 2 3 4 5 6 7 8 9 0

When entering amounts, make sure to enter cents, even if using the whole dollar method, in the rightmost boxes. For example, \$1,000 should be entered as:

## Mailing Checks and Enclosing Forms

Attach to Form 1-NR/PY, with a single staple only, your Form W-2 or 1099 withholding documents. If you are making a payment, complete Form PV, Payment Voucher. Form PV is attached to the back of the envelope found in this booklet. Be sure to use the appropriate "Payment Due" or "Refund Due" label on the envelope. Attach with a single staple your check or money order to the front of Form PV and enclose with your return. Do not staple supporting schedules to the Form 1-NR/PY as this will delay the processing of your return.

## Sign Your Return

After you have completed Form 1-NR/PY, sign your name at the bottom of page 1. Your spouse must also sign if this is a joint return. Write the date you signed the return. Form 1-NR/PY is not considered a valid return unless it is signed. Original signatures are required or the return will not be accepted.

**FILING TIP** You may be able to lower your taxes by taking advantage of other deductions and/or other credits on Form 1-NR/PY. See lines 19, 33 and 34 of Form 1-NR/PY and Schedule Y and Schedule Z instructions for a complete list of other deductions and/or credits for which you may be eligible. Senior citizens, see line 44 and Schedule CB instructions for the Senior Circuit Breaker Credit.

## See Schedule Y, line 14, Home Heating Fuel Deduction

14 Home heating fuel deduction (from worksheet in instructions) ..... ▶ 14

# Would You Like to Throw This Form Away?

## You Can If You E-File!

### What Is E-File?

E-File is filing your state personal income tax return electronically through one of three methods offered by the Massachusetts Department of Revenue (DOR). Last year, more than one million taxpayers electronically filed their state income tax returns in the Commonwealth. On average, they received their refunds in three days.

### Paid Preparer



Millions of taxpayers have had their returns electronically filed through DOR-approved tax preparers. If your tax preparer does not offer E-File, ask him or her to give it a try!

**Note:** For tax years beginning on or after January 1, 2005, income tax return preparers who completed 100 or more original Massachusetts Forms 1 and 1-NR/PY, including those E-Filed, during the previous calendar year are required to use electronic means to file all personal income tax returns, unless the taxpayer specifically directs on the paper form that the filing be on paper and signs Form EFO, Personal Income Tax Declaration of Paper Filing.

If you prefer to file using paper, you must use a DOR-approved tax preparation software package that supports 2-Dimensional (2-D) barcodes. Visit [www.mass.gov/dor](http://www.mass.gov/dor) for a list of approved preparers.

Be sure to use the proper address when mailing your 2-D barcoded return. **Refund/no tax due:** Massachusetts Department of Revenue, PO Box 7001, Boston, MA 02204-7001. **Payment:** Massachusetts Department of Revenue, PO Box 7002, Boston, MA 02204-7002.

### Commercial Tax Preparation Software



You can also E-File using DOR-approved commercial tax filing websites or software products or you may be eligible to file your return electronically for free through the Massachusetts Free File Alliance. Visit [www.mass.gov/dor](http://www.mass.gov/dor) for a complete listing of approved websites and products. If you prefer to file using a paper copy, you must use a product that incorporates 2-D barcodes into their software. This will expedite the processing of your return. If your software-generated return does not print with a 2-D barcode in the upper right hand corner of all pages, you may have a problem with your printer. To avoid penalties or having your return rejected, contact your software vendor for instructions on how to print the 2-D barcode.

Be sure to use the proper address when mailing your 2-D barcoded return. **Refund/no tax due:** Massachusetts Department of Revenue, PO Box 7001, Boston, MA 02204-7001. **Payment:** Massachusetts Department of Revenue, PO Box 7002, Boston, MA 02204-7002.

### Personal Identification Number (PIN)

If you received this booklet in the mail, be sure to retain the PIN printed on the back cover. You will need it to Telefile and to access the Department's telephone and Web-based systems that allow you to check the status of your refund and perform other actions. If you did not get this booklet in the mail and do not have a PIN, you will need the amount of your requested refund or tax due from your 2004 Massachusetts tax return to access these systems. If you are a first-time filer, you will still be able to access these systems without a PIN.

### Why Should You E-File?

- ▶ **Less stress.** If you E-File you will not have to worry about math errors, missing schedules or other common mistakes which could delay your refund or cause other problems that take time to resolve. And E-File is safe. Plus, you will receive immediate confirmation that serves as proof you filed.
- ▶ **Fast refunds.** Whether you E-File in January or mid-April, you will receive your refund, on average, in three days. You also have the option of having your refund deposited directly into your bank account. (Some commercial tax preparation products may not offer direct deposit.)
- ▶ **Easy to use.** Whether you call or click to file your return, or have your preparer E-File for you, the E-File system walks you through it step by step, and does the calculations for you.
- ▶ **Convenient payment options.** If you have a tax due, you can file now and pay later (by April 18, 2006) through Web Services for Income at [www.mass.gov/dor](http://www.mass.gov/dor) or by Electronic Funds Withdrawal, credit or check card. You can also file now and pay later using Form PV, Massachusetts Income Tax Payment Voucher (by April 18, 2006). Form PV is attached to the back of the envelope found in this booklet. If you choose to pay by check, be sure to include Form PV to ensure proper crediting of your account.

### Filing Your Extension by Telephone or Via the Web

Certain taxpayers are required to file an automatic six-month extension of time to file Massachusetts income tax return by telephone or via DOR's website. This mandate is required for taxpayers who meet the following conditions:

- ▶ you owe no tax; or
- ▶ you are making a payment of \$5,000 or more. If there is a tax due with your extension, payment can be made through Electronic Funds Withdrawal.

If you meet all the criteria above, you **must** file your extension by telephone or via the web. These options are also available to taxpayers not meeting the mandate conditions. Call (617) 660-2222 to file your extension by telephone or visit [www.mass.gov/dor](http://www.mass.gov/dor) to file via the Web. If you do not have Form M-4868, complete the following worksheet before you call to determine whether or not you have a tax due.

1. Enter amount from Form 1-NR/PY, line 36, plus any amount entered in line 38 .....	_____
2. Enter the total of Form 1-NR/PY, lines 40 through 44 .....	_____
3. Amount due. Subtract line 2 from line 1, not less than "0" .....	_____

### Would You Like More Information?

For more information about E-File, visit DOR's website, [www.mass.gov/dor](http://www.mass.gov/dor) or call (617) 887-MDOR, or toll-free in Massachusetts, 1-800-392-6089. DOR's website also offers visitors a searchable index of legal rulings; tax forms and publications; news releases; statistical data and related articles. In addition, our website provides timely information from our Local Services and Child Support Enforcement divisions.

## 4 Before You Begin

### Who Must File

You must file a Massachusetts Nonresident/Part-Year Resident Income Tax Return, Massachusetts Form 1-NR/PY, if you were not a resident of Massachusetts and you received Massachusetts source income in excess of your personal exemption multiplied by the ratio of your Massachusetts income to your total income, or you were not a resident of Massachusetts for the full year and your gross income was more than \$8,000 — whether received from sources inside or outside of Massachusetts.

Check the following categories to make sure you are a nonresident/part-year resident.

1. You are a full-year **Resident** if your legal residence (domicile) was in Massachusetts for the entire taxable year or if you maintained a permanent place of abode in Massachusetts and during the year spent more than 183 days, in the aggregate, in the state. If you fit this description, you should file Form 1, Massachusetts Resident Income Tax Return.
2. You are a **Nonresident** if you are not a resident of Massachusetts as defined above but received Massachusetts source income (e.g. from a job in Massachusetts). Fill in the “Nonresident” oval at the top of the form if this category applies to you.
3. You are a **Part-Year Resident** if, during the taxable year, you moved to Massachusetts or established a permanent place of abode here and became a resident, or you terminated your status as a Massachusetts resident to establish a residence outside the state. Fill in the “Part-year resident” oval at the top of the form if this category applies to you.
4. Complete the checklist below to determine if you are required to file Form 1-NR/PY as both a **Nonresident** and **Part-Year Resident**.

*Line 1. Were you a Massachusetts resident for part of the 2005 tax year?*  Yes  No.

*Line 2. While you were not a resident of Massachusetts in tax year 2005, did you receive Massachusetts source income (e.g., from a job in Massachusetts)?*  Yes  No.

If you answered “Yes” to line 1 only, you should file as a **Part-Year Resident**.

If you answered “Yes” to line 2 only, you should file as a **Nonresident**.

If you answered “Yes” to both line 1 and line 2, you must file both as a Nonresident and Part-Year Resident. Fill in the “Filing as both a nonresident and part-year resident” oval below the address section of the form if this category applies to you. Complete Schedule R/NR, Resident/Nonresident Worksheet, to calculate the portion of income earned while a Nonresident and the portion of in-

come earned while a Part-Year Resident. Schedule R/NR is included in this booklet.

For more information on Massachusetts source income, refer to the section “Filing Your Massachusetts Return.”

### Form 1-NR/PY Checklist

- If you received a booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it to use DOR’s Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund.
- Have you entered your Social Security number(s) on Form 1-NR/PY?
- If you changed your name, did you enclose a copy of your Social Security card or driver’s license showing your new name?
- If you moved, did you leave a forwarding address with your local post office and file a Change of Address Form with the Massachusetts Department of Revenue?
- Have you, and your spouse if married filing jointly, signed your return at the bottom of page 1 of Form 1-NR/PY?
- If using the whole-dollar method, have you filled in the correct oval?
- Have you printed all dollar amounts completely within the boxes?
- Have you marked an “X” in any form or schedule box that shows a loss?
- Is your Social Security number correct on your Form(s) W-2 or 1099? If incorrect, make the necessary changes on Form(s) W-2 or 1099.
- Have you completed Schedule DI, Dependent Information, if claiming a dependent exemption on Form 1-NR/PY, line 4b or taking a deduction/credit(s) on Form 1-NR/PY, lines 16, 17 or 43 (if applicable)?
- Have you attached with a single staple your Form(s) W-2 or 1099 to the return where indicated?
- If requesting direct deposit of your refund, did you fill in the appropriate oval (checking or savings account)?
- If making a payment, have you enclosed your check and Form PV with your return? Form PV is attached to the back of the envelope found in this booklet. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with the Form PV.

Are you filing an original copy of the form? Remember, photocopies of the forms and schedules are not acceptable.

Visit [www.mass.gov/dor](http://www.mass.gov/dor) to see the fill-in version of Form 1-NR/PY and schedules. They are easier and quicker to process.

See page 3 for the correct PO boxes if you are using a tax software product.

### Major 2005 Tax Changes

#### Personal Exemptions Increased

Recent legislation provides that personal exemptions may increase for tax years beginning on or after January 1, 2004 if tax revenues increase. Applicable for the 2005 tax year, the personal income tax exemptions have increased from \$3,300 to \$3,575 for single and married filing separately filers, from \$5,100 to \$5,525 for head of household filers, and from \$6,600 to \$7,150 for joint filers.

#### No Tax Status/Limited Income Credit Thresholds

Because the income level for No Tax Status for joint filers and heads of household is based in part on the personal exemption amounts, the threshold for No Tax Status for these taxpayers has been changed to reflect changes to the personal exemptions. The Limited Income Credit calculation is similarly affected.

**Joint Filers.** No tax is imposed if the Massachusetts adjusted gross income (AGI) does not exceed \$14,750 plus \$1,000 per dependent. Joint filers are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$25,813 plus \$1,750 per dependent.

**Head of Household.** No tax is imposed if the Massachusetts AGI does not exceed \$13,125 plus \$1,000 per dependent. Heads of household are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$22,969 plus \$1,750 per dependent.

**Single Filers.** No Tax Status for single filers is unaffected by the increase in the personal exemption amount. For single filers, no tax is imposed if the taxpayer’s Massachusetts AGI does not exceed \$8,000. Single filers are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$14,000.

**Note:** If married filing separately, you do not qualify for No Tax Status or the Limited Income Credit.

**Massachusetts Military Family Relief Fund**

Recent legislation enables taxpayers to make voluntary contributions on their Income tax returns to the newly established Massachusetts Military Family Relief Fund. This fund is administered by the Friends of Massachusetts National Guard and Reserve Families. Contributions to this fund are used to help members of the Massachusetts National Guard and Massachusetts residents who are members of the reserves of the armed forces of the United States and who have been called to active duty after the September 11, 2001 terrorist attacks, and their families, to defray the costs of food, housing, utilities, medical services, and other expenses.

**Circuit Breaker Tax Credit Increased**

A credit is allowed to an owner or tenant of residential property located in Massachusetts equal to the amount by which the real estate tax payment or 25% of the rent constituting real estate tax payment exceeds 10% of the taxpayer's total income, not to exceed \$840. The amount of the credit is subject to limitations based on the taxpayer's total income and the assessed value of the real estate, which must not exceed \$600,000. For tax year 2005, an eligible taxpayer's total income cannot exceed \$45,000 for a single individual who is not the head of a household, \$56,000 for a head of household, and \$67,000 for a husband and wife filing a joint return. In order to qualify for the credit, a taxpayer must be age 65 or older and must occupy the property as his or her principal residence. See TIR 05-17 for more information.

**Home Heating Fuel Deduction**

Recent legislation provides for a deduction for expenses incurred for home heating oil, natural gas, or propane purchased between November 1, 2005 and March 31, 2006. The amount of the deduction is the actual amount paid for home heating oil, natural gas or propane or \$800, whichever is less. The deduction is available to single persons whose adjusted gross income is \$50,000 or less, and to joint filers and heads of household whose adjusted gross income is \$75,000 or less. Qualifying taxpayers may take the deduction in 2005 for purchases made in 2005 during the period November 1 through December 31, 2005. However, where a taxpayer does not take the full \$800 deduction in 2005, the taxpayer may take the remainder in 2006 for purchases made in 2006 through March 31, 2006. See the Schedule Y, line 14 worksheet. Special rules apply for renters and owners of condominiums and cooperative dwellings. See TIR 05-18 for more information.

**Home Heating Fuel Tax Credit**

Recent legislation provides the owner of residential property located in Massachusetts a credit for certain energy efficient heating items purchased between November 1, 2005 and March 31, 2006 for installation in such property. Qualifying purchases include home insulation, new window installation, advanced programmable thermostats, solar hot water systems, fuel-efficient furnaces, boilers, oil, gas, propane, or electric heating systems, certain weather sealing, and other approved purchases. The credit allowed for installation of qualifying purchases in any one residential building is 30% of the cost; however, the credit cannot exceed \$600 for a residential dwelling or \$1,000 for a multi-unit dwelling. Joint owners of a residential property share any credit available to the property in the same proportion as their ownership interest. The credit allowed under this section may be taken in 2005 or 2006, regardless of the exact date on which any qualifying purchases were made. The amount of credit that exceeds the total tax due for 2005 may be carried over, as reduced, and applied against the tax liability for 2006. To take this credit, see Schedule Z, line 8. For more information, see TIR 05-18.

**Internal Revenue Code Update**

The Massachusetts Legislature recently enacted Chapter 163 of the Acts of 2005 which incorporated into Massachusetts personal income tax law the Internal Revenue Code (the "Code") as amended and in effect on January 1, 2005. Massachusetts previously used the Code as amended and in effect on January 1, 1998. As a result of Code update, Massachusetts will now adopt many of the federal tax law changes that have been enacted by Congress in the past seven years, including the American Jobs Creation Act of 2004, Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and the Job Creation and Worker Assistance Act of 2002. For more information, see TIR 05-16.

**Current Code Provisions**

As a general rule, Massachusetts will not adopt any federal tax law changes incorporated into the Code after January 1, 2005. However, certain specific provisions of the personal income tax automatically adopt the current Code. These include (i) Roth IRAs, (ii) Education IRAs, (iii) the exclusion for gain on the sale of a principal residence, (iv) trade or business expenses, (v) travel expenses, (vi) meals and entertainment expenses, (vii) the maximum deferral amount of government employees' deferred compensation plans, (viii) deduction for health insurance costs of self-employed, (ix) medical and dental expenses and (x) annuities. See TIRs 98-8 and 02-11 for further details on Massachusetts' personal income tax current Code provisions.

**New Deductions**

As a result of the Code update, certain deductions allowed for federal tax purposes under the Code as amended and in effect on January 1, 2005, are now allowed for Massachusetts tax purposes.

**Health Savings Accounts — IRC secs. 62(a)(19) and 223**

Massachusetts adopts the federal deduction allowed to individuals for contributions to a Health Savings Account, subject to federal limitations which are adjusted annually for inflation. For calendar year 2005, the contribution limit is equal to the lesser of the health plan's annual deductible or \$2,650 for an individual plan or \$5,250 for a family plan. The contribution limitations are increased for individuals age 55 or older (but not covered by Medicare) by the end of the calendar year. For calendar year 2005, the contribution limits for an individual age 55 or older is equal to the lesser of the health plan's annual deductible or \$3,250 for an individual plan or \$5,850 for a family plan.

**Deduction for Costs Involved in Unlawful Discrimination Suits IRC secs. 62(a)(19) and 62(e)**

Massachusetts adopts the federal deduction allowed for attorney fees and court costs paid to recover a judgment or settlement for a claim of unlawful discrimination, up to the amount included in gross income for the tax year from such claim.

**Educators' Deduction — IRC sec. 62(a)(2)(D)**

Massachusetts adopts the deduction for expenses paid or incurred by an eligible educator for books, supplies, equipment (including computers and software) and other qualified materials used in the classroom. The deduction is limited to \$250 per eligible educator.

**Business Expenses of National Guard and Reserve Members IRC secs. 62(a)(2)(E) and 162(p)**

Massachusetts adopts the deduction for unreimbursed overnight travel, meals and lodging expenses of National Guard and Reserve Members who must travel more than 100 miles from home to perform services as a National Guard or reserve member.

**Tuition and Fees Deduction — IRC secs. 62(a)(18) and 222**

Massachusetts adopts the deduction for qualified higher education expenses. Taxpayers with adjusted gross incomes that do not exceed \$65,000 (\$130,000 in the case of married taxpayers filing joint returns) are allowed a maximum deduction of \$4,000 and taxpayers with adjusted gross incomes that do not exceed \$80,000 (\$160,000 in the case of married taxpayers filing joint returns)

are allowed a maximum deduction of \$2,000. Under the Code as amended and in effect on January 1, 2005, this deduction is due to expire for tax years beginning after December 31, 2005.

Taxpayers may qualify for both the federal tuition and fees deduction and the Massachusetts College Tuition deduction. Taxpayers are not allowed to take both deductions and therefore should calculate both deductions and take the higher of the two.

Taxpayers who elect federally to take the Hope Scholarship or Lifetime Learning Credits under IRC sec. 25A and are therefore federally disallowed from taking the tuition and fees deduction under IRC sec. 222, will also be disallowed from taking the tuition and fees deduction for Massachusetts personal income tax purposes. Therefore, taxpayers should take into account the loss of the Massachusetts allowance of the tuition and fees deduction when making the IRC sec. 25A election.

### Adopted Changes to Current Deductions

Massachusetts has allowed certain federal deductions based on the Code as amended and in effect on January 1, 1998. Federal statutory changes to these deductions after January 1, 1998, had created differences between the Massachusetts and federal deductions. As a result of the Code update, Massachusetts now adopts the federal statutory changes through the Code as amended and in effect on January 1, 2005. This section describes the adopted changes to affected deductions.

### Archer Medical Savings Accounts — IRC sec. 220

Under the January 1, 1998 Code, Massachusetts allowed a deduction for an Archer Medical Savings Account (MSA) contribution only for individuals who were active MSA participants before January 1, 2001. As a result of the Code update, Massachusetts adopts the federal deduction for Archer MSA contributions made on or after January 1, 2005 for all federally qualified individuals.

### Deduction for Clean-Fuel Vehicles and Certain Refueling Property IRC secs. 62(a)(14) and 179A

A federal and Massachusetts deduction is allowed for a portion of the cost of qualifying motor vehicles that use clean-burning fuel. Under the January 1, 1998 Code, this deduction was due to expire for vehicles placed in service after December 31, 2004. As a result of the Code update, Massachusetts adopts the new federal provision allowing the deduction for vehicles placed in service on or before December 31, 2006.

### Student Loan Interest Deduction — IRC secs. 62(a)(17) and 221

A federal and Massachusetts deduction is allowed for interest paid by the taxpayer, up to an annual maximum of \$2,500, for a qualified education loan for graduate or undergraduate education, subject to taxpayer income limitations. Under the January 1, 1998 Code, this deduction was limited to the first 60 months and subject to lower taxpayer income limitations.

As a result of Code update, Massachusetts adopts the new federal provision that repealed the 60 month limitation and allows higher taxpayer income limitations, subject to annual inflation adjustments. For tax year 2005, the maximum deduction of \$2,500 is reduced for taxpayers when federal modified adjusted gross income exceeds \$50,000 (\$105,000 for joint returns) and is completely eliminated when federal modified gross adjusted gross income is \$65,000 (\$135,000 for joint returns).

### Exclusions from Gross Income

As a result of the Code update, all amounts which are allowed to be excluded from federal gross income under the Code as amended and in effect on January 1, 2005, will be excluded from Massachusetts gross income, unless a specific Massachusetts statutory modification adds the amounts back into Massachusetts gross income. See G.L. c. 62, sec. 2(a)(1) for a description of these addbacks. The items in this section are exclusions from federal gross income which will now be excluded from Massachusetts gross income.

### Parking, T-Pass and Vanpool Fringe Benefits — IRC sec. 132(f)

A federal and Massachusetts exclusion is allowed for employer-provided parking, transit passes and vanpool benefits (i.e. “qualified transportation benefits”), subject to monthly maximums. However, a federal Act subsequent to January 1, 1998, created differences between the Massachusetts and federal exclusion amounts. Further, Massachusetts did not adopt the federal exclusion (enacted subsequent to January 1, 1998), for transit pass and employer-provided vanpool benefits if the employer offered the benefit as a reduction in salary and the employee chose the benefit in lieu of salary.

As a result of the Code update, for tax years starting on or after January 1, 2005, Massachusetts adopts the federal exclusion without any differences in exclusion amounts or allowed benefits. Therefore, the Massachusetts exclusion amounts for tax year 2005 are \$200 per month for employer-provided parking and \$105 per month for employer-pro-

vided vanpool and transit pass benefits combined, including transit pass and employer-provided vanpool benefits that are a reduction in salary.

### Archer Medical Savings Accounts — IRC sec. 220

For federal income tax purposes, the earnings in an Archer Medical Savings Account (MSA) account accrue on a tax-free basis, and qualified distributions from an Archer MSA are excluded from gross income. Prior to Code update, Massachusetts taxed earnings in an Archer MSA for individuals who became active participants on or after January 1, 2001 and also taxed distributions for such individuals to the extent such amounts were not previously taxed by Massachusetts.

As a result Code Update, Massachusetts adopts the federal exclusion for earnings in, and qualified distributions from, an Archer MSA for all federally qualified individuals.

### Health Savings Accounts — IRC sec. 223

For federal income tax purposes, the earnings in a Health Savings Account (HSA) account accrue on a tax-free basis, and qualified distributions from a HSA are excluded from gross income. Prior to Code update, Massachusetts taxed earnings in a HSA and also taxed distributions for such individuals to the extent such amounts were not previously taxed by Massachusetts.

As a result Code Update, Massachusetts adopts the federal exclusion for earnings in, and qualified distributions from, a HSA.

### Employer-Provided Adoption Assistance — IRC sec. 137

Under the January 1, 1998 Code, Massachusetts had adopted the federal exclusion for amounts paid by an employer for qualified adoption expenses paid on or before December 31, 2001 however, beginning for tax year 2002, Massachusetts no longer allowed the exclusion.

As a result of Code update, Massachusetts adopts the federal exclusion for employer-provided adoption expenses paid (or treated as paid under IRC sec. 137) on or after January 1, 2005. In the case of an adoption of a child with special needs the exclusion applies regardless of whether the employee has qualified adoption expenses. For tax year 2005, the exclusion is limited to \$10,630 per child and is phased out for taxpayers with federal modified adjusted gross income in excess of \$159,450 and is completely phased out for taxpayers with federal modified adjusted gross income of \$199,450.

### Employer-Provided Educational Assistance — IRC secs. 127 and 132

Under the January 1, 1998 Code, Massachusetts had adopted the federal exclusion for qualified educational expenses reimbursed to an employee under an employer-provided education assistance program, however, for courses that began after May 31, 2000, Massachusetts no longer allowed the exclusion.

As a result of Code update, Massachusetts adopts the federal exclusion for qualified educational expenses for undergraduate and graduate education expenses up to the federal annual maximum of \$5,250 per calendar year.

### Qualified Retirement Planning Services — IRC sec. 132(m)

As a result of Code update, Massachusetts adopts the federal exclusion for the employee fringe benefit of retirement planning advice or information provided to an employee and his spouse by an employer maintaining a qualified employer plan. Qualified employer plans include IRC sec. 401(a) plans, annuity plans, government plans, IRC sec. 403(b) annuity contracts, SEPs and SIMPLE accounts. This exclusion is due to expire for tax or plan years beginning after December 31, 2010.

### Department of Defense Homeowners Assistance Plan — IRC sec. 132(n)

As a result of Code update, Massachusetts adopts the federal exclusion for the employee fringe benefit of payments received under the Homeowners Assistance Plan. Such payments are intended to compensate military personnel and certain civilian employees for a reduction in the fair market value of their homes resulting from military or Coast Guard base closure or realignment.

### Military Fringe Benefits

Under the January 1, 1998 Code, Massachusetts allowed the federal exclusion for certain military fringe benefits including combat zone compensation, veterans' and medical benefits, disability benefits, moving allowances and a death gratuity benefit of \$3,000.

As a result Code update, Massachusetts adopts the federal exclusion as amended and in effect on January 1, 2005, that extends the exclusion to include dependent care assistance under a dependent care assistance program, travel benefits received under the Operation Hero Miles program and an increased death benefit gratuity of \$12,000. The Operation Hero Miles program provides, through public and air and surface carriers, domestic travel for military personnel and their families through donated frequent flyer miles, tickets or ticket vouchers.

### Survivor Annuities of Fallen Public Safety Officers — sec. 101(h)

For both Massachusetts and federal tax purposes an exclusion is allowed for amounts paid under a governmental plan as an annuity to the survivor of a public safety officer killed in the line of duty. However, a federal Act subsequent to January 1, 1998, created differences between the Massachusetts and federal exclusion amounts. Massachusetts had allowed an exclusion for amounts received in tax years beginning after December 31, 1996, with respect to individuals dying after that date.

As a result Code update, Massachusetts adopts the federal exclusion as amended and in effect on January 1, 2005, that extends the exclusion for such annuities from, and including, individuals dying after December 31, 1996 to individuals dying on or before December 31, 1996.

### Survivor Annuities of Fallen Astronauts — IRC sec. 101(i)

As a result of Code Update, Massachusetts adopts the federal exclusion for death benefits paid by the U.S. government to the survivors of astronauts who die in the line of duty. The Massachusetts exclusion is effective for payments made on or after January 1, 2005.

### Discharge of Indebtedness for Victims of Terrorism — IRC sec. 108 & P.L. 107-134

As a result of Code Update, Massachusetts adopts the federal exclusion for discharge of indebtedness due to the death of an individual resulting from the September 11, 2001, terrorist attacks or as the result of anthrax-related illness occurring on or after September 11, 2001, and before January 1, 2002.

### Discharge of Indebtedness for Health Care Professionals — IRC sec. 108(f)(4)

As a result of Code Update, Massachusetts adopts the federal exclusion for National Health Service Corps Loan Program repayments made to health care professionals. Loan repayments received under similar state programs eligible for funds under the Public Health Service Act are also excluded from income.

### New Gross Income Amount Income from Discharge of Indebtedness; Satisfaction of Debt with Partnership Interest — IRC sec. 108 (e)(8)

For both Massachusetts and federal tax purposes, when a partnership transfers a partnership interest to a creditor in satisfaction of partnership debt, the partnership is required to recognize cancellation of indebtedness income as if the debt were satisfied with money in an amount equal to the fair market value of the partnership interest transferred. Any discharge of indebtedness in-

come is allocable to the partners in the partnership immediately prior to the transfer. As a result of Code Update, Massachusetts adopts this provision as of January 1, 2005.

### Gross Income for Extraterritorial Income (“ETI”) — Repeal of IRC sec. 114

Effective for transactions on or after January 1, 2005, the exclusion for ETI is repealed. As a result of Code Update, Massachusetts adopts this repeal provision, including the provisions governing the phase-out of the benefit. Generally, the phase-out provisions allow taxpayers with transactions prior to 2005 to retain 100% of their ETI benefits; taxpayers with transactions during 2005 retain 80%, and taxpayers with transactions during 2006 retain 60% of their benefits.

## Privacy Act Notice

Under the authority of 42 U.S.C. sec. 405(c)(2)(C)(i), and MGL c. 62C, sec. 5, the Department of Revenue has the right to require an individual to furnish his or her Social Security number on a state tax return. This information is mandatory. The Department of Revenue uses Social Security numbers for taxpayer identification to assist in processing and keeping track of returns and in determining and collecting the proper amount of tax due. Under MGL c. 62C, sec. 40, the taxpayer's identifying number is required to process a refund of overpaid taxes. Although tax return information is generally confidential pursuant to MGL c. 62C, sec. 21, the Department of Revenue may disclose return information to other taxing authorities and those entities specified in MGL c. 62C, secs. 21, 22 or 23, and as otherwise authorized by law.

## Common Mistakes

An incomplete or incorrect return can delay the processing of your return. Following are a number of tips to help us process your return as quickly as possible.

**Note:** You should **not** staple any items, other than any required Form(s) W-2 or 1099s, to Form 1-NR/PY. Any enclosures such as schedules, statements, Form PV, Schedule R/NR, etc. should simply be placed in the envelope along with Form 1-NR/PY when mailing.

► **Missing Social Security Number(s).** Be sure to enter your Social Security number(s) in the spaces provided.

► **Incorrect Computation.** The Department corrects many returns each year due to errors in computation. Before mailing your return, check your arithmetic to make sure the computations are correct.

► **Filing Status.** Be sure to fill in the correct oval in line 1, Filing Status. This line is frequently overlooked.

► **Exemptions.** Be sure that you specify the number of exemptions you are claiming in line 4, items b, c and d. Enter the appropriate number(s) in the small white box.

► **Missing Pages of Form 1-NR/PY.** Form 1-NR/PY is three pages. Be sure to include all three pages of the return when mailing.

► **Missing Withholding Statement(s).** Be sure the state copy of all Forms W-2 (Wages), W-2G (Winnings) and any Forms 1099 that show Massachusetts income tax withheld are attached with a single staple. These forms are frequently missing and must be obtained later from you in order to process the return.

► **Missing Supporting Schedules.** Be sure all required schedules are enclosed to support the information on your Form 1-NR/PY. These include Massachusetts Schedules X, Y, Z, B, C, C-2, D, DI, E, CB and R/NR. We cannot process your return without these forms.

► **Government Employee Pension Contributions.** If you were a state, local or county employee and made contributions to a Massachusetts state or local pension plan, your total wages for state purposes will be different from the amount you report on your U.S. return. Report your total state wages from your Form(s) W-2 on Form 1-NR/PY.

► **Earned Income Credit.** You must have your federal earned income credit amount from your U.S. return or as computed by the IRS if you wish to claim the Earned Income Credit on Form 1-NR/PY.

► **Circuit Breaker Credit.** Be sure to complete and enclose Schedule CB, Circuit Breaker Credit, if you qualify to claim this credit.

► **Missing Signatures.** Thousands of unsigned returns are received by the Department every year. These returns must be returned to the taxpayers for signatures. If a joint return is filed, both spouses must sign the return. Make sure signatures are on the correct lines. Remember to sign your return at the bottom of page 1 of Form 1-NR/PY.

► **Missing Form PV.** If you are making a payment, make certain you fill out Form PV, Massachusetts Income Tax Payment Voucher. Form PV is attached to the back of the envelope found in this booklet. Enclose Form PV and your check with your return. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with the Form PV. **Note:** Go to [www.mass.gov/dor](http://www.mass.gov/dor) and click on Web Services for Income for online payment options.

## Filing Your Massachusetts Return

As a nonresident, you must file Form 1-NR/PY if your Massachusetts source income for 2005 exceeded the smaller of your apportioned personal exemption, or \$8,000.

### What Is Massachusetts Source Income for Nonresidents?

The term “Massachusetts source income” is used throughout this booklet to describe the types of income which are taxable to a nonresident.

A nonresident is only subject to tax on items of income derived from or effectively connected with:

- any trade, business, or employment carried on in Massachusetts (see the following section);
- participation in any lottery or wagering transaction in Massachusetts; or
- ownership of any interest in real or tangible personal property located in Massachusetts.

Some examples of the types of income taxable to a nonresident include:

- all wages, salaries, tips, bonuses, fees and other compensation which relate to activities carried on in Massachusetts, regardless of where or when the compensation is paid;
- unemployment compensation related to previous Massachusetts employment;
- profit from a business, trade, profession, partnership or S corporation conducted in Massachusetts;
- rents and royalties from real and tangible personal property located in Massachusetts or from other business activities in Massachusetts;
- gain from the sale of real or tangible personal property located in Massachusetts;
- interest and dividends, only if derived from or connected with Massachusetts business activity, or the ownership of Massachusetts real estate or tangible personal property; and
- the definition of Massachusetts source income now includes gain from the sale of a business or an interest in a business, separation, sick or vacation pay, deferred compensation, income from covenants not to compete, and nonqualified pension income that federal law allows states to tax.

Income from Massachusetts sources which is not taxed to residents is not taxed to nonresidents, e.g., interest on debt obligations of the U.S. and amounts received as Social Security and worker's compensation.

In general, the same exemptions and deductions allowed to residents are available to nonresidents to determine taxable income. These items are al-

lowed, however, only to the extent they relate to, or are allocable to, Massachusetts source income.

### Am I Carrying on a Trade, Business or Employment in Massachusetts as a Nonresident?

A nonresident generally does not have a trade, business or employment carried on in Massachusetts if his/her presence for business in Massachusetts is casual, isolated and inconsequential. A nonresident's presence for business will be considered casual, isolated and inconsequential if the nonresident's business presence in Massachusetts is ancillary to the nonresident's primary business or employment duties performed at a base of operations outside Massachusetts — for example, an occasional presence in Massachusetts for management functions, and other similar activities which are secondary to the individual's primary out-of-state duties.

### Are Military Personnel Required to File?

If you enlisted in the service as a Massachusetts resident and have not established a new domicile (legal residence) elsewhere and if your gross income is more than \$8,000, you are required to file a Massachusetts income tax return. This applies even though you may be stationed outside of Massachusetts. The terms “legal residence” and “domicile” are used to denote that place where you have your permanent home and to which, whenever you are absent, you have the intention of returning. Nonresident military personnel stationed in Massachusetts may be subject to Massachusetts taxes and should file Form 1-NR/PY if they earn income from other than military sources.

**Note:** Massachusetts excludes from gross income compensation earned by members of the armed forces for service in a combat zone, to the same extent it is excluded under federal law.

No guidance is intended on the tax status of such pay under the laws of other states. Generally, when income is taxable in two jurisdictions, a credit for taxes paid to the other jurisdiction is allowed on the taxpayer's return in the state of his/her residence.

### How Do I Determine My Legal Residence (Domicile)?

Your legal residence is determined by all the facts and circumstances in your case. If you have two or more residences, your legal residence is the one you regard as your true home or principal residence. You cannot choose to make your home in one place for the general purposes of life and in another for tax purposes. Your legal residence is usually the place where you maintain your most important family, social, economic, political and

religious ties. A change of legal residence will not be accomplished by a temporary or protracted absence from a place; you must not intend to return.

**Note:** A person is also considered a resident if they maintain a permanent place of abode in Massachusetts and spend more than 183 days, in the aggregate, in the state. See Technical Information Release (TIR) 95-7 for a further explanation.

## What is Gross Income for a Part-Year Resident?

As a part-year resident, you must file Form 1-NR/PY if your gross income was more than \$8,000 — whether received from sources inside or outside of Massachusetts. Gross income for a part-year resident includes the following:

- all wages, salaries, tips, bonuses, fees and other compensation;
- taxable pensions and annuities;
- alimony;
- income from a business, trade, profession, partnership, S corporation, trust or estate;
- rental, royalty and REMIC income;
- unemployment compensation;
- taxable interest and dividends;
- gambling winnings;
- capital gains;
- taxable portion of scholarships and fellowships; and
- any other income not specifically exempt.

Massachusetts gross income also includes the following which are not subject to the U.S. income tax:

- interest from obligations of states and their political subdivisions, other than Massachusetts and its political subdivisions; and
- income earned by a resident from foreign employment.

Massachusetts gross income does not include:

- interest on obligations of the U.S. and U.S. territories;
- amounts received as U.S. Social Security, public welfare assistance, Veterans Administration disability payments, G.I. Bill education payments, worker's compensation, gifts, accident or life insurance payments, or certain payments received by Holocaust survivors; and
- compensation earned by members of the armed forces for service in a combat zone (excluded to the same extent as under federal law).

## What Adjustments Must I Make as a Part-Year Resident?

Part-year residents must adjust income, deductions and exemptions when completing Form 1-NR/PY. In general, these items are reduced because all of your income will not be subject to Massachusetts tax. Your deductions and exemptions are based on the number of days you were a

Massachusetts resident or the amount of income that is subject to Massachusetts tax.

### Income: Lines 5 through 11, 24, 27 and 28

If you earned only a portion of the income you reported on your U.S. return while you were a Massachusetts legal resident, subtract from your U.S. income the amount earned and received while you were legally domiciled in another state or country. However, you may be required to include all income derived from Massachusetts sources earned while you were a nonresident, such as from rental property or from a trade or business, including employment, on Schedule R/NR, Resident/Nonresident Worksheet. Such income now includes gains from the sale of a business or an interest in a business, separation, sick or vacation pay, deferred compensation, income from covenants not to compete, and nonqualified pension income that federal law allows states to tax.

### Deductions: Lines 15 through 19

Most deductions are based on the actual amounts paid by you associated with the deduction for the period of time you were in Massachusetts.

Line 17 (the deduction for a dependent under age 12, or dependents age 65 or over as of December 31, 2005, or disabled dependent(s)), Schedule Y, lines 6 (Archer medical savings account (MSA) deduction), 8 (health savings account deduction), 9 (deduction for clean fuel vehicles, and tuition and fees), 10 (student loan interest deduction), 11 (college tuition deduction) and 12 (undergraduate student loan interest deduction) are the only deductions based on the proration of the number of days you were a Massachusetts resident. For example, if you are entitled to claim one dependent under age 12, and if you lived in Massachusetts for only four months, you can claim a deduction equal to \$1,200 (one-third of the \$3,600 to which you are otherwise entitled). See line 2 on Form 1-NR/PY for the proration formula.

Lines 15, 16 and 18 and Schedule Y, lines 1 through 4, lines 5 (moving expenses), 7 (self-employed health insurance deduction), 9 (qualified performing arts-related expenses, jury duty pay given to your employer, reforestation amortization, repayment of supplemental unemployment benefits under the Trade Act of 1974, employee business expenses of fee-basis state or local government officials, business expenses of National Guard Reserve members, educator's deduction, the deduction for attorney's fees and court costs involving certain unlawful discrimination suits and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 4) and line 13 are based on the actual amounts paid or received for the period of time you were in Massachusetts. For example, you may only deduct the amount of alimony paid

(Schedule Y, line 3) while you were a Massachusetts resident. Similarly, the deduction for attorney's fees and court costs involving certain unlawful discrimination suits (Schedule Y, line 9) must be directly related to Massachusetts income as reported on Form 1-NR/PY, line 12.

**Note:** The home heating fuel deduction (Schedule Y, line 14) is based on the amount paid for home heating oil, natural gas or propane purchased while a resident between November 1, 2005 and December 31, 2005.

### Exemptions: Lines 4a through 4f

Your total exemptions (line 4f) must be prorated based upon the ratio of days you were a Massachusetts resident. To adjust your exemptions, use the formula in line 2 and see line 22 instructions.

### Earned Income Credit: Line 43

Your earned income credit (line 43) must be prorated based upon the ratio of days you were a Massachusetts resident. To adjust this credit, use the formula in line 2 and see line 43 instructions.

## Should I Make Estimated Tax Payments in 2006?

Every taxpayer (whether a resident or nonresident) who expects to pay more than \$400 in Massachusetts income taxes on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes. See line 42 instructions for more information.

## How Do I File a Decedent's Return?

A final income tax return must be filed for a taxpayer who died during the taxable year. It must be signed and filed by his/her executor, administrator or surviving spouse for the portion of the year before the taxpayer's death. Be sure to fill in oval 1 if the taxpayer who was listed first on last year's income tax return is deceased, or oval 2 if the taxpayer who was listed second on last year's income tax return is deceased. Also, enclose a statement with the refund claimant's name and Social Security number clearly printed.

A joint return may be filed by a surviving spouse. In the case of the death of both spouses, a final return must be filed by their legal representative.

Any income received for the decedent for the taxable year after the decedent's death, and for succeeding taxable years until the estate is completed, must be reported each year on Massachusetts Form 2, Massachusetts Fiduciary Income Tax Return.

If the decedent's return shows a refund due, and if the Probate Court has not appointed a legal representative and none is contemplated, a Massachusetts Form M-1310, Statement of Claimant to Refund Due on Behalf of Deceased Taxpayer, must be

## 10 Line by Line Instructions

enclosed with the return so the refund check may be made payable to the proper person.

### When to File Your Return

Form 1-NR/PY is due on or before April 18, 2006.

#### How Do I File for an Extension?

To receive an extension of time to file, you must file an application for automatic six-month extension of time to file Massachusetts income tax return and pay the amount of tax you expect to owe on or before the due date for filing your Massachusetts income tax return. The filing and approval of this form will extend the due date for six months. An approved extension means only that you will not be assessed a late return penalty for filing your return after the due date. Interest is charged on any tax not paid by the original due date.

If you are applying for an extension, see page 3 for information about filing by telephone or via the Web.

**Note:** Your extension will not be valid if you fail to pay 80% of your total tax liability through withholding, estimated tax payments or with your extension. Form M-4868 is available at [www.mass.gov/dor](http://www.mass.gov/dor) or by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089.

#### Must I File on a Calendar Year Basis?

No. You may file on a fiscal year basis if you keep your books and records on that fiscal year basis and if you receive permission from the Commissioner of Revenue. If you file on a fiscal year basis, you must file on or before the fifteenth day of the fourth month after the end of your fiscal year. Taxpayers filing on a fiscal year basis must complete and file Form 13, Notice of Designation of Fiscal Year, available at [www.mass.gov/dor](http://www.mass.gov/dor) or by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089.

#### What Should I Do If I Make a Mistake or Leave Something Off My Return?

If, after filing your income tax return, you receive an additional tax statement or discover that an error was made, **do not submit a second tax return.** If corrections are necessary, go to [www.mass.gov/dor](http://www.mass.gov/dor) and use DOR's online abatement application or file Form CA-6, Application for Abatement/Amended Return. Form CA-6 is available at [www.mass.gov/dor](http://www.mass.gov/dor), or you may have one mailed to you by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089.

#### Name and Address

Print the full name, address, and Social Security number of each person filing the return in the spaces provided. Enter names as they appear on your federal return. Be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover if you received a Form 1-NR/PY booklet in the mail. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund.

#### Social Security Number(s)

Be sure to enter your Social Security number on your return. Failure to show the correct Social Security number in the space provided will delay the processing of your return. If filing jointly, list your numbers in the order they appear on your federal return. Also, be sure your employer has listed the correct Social Security number on your Form W-2. If you are married, you must list your spouse's Social Security number even if you are filing a separate return.

Beginning January 1, 1997, each foreign person must use an identification number on any U.S. or Massachusetts tax return or refund claim filed. Certain aliens who cannot obtain Social Security numbers (SSNs) must obtain an IRS-issued individual taxpayer identification number (ITINs). This number can be obtained by filing Form W-7 with the IRS. The ITIN is not available for U.S. citizens or persons legally permitted to reside permanently or to work in the United States. These taxpayers qualify for SSNs and should obtain them from the Social Security Administration by filing Form SS-5. You may obtain Form SS-5 from your local Social Security Administration (SSA) or call the SSA at 1-800-772-1213.

In instances where you, or your spouse if filing jointly, are a nonresident alien, enter "NRANRANRA" as your Social Security number in the appropriate space; if you have applied for but not yet received a Social Security number, enter "APPAPPAPP."

#### Name/Address Change

If you legally changed your name or address in 2005, fill in the oval. If you changed your name, enclose a copy of your Social Security card or driver's license showing your new name. Failure to include this documentation could delay processing of your return. If you move after filing, be sure to leave a forwarding address with your local post office and file a Change of Address Form with the Massachusetts Department of Revenue. This form is available to be filed online at [www.mass.gov/dor](http://www.mass.gov/dor), or by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089.

#### Deceased Taxpayer

Be sure to fill in the appropriate oval if a taxpayer died during the taxable year. For further information, refer to the section "How Do I File a Decedent's Return?" in the instructions.

#### Nonresident Composite Return

Massachusetts allows a partnership or an S corporation to file a composite return and make estimated tax payments as an agent on behalf of two or more qualified electing nonresident partners/shareholders. This option is also available to professional athletic teams who may file a return on behalf of two or more qualified electing nonresident team members. Eligible members of a composite return must meet the following requirements:

- ▶ must be an individual or the estate or trust of a deceased nonresident partner;
- ▶ must not have filed a separate return in Massachusetts for the tax year in question;
- ▶ must be nonresidents for the entire taxable year;
- ▶ must not have any other Massachusetts source income;
- ▶ must elect to be included in the composite return by signing a statement; and
- ▶ must waive the right to claim deductions, exemptions and credits allowable under Ch. 62, secs. 3, 5 and 6. Taxpayers filing a nonresident composite return should enter "0" on Form 1-NR/PY, lines 20 (total deductions), 22 (exemption amount) and 35 (total credits).

Any professional athletic team that has two or more qualified electing nonresident team members may file a composite tax return as an agent for the qualified electing nonresident team members. Each electing nonresident team member must sign under penalties of perjury a statement affirmatively stating such team member's qualifications and election to file a composite return. The composite return is filed on Massachusetts Form 1-NR/PY along with the applicable schedules and attachments. The total Massachusetts gross income reported on the composite Form 1-NR/PY must be the sum of all the qualified electing nonresident members' Massachusetts source income.

Be sure to fill in the "Nonresident composite return" oval if filing this category applies to you.

#### Residency Status

Fill in the "Nonresident" oval if you were not a resident of Massachusetts and you received Massachusetts source income. See the section "What is Massachusetts Source Income for Nonresidents?" for an explanation of Massachusetts source income.

Fill in the "Part-year resident" oval if you were a resident of Massachusetts for less than the full year, you received Massachusetts gross income in

excess of \$8,000 and you did not receive Massachusetts source income while a nonresident.

Fill in the “Filing both as a nonresident and part-year resident” oval if both categories apply to you in the same tax year. See the section “Who Must File.” You must also complete and enclose with your return Schedule R/NR, Resident/Nonresident Worksheet.

### Voluntary Contribution to State Election Campaign Fund (part-year residents only)

You, and your spouse if filing jointly, may voluntarily contribute \$1 each to the state Election Campaign Fund. The purpose of the fund is to provide limited public financing for campaigns of eligible candidates for statewide and elective office. This contribution will not change your tax or reduce your refund.

**Note:** Lines without specific instructions are considered to be self-explanatory.

## Line 1. Filing Status

**Note:** More than one filing status may apply to you. If so, you may wish to figure your taxes based upon more than one filing status to see which status is to your benefit.

### Single

Fill in the “**Single**” oval if you were single as of December 31, 2005. This status applies to you if, at the close of the taxable year, you fit into any of the following categories:

- you were unmarried;
- you were a widow or a widower whose spouse died before 2005; or
- you were legally separated under a final judgment of the probate court.

Please note that you are not single if: 1) you have obtained a judgment of divorce which has not yet become final; 2) you have a temporary support order; or 3) you and your spouse simply choose to live apart.

### Married Filing Joint Return

Fill in the “**Married filing joint return**” oval if you were legally married as of December 31, 2005, and you elect to file a joint return. A joint return is allowed even if only one spouse had income. Both spouses are responsible for the accuracy of all information entered on a joint return, and both must sign. If your spouse died during 2005, you may still choose to file a joint return.

Please note that a joint Form 1-NR/PY is **not** allowed unless each spouse is reporting income for the same resident or nonresident period. For example, John (a Massachusetts resident) and Jane (a New Hampshire resident) both work in Massachusetts. After they were married in June 2005, John moved to New Hampshire to live with Jane.

They cannot file a joint return because their nonresident tax years are different. (Jane lived in New Hampshire during the entire year, but John only lived there for six months.)

**Note:** Same-sex spouses filing a Massachusetts joint return should combine their figures from their separate U.S. returns.

### Married Filing Separate Return

Fill in the “**Married filing separate return**” oval if you were legally married as of December 31, 2005, but you elect to file separately. Enter your spouse’s Social Security number in the space provided.

### Head of Household

Fill in the “**Head of household**” oval if you qualify to file this status federally. This status is for unmarried people who paid over half the cost of keeping up a home for a qualifying person, such as a child who lived with you or your dependent parent. Certain married people who lived apart from their spouse for the last six months of 2005 may also be able to use this status. See IRS Publication 501, Exemptions, Standard Deduction, and Filing Information, for more information.

### Line 2. Part-Year Resident Proration Formula

Part-year residents must fill out the proration formula in line 2. Enter the dates you were a Massachusetts resident in the spaces provided. Then, enter the total days you were a Massachusetts resident and divide this number by 365 and carry this division out to four decimal places. Failure to do so may delay the processing of your return. This figure is used to determine the portion of certain deductions, exemptions and the earned income credit a part-year resident may be eligible for.

### Line 3. Total U.S. Income

Enter the amount of your total income before adjustments from your U.S. return — U.S. 1040, line 22; 1040A, line 15; 1040EZ, line 4; 1040NR, line 23; or 1040NR-EZ, line 7. This item is requested for administrative reasons; it is not used in the calculation of your tax. **Note:** If you are filing Form 1-NR/PY as “married filing separate return” and you filed your U.S. return jointly, the amount entered in line 3 should only be the amount attributable to your portion of total U.S. income.

### Whole-Dollar Method

Rounding off all amounts on your return will hasten processing of your return. If doing so, please fill in the appropriate oval. Then, round off, to the nearest dollar, all amounts on the return and on any attached schedules.

- Do not use the whole-dollar method in calculations on worksheets that you use to reach the amounts shown on your return.

### Noncustodial Parent

Fill in this oval if you are a “**noncustodial parent**.” A noncustodial parent is defined as a person who has a minor child, but does not live with the child.

**Note:** If you are the biological parent of a child, but your parental rights have been terminated, you are not the noncustodial parent of that child.

## Line 4. Exemptions

### Line 4a: Personal Exemptions

Each taxpayer is entitled to claim a personal exemption. The amount of your personal exemption depends on your filing status as filled in line 1.

- If you are single or married filing a separate return, enter \$3,575 in item a.
- If filing as head of household, enter \$5,525 in item a.
- If married filing a joint return, enter \$7,150 in item a.

### Line 4b: Number of Dependents

You may claim a \$1,000 exemption for each of your dependents if you claimed them on your U.S. return. Enter in the box in item b the number of dependents you listed on U.S. Form 1040 or 1040A, line 6c or U.S. Form 1040NR, line 7c. Do not include yourself or your spouse. Then, multiply that total by \$1,000 and enter the total amount in line 4b. Be sure to fill out Schedule DI, Dependent Information, if you are claiming a dependent exemption(s). Failure to do so will delay the processing of your return.

**Note:** In a few cases, the number of dependents claimed for Massachusetts purposes and for U.S. purposes may differ. For U.S. tax purposes, a dependent exemption is not allowed for a person who would otherwise be a dependent but who files his/her own income tax return and claims a personal exemption. For Massachusetts tax purposes, you can claim a dependent exemption for such a person. If you claim such a dependent in Massachusetts, increase the number reported in item b from your U.S. return by the number of such additional dependents.

### Line 4c: Age 65 or Over Before 2006

You are allowed an additional \$700 exemption if you were age 65 or over before January 1, 2006. If your spouse was age 65 or over and you are filing a joint return, you may also claim a \$700 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of persons age 65 or over in the small box. Then, multiply that total by \$700 and enter the total amount in line 4c.

### Line 4d: Blindness Exemption

You are allowed an additional \$2,200 exemption if you are legally blind. If your spouse is also legally blind and you are filing a joint return, you may

also claim a \$2,200 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of blindness exemptions in the small box. Then, multiply that total by \$2,200 and enter the total amount in line 4d.

#### Legal Definition of Blindness

You are legally blind and qualify for the blindness exemption if your visual acuity with correction is 20/200 or less in the better eye, or if your peripheral field of vision has been contracted to a 10-degree radius or less, regardless of visual acuity.

#### Line 4e: Other: Medical and Dental Expenses/Adoption Agency Fee

You may claim an exemption for medical and dental expenses paid during 2005 only if you itemized these expenses on your U.S. Form 1040, Schedule A. If you are married filing a joint U.S. Form 1040, you must file a joint Massachusetts Form 1-NR/PY to claim this exemption. Enter in line 4e, item 1 the amount reported on your U.S. Form 1040, Schedule A, line 4.

If you paid adoption fees to a licensed adoption agency during 2005, you are eligible for an exemption of the total amount of the fees paid during the year. Fees paid during 2005 to an agency licensed to place children for adoption on account of the adoption process of a minor child regardless of whether an adoption actually took place during 2005 should also be included for this exemption. Enter this amount in line 4e, item 2.

Enclose a statement showing the name and address of the licensed adoption agency and the agency fees. Add item 1 and item 2 and enter the total in line 4e.

#### Line 4f: Total Exemptions

Add lines 4a through 4e and enter the total in line 4f. This amount should also be entered on line 22a of Form 1-NR/PY.

#### Lines 5 through 11

Income received by nonresidents is taxed only when it is from Massachusetts sources. Refer to the general instructions in this booklet for a definition of Massachusetts source income. The instructions for each of these lines will describe Massachusetts source income in more detail. For part-year residents, income received while a resident, whether from sources inside or outside of Massachusetts, is taxable.

Your entries must agree with the appropriate amounts on your copies of Forms W-2 and 1099, and/or required schedules for lines 8 and 9. Nonresidents, if your actual Massachusetts income is not known, see the Nonresident Apportionment Worksheet in line 13 and accompanying instructions. **Note:** You cannot apportion Massachusetts wages as shown on Form W-2.

## 5.3% Income

DOR and the IRS maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income, deductions, and schedules reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

**Note:** If filing as both a nonresident and part-year resident, you must complete Schedule R/NR, Resident/Nonresident Worksheet, before proceeding.

#### Line 5. Wages, Salaries, Tips and Other Employee Compensation

Report in line 5 total state wages from Form(s) W-2. Enter the amount(s) stated as Massachusetts wages. **Note:** Part-year residents, income earned while a Massachusetts resident in another state is subject to taxation in Massachusetts. In most cases your total wages will be the same amount reported on your U.S. 1040 or 1040A, line 7; U.S. 1040EZ, line 1; U.S. 1040NR, line 8; or U.S. 1040NR-EZ, line 3 unless:

- ▶ you or your spouse earned income from employment outside Massachusetts (nonresidents only);
- ▶ you were a Massachusetts legal resident working in a foreign country (part-year residents only);
- ▶ you were a legal resident of Massachusetts for only a part of 2005; or
- ▶ you were a state or local employee and made contributions to a Massachusetts state or local pension plan.

#### Differences Between Wages for Massachusetts Tax Purposes and Those Reported on Your U.S. Return

**▶ Nonresidents earning a portion of income from employment outside Massachusetts.** If a portion of the wage income reported on your U.S. return was earned outside Massachusetts, the amount in line 5 should not include wages earned in another state or country.

**▶ Massachusetts legal residents working in a foreign country while a Massachusetts resident.** Income earned in a foreign country is subject to taxation in Massachusetts. If you excluded part or all of the compensation earned in a foreign country on your U.S. return (under sec. 911 of the U.S. IRC), you must include any such amount in line 5 for Massachusetts tax purposes.

**▶ Part-year residents of Massachusetts.** If you earned only a portion of the income you reported on your U.S. return while you were a Massachusetts legal resident, subtract from your U.S. wages the amount earned and received while you were legally domiciled in another state or country.

**▶ State or local employees contributing to pension plans.** If you are a Massachusetts state, city, town or county employee and contributed to your pension plan, enter in line 5 the Form W-2 state wage amount. This amount will be greater than the U.S. amount because your pension contributions are excluded from your income for U.S. tax purposes. Contributions up to \$2,000 may still be deducted in line 15a or 15b for Massachusetts tax purposes.

#### Line 6. Taxable Pensions and Annuities

**Nonresidents.** Under Title 4 of the United States Code, section 114, payments to nonresidents from certain qualified pension plans are not subject to tax.

Qualified plans include: a qualified trust under IRC sec. 401(a) exempt from taxation under IRC sec. 501(a); simplified IRC sec. 408(k) plans; IRC sec. 403(a) annuity plans; IRC sec. 403(b) annuity contracts; IRC sec. 7701(a) (37) individual retirement plans; eligible deferred compensation plans of state and local governments and tax exempt organizations as defined by IRC sec. 457; IRC sec. 414(d) government plans; a trust or trusts described in IRC sec. 501(c) (18); and any plan, program or arrangement described in IRC sec. 3121(v)(2)(C) if payments are made at least annually and spread over the actuarial life expectancy of the beneficiaries, or if payments are spread over at least a ten-year period. Such income is also protected from state taxation if the plans are trusts under IRC sec. 401(a), but exceed limits laid down in IRC secs. 401(k), 401(m), 402(g), 403(b), 408(k) or 415 or any other limitation on contributions or benefits which may apply in the Code.

Retirement or retainer pay of a member or former member of a uniformed service computed under 10 U.S.C. chapter 71 (military pensions) received by a nonresident is also exempt.

Any income from pensions related to a Massachusetts trade, business or employment that is not derived from one of the qualified pension plans listed above is taxable. Enter in line 6 the portion of those pensions reported on your U.S. Form 1040, line 16a or U.S. Form 1040A, line 12a, that are taxable to Massachusetts nonresidents.

**Part-year residents.** Income from most private pensions or annuity plans is taxable in Massachusetts. You must report the taxable pension income you received while a resident of Massachusetts. Certain government pensions, however, are exempt under Massachusetts law. In general, exempt pensions include contributory pensions from the U.S. government or the Commonwealth of Massachusetts and its political subdivisions, and noncontributory military pensions. The fol-

lowing section describes some specific pensions which are exempt. If your pension is not exempt, you should generally enter in line 6 the taxable amount reported on your U.S. Form 1040, line 16b or U.S. Form 1040A, line 12b. In some cases, however, Massachusetts law requires an adjustment to the federal amount. Distributions from annuity, stock bonus, pension, profit-sharing or deferred payment plans or contracts described in secs. 403(b) and 404 of the U.S. IRC must be adjusted to account for your contributions that have been previously taxed. Subtract from such income (as reported on your U.S. Form 1040, line 16a or U.S. Form 1040A, line 12a) the amount of your contributions which were previously taxed by Massachusetts until the total of your taxed contributions is received. If your pension falls into this category, enter the adjusted amount in line 6 and explain briefly (in an enclosed statement) why this amount is different than the amount reported on your U.S. return. If you are receiving distributions from an IRA or Keogh plan, do not report the income here; instead, see to the instructions for Schedule X, line 2.

### What pensions are exempt?

- ▶ Pension income received from a contributory annuity, pension, endowment or retirement fund of the U.S. government or the Commonwealth of Massachusetts and its political subdivisions.
- ▶ Pensions from other states or its political subdivisions which do not tax such income from Massachusetts or its political subdivisions may be eligible to be deducted from Massachusetts taxable income. This pension income, however, should be reported in line 6. Refer to Schedule Y, line 6 instructions to determine eligibility for this deduction.
- ▶ Noncontributory pension income or survivorship benefits received from the U.S. uniformed services (Army, Navy, Marine Corps, Air Force, Coast Guard, commissioned corps of the Public Health Service and National Oceanic and Atmospheric Administration) is exempt from taxation in Massachusetts.
- ▶ Massachusetts state court judges who were appointed on or after January 2, 1975 are participants in the Massachusetts contributory retirement system and their pensions are nontaxable. State court judges who were appointed prior to January 2, 1975 receive taxable noncontributory pensions. If you retired under Chapter 32, Sections 56 through 60 of Massachusetts General Laws and are a veteran who began Massachusetts state service prior to July 1, 1939, all or part of your pension income may be subject to tax. If you elected to receive your proceeds from contributions in one lump-sum distribution, your original contributions to the retirement system are not tax-

able. Noncontributory pension income received after a lump-sum distribution is fully taxable and should be reported in line 6.

### How do I report lump-sum distributions?

If you were an employee of the U. S., Massachusetts or one of its political subdivisions and left public employment prior to retirement, you are not required to report as income the lump-sum distribution of your previous pension contributions.

**Lump-sum distributions** of qualified employee benefit plans in excess of the employee's contributions which were previously subject to Massachusetts tax (or not previously excluded from Massachusetts tax) must be reported in line 6. Generally, qualified rollovers are not taxable in Massachusetts to the extent they are not taxable on your U.S. return. Lump-sum distributions related to IRA/Keogh distributions should be reported on Schedule X, line 2.

**Rollover from a Traditional IRA to a Roth IRA (Part-Year Residents Only).** Taxpayers with \$100,000 or less in federal adjusted gross income are allowed to make partial or complete rollovers from existing IRAs to Roth IRAs. Any taxable portion of these rollovers included in federal gross income received while a resident of Massachusetts is also included in Massachusetts gross income, except for amounts previously subject to Massachusetts personal income tax. See Schedule X, line 2 instructions for further details.

**Note:** Massachusetts does not tax Social Security income, therefore, you should not report such income on Massachusetts Form 1-NR/PY.

### Line 7. Interest from Massachusetts Banks

**Nonresidents.** Interest income is only taxable if it is related to a Massachusetts trade, business, profession, partnership or S corporation, or to the ownership of real estate or tangible personal property located in Massachusetts.

**Part-year residents.** While a resident of Massachusetts, interest received from **any** savings banks, cooperative banks, national banks, trust companies, savings and loan associations or credit unions located in Massachusetts is taxable.

Nonresidents/part-year residents, report in line 7a such interest taxable by Massachusetts.

To report interest taxable to a nonresident/part-year resident from banks located in Massachusetts, enter in line 7a all amounts of interest received or credited to these deposit accounts (term and time deposits, including certificates of deposit, savings accounts, savings shares, and NOW accounts). Combine all accounts at the same bank. Enclose a statement listing names of all savings banks, cooperative banks, national banks, trust companies,

savings and loan associations or credit unions in which you have deposit accounts. In line 7b, enter the exemption amount (\$200 if married filing a joint return; otherwise enter \$100) and subtract this amount from line 7a. Enter the result in line 7, but not less than "0." **Note:** This exemption amount does not apply to your U.S. tax return.

Do not subtract interest forfeited or penalties charged to you for early savings withdrawal. You may be allowed to deduct these amounts on Schedule Y, line 2. All other interest, unless exempt, should be entered on Massachusetts Schedule B. The return on an IRA/Keogh is not taxable until distributed.

**Lines 8, 9 and 12.** If showing a loss in lines 8, 9 or 12, be sure to mark over the "X" in the box to the left. Do not use parentheses or negative signs to indicate losses.

### Line 8. Business/Profession or Farm Income or Loss

**Nonresidents** engaged in a business or profession in Massachusetts must complete a Massachusetts Schedule C, Profit or Loss from a Business or Profession, and enter the amount of income or loss in line 8.

**Part-year residents** must report the income or loss from a business or profession received while a resident of Massachusetts, whether derived from sources inside or outside of Massachusetts.

Enter the amount of such income or loss that would be reported on Massachusetts Schedule C, line 31. You must enclose Massachusetts Schedule C with this return. Also, enclose a copy of your U.S. Schedule C or Schedule C-EZ if substituting U.S. Schedule C or C-EZ for Massachusetts Schedule C. Nonresidents, if your business or profession derived income from both inside and outside Massachusetts, see the Nonresident Apportionment Worksheet instructions in line 13.

**Note:** You may substitute U.S. Schedule C or C-EZ for Massachusetts Schedule C if there are no differences between the amounts reported on U.S. Schedule C or C-EZ and amounts that would be reported on Massachusetts Schedule C. Be sure to write "No Massachusetts Differences" on the top of the U.S. Schedule C or C-EZ.

If you operate a farm as an individual or cooperative, enter the amount of income or loss from operating a farm from U.S. Schedule F, Profit or Loss from Farming, line 36. Enclose a copy of U.S. Schedule F. Complete a pro-forma U.S. Schedule F to report Massachusetts differences, such as bonus depreciation.

### Line 9. Rental, Royalty, REMIC, Partnership, S Corporation, Trust Income or Loss

**Nonresidents.** Report the amount of Massachusetts source income or loss from the items listed above.

**Part-year residents.** Report the amount of income or loss from the items listed, received while a resident of Massachusetts, whether derived from sources inside or outside of Massachusetts.

Enter in line 9 the total of: Massachusetts Schedule E, Part I, line 5; Part II, line 8; and Part III, line 11. Remember to subtract losses when calculating the total. You must enclose Massachusetts Schedule E and a copy of U.S. Schedule E. Explain on an enclosed sheet any differences in amounts entered on the Massachusetts and U.S. schedules. See Massachusetts Schedule E instructions for an explanation of possible differences.

### Line 10a. Unemployment Compensation

**Nonresidents.** Enter the portion of your unemployment compensation reported on U.S. Form 1040, line 19; U.S. Form 1040A, line 13; U.S. Form 1040EZ, line 3; or U.S. Form 1040NR, line 20, related to previous Massachusetts employment. Only unemployment compensation related to previous Massachusetts employment is taxable to nonresidents. If you elected voluntary withholding of Massachusetts state income taxes on your unemployment compensation, be sure to include the amount of Massachusetts state income tax withheld as reported on Form 1099-G on Form 1-NR/PY, line 40 and attach with a single staple, where indicated on the return, Form 1099-G.

**Part-year residents.** Enter in line 10a the amount of unemployment compensation reported on U.S. Form 1040, line 19; U.S. Form 1040A, line 13; U.S. Form 1040EZ, line 3; or U.S. Form 1040NR, line 20, received while you were a resident of Massachusetts, whether related to employment inside or outside of Massachusetts. If you elected voluntary withholding of Massachusetts state income taxes on your unemployment compensation, be sure to include the amount of Massachusetts state income tax withheld as reported on Form 1099-G on Form 1-NR/PY, line 40 and attach with a single staple, where indicated on the return, Form 1099-G.

**Note:** DOR routinely matches the amounts in line 10a with files from the Division of Unemployment Assistance.

### Line 10b. Massachusetts State Lottery Winnings

Enter in line 10b all winnings from the Massachusetts state lottery. Do not enter less than "0." You may only deduct the price of your winning ticket. Lottery losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

**Note:** DOR routinely matches the amounts in line 10b with files from the Lottery Commission.

Add lines 10a and 10b and enter the total in line 10.

### Line 11. Other Income (from Schedule X)

#### Alimony Received, Taxable IRA/Keogh and Roth IRA Distributions, Other Gambling Winnings, Fees and Other 5.3% Income

"Other 5.3% income" includes the items listed above and must be included on Schedule X. Enter the total from Schedule X, line 5. Not less than "0." Be sure to enclose Schedule X with your return. Enclose an additional statement if more space is needed. Failure to enclose this schedule will delay the processing of your return. See Schedule X instructions.

### Line 12. Total 5.3% Income

Add lines 5 through 11 and enter the total in line 12. Remember to subtract any losses marked with an "X" when calculating the total.

## Apportionment — Nonresidents Only

Sometimes your business or employment requires you to work both inside and outside Massachusetts, but you do not know the actual amount of income you earned from working in Massachusetts. In this case, you must apportion your income so that only the correct portion (the amount attributable to Massachusetts) will be taxed by Massachusetts. Some nonresidents must use the Nonresident Apportionment Worksheet in line 13 for this purpose.

### Who Cannot Apportion Income?

If you know the actual amount of your Massachusetts source income, do not apportion. Report your income taxable in Massachusetts on your Massachusetts return. Examples of nonresidents who **cannot** apportion include:

- ▶ an employee whose actual Massachusetts income is shown on Form W-2;
- ▶ an employee whose Form W-2 does not indicate initially his/her actual Massachusetts income but whose employer issues a corrected Form W-2 or

other statement which breaks down this amount. Since your employer is required by law to withhold Massachusetts tax on your Massachusetts wages, this breakdown will be easy to obtain; and

- ▶ a self-employed person whose actual Massachusetts income is known, such as a surgeon who comes to Massachusetts to perform a specific operation for a set fee.

In the few cases when your employer fails to issue a separate Form W-2 that includes only Massachusetts earnings, you may use the Nonresident Apportionment Worksheet to adjust your earnings.

### Who Must Use the Nonresident Apportionment Worksheet?

If your employment or business took you both inside and outside Massachusetts and you do not know the actual amount of income you earned in Massachusetts, you must use the Nonresident Apportionment Worksheet if you are a self-employed person or employee who is on an hourly, daily, weekly, monthly or mileage basis, or whose compensation depends upon sales, at least some of which take place outside of Massachusetts.

### Who Can Apportion Income But Cannot Use the Nonresident Apportionment Worksheet?

If you do not know the actual amount of income you earned in Massachusetts from one business or employment, but you do not fit into any of the categories listed in the preceding section, you should **not** use the Nonresident Apportionment Worksheet. See the section on "Special Apportionment Methods" for your apportionment method.

Examples of nonresidents who must apportion income using one of these special methods include:

- ▶ an independent business or professional person whose income does not depend on sales, days or mileage;
- ▶ an entertainer or athlete whose income does not depend solely on receipts or winnings;
- ▶ a general or limited partner in a partnership; and
- ▶ a shareholder of an S corporation with Massachusetts source income.

### Apportionment Methods

If you use the Nonresident Apportionment Worksheet, fill in the oval for the appropriate basis and then follow the instructions. If you have more than one business or employment requiring the use of the worksheet, complete and enclose one worksheet for each business or employment.

- ▶ **Working days basis.** This basis should be used by employees or self-employed persons who qualify to use the Nonresident Apportionment Worksheet and who are compensated on an hourly, daily, weekly or monthly basis. The income of these taxpayers is to be allocated to Massachu-

sets in the proportion that the amount of time spent working in Massachusetts bears to the total working time.

► **Mileage basis.** An employee or self-employed person whose compensation depends on miles traveled is taxed on that portion of total compensation received in which the miles traveled within Massachusetts bear to total miles traveled.

► **Sales basis.** For an employee or self-employed person whose compensation depends upon sales or commissions, taxable income includes that portion of total compensation received which the sales made inside Massachusetts bear to total sales. (For the purposes of making this allocation, all sales for which the taxpayer takes orders inside Massachusetts are attributable to this state, regardless of whether the formal acceptance of the contract of sale takes place inside or outside Massachusetts.)

### Special Apportionment Methods

If you earned income both inside and outside Massachusetts from one business or employment, and your actual Massachusetts income is not known and you cannot use the Nonresident Apportionment Worksheet in line 13, use the following appropriate apportionment method.

► **Self-employed and professional persons.** If you earned income from both inside and outside Massachusetts and your books do not accurately reflect your Massachusetts source income, you must use a three-factor formula to apportion your Massachusetts income. Instructions for this method of apportionment are in Massachusetts Regulation 830 CMR 62.5A.1.

► **Entertainers and professional athletes.** If you are a nonresident entertainer who performed in Massachusetts and you were not paid specifically for the performance in Massachusetts, or if you are a nonresident professional athlete who took part in performances, bouts, meets, matches or games that occurred in Massachusetts and you were not paid for the specific event played in Massachusetts, you must use the apportionment formula set forth in Massachusetts Regulation 830 CMR 62.5A.1.

► **Nonresident partners.** If you are a nonresident general or limited partner, you are taxed on your distributive share of the income received by the partnership to the extent that the partnership income is Massachusetts source income, determined as if the partnership were a nonresident individual. If you are entitled to apportionment, the partnership will apportion its income and notify you of your share.

► **Nonresident shareholders of an S corporation.** If you are a nonresident shareholder in an S corporation, you are taxed on the distributive share of income received by the S corporation to the extent that the S corporation income is Massachusetts source income. If you qualify for apportionment, the S corporation will apportion its income and notify you of your share.

### Line 13. Nonresident Apportionment Worksheet

**13a.** If your income is measured by working days, enter the number of days you worked outside Massachusetts.

**13b.** Enter the number of days you worked inside Massachusetts. (If you spent a working day partly inside and partly outside Massachusetts, treat the day as having been spent one-half inside the state.)

**13c.** Enter the total days worked both inside and outside Massachusetts (the sum of lines 13a and 13b).

**13d.** Enter your nonworking days. Your nonworking days are those days during the year (or during the period you worked, if your job lasted less than a year) that you were not required to work, such as Saturdays, Sundays, holidays, sick days, vacation and leave with or without pay. Complete the remainder of the Nonresident Apportionment Worksheet as indicated, and enter your Massachusetts income from line 13g in the appropriate line on Form 1-NR/PY. For example, if you are apportioning your wages, enter the amount from line 13g in line 5.

If you are using the mileage or sales basis, substitute mileage or sales for working days and complete all items in the worksheet, except line 13d. Indicate what basis you are using by filling in the appropriate oval, and enter your Massachusetts income from line 13g in the appropriate line on Form 1-NR/PY.

## Nonresident Deduction and Exemption Ratio

Since nonresidents are only taxed on income from Massachusetts sources, the deductions and exemptions allowed to them are limited by the amount of this income. This happens in two ways. The deductions in line 15 and Schedule Y, lines 1, 2, 4, 5, 7, 9 (certain amounts only — see Schedule Y, line 9 instructions) and 13 must be matched to specific items of income taxed on Form 1-NR/PY. Other deductions and all exemptions must be prorated by the ratio of a taxpayer's Massachusetts source income to his/her total income.

### Line 14. Nonresident Deduction and Exemption Ratio

All nonresident taxpayers must complete lines 14a to 14g to arrive at this ratio. The ratio will be used to determine what amounts, if any, you may deduct in lines 16 and 17; Schedule Y, lines 3 (alimony paid deduction), 6 (Archer medical savings account (MSA) deduction), 8 (health care accounts deduction), 9 (deduction for clean fuel vehicles and tuition and fees), 10 (student loan interest deduction), 11 (college tuition deduction), 12 (undergraduate student loan interest deduction), 14 (home heating fuel deduction); the amount of your exemptions in line 22a; and the Earned Income Credit in line 43.

**Note:** Nonresidents should use the line 14g ratio to determine the amount of the deduction for attorney's fees and court costs involving certain unlawful discrimination suits (from Schedule Y, line 9) only if it is directly related to Massachusetts income as reported on Form 1-NR/PY, line 12. If it is not directly related to income reported on Form 1-NR/PY, you are not allowed any deduction.

If married filing jointly, include in each line the income for both spouses. Enter any loss as "0."

**14a.** Enter in line 14a total 5.3% income from line 12.

**14b.** Enter in line 14b tax exempt Massachusetts bank interest from the smaller of line 7a or line 7b.

**14c.** Read the instructions for lines 24, 27 and 28. If these items apply to you, combine Schedule B, Part 1, line 7 and Part 2, line 13 (but not less than "0") and Schedule D, line 12 (but not less than "0"), and enter the total in line 14c. If there is no entry in Schedule B, Part 2, line 7, enter the amount from Form 1-NR/PY, line 24.

**14e.** Enter in line 14e the total income from non-Massachusetts sources you received during the tax year covered by this return. This is the additional income that would have been reported by you if you had been a Massachusetts resident that you received from non-Massachusetts sources. This amount is often not the same as the difference between your total U.S. income reported in line 3 and your Massachusetts source income reported in line 14d, due to the differences between Massachusetts and federal tax laws. **Note:** Be certain **not** to include any amounts already reported in line 14d.

To reconcile the two amounts, the following types of income included in the U.S. total income (Form 1-NR/PY, line 3), but not taxable in Massachusetts should be subtracted from the U.S. total before completing line 14e:

► Social Security and Tier I Railroad Retirement benefits;

- ▶ pensions from contributory retirement plans of the U.S., or Massachusetts and its political subdivisions;
- ▶ pension income from the U.S. military;
- ▶ U.S. bond interest;
- ▶ state tax refunds; and
- ▶ Keogh and 403(b) distributions related to contributions previously taxed by Massachusetts.

Income from the following categories which is not included in U.S. total income (Form 1-NR/PY, line 3) must be added back to calculate the total income that would be reported as Massachusetts income had the taxpayer been a Massachusetts resident in line 14e:

- ▶ bond interest from other states;
- ▶ up to \$80,000 in foreign-earned income;
- ▶ contributions to a pension plan by Massachusetts state or local employees; and
- ▶ net operating loss carryforward.

**14f.** Add line 14d and line 14e. If your total income in line 3 exceeds the amount reported in line 14f by more than 10%, you should enclose a statement explaining the reasons for the difference.

**14g.** Divide line 14d by line 14f. Carry this division out to four decimal places. Failure to do so may delay the processing of your return. Enter the result in line 14g. This is your ratio for deductions and exemptions. It represents the relationship of your Massachusetts source income to your total income.

## Deductions

### Lines 15 through 19

Massachusetts allowable deductions differ from "Itemized Deductions" on Schedule A of U.S. Form 1040. You may claim only the deductions specified on Massachusetts Form 1-NR/PY, lines 15 through 18 and Schedule Y.

### Line 15. Amount Paid to Social Security (FICA), Medicare, Railroad, U.S., Massachusetts Retirement Systems

**Nonresidents**, if as a condition of Massachusetts business or employment, you have paid into any of the retirement systems listed above during 2005, you may deduct those contributions, up to a maximum of \$2,000. **Part-year residents** may deduct contributions attributable to business or employment while a Massachusetts resident, up to a maximum of \$2,000.

Enter in lines 15a and 15b the amount you, and your spouse if filing jointly, paid to Social Security (FICA), Medicare or Railroad Retirement and the U.S. or Massachusetts Retirement Systems during 2005 as shown on your Form W-2 that is directly related to income taxable by Massachusetts

included in line 12, but not more than \$2,000 each. Payment amounts may not be combined or transferred from one spouse to the other. Add items 15a and 15b and enter the result in line 15. Be sure to add any amount of Medicare tax withheld as shown on Form W-2 to the amount of Social Security tax withheld, the total not to exceed \$2,000 per person.

**Note:** Medicare premiums deducted from your Social Security or retirement payments are **not** deductible.

Payments to an IRA, Keogh, Simplified Employee Pension plan (SEP) or Savings Incentive Match Plan for Employees (SIMPLE) Account are not deductible for Massachusetts income tax purposes.

### Lines 16 and 17

Massachusetts law allows an option for deducting expenses related to dependent children. Please read instructions for both lines 16 and 17 to determine if you qualify and to decide which deduction is better for you. You cannot claim a deduction in both lines 16 and 17.

### Line 16. Child Under Age 13, or Disabled Dependent/Spouse Care Expenses

Massachusetts generally allows the same expenses as the U.S. Government for employment-related expenses for the care of a qualified child under the age of 13, a disabled dependent or a disabled spouse. Complete the following worksheet in order to calculate your Massachusetts child or disabled dependent/spouse care expense deduction.

**Note:** You cannot claim this deduction if married filing a separate return.

Taxpayers who received dependent care benefits should complete a pro forma U.S. Form 2441 or U.S. Form 1040A, Schedule 2. When completing this pro forma form taxpayers should enter \$4,800 (or \$9,600 for two or more qualifying persons) in line 28 of U.S. Form 2441 or line 22 of U.S. Form 1040A, Schedule 2. The amount from this pro forma Form 2441, line 32 or U.S. Form 1040A, Schedule 2, line 26 should then be entered in line 1 of the following worksheet.

**Note:** Same-sex joint filers should complete a pro forma U.S. Form 2441 or U.S. Form 1040A, Schedule 2. In addition to changing the maximum amount of the deduction allowed on U.S. Form 2441 or U.S. Form 1040A, Schedule 2 (see preceding paragraph), same-sex spouses should prepare the pro forma federal forms as though they were filing a joint federal return. See TIR 04-17 for more information.

- ▶ If you choose to take a deduction in line 16, you may not take the deduction in line 17.

#### Line 16 Worksheet — Child Under 13 or Disabled Dependent/Spouse Care Deduction

Use this worksheet to calculate your Massachusetts child under age 13 or disabled dependent/spouse care deduction.

Part-year residents, enter amounts paid while a Massachusetts resident.

1. Enter the amount of qualified expenses you incurred and paid in 2005 for a qualifying person(s). This amount may exceed the federal limit of \$3,000 for one qualifying person or \$6,000 for two or more persons. However, do not enter more than \$4,800 for one qualifying person or \$9,600 for two or more persons . . . . .
2. Enter the amount from U.S. Form 2441, line 4, or U.S. Form 1040A, Schedule 2, line 4 . . . . .
3. Enter the amount from U.S. Form 2441, line 5, or U.S. Form 1040A, Schedule 2, line 5 . . . . .
4. Enter the smallest of line 1, 2 or 3 . . . . .
5. If you paid 2004 expenses in 2005, enter the amount of the allowed 2004 expenses used to compute the credit on U.S. Form 2441, line 9, or U.S. Form 1040A, Schedule 2, line 9. Otherwise, enter "0" . . . . .
6. Add lines 4 and 5 . . . . .
7. Part-year residents, enter here the amount from line 6 and in Form 1-NR/PY, line 16; nonresidents, multiply line 6 by Form 1-NR/PY, line 14g and enter the result here and in Form 1-NR/PY, line 16. . . . .

### Line 17. Dependent Member(s) of Household Under Age 12, or Dependents Age 65 or Over (not you or your spouse) as of December 31, 2005, or Disabled Dependent

You may deduct \$3,600 for a dependent member of household, or \$7,200 for two or more dependents, under age 12, or dependent age 65 or over (not you or your spouse) as of December 31, 2005, or disabled dependent. Enter the number of qualified dependents in line 17a, not to exceed two, and multiply that amount by \$3,600. Enter the result in line 17. Only if single, head of household or married filing jointly. You cannot claim this deduction if married filing a separate return.

**Note:** You may claim an amount in line 17 only if there is no entry in line 16.

- ▶ Nonresidents, multiply this amount by line 14g and enter the result in line 17 of Form 1-NR/PY. Part-year residents, multiply this amount by line 2 and enter the result in line 17 of Form 1-NR/PY.

**Line 18. Rental Deduction**

**Nonresidents** are allowed a deduction equal to 50% of the rent they pay, up to a maximum of \$3,000, for their principal residence only if it is located in Massachusetts and is their sole residence. (Non-Massachusetts rent is never deductible.) Many nonresidents rent a house or apartment in Massachusetts, but few qualify for this deduction. This is because the house or apartment rented here is not their principal residence. Only those nonresidents who rented a house or apartment in Massachusetts and have no family home or other dwelling to which they normally return (or to which they could return in the future) in any other state or country, can claim this deduction. Complete line 18 only if you filled in the "no" oval below line 18. Enter the total amount of qualified rent paid by you during 2005 in line 18a. Divide line 18a by 2 and enter the result, **or \$3,000** (\$1,500 if married filing a separate return) — **whichever is smaller** — in line 18. **Part-year residents** are entitled to the rental deduction equal to 50% for the rent they paid during 2005 (up to a maximum of \$3,000 per return) for their principle residence while a resident of Massachusetts. Enter the total amount of qualified rent paid by you during 2005 in line 18a. Divide line 18a by 2 and enter the result, **or \$3,000** (\$1,500 if married filing a separate return) — **whichever is smaller** — in line 18. **Note:** This deduction does not apply to your U.S. tax return.

**How Do I Calculate My Rental Deduction If I Am Married Filing Separately?**

If a husband and wife file separate returns, they are each entitled to a rental deduction equal to 50% of the rent each pays, not to exceed \$1,500 per return. However, a married couple filing separately may allocate the rent deduction differently, provided the amount taken by each spouse does not exceed 50% of the rent actually paid by that spouse, and provided their combined rental deductions do not exceed \$3,000. If this results in one spouse claiming a deduction in excess of \$1,500, that spouse must enclose with his/her return a statement signed by the other spouse indicating consent to the allocation. The statement must contain the name, address and Social Security number of the consenting spouse and the amount of rental deduction taken by that spouse.

**Line 19. Other Deductions (from Schedule Y)**

Enter the total from Schedule Y, line 15. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return.

**Line 22. Exemption Amount**

Enter amount from Exemption Section, line 4, item f in line 22a.

**Nonresidents.** Prorate your exemptions using the ratio of your Massachusetts income to your total income by multiplying line 22a by line 14g and entering the result in line 22. This amount represents your prorated exemptions.

**Part-year residents.** Prorate your total exemptions claimed on Form 1-NR/PY by multiplying line 22a by line 2 and entering the result in line 22. This amount represents your prorated exemptions as a part-year resident.

**Line 23. 5.3% Income After Exemptions**

Subtract line 22 from line 21. Enter the result in line 23, but not less than "0."

If line 22 exceeds line 21 and you received interest income (other than interest from Massachusetts banks), dividends or capital gain income, complete the worksheet for Schedule B, line 36 and Schedule D, line 19, if applicable. All others proceed to line 24.

**Line 24. Interest and Dividend Income**

If you have any interest income other than interest from deposits in banks located in Massachusetts, dividend income in excess of \$1,500, certain capital gains or losses, or any adjustments to interest income (other than interest from Massachusetts banks), you must complete Schedule B. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B, refer to the Schedule B instructions of this booklet.

Enter in line 24 the amount from Schedule B, line 38. If not required to file Schedule B, enter dividend income of \$1,500 or less (from U.S. Form 1040 or 1040A, line 9a) in line 24.

**Line 25. Total Taxable 5.3% Income**

Add line 23 and line 24.

**Tax on 5.3% Income**

**Line 26. 5.3% Tax**

Based upon the amount in line 25, find the proper amount of tax from the table at the back of this booklet. Enter the tax in line 26. If line 25 is more than \$24,000, multiply the amount in line 25 by .053 and enter the result in line 26. You must use the tax table if line 25 is \$24,000 or less.

**Note:** Personal income tax forms must provide an election to voluntarily pay tax at a rate of 5.85% on taxable income which would otherwise be taxed at a rate of 5.3%. The election to pay tax at the rate of 5.85% does not apply to items of income taxed at 12% (short-term capital gains and gains on collectibles). If choosing the optional

5.85% tax rate, multiply line 26 and Schedule D, line 20 by .0585 and fill in the oval.

**12% Income and Tax**

**Line 27. 12% Income from Certain Capital Gains**

Enter in line 27a the amount from Schedule B, line 39. Multiply this amount by .12 (12%) and enter the tax in line 27. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B, refer to the Schedule B instructions of this booklet.

**Long-Term Capital Gain Tax**

**Line 28. Schedule D (Long-Term Capital Gains and Losses Excluding Collectibles)**

Enter in line 28 the amount from Schedule D, line 21, **but not less than "0."** To determine if you need to file Schedule D, refer to the Schedule D instructions of this booklet.

*Schedule B, Line 36 and Schedule D, Line 19 Worksheet — Exemptions from Interest and Dividend Income, 12% Income and Long-Term Capital Gain Income and Excess Home Heating Fuel Deduction (Only if Single, Head of Household, or Married Filing Jointly)*

*If your total exemptions in line 22 are more than the amount of your 5.3% income after deductions in line 21 or your home heating fuel deduction from Schedule Y, line 14 worksheet, line 8, is more than the amount of 5.3% income after deductions from Schedule Y, Line 14 Worksheet, line 3, the excess may be applied against all your interest and dividend income and income taxed at 12%. Any remaining excess amount may then be applied against all your long-term capital gain income. Complete the following worksheet only if line 21 is less than line 22 to determine if you qualify for the excess exemption and the Schedule Y, Line 14 Worksheet on page 26 to determine if you qualify for the excess deduction. Enter all losses as "0."*

- 1. Enter amount from Schedule B, line 35. Not less than "0". . . . .*
- 2. Enter amount from Form 1-NR/PY, line 22. . . . .*
- 3. Enter the amount from line 9 of the Schedule Y, line 14 worksheet. . . . .*
- 4. Add lines 2 and 3. . . . .*

*continues on next page*

5. Enter amount from Form 1-NR/PY, line 21 . . . . .

6. Subtract line 5 from line 4. If "0" or less, you do not qualify for this exemption. Omit remainder of worksheet . . . . .

7. Excess exemptions applied against interest and dividend income and 12% income. If line 1 is larger than line 6, enter line 6 here and in Schedule B, line 36. If line 6 is equal to or larger than line 1, enter line 1 here and in Schedule B, line 36. Complete lines 8 through 10. . . . .

8. Subtract line 7 from line 6. If "0," omit remainder of worksheet . . . . .

9. Enter Schedule D, line 18. Not less than "0". . . . .

10. Excess exemptions applied against long-term capital gain income. If line 9 is larger than line 8, enter line 8 here and in Schedule D, line 19. If line 8 is equal to or larger than line 9, enter line 9 here and in Schedule D, line 19. . . . .

**Excess Exemptions**

If excess exemptions were used in calculating lines 24, 27 or 28 (see Schedule B, line 36 and/or Schedule D, line 19), be sure to fill in the oval in line 28.

**Line 29. Credit Recapture Amount**

If any Brownfields Credit (BC), Economic Opportunity Area Credit (EOA) or Low-Income Housing Credit (LIH) property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and the total credit allowed for actual use must be added back to your tax on Form 1-NR/PY. Complete and enclose Schedule H-2, Credit Recapture. Schedule H-2 is available at [www.mass.gov/dor](http://www.mass.gov/dor) or by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089.

**Massachusetts AGI**

**No Tax Status — Single, Married Filing a Joint Return or Head of Household Only**

If your Massachusetts Adjusted Gross Income (Massachusetts AGI) was \$8,000 or less if single, \$13,125 or less plus \$1,000 per dependent if head of household, or \$14,750 or less plus \$1,000 per dependent if married filing a joint return, you qualify for No Tax Status and are not required to pay any Massachusetts income taxes.

To see if you may qualify for No Tax Status, complete Schedule NTS-L-NR/PY found on the back of page 3 of Form 1-NR/PY. See Schedule NTS-L-NR/PY instructions.

**Massachusetts Adjusted Gross Income for No Tax Status and Limited Income Credit**

Massachusetts Adjusted Gross Income (Massachusetts AGI) is not the same as taxable income. Massachusetts AGI includes:

- wages, salaries, tips;
- taxable pensions and annuities;
- pension income from another state or political subdivision before any deduction;
- taxable IRA/Keogh and Roth IRA distributions;
- fees and unemployment compensation;
- income or loss from a business or profession;
- income or loss from partnerships, S corporations and trusts;
- rents, royalties and REMIC income;
- alimony and other 5.3% income;
- interest from Massachusetts banks before exemptions; and
- other interest, dividends, and capital gains.

**Line 30. No Tax Status**

If you qualify for No Tax Status, fill in the oval in line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" in line 36 and complete Form 1-NR/PY. However, if there is an amount entered in line 29, Credit Recapture Amount, enter that amount in line 31 and complete lines 33 through 35.

**Note:** If married filing separately you do not qualify for No Tax Status or the Limited Income Credit.

**Line 32. Limited Income Credit — Single, Married Filing a Joint Return or Head of Household Only**

If you do not qualify for No Tax Status, but you are single and your Massachusetts AGI is between \$8,000 and \$14,000, or if you are filing as head of household and your Massachusetts AGI is between \$13,125 and \$22,969 plus \$1,750 per dependent, or if you are married filing a joint return and your Massachusetts AGI is between \$14,750 and \$25,813 plus \$1,750 per dependent, you **may** qualify for the Limited Income Credit. This credit is an alternative tax calculation that can result in a significant tax reduction for people whose income is close to the No Tax Status threshold. Be sure to complete Schedule NTS-L-NR/PY on the back of page 3 of Form 1-NR/PY to see if you may qualify for this credit.

**Line 33. Other Credits (from Schedule Z, Part I)**

**Lead Paint Credit, Economic Opportunity Area Credit, Full Employment Credit, Septic Credit, Brownfields Credit, Low-Income Housing Credit, Historic Rehabilitation Credit and Home Energy Efficiency Credit**

"Other credits" include the items listed above and must be included on Schedule Z, Part I. Nonresidents and part-year residents, enter the total from Schedule Z, line 9 on Form 1-NR/PY, line 33. Be sure to enclose Schedule Z with your return. Failure to do so will delay the processing of your return.

**Line 34. Credits for Part-Year Residents Only (from Schedule Z, Part II)**

**Credit for Income Tax Paid to Another State or Jurisdiction and Solar Wind and Energy Credit**

"Credits for part-year residents only" include the items listed above and must be included on Schedule Z, Part 2. Part-year residents, enter the total from Schedule Z, line 12 on Form 1-NR/PY, line 34. Be sure to enclose Schedule Z with your return. Failure to do so will delay the processing of your return.

**Line 37. Voluntary Contributions**

You may contribute any amount to the following funds. Remember, these amounts are added to your tax. They increase the amount of your payment or reduce the amount of your refund.

**a. Endangered Wildlife Conservation:** The Natural Heritage and Endangered Species Fund is administered by the Division of Fisheries and Wildlife. Contributions are used to protect and restore rare and endangered wildlife and plants, and their habitats. This fund has helped restore and conserve in the Commonwealth populations of the Bald Eagle, Hessel's Hairstreak Butterfly, the Redbelly Turtle and the Plymouth Gentian.

**b. Organ Transplant Fund:** The Organ Transplant Fund is administered by the Massachusetts Department of Public Health. All contributions received by the Fund assist patients with the costs of medications without which they might lose their transplanted organs.

**c. Massachusetts AIDS Fund:** The Massachusetts AIDS Fund is administered by the Massachusetts Department of Public Health. Contributions are used for research, experimental treatment and education related to Acquired Immune Deficiency Syndrome (AIDS). Massachusetts residents living with AIDS receive experimental treatment through clinical trials which are wholly supported with this Fund. The Fund also educates people with AIDS

about treatment options and how to gain access to medication and experimental treatment.

**d. Massachusetts United States Olympic Fund:** Contributions to this fund are used to assist Massachusetts residents in paying all or part of any costs associated with the development, maintenance and operation of the United States Olympic Team participating in the Olympics and the United States Paralympic Team participating in the Paralympics.

**e. Massachusetts Military Family Relief Fund:** The Massachusetts Military Family Relief Fund is administered by the Friends of Massachusetts National Guard and Reserve Families. Contributions to this fund are used to help members of the Massachusetts National Guard and Massachusetts residents who are members of the reserves of the armed forces of the United States and who have been called to active duty after the September 11, 2001 terrorist attacks, and their families, to defray the costs of food, housing, utilities, medical services, and other expenses.

Add items a, b, c, d and e and enter the total in line 37.

**Line 38. Massachusetts Use Tax Due On Out-of-State Purchases Made in 2005 (part-year residents only)**

A 5% Massachusetts use tax is due on your taxable purchases, made while a Massachusetts resident, of tangible personal property purchased for use in Massachusetts on which you did not pay Massachusetts sales or use tax. These include, but are not limited to, purchases made out-of-state, on the Internet or from a catalog, where no Massachusetts sales tax was paid. The use tax does not apply to out-of-state purchases that are exempt from the sales tax (for example, clothing that costs \$175 or less). Examples of taxable items include automobiles, computers, furniture, jewelry, cameras, appliances, and any other item that is not exempt. Generally, anyone who pays a sales or use tax to another state or territory of the United States on tangible personal property to be used in Massachusetts is entitled to a credit against the Massachusetts use tax, up to 5%. This credit is allowed for sales or use tax paid to another state only if that state has a corresponding credit similar to the Massachusetts credit. See TIR 03-1 for more information.

Taxpayers may use the following table to self-report a “safe-harbor” amount of use tax based on their Massachusetts adjusted gross income. A taxpayer may pay this amount in lieu of the actual amount of use tax that would otherwise be due with respect to such purchases. Individual taxpayers electing to report use tax under this method will not be assessed additional use tax on audit, even if the actual amount of use tax due would have been greater than the amount from the schedule.

The estimated liability applies only to purchases of any individual items each having a total sales price of less than \$1,000. For each taxable item purchased at a sales price of \$1,000 or greater, the actual use tax liability for each purchase must be added to the amount of the estimated liability derived from the following table. See TIR 04-26.

<i>Mass. AGI per return*</i>	<i>Use tax liability</i>
\$ 0 – \$ 25,000	\$ 0
25,001 – 40,000	15
40,001 – 60,000	25
60,001 – 80,000	35
80,001 – 100,000	45
Above \$100,000	Multiply Mass. AGI* by .0005

\*Line 10 of Schedule NTS-L-NR/PY.

Prepare and retain with your records a list of your out-of-state purchases in 2005 that are subject to the Massachusetts use tax. Complete the following worksheet to calculate your use tax if you are not self-reporting a safe-harbor amount. For more information about use tax, visit DOR’s website at [www.mass.gov/dor](http://www.mass.gov/dor).

**Form 1-NR/PY, Line 38 Worksheet-Use Tax Due on Out-of-State Purchases (Part-Year Residents Only)**

1. Total of purchases in 2005, made while a Massachusetts resident, subject to Massachusetts use tax . . . . . \_\_\_\_\_
2. Use tax. Multiply line 1 by .05 (5%) . . . . . \_\_\_\_\_
3. Credit for sales/use tax paid to other states or jurisdictions. Add the amount of any sales/use tax paid to another state or jurisdiction, or 5% of the sales price, whichever is less, on each purchase reported in line 1 . . . . . \_\_\_\_\_
4. Total amount due. Subtract line 3 from line 2. Not less than “0.” Enter the result here and on Form 1-NR/PY, line 38. . . . . \_\_\_\_\_

**Line 40. Massachusetts Income Tax Withheld**

This represents all income taxes withheld for the Commonwealth of Massachusetts as indicated on your copies of Forms W-2, W-2G and certain 1099s, if applicable. Enter the total of all Massachusetts withholdings in line 40. Attach, with a single staple, state copies to your return; otherwise, your claim of amounts withheld will not be allowed. If you have lost any state copy, ask the payer for a duplicate. Copies of 1099s need only be attached if they show an amount for Massachusetts tax withheld.

**Note:** If you are the beneficiary of an estate or trust, do **not** include the amount of withholding as reported on line 15 of Schedule 2K-1, Beneficiary’s Massachusetts Information. Instead, include that amount in line 42.

**Line 41. 2004 Overpayment Applied to Your 2005 Estimated Tax**

Include the exact amount of any 2004 overpayment you applied to your 2005 estimated taxes. This amount can be found on your 2004 Massachusetts Form 1-NR/PY, line 48 or Form 1, line 43. Do not include any 2004 refund in this line.

**Line 42. 2005 Massachusetts Estimated Tax Payments**

If you paid Massachusetts estimated income taxes for 2005, enter in line 42 the total of all Massachusetts estimated tax payments, but do not include the amount entered in line 41. Be sure to include any last quarter (of 2005) payment made on or before January 15, 2006.

Every taxpayer (whether a resident or nonresident) who expects to pay more than \$400 in Massachusetts income taxes on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes. Estimated tax payments can be made online by using Web Services for Income by visiting [www.mass.gov/dor](http://www.mass.gov/dor) or by Filing Form 1-ES.

**Note:** If you are the beneficiary of an estate or trust, be sure to include in the total of estimated tax payments the amount of withholding as reported on line 15 of Schedule 2K-1, Beneficiary’s Massachusetts Information, in line 42.

- Income which is not subject to withholding includes:
- salaries or wages earned in Massachusetts where the employer is not subject to Massachusetts withholding;
  - unemployment compensation (if you did not elect voluntary Massachusetts withholding);
  - taxable REMIC income;
  - dividends and interest, including interest from Massachusetts banks;
  - gains from capital assets;
  - income from an individual trade, business, profession, partnership or S corporation;
  - income from any estate or trust not taxed directly;
  - lottery or gambling winnings;
  - certain pensions;
  - rental income and royalty income;
  - alimony received (**part-year** residents only);
  - illegal income; and
  - any other income received taxable in Massachusetts from which Massachusetts tax will **not** be withheld.

Generally, the first payment must be filed on or before April 15 of the taxable year. The estimated tax may be paid in full with the first payment voucher or in four installments on or before April 15, June 15, September 15 of the current taxable year and January 15 of the following year.

If you wish to verify estimated tax payments that have already been made, check the Estimated Tax Payment History Application at [www.mass.gov/dor](http://www.mass.gov/dor). You will need to know the PIN that appeared on the back of your Form 1-NR/PY booklet or the amount of last year's refund or balance due to access your account.

You may request your employer to withhold additional amounts from your salary on Form M-4, Massachusetts Employee's Withholding Exemption Certificate to cover the taxes on other income so that you do not have to file and pay estimated taxes.

If 80% of the tax is not paid throughout the year through withholding and/or estimated payments, a penalty may be imposed.

### Line 43. Earned Income Credit

The earned income credit is a tax credit for certain taxpayers who work and/or have earned income under \$37,263. Taxpayers who qualify for and claim the federal earned income credit are allowed a refundable credit equal to 15% of the federal amount. If the credit due the taxpayer exceeds the amount of the total income tax payable for the year by the taxpayer, the excess amount of the credit will be refunded to the taxpayer without interest. Enter in line 43a the federal earned income credit amount from your U.S. Form 1040, line 66a, 1040A, line 41a; or 1040EZ, line 8a. Multiply this amount by .15 (15%) and enter the result in the line provided. **Nonresidents**, multiply this amount by line 14g; **part-year residents** multiply this amount by line 2. Enter the result in line 43. If you choose to have the IRS compute your federal earned income credit, wait until the IRS notifies you of that amount before making an entry in line 43. If you have not received your earned income credit amount as computed by the IRS by April 18, 2006, you may file Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return. See page 3 for information about filing your extension by telephone or via the Web. For more information about the federal earned income tax credit, see IRS Publication 596, available at [www.irs.gov](http://www.irs.gov). Be sure to fill out Schedule DI, Dependent Information, if you are claiming this credit for one or more qualifying children/dependents. Failure to do so will delay the processing of your return.

### Line 44. Senior Circuit Breaker Credit (part-year residents only)

Certain senior citizens in Massachusetts may be eligible to claim a refundable credit on their state income taxes for the real estate taxes paid on the Massachusetts residential property they own or rent and which they occupy as their principal residence. The maximum credit allowed is \$840 for the tax year beginning January 1, 2005. If the credit

due the taxpayer exceeds the amount of the total income tax payable for the year by the taxpayer, the excess amount of the credit will be refunded to the taxpayer without interest. To determine if you qualify for this credit, refer to Schedule CB, Senior Circuit Breaker Credit and instructions. Schedule CB is available on DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor) or by calling (617) 887-MDOR, or toll-free in Massachusetts 1-800-392-6089.

If you qualify for this credit and you are a homeowner, enter the amount from Schedule CB, Circuit Breaker Credit, line 20; if you are a renter, enter the amount from line 24. Be sure to complete and enclose Schedule CB with your return.

### Line 45. Payments Made with Extension

If you filed an Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, Massachusetts Form M-4868, for 2005 on or before April 18, 2006, enter in line 45 the amount you paid with Form M-4868. Enclose a copy of Massachusetts Form M-4868 with your return.

## Refund Amount

### Line 47. Overpayment

If line 39 is smaller than line 46, subtract line 39 from line 46 and enter the amount in line 47. This is the amount of your overpayment. If line 39 is larger than line 46, skip to line 50. If line 39 and line 46 are equal, enter "0" in line 49.

### Line 48. Amount of Overpayment You Want Applied to Your 2006 Massachusetts Estimated Taxes

Enter the amount of your 2005 overpayment you wish to apply to your 2006 Massachusetts estimated taxes. Once an election is made to apply your overpayment to your 2006 estimated tax, it cannot be refunded later or applied to any additional tax you may owe for 2005. The amount entered in this line can only be claimed as a credit on your 2006 Massachusetts return.

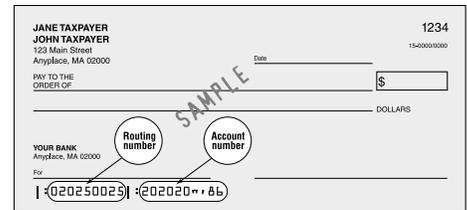
### Line 49. Refund Amount

Subtract line 48 from line 47. Enter the result in line 49. This is the amount of your refund. **Note:** Your state tax refund may be taxable on your U.S. tax return if you deducted state income tax paid as an itemized deduction on U.S. Schedule A.

## Direct Deposit

You may elect to have your refund deposited directly into your savings or checking account. Check with your financial institution to make sure that it accepts direct deposit and verify the routing

transit number (RTN) of the issuing financial institution. If we are unable to honor your request for a direct deposit, a paper check will be sent to you.



JANE TAXPAYER  
JOHN TAXPAYER  
123 Main Street  
Anytown, MA 02000

1234  
15-000000000

DATE \_\_\_\_\_

PAY TO THE ORDER OF \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ DOLLARS

YOUR BANK  
Anytown, MA 02000

For \_\_\_\_\_

Routing number: 020250023  
Account number: 02020186

The routing number of your financial institution is nine digits and begins with 01 through 12 or 21 through 32. The account number can be up to 17 characters (both numbers and letters). Omit hyphens, spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. You **must enter** the routing number and the account number in the spaces provided in line 49 if you are requesting direct deposit. Failure to do so will result in your request for direct deposit being denied. See sample check for location of this information.

**Note:** Only one direct deposit is allowed per account number.

## Tax Due

### Line 50. Tax Due

If line 39 is larger than line 46, subtract line 46 from line 39, and enter the result in line 50. This is the amount of tax you owe with your return. Pay in full with your return. Make your check or money order payable to Commonwealth of Massachusetts and write your Social Security number on the front of your check or money order in the lower left corner. Complete and remove Form PV, Massachusetts Income Tax Payment Voucher, attached to the back of the envelope found in this booklet. Enclose the check and Form PV with your return. Form PV **must** be included with your check to ensure proper crediting of your account. Be sure to use the light blue mailing label when mailing Form 1-NR/PY with Form PV.

Failure to file or failure to pay the proper amount of tax when due will result in an increasing amount of interest and penalties. It is advantageous to file when your return is due even if you are unable to make full payment.

If you owe any interest, penalty or addition for the underpayment of estimated taxes, add those amounts to the tax you owe and enter the total amount in line 50.

### What Are the Interest and Penalties?

**Interest:** If you fail to pay the tax when due, interest will be charged. For further information, see TIR 92-6 or call the Customer Service Bureau at

(617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.

**Penalty for Late Payment:** The penalty for late payment is ½% of the tax due per month (or fraction thereof), up to a maximum of 25%.

**Penalty for Failure to File:** The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%. If you were required to file a tax return for income received in any prior year and you did not file, you must file for that prior year.

**Penalty for Protested (“Bad”) Check:** If your check is not honored by your bank because of insufficient funds or any other reason, a penalty may be added equal to 2% of the amount of the check or \$10, whichever is greater, but no more than the amount of the check.

**Addition for Underpayment of Estimated Taxes:** You will generally be subject to this addition to tax if you did not have withholding and/or estimated tax payments equal to 80% of the total tax liability required to be paid and your 2005 tax due after credits and withholding is greater than \$400. If you failed to meet this requirement, you must complete and attach Massachusetts Form M-2210 to calculate the amount you must add to line 50. The 80% requirement is reduced to 66⅔% for individuals who receive two-thirds of their income from fishing or farming.

Most taxpayers who qualify for an exception had either a tax due of \$400 or less or withholding and/or estimated payments equal to their tax liability for the previous year. If you qualify for an exception, fill in the oval marked “EX” under line 50 on Form 1-NR/PY and enclose Massachusetts Form M-2210. You do not have to complete Form M-2210 if the balance due with your return is \$400 or less. Form M-2210 is available by visiting [www.mass.gov/dor](http://www.mass.gov/dor) or at any Massachusetts Department of Revenue location.

**Penalty for Failure to Report Federal Change:** If the U.S. Internal Revenue Service changes your income for a prior year (generally through audit), file an online application for abatement/amended return at [www.mass.gov/dor](http://www.mass.gov/dor) within one year of the final federal determination to avoid this penalty. This penalty is equal to 10% of the additional tax due or \$100, whichever is smaller. If the change indicates a refund, file an online application for abatement/amended return within one year, including acceptance of an amended federal return by the Internal Revenue Service.

## Sign Here

Now that you have completed Form 1-NR/PY, sign your name. Your spouse must also sign if this is a joint return. Please note that the signature area is at the bottom of page 1 of Form 1-NR/PY. Write the date you signed the return.

Attach to your Form 1-NR/PY, with a single staple, all state copies of your Forms W-2, W-2G and any Forms 1099 which included Massachusetts withholding. If making a payment, be sure to enclose Form PV with your Form 1-NR/PY. Form PV is attached to the back of the envelope found in this booklet. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with the Form PV. Form PV **must** be included with your check to ensure proper crediting of your account. Make your check or money order payable to Commonwealth of Massachusetts, and be sure to sign the check and write your Social Security number on it. Be sure to include all three pages of Form 1-NR/PY. Also, enclose all required Massachusetts forms and schedules. Do not staple your forms together.

### Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it in the space provided. Tax return preparers are authorized to sign the return by means of a rubber stamp, mechanical device, or computer software program, which must include either a facsimile or printed name of the preparer. Preparers are personally responsible for affixing their signatures to returns. Preparers must also provide their Social Security number (SSN) or Preparer Tax Identification number (PTIN) in the space provided. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

### Paid Preparer Authorization

If you want to allow the Massachusetts Department of Revenue (DOR) to discuss your 2005 tax return with the paid preparer who signed it, fill in the “Yes” oval in the signature area of the return. This authorization applies only to the individual whose signature appears in the “Paid Preparer” section of your return. It does not apply to the firm, if any, shown in that section.

If you fill in the “Yes” oval, you, and your spouse if filing a joint return, are authorizing DOR to call the paid preparer to answer any questions that may arise during the processing of your return. You are also authorizing the paid preparer to:

- ▶ give DOR any information that is missing from your return;
- ▶ call DOR for information about the processing of your return or the status of your refund or payment(s); and

▶ respond to certain DOR notices that you have shared with the preparer about math errors, offsets and return preparation. The notices will not be sent to the preparer.

You are not authorizing the paid preparer to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before DOR. If you want to expand the paid preparer’s authorization, see Form M-2848, Power of Attorney and Declaration of Representative.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2006 tax return. This is April 15, 2007 for most people.

### E-File Opt Out

For tax years beginning on or after January 1, 2005, income tax return preparers who completed 100 or more original Massachusetts Forms 1 and 1-NR-PY, including those E-filed, during the previous calendar year are required to use electronic means to file all personal income tax returns, unless the taxpayer specifically directs on the paper form that the filing be on paper and signs Form EFO, Personal Income Tax Declaration of Paper Filing. Fill in oval if you do not want your preparer to file your return electronically. See TIR 04-30 for more information.

### Mailing

If you are expecting a refund or if you have no tax due, use the white mailing label on the back of the envelope that came with this booklet. If you do not have one, mail Form 1-NR/PY to: **Massachusetts Department of Revenue, PO Box 7000, Boston, MA 02204.**

If you have a tax due, use the light blue mailing label on the back of the envelope that came with this booklet. If you do not have one, mail Form 1-NR/PY to: **Massachusetts Department of Revenue, PO Box 7003, Boston, MA 02204**

**Note:** If using a tax software product, be sure to use the correct PO box. See page 3.

**Note:** Schedule lines without specific instructions are considered to be self-explanatory. Be sure to list on each schedule the name and Social Security number that appears first on Form 1-NR/PY. Do not cut or separate schedules.

## Schedule NTS-L-NR/PY

### Massachusetts Adjusted Gross Income for No Tax Status

Massachusetts Adjusted Gross Income (Massachusetts AGI) is not the same as taxable income. Massachusetts AGI includes all:

- ▶ wages, salaries, tips;
- ▶ taxable pensions and annuities;
- ▶ pension income from another state or jurisdiction before any deductions;
- ▶ taxable IRA/Keogh and Roth IRA distributions;
- ▶ fees and unemployment compensation;
- ▶ income or loss from a business or profession;
- ▶ income or loss from partnerships, S corporations and trusts;
- ▶ rents, royalties and REMIC income;
- ▶ alimony and other 5.3% income;
- ▶ interest from Massachusetts banks before exemption; and
- ▶ interest, dividends, and capital gains.

▶ The No Tax Status provision applies if your Massachusetts AGI on Schedule NTS-L-NR/PY (line 8) is \$8,000 or less if single; \$13,125 or less plus \$1,000 per dependent if head of household, or \$14,750 or less plus \$1,000 per dependent if married filing a joint return.

**Note:** If married, you must file a joint return in order to qualify for No Tax Status. For purposes of computing No Tax Status all losses must be entered as "0."

### Line 6. Long-Term Capital Gain Income

If filing Schedule D-IS, Installment Sales, see the Schedule D-IS instructions for the amount to enter in line 6. Schedule D-IS and instructions are available on DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor).

### Line 7. Additional Income/Loss While a Nonresident/Part-Year Resident

Enter in line 7 any income/loss not reported on Form 1-NR/PY because of your nonresidency or part-year residency status but would have been reported on Form 1 if you were a full-year resident.

**Note:** Nonresidents, do not include any military compensation received during the taxable year as non-Massachusetts source income. See TIR 04-6 for more information.

### Line 9. Additional Adjustments to Income While a Nonresident/Part-Year Resident

Enter in line 9 any deductions not originally reported on Schedule Y, lines 1 to 10 because of your nonresidency or part-year residency status but would have been reported on Schedule Y if you were a full-year resident.

### Line 10. Massachusetts Adjusted Gross Income

If you paid tuition to a two- or four-year college for yourself or a dependent, you may be entitled to a deduction equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceed 25% of line 10. See Schedule Y, line 11 worksheet in instructions.

Subtract line 9 from line 8. If you are single and the total in line 10 is \$8,000 or less, you qualify for No Tax Status. Fill in the oval in Form 1-NR/PY, line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" on line 36 and continue on Form 1-NR/PY. If you are single but do not qualify for No Tax Status and your total in line 10 is \$14,000 or less, go to line 13 to see if you qualify for the Limited Income Credit. If married filing jointly or head of household, go to line 11.

### Line 11. No Tax Status for Married Filing Jointly or Head of Household

If married and filing a joint return, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,000 and add \$14,750 to that amount. If head of household, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,000 and add \$13,125 to that amount. Enter the result here. If line 10 is less than or equal to line 11, you qualify for No Tax Status. Fill in the oval in Form 1-NR/PY, line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" on line 36 and continue on Form 1-NR/PY.

### Line 12. Limited Income Credit Threshold

If you do not qualify for No Tax Status and you are married and filing a joint return, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,750 and add \$25,813 to that amount. If head of household, multiply the number of dependents (from Form 1-NR/PY line 4b) by \$1,750 and add \$22,969 to that amount. Enter the result here. If line 10 is less than or equal to line 12, you may qualify for the Limited Income Credit. Go to line 13.

### Line 17. Limited Income Credit

If line 15 is smaller than line 16, you are not eligible for this credit. If line 15 is larger than line 16, subtract line 16 from line 15, and enter the result here and in line 32 on Form 1-NR/PY.

## Schedule F

### Credit for Income Taxes Paid to Other Jurisdictions (part-year residents only)

**Income Tax Paid to Another State:** If all or part of the income reported on this return is subject to taxation in another state or specified jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete Schedule F to calculate the credit. Do not include taxes paid to the U.S. government. (This credit does not apply to city or local taxes or corporate excise tax.) You are allowed to claim a credit for taxes paid to the following jurisdictions: (a) other states in the United States; (b) any territory or dependency of the United States (including Puerto Rico, the Virgin Islands, Guam, the District of Columbia); or (c) the Dominion of Canada or any of its provinces (less any U.S. credit amount allowable from U.S. Form 1116).

**Note:** Canada is the only foreign country for which you may claim a tax credit for income tax paid to another state or jurisdiction on this schedule.

The total credit which you calculate on this schedule is the smaller of the amount of taxes due to other jurisdictions (net of certain adjustments) or the portion of your Massachusetts tax due on your gross income that is taxed in such other jurisdictions.

Credit is not given for a property tax due to another jurisdiction on account of capital stock or property. This does not refer to a tax on gain or income from the sale of capital stock or property, as included on Schedule B or D. Credit is also not given for any interest and penalties paid on a tax due to another jurisdiction.

You must complete separate schedules if you had 5.3% and interest income (other than interest from Massachusetts banks), dividends or capital gain income taxed by another jurisdiction. If you use this schedule to calculate a credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, substitute interest income (other than interest from Massachusetts banks), dividends or capital gain income for 5.3% income in line 1. You must also substitute Schedule B, line 7 (interest and dividend income) and Schedule B, line 13 (taxable 12% capital gains) or Schedule D, line 12 (gross long-term capital gains and losses), but not less than "0," for Form 1-NR/PY, line 12 in line 2 of the schedule, and the total of Form 1-NR/PY, line 24 multiplied by .053 (tax on interest and dividend income) and Form 1-NR/PY, line 27 (12% tax) or line 28 (tax on long-term capital gains) for Form 1-NR/PY, line 23 in line 4 of the schedule.

▶ When using this schedule to calculate credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, enter in line 1 such income taxed in another jurisdiction calculated as if it was earned in Massachusetts.

▶ If you choose to pay the optional 5.85% tax rate, substitute .0585 for .053 in line 4 of the schedule.

**Line 1. Total 5.3% Income Taxed by Other Jurisdictions**

Enter the total 5.3% income on which you paid taxes to another jurisdiction.

**Line 4. Massachusetts Tax on 5.3% Income**

Multiply Form 1-NR/PY, line 23 by .053, less any Limited Income Credit from Form 1-NR/PY, line 32.

**Line 6. Income Tax Paid to Other Jurisdictions**

Enter the total tax paid to other jurisdictions on income also reported on this return. The credit is limited to the amount of tax paid. If the tax was paid to Canada, the amount reported in this line must be reduced by the amount claimed as a foreign tax credit on U.S. Form 1040, line 47.

**Line 7. Allowable Credit**

Enter the smaller of lines 5 or 6 here and on Schedule Z, Part 2, line 10. Be sure to enter the two-letter state or jurisdictional postal code for each state or jurisdiction for which you are taking the credit on Schedule Z. Visit the United State Postal Service's website at [www.usps.com](http://www.usps.com) and click on "Service Guides" for a list of those codes.

**Schedule X**

**Other Income**

Be sure to enclose with Form 1-NR/PY.

**Line 1. Alimony Received (part-year residents only)**

If you received alimony payments, you must report them as income in line 1 of Schedule X. Report the portion of all periodic payments of alimony or separate maintenance received under a court judgment or decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 11, received while you were a Massachusetts resident. If you made alimony payments, you will be allowed to deduct these amounts on Form 1-NR/PY, line 19.

**Line 2. Taxable IRA/Keogh and Roth IRA Conversion Distributions (part-year residents only)**

Complete the Schedule X, line 2 worksheet to calculate the taxable portion of any amount you received as an Individual Retirement Account (IRA), Keogh or Roth IRA conversion distribution while a resident of Massachusetts, whether derived from sources inside or outside of Massachusetts. Since Massachusetts does not allow a deduction for amounts originally contributed to an IRA or Keogh, the distributions are not taxable until the full amount of your contributions which were previously subject to Massachusetts taxes are recovered.

▶ Contributions made to Keogh accounts prior to 1975 were deductible when made. Therefore, no deduction may be taken from a Keogh distribution for amounts contributed before 1975.

Massachusetts generally adopts the federal conversion rules for partial or complete rollovers from existing IRAs to Roth IRAs. Generally, the rollover amount is treated as a distribution and included in federal gross income to the extent it is attributable to investment growth or previously deducted contributions. See TIR 98-8, *Massachusetts 1998 Reducing Income Taxes Act*, for further details.

**Schedule X, Line 2 Worksheet — Taxable IRA/Keogh Plan and Roth IRA Conversion Distributions**

*Complete this worksheet to report conventional IRA/Keogh distributions or Roth IRA conversion distributions.*

**Line 1.** Total IRA/Keogh plan distributions, Roth IRA conversion distributions received during 2005. . . . . \_\_\_\_\_

**Line 2.** Total contributions previously taxed by Massachusetts . . . . . \_\_\_\_\_

**Line 3.** Total distributions received in previous years . . . . . \_\_\_\_\_

**Line 4.** Subtract line 3 from line 2. If line 3 is larger than line 2, enter "0". . . . . \_\_\_\_\_

**Line 5.** Taxable IRA/Keogh distributions or Roth IRA conversion distributions. Subtract line 4 from line 1 and enter the result here. Not less than "0". . . . . \_\_\_\_\_

**Note:** You must complete separate worksheets if married filing a joint return and both you and your spouse received IRA/Keogh Plan and/or Roth IRA conversion distributions.

**Line 3. Other Gambling Winnings**

Enter in Schedule X, line 3 all gambling winnings from casinos, raffles, races, beano or other events of chance held in Massachusetts (part-year residents, whether held inside or outside of Massachusetts). Do not enter less than "0." You may

only deduct the price of the winning ticket. Gambling losses are not deductible under Massachusetts law. Gambling losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

**Note:** Do not report Massachusetts state lottery winnings in Schedule X, line 3. Instead, report them on Form 1-NR/PY, line 10b.

**Line 4. Fees and Other 5.3% Income**

"Other 5.3% income" includes the following items. Enter the amounts and sources of each item. **Do not enter less than "0."** Enclose additional statements if more space is needed.

▶ All fee income, such as payments for jury duty, election worker payments, director's fees, compensation received as executor or administrator of an estate, and commission income or tips not reported in line 5 of Form 1-NR/PY is taxable. Also, report all bartering income not reported on Schedule C (the fair market value of goods or services received in payment for your services).

▶ All prizes and awards won by a nonresident in a quiz program, drawing, beauty contest, etc. held in Massachusetts (part-year residents, whether held inside or outside of Massachusetts) are taxable at fair market value. Awards and bonuses received from your employer for performance of services in Massachusetts (part-year residents, whether received from sources inside or outside of Massachusetts) are also taxable.

▶ Other 5.3% income from Massachusetts sources or received while a part-year resident, reported on U.S. Form 1040, line 21, and not reported elsewhere in "5.3% Income" section on Massachusetts Form 1-NR/PY, must be reported in line 4 of Schedule X.

▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes (from Massachusetts Schedule D, line 9) are taxed as 5.3% income and must be reported on Schedule X, line 4.

▶ Embezzled or other income from illegal activities from Massachusetts sources or received while a part-year resident is taxable.

The following items should **not** be reported on your Massachusetts return:

▶ Any "net operating loss" reported as a negative amount on U.S. Form 1040, line 21 cannot be entered on Schedule X. A net operating loss from a business or profession cannot be carried forward or backward to offset individual income in any other year under Massachusetts law.

▶ Refunds of U.S. and Massachusetts income taxes are not considered income under Massachusetts law. If you received interest on refunds, report such interest on Massachusetts Schedule B.

# Schedule Y

## Other Deductions

Be sure to enclose with Form 1-NR/PY.

### Line 1. Allowable Employee Business Expenses

Generally, reimbursed employee business expenses are not included in your wages or salary and therefore are not allowed as deductions. However, there are unreimbursed and certain reimbursed expenses for which you are allowed a deduction. Complete the following worksheet in order to calculate your Massachusetts employee business expense deduction. The expenses must relate to income reported in lines 5 or 11 on Form 1-NR/PY.

Employees may deduct the following:

- ▶ unreimbursed travel and transportation expenses including lodging and meals away from home incurred by any employee; and
- ▶ all federally deductible unreimbursed employee business expenses, if the employee is a salesperson who solicits business for an employer away from the employer's place of business.

Unreimbursed expenses are only deductible if all of the following conditions are met:

- ▶ you itemize deductions;
- ▶ if you filed a joint U.S. return, you must file a joint Massachusetts return; and
- ▶ your unreimbursed business expenses taken together with the other miscellaneous itemized deductions reported on U.S. Form 1040, Schedule A, lines 20, 21 and 22 exceed 2% of your federal adjusted gross income reported on U.S. Form 1040, Schedule A, line 25. See the following Schedule Y, line 1 worksheet.

If you are a qualified performing artist or a fee-basis state or local government official, do not complete the worksheet. Enter on Schedule Y, line 9 your federally deductible business expenses included on U.S. Form 1040, line 24 and fill in the appropriate oval in Schedule Y, line 9.

**Note:** Same-sex joint filers should recalculate their U.S. Form 1040, Schedule A by combining allowable expenses as reported on U.S. Form 1040, Schedule A, lines 23 and 27 and their adjusted gross incomes as reported on U.S. Form 1040, Schedule A, line 24 in calculating U.S. Form 1040, Schedule A, line 26. Same-sex joint filers should also recalculate their U.S. Form 2106 or 2106 EZ by combining allowable expenses as reported on U.S. Form 2106, lines 4, 9b and 10 or U.S. Form 2106-EZ, lines 4, 5 and 6. See TIR 04-17 for more information.

#### Schedule Y, Line 1 — Massachusetts Employee Business Expense Deduction Worksheet

1. Enter the amount from U.S. Form 2106, line 10, or 2106-EZ, line 6 . . . . . \_\_\_\_\_
2. If you are an employee other than an outside salesperson, enter the amount of unreimbursed expenses included in U.S. Form 2106 or 2106-EZ, line 4 . . . . . \_\_\_\_\_
3. If you are an employee other than an outside salesperson, enter the amount of unreimbursed meals and entertainment expenses included in U.S. Form 2106, line 9, column B or 2106-EZ, line 5, except for meals incurred while away from home . . . . . \_\_\_\_\_
4. If you are an individual with a disability, enter the amount of impairment-related expenses included in line 1 and claimed on line 27 of U.S. Schedule A . . . . . \_\_\_\_\_
5. Add lines 2 through 4. Enter the result here . . . . . \_\_\_\_\_
6. Subtract line 5 from line 1, and enter the result here . . . . . \_\_\_\_\_
7. Enter the amount from U.S. Schedule A, line 26 . . . . . \_\_\_\_\_
8. Enter the smaller amount of line 6 or line 7 here and on Schedule Y, line 1 . . . . . \_\_\_\_\_

### Line 2. Penalty on Early Savings Withdrawal

If you were charged a penalty because of early withdrawal of savings, and interest on the savings that such a penalty relates to is reported in line 7a or 24 of this return or on a prior year Massachusetts return, you may deduct the penalty. This deduction is the same as the amount allowable on U.S. Form 1040, line 30. Enter this amount in line 2 of Schedule Y.

### Line 3. Alimony Paid

This deduction includes only amounts paid by you to your former spouse during 2005 for alimony or separate maintenance under court decree, or for excess alimony amounts recaptured. Nonresidents, multiply the amount of alimony paid on your U.S. Form 1040, line 31a, by Form 1-NR/PY, line 14g to determine the amount you may claim against Massachusetts income. Enter the result in line 3. Part-year residents, enter the amount of alimony paid while a Massachusetts resident in line 3. **Note:** Alimony payments specified as child support are not deductible.

### Line 4. Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty Included Line 5

Massachusetts allows an exclusion from income of amounts received by a firefighter or police officer incapacitated in the line of duty, per MGL Ch.

41, sec. 111F, and an exclusion from income of amounts received by qualifying students exempt under a U.S. tax treaty.

Enter any excludible amount of income received while you were a firefighter or police officer incapacitated in the line of duty in line 4 of Schedule Y that was included in Form 1-NR/PY, line 5, and fill in the appropriate oval.

If you were a qualifying student or a taxpayer with income exempt under a U.S. tax treaty, enter any excludible amount of income received that was exempt under a U.S. tax treaty in line 4 of Schedule Y that was included in Form 1-NR/PY, line 5, and fill in the appropriate oval.

### Line 5. Moving Expenses

Nonresidents and part-year residents, enter the amount from U.S. Form 1040, line 26 that is related to Massachusetts employment.

### Line 6. Medical Savings Account

**Nonresidents**, multiply the amount of Medical Savings Account included in U.S. Form 1040, line 36 by line 14g and enter the result in Schedule Y, line 6. **Part-year residents**, multiply the amount of Medical Savings Account included in U.S. Form 1040, line 36 by line 2 and enter the result in Schedule Y, line 6.

### Line 7. Self-Employed Health Insurance

Enter in Schedule Y, line 7 the amount from U.S. Form 1040, line 29 that is related to Massachusetts employment. **Note:** If you elected to claim the federal credit under sec. 35 and had to reduce the amount on U.S. Form 1040, line 29 by the amount of the federal credit, you may add back the amount of the credit to the amount entered on U.S. Form 1040, line 29.

### Line 8. Health Savings Accounts

**Nonresidents**, multiply the amount from U.S. Form 1040, line 25 by line 14g and enter the result in Schedule Y, line 8. **Part-year residents**, multiply the amount from U.S. Form 1040, line 25 by line 2 and enter the result in Schedule Y, line 8.

### Line 9. Other Qualified Deductions

You may claim **only** the deductions listed below for Schedule Y, line 9. If you are entitled to claim any of the deductions in line 9, fill in the appropriate oval(s) and enter the total amount of deductions claimed in line 9.

- ▶ **Certain Qualified Deductions from U.S. Form 1040: Do not include** any amounts reported on U.S. Form 1040, lines 23 through 35 that are included in Form 1040, line 36 total. Enter **only** amounts included in U.S. Form 1040, line 36 as

an adjustment, **except** amounts contributed to sec. 501(c)(18) pension plans. For Massachusetts purposes, contributions to sec. 501(c)(18) pension plans are not deductible.

**Nonresidents**, if you are claiming a deduction for clean fuel vehicles or attorney’s fees and court costs involving certain unlawful discrimination suits (**only** if directly related to Massachusetts income as reported on Form 1-NR/PY, line 12), multiply that amount by Form 1-NR/PY, line 14g. **Part-year residents**, if you are claiming a deduction for clean fuel vehicles multiply that amount by Form 1-NR/PY, line 2.

The following deductions may be claimed only if they are related to Massachusetts income as included on Form 1-NR/PY, line 12: jury duty pay given to your employer; reforestation amortization; repayment of supplemental unemployment benefits under the Trade Act of 1974; attorney’s fees and court costs involving certain unlawful discrimination suits (part-year residents only); and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 4 from the rental of personal property engaged in for profit. If you are entitled to claim any of these deductions, fill in the appropriate oval in line 9 of Schedule Y.

On the dotted line next to line 9, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 36. Identify jury duty pay given to your employer as “Jury Pay”; reforestation amortization as “RFST”; repayment of supplemental unemployment benefits under the Trade Act of 1974 as “Sub-Pay TRA”; the deduction for clean-fuel vehicles as “Clean-Fuel”; attorney fees and court costs involving certain unlawful discrimination claims as “UDC”; and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 4 from the rental of personal property engaged in for profit as “PPR.” Fill in the appropriate oval in line 9 of Schedule Y.

► **Educator’s Deduction:** Nonresidents and part-year residents, enter the amount from U.S. Form 1040, line 23 or 1040A, line 16 that is related to Massachusetts income as reported on Form 1-NR/PY, line 12.

► **Business Expenses of National Guard and Reserve Members, Performing Artists and Fee-Based Government Officials:** Nonresidents and part-year residents, enter the amount from U.S. Form 1040, line 24 that is related to Massachusetts employment and fill in the appropriate oval of Schedule Y, line 9.

► **Tuition and Fees Deduction: Nonresidents**, multiply the amount from U.S. Form 1040, line 34 or 1040A, line 19 by line 14g and fill in the appropriate oval of Schedule Y, line 9. **Part-year resi-**

**dents**, multiply the amount from U.S. Form 1040, line 34 or 1040A, line 19 by line 2 and enter fill in the appropriate oval of Schedule Y, line 9.

**Note:** Certain taxpayers may qualify for both the Tuition and Fees deduction on Schedule Y, line 9 and the College Tuition deduction on Schedule Y, line 11. If this situation applies to you, calculate both deductions and take the higher of the two. You may not take both deductions. Also, taxpayers disallowed from taking a tuition and fees deduction on their U.S. Form 1040 or 1040A because they elected to take Hope and Lifetime Learning Credits, are also disallowed from taking the tuition and fees deduction for Massachusetts purposes.

**Line 10. Student Loan Interest Deduction**

**Nonresidents**, multiply the amount from U.S. Form 1040, line 33 or 1040A, line 18 by line 14g and enter the result in Schedule Y, line 10. **Part-year residents**, multiply the amount from U.S. Form 1040, line 33 or 1040A, line 18 by line 2 and enter the result in Schedule Y, line 10. This deduction is only allowed if not claiming the same expenses in line 12 of Schedule Y, Undergraduate Student Loan Interest Deduction.

**Note:** Same-sex joint filers must use the “Student Loan Interest Deduction” worksheet in the instructions to U.S. Form 1040 or 1040A making sure to combine their income figures, and performing the calculation as though they were filing a joint federal return. See TIR 04-17 for more information.

**Line 11. College Tuition Deduction**

A deduction is allowed for tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college. The deduction is equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceed 25% of Massachusetts adjusted gross income. Complete Schedule NTS-L-NR/PY, found on the back of page 3 of Form 1-NR/PY, and the following Schedule Y, line 11 worksheet to see if you may qualify for this deduction. See Technical Information Release (TIR) 97-13 for more information.

**Schedule Y, Line 11 Worksheet — College Tuition Deduction**

1. Enter total tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college in 2005 . . . . . \_\_\_\_\_
2. Enter amount of scholarships, grants or financial aid received in 2005 for amounts shown in line 1 . . . . . \_\_\_\_\_
3. Subtract line 2 from line 1. If “0” or less, you do not qualify for this deduction \_\_\_\_\_
4. Enter amount from line 10 of Schedule NTS-L-NR/PY, No Tax Status and Limited Income Credit . . . . . \_\_\_\_\_

5. Multiply line 4 by .25 . . . . . \_\_\_\_\_
6. If line 3 is smaller than line 5, you are not eligible for this deduction. Enter “0.” If line 3 is larger than line 5, subtract line 5 from line 3 and enter the result here . . . . . \_\_\_\_\_
7. **Part-year residents**, multiply line 6 by Form 1-NR/PY, line 2. Enter the result here and in line 11 on Schedule Y. **Nonresidents**, multiply line 6 by Form 1-NR/PY, line 14g. Enter the result here and in line 11 on Schedule Y. . . . . \_\_\_\_\_

**Note:** Certain taxpayers may qualify for both the Tuition and Fees deduction on Schedule Y, line 9 and the College Tuition deduction on Schedule Y, line 11. If this situation applies to you, calculate both deductions and take the higher of the two. You may not take both deductions.

**Line 12. Undergraduate Student Loan Interest Deduction**

A deduction is allowed for interest paid on a qualified undergraduate student loan. To be eligible for the deduction, the “education debt” must be a loan that is administered by the financial aid office of a two-year or four-year college at which you, or a qualified dependent, were enrolled as an undergraduate student. Additionally, the loan must have been secured through a state student loan program, a federal student loan program, or a commercial lender, and must have been spent solely for the purposes of paying tuition and other expenses directly related to the school enrollment. Enter the amount of such interest paid in Schedule Y, line 12. This deduction is only allowed if not claiming the same expenses in line 10 of Schedule Y, Student Loan Interest Deduction.

**Nonresidents**, multiply the amount of such interest paid by Form 1-NR/PY, line 14g and enter the result in Schedule Y, line 12. **Part-year residents**, multiply the amount of such interest paid by Form 1-NR/PY, line 2 and enter the result in Schedule Y, line 12.

**Line 13. Deductible Amount of Qualified Contributory Pension Income from Another State or Political Subdivision Included in Form 1-NR/PY, Line 6**

Massachusetts allows a deduction for contributory pension income received from another state or one of its political subdivisions which does not tax such income from Massachusetts or its political subdivisions. For guidelines to determine which state’s pensions are exempt in Massachusetts, see TIR 95-9. Enter any deductible amount of such income in line 13 of Schedule Y that was included in Form 1-NR/PY, line 6.

**Line 14. Home Heating Fuel Deduction**

Recent legislation provides for a deduction for expenses incurred for home heating oil, natural gas, or propane purchased between November 1, 2005 and March 31, 2006. The amount of the deduction is the actual amount paid for home heating oil, natural gas or propane or \$800 — whichever is less. The deduction is available to single persons whose adjusted gross income is \$50,000 or less, and to joint filers and heads of household whose adjusted gross income is \$75,000 or less. Qualifying taxpayers may take the deduction in 2005 for purchases made in 2005 during the period November 1 through December 31, 2005. However, where a taxpayer does not take the full \$800 deduction in 2005, the taxpayer may take the remainder in 2006 for purchases made in 2006 through March 31, 2006. Complete the Schedule Y, line 14 worksheet to see if you may qualify for this deduction. Special rules apply for renters and owners of condominiums and cooperative dwellings. See TIR 05-18 for more information.

**Note:** If married filing separately, you are not eligible for the Home Heating Fuel deduction.

**Schedule Y, Line 14 — Home Heating Fuel Deduction (Only if Single, Head of Household, or Married Filing Jointly)**

1. Enter your total 5.3% income from Form 1-NR/PY, line 12. Not less than "0"\*
  2. Enter the total of Schedule Y, lines 1 through 10
  3. Subtract line 2 from line 1. Not less than "0"
  4. Enter total Massachusetts bank interest or the interest exemption amount, whichever is smaller, from Form 1-NR/PY, line 7a or line 7b
- Note:** If Form 1-NR/PY, line 12 is a loss, do not complete line 4 above. Instead, combine Form 1-NR/PY, line 12 with the smaller amount of total Massachusetts bank interest or the interest exemption amount. Enter the result in line 4 above, unless the result is a loss. If the result is a loss, enter "0."
5. Enter amount from Schedule B, line 35. If there is no entry in Schedule B, line 35 or if not filing Schedule B, enter the amount from Form 1-NR/PY, line 24
  6. Enter the amount from Schedule D, line 18.\*\* Not less than "0"
  7. Add lines 3 through 6

If you are single and the total in line 7 is \$50,000 or less, or if you are filing as head of household or married filing a joint return, and the total in line 7 is \$75,000 or less, you qualify for the Home Heating Fuel deduction. Go to line 8. Otherwise, you are not eligible for this deduction.

**8. Part-year residents,** enter the lesser of the amount paid for home heating oil, natural gas or propane purchased while a resident between November 1, 2005 and December 31, 2005 or \$800 here and in Schedule Y, line 14. **Non-residents,** multiply the lesser of the amount paid for home heating oil, natural gas or propane purchases between November 1, 2005 and December 31, 2005 or \$800 by Form 1-NR/PY, line 14g and enter the result here and in Schedule Y, line 14.

**Note:** If your home heating fuel deduction in line 8 is more than the amount of 5.3% income after deductions in line 3, the excess may be applied against all your interest and dividend income and income taxed at 12%. Any remaining excess amount may then be applied against your long-term capital gain income. Go to line 9 only if line 8 is larger than line 3 and complete the Schedule B, Line 36 and Schedule D, line 19 Worksheet on page 17 to calculate the excess deduction amount.

**9. Excess home heating fuel deduction.** Subtract line 3 from line 8. Enter here and in line 3 of the Schedule B, Line 36 and Schedule D, Line 19 Worksheet on page 17.

\* Add back any Abandoned Building Renovation deduction claimed on Schedule(s) C and/or E before entering an amount in line 1.

\*\* If filing Schedule D-IS, Installment Sales, see the Schedule D-IS instructions for the amount to enter in line 6. Schedule D-IS and instructions are available on DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor).

**Line 3. Full Employment**

Every employer who participates in the Full Employment Program and continues to employ a participant for at least one full month after any Full Employment Program subsidy for that participant has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant, with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance (DTA). A five-year carryover of any unused credit is allowed. If you qualify for this credit, complete Massachusetts Schedule FEC, Full Employment Credit, and enter the amount of credit in line 3.

**Line 4. Septic**

An owner of residential property located in Massachusetts who occupies the property as his or her principal residence is allowed a credit of a maximum of \$1,500 per taxable year for expenses incurred to comply with the sewer system requirements of Title V as promulgated by the Department of Environmental Protection or to connect to a municipal sewer system pursuant to a federal court order, administrative consent order, state court order, consent decree or similar mandate. The amount of the credit is 40% of the cost, up to \$15,000, for design and construction expenses for repair or replacement of a failed cesspool or septic system. The maximum aggregate amount of the credit is \$6,000. A five-year carryover of any unused credit is allowed. See TIRs 97-12, 98-8, 99-5, 99-20 and DOR Directive 01-6 for more information. If you qualify for this credit, complete Massachusetts Schedule SC, Septic Credit, and enter the amount of credit in line 4.

**Line 5. Brownfields**

Taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area. In general, the credit is 25% or 50% of certain environmental response and removal costs incurred between August 1, 1998, and January 1, 2007, provided that the taxpayer commences and diligently pursues an environmental response action before August 5, 2003. The credit that may be taken in any taxable year is limited to 50% of the taxpayer's tax liability. A five-year carryforward of unused credit is allowed, provided the taxpayer continues to maintain the remedies required by law. For more information, see TIRs 99-13 and 00-9. If you qualify for this credit, complete Massachusetts Schedule BC, Brownfields Credit, and enter the amount of credit in line 5.

**Schedule Z**

**Other Credits**

Be sure to enclose with Form 1-NR/PY.

**Part 1 Credits**

**Line 1. Lead Paint**

If you incurred expenses for covering or removing lead paint on residential premises in Massachusetts, you may claim a credit for expenses up to \$1,500 for each residential unit. The basic rules are explained on Massachusetts Schedule LP, Credit for Removing or Covering Lead Paint on Residential Premises. If you qualify for the credit, complete Schedule LP and enter the amount of credit in line 1.

**Line 2. Economic Opportunity Area**

Massachusetts allows a credit equal to 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA). If you qualify for the credit, complete Schedule EOAC and enter the amount of credit in line 2.

**Line 6. Low-Income Housing**

A low-income housing credit is available to individual taxpayers. The Department of Housing and Community Development will allocate the low-income housing credit from a pool of available credits granted under section 42 of the Internal Revenue Code among qualified low-income housing projects. A taxpayer allocated a federal low-income housing credit may also be eligible for a state credit based on the credit amount allocated to a low-income housing project that the taxpayer owns. A five-year carryforward of unused credit is allowed. See TIR 99-19 for more information. If you qualify for the credit, enter the amount in line 6.

**Line 7. Historic Rehabilitation**

Effective for tax years beginning on January 1, 2005 and ending on or before December 31, 2009, taxpayers may be eligible for the Historic Rehabilitation Credit (HRC). To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission. Unused portions of the credit may be carried forward for 5 years. The credit may be transferred or sold to another taxpayer. The HRC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the HRC, a portion of the credit may be subject to recapture. For further information, see 830 CMR 63.38R.1, Massachusetts Historic Rehabilitation Credit. If you qualify for this credit, enter the amount in line 7.

**Line 8. Home Energy Efficiency**

Recent legislation provides the owner of residential property located in Massachusetts a credit for certain energy efficient heating items purchased between November 1, 2005 and March 31, 2006 for installation in such property. Qualifying purchases include home insulation, new window installation, advanced programmable thermostats, solar hot water systems, fuel-efficient furnaces, boilers, oil, gas, propane, or electric heating systems, certain weather sealing, and other approved purchases. The credit allowed for installation of qualifying purchases in any one residential building is 30% of the cost; however, the credit cannot exceed \$600 for a residential dwelling or \$1,000 for a multi-unit dwelling. Joint owners of a residential property share any credit available to the property in the same proportion as their ownership interest. The credit allowed under this section may be taken in 2005 or 2006, regardless of the exact date on which any qualifying purchases were made. The amount of credit that exceeds the total tax due for 2005 may be carried over, as reduced, and applied against the tax liability for 2006. For more information, see TIR 05-18. If you qualify for this credit, complete Massachusetts

Schedule HEEC, Home Energy Efficiency Credit, and enter the amount of credit in line 8.

**Line 9. Total Part 1 Credits**

Add lines 1 through 8 and enter the result in line 9 and on Form 1-NR/PY, line 33. Part-year residents, complete lines 10 through 12.

**Part 2 Credits for Residents and Part-Year Residents Only****Line 10. Income Tax Paid to Another State**

If any of the income reported on this return is subject to taxation in another state or jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete Schedule F on the back of Form 1-NR/PY and enter the amount of credit on line 10.

**Note:** Be sure to enter the two-letter state or jurisdictional postal code for each state or jurisdiction for which you are taking the credit. Visit the United States Postal Service's website at [www.usps.com](http://www.usps.com) and click on "Service Guides" for a list of these codes.

**Line 11. Energy**

If you had expenditures for certain renewable energy source items, such as equipment which uses or transmits solar or wind energy to heat, cool, or provide hot water for your principal residence in Massachusetts, you may qualify for a credit. If you qualify for the credit, complete Schedule EC, Residential Energy Credit, and enter the amount of credit in line 11.

**Line 12. Totals**

Add lines 10 and 11. Part-year residents, enter the result here and on Form 1-NR/PY, line 34.

**Schedule DI****Dependent Information**

**Be sure to enclose with Form 1-NR/PY.**

You must complete this schedule if you are claiming a dependent exemption(s) on Form 1-NR/PY, line 4b or taking a deduction/credit(s) on Form 1-NR/PY, lines 16, 17 or 43 (if applicable). Failure to provide this information will delay the processing of your return. You must complete the information for each dependent.

In the spaces provided, enter the name, Social Security number, date of birth and the relationship of the dependent to you (son, daughter, mother, father, etc.). Also, if the dependent is a qualifying child for the Earned Income credit, fill in the "Yes" oval. If you are claiming more than four depen-

dents, attach a statement listing the name, Social Security number, date of birth and the relationship of the dependent to you and if the dependent is a qualifying child for the Earned Income credit.

**Schedule B**

**Note:** If showing a loss, be sure to mark over the "X" in the box to the left.

**12% Interest, Dividend and Certain Capital Gains and Losses**

Nonresidents and part-year residents must file Massachusetts Schedule B if you had:

- ▶ dividend income in excess of \$1,500;
- ▶ any interest income other than from Massachusetts banks taxed at 5.3%;
- ▶ short-term capital gains or losses;
- ▶ carryover short-term losses from prior years;
- ▶ long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes;
- ▶ gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business;
- ▶ net long-term capital gains and losses; or
- ▶ excess exemptions.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

**Nonresidents.** interest and dividends are from Massachusetts sources if they are directly connected with your business activity in Massachusetts. Also, report on Massachusetts Schedule B the short-term gain or loss realized from the transaction of assets being sold or exchanged which are considered to be from Massachusetts sources. Massachusetts source assets are (1) real or tangible personal property located in Massachusetts and (2) property connected with a Massachusetts trade, business or employment.

Nonresidents need not file Massachusetts Schedule B if:

- ▶ all your interest and dividend income and certain capital gains was from non-Massachusetts sources;
- ▶ all Massachusetts source interest income you had was from Massachusetts banks and is taxed at 5.3% (reportable on Form 1-NR/PY, line 7a); or
- ▶ your Massachusetts source gross dividend income was \$1,500 or less (reportable on Form 1-NR/PY, line 24).

**Part-year residents**, dividend income in excess of \$1,500 or any interest income other than from Massachusetts banks (reportable on Form 1-NR/PY, line 7a) received while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, must be reported on Massachusetts Schedule B. Also, short-term gains or losses realized while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, from the sale or exchange of capital assets or from similar transactions which are granted capital gain or loss treatment on your U.S. return must be reported on Schedule B. Include gains from all property, wherever located.

Part-year residents need not file Massachusetts Schedule B if all interest income you had that is taxable by Massachusetts was from Massachusetts banks (reportable on Form 1-NR/PY, line 7a), and your gross dividend income was \$1,500 or less (reportable on Form 1-NR/PY, line 24), and you have no short-term capital gains or losses, long-term gains on collectibles and pre-1996 installment sales, gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business, allowable deductions from your trade or business, carryover short-term losses from prior years, net long-term capital gains or losses, or excess exemptions.

▶ Nonresidents and part-year residents must complete Massachusetts Schedule B if your interest or dividend income includes: dividends taxed directly to trusts or estates on a Massachusetts Fiduciary Return, Form 2; distributions that are returns of capital; or exempt portions of any interest or dividends from a mutual fund or dividends from current earnings of a corporate trust that are taxed directly on a Massachusetts Corporate Trust Return, Form 3F.

▶ You need not complete Schedule B, Part 2, Part 3 and Part 4 if you do not have any of the following: short-term capital gains or losses; carryover short-term losses from prior years; long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes; gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less; allowable deductions from your trade or business; net long-term capital gains or losses; or excess exemptions (see line 9 instructions).

## Part 1. 12% Interest and Dividend Income

### Line 1. Total Interest Income

Enter your total interest income from your U.S. Form 1040 or 1040A, lines 8a and 8b, or U.S. Form 1040EZ, line 2.

### Line 2. Total Ordinary Dividends

Enter your total ordinary dividends from your U.S. Schedule B, Part II, line 6 (Form 1040) or U.S. Schedule 1, Part II, line 6 (Form 1040A). If you did not file U.S. Schedule B or U.S. Schedule 1, enter the amount from U.S. Form 1040 or 1040A, line 9a.

### Line 3. Other Interest and Dividends

Enter the following amounts and their sources (enclose additional statement if more space is necessary):

- ▶ Interest from obligations of other states and their political subdivisions (including your share, if any, from a partnership, an S corporation and a grantor-type trust or non-Massachusetts trust). Do not include exempt interest already included in line 1;
- ▶ Taxable distributions from Massachusetts S corporations not reported in Schedule B, line 2. Distributions in excess of the Massachusetts accumulated adjustments account are dividends to the extent of the corporation's Massachusetts accumulated earnings and profits. For more information, see Regulation 830 CMR 62.17A.1;
- ▶ Interest and dividends from a partnership, S corporation, grantor-type trust, or non-Massachusetts estate or trust from Massachusetts Schedule E. Generally, portfolio interest and dividend income from partnerships and S corporations should already be included in the Schedule B, line 1 and line 2 amounts;
- ▶ Interest from a trade or business that is reported on Massachusetts Schedule C, line 32; or
- ▶ Interest or dividends from a mutual fund, if such distributions are not included in line 1 or line 2. See line 6.

### Lines 5 and 6

Enter only amounts related to income that you have already included in lines 1, 2, and 3.

### Line 5. Total Interest from Massachusetts Banks

Enter the total interest included in Form 1-NR/PY, line 7a (prior to the exemption amount being subtracted) only if it has been included in lines 1 or 3 of this schedule.

### Line 6. Other Interest and Dividends to Be Excluded

Enter the total interest and dividends from the following sources (enclose an additional statement, if necessary):

- ▶ Interest on U.S. debt obligations. Enter interest received on U.S. Treasury bills, notes and bonds, savings bonds or other obligations of the United States, including its territories or dependencies. Such interest is tax-exempt in Massachusetts. For further information concerning exempt obligations of the United States, see TIR 89-8;

▶ Interest and dividends taxed directly to Massachusetts estates and trusts. Enter the interest and dividends that are taxed directly to a Massachusetts estate or trust (reportable on a Massachusetts Fiduciary Return, Form 2);

- ▶ Any distribution which is a return of capital included in total gross dividends, line 2;
- ▶ Any interest or dividends from obligations of the Commonwealth of Massachusetts or its political subdivisions held by you;
- ▶ Any exempt portion of interest or dividends from a mutual fund included in lines 1, 2 or 3 of this schedule. Enter only the exempt portion of interest or dividends derived from obligations of the U.S. government or the Commonwealth of Massachusetts or its political subdivisions;
- ▶ Any dividends from current earnings of a corporate trust only if such entity is taxed directly on a Massachusetts Corporate Trust Return, Massachusetts Form 3F; or
- ▶ Any interest on pre-retirement distributions from state and municipal contributory pension plans.

▶ **Nonresidents.** Any amounts included in lines 1, 2 and 3 which you received from sources other than Massachusetts; or

▶ **Part-year residents.** Any amounts included in lines 1, 2 or 3 which you received while legally domiciled in another state or country.

Do not enter in line 6 either of the following:

- ▶ Dividends from the earnings and profits accumulated prior to January 1, 1971 by any corporate trust which was not taxed directly by Massachusetts in prior years, even though such an entity is taxed directly now (obtain from the entity the taxable status of dividends paid to you); or
- ▶ Dividends from any corporate trust which is not taxed directly by Massachusetts. Such entities include: those not doing business in Massachusetts; regulated investment companies or real estate investment trusts (both as defined under the U.S. Internal Revenue Code, Sections 851 and 856); or holding companies (as defined in Massachusetts General Laws, Chapter 62, section 8).

### Line 8. Allowable Deductions from Your Trade or Business

Enter the amount from Massachusetts Schedule C-2, line 8 if you qualify for an excess trade or business deduction. Generally, taxpayers may not use excess 5.3% deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income

which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities.

### Line 9. Subtotal Interest and Dividend Income

Subtract line 8 from line 7. If you have no short-term capital gains or losses, carryover short-term losses from prior years, long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes, gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less, allowable deductions from your trade or business, net long-term capital gains or losses, or excess exemptions, omit lines 10 through 37. Enter the amount from line 9 in line 38 of Schedule B and on Form 1-NR/PY, line 24, and omit lines 39 and 40 of Schedule B. Otherwise, complete Parts 2, 3 and 4.

### Part 2. Short-Term Capital Gains and Losses and Long-Term Gains on Collectibles and Pre-1996 Installment Sales

If there are any differences between U.S. and Massachusetts amounts reported in lines 10, 11, 12, 16 and 17, be sure to enter the Massachusetts amount. Possible differences include:

- ▶ Part-year residents, transactions conducted while you were legally domiciled in another state or country;
- ▶ Nonresidents, transactions that were not associated with a trade or business in Massachusetts;
- ▶ Short-term capital gains taxed directly to Massachusetts estates and trusts (reportable on a Massachusetts Fiduciary Return, Form 2);
- ▶ Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7.

### Line 10. Short-Term Capital Gains

Enter the gross short-term capital gains included in U.S. Schedule D, lines 1, 2, 4 and 5, column (f).

### Line 11. Long-Term Capital Gains on Collectibles and Pre-1996 Installment Sales

Enter the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes, from Massachusetts Schedule D, line 11.

### Line 12. Gain on Sale of Business Property

Enter from U.S. Form 4797 the amount of gain from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

### Line 14. Allowable Deductions From Your Trade or Business

Enter the amount from Massachusetts Schedule C-2, line 11 if you qualify for an excess trade or business deduction. Generally, taxpayers may not use excess 5.3% deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities.

### Line 16. Short-Term Capital Losses

Enter the gross short-term capital losses included in U.S. Schedule D, lines 1, 2, 4 and 5, column (f).

### Line 17. Loss on Sale of Business Property

Enter from U.S. Form 4797 the amount of loss from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

### Line 18. Prior Years Short-Term Unused Losses

You may use short-term losses accumulated in the previous taxable years beginning after 1981 in the computation of short-term gain or loss for the current year. Enter here the amount from your 2004 Massachusetts Schedule B, line 40.

### Line 19. Subtotal Interest and Dividends and Certain Capital Gains and Losses

Combine lines 15 through 18. If "0" or greater, omit lines 20 through 23 and enter the amount from line 19 in line 24. If less than "0," complete line 20.

### Line 20. Short-Term Losses Applied Against Interest and Dividends

Enter the smaller of line 9 or line 19 (considered as a positive amount). Not more than \$2,000.

### Line 21. Available Short-Term Losses

Combine lines 19 and 20. This amount should be "0" or less. If line 21 is less than "0," go to line 22. If line 21 is "0," omit lines 22 through 28 and go to Part 3.

If Schedule B, line 21 is a loss and Schedule D, line 12 is a loss, omit line 22, enter the amount from line 21 in line 23 and line 40, omit lines 24 through 28 and complete Parts 3 and 4.

### Line 22. Short-Term Losses Applied Against Long-Term Gains

If Schedule B, line 21 is a loss and Schedule D, line 12 is greater than "0," enter the smaller of Schedule B, line 21 (considered as a positive amount) or Schedule D, line 12 in Schedule B, line 22 and in Schedule D, line 13.

### Line 23. Short-Term Losses for Carryover in 2006

Combine line 21 and line 22 and enter the result in line 23 and in line 40, omit lines 24 through 28 and complete Part 3 and Part 4.

### Line 24. Short-Term Gains and Long-Term Gains on Collectibles

Enter the amount from Schedule B, line 19. If Schedule D, line 12 is "0" or greater, omit line 25 and enter the amount from line 24 in line 26. If Schedule D, line 12 is a loss, go to Schedule B, line 25.

### Line 25. Long-Term Losses Applied Against Short-Term Gains

If Schedule B, line 24 is greater than "0," and Schedule D, line 12 is a loss, enter the smaller of Schedule B, line 24 or Schedule D, line 12 (considered as a positive amount) in Schedule B, line 25 and in Schedule D, line 13.

### Line 27. Long-Term Gains Deduction

Complete only if lines 11 and 26 are greater than "0." If there is no entry in line 11, enter "0." If line 11 shows a gain, enter 50% of line 11 minus 50% of losses in lines 16, 17, 18 and 25, but not less than "0."

**Example:** Jack has a long-term capital gain on collectibles of \$1,000 entered in line 11 and line 15. He does not have any other interest income (other than interest from Massachusetts banks) and dividend income. Jack also has a short-term capital loss of \$100 entered in line 16 and a prior year short-term unused loss of \$200 entered in line 18. Jack enters \$350 in line 27: **\$500 (50% of \$1,000) minus \$150 (50% of \$300) = \$350.**

### Part 3. Adjusted Gross Interest, Dividends Short-Term Capital Gains and Long-Term Gains on Collectibles

#### Line 31. Subtotal Interest and Dividends

If Schedule D, line 14 is "0" or greater, omit Schedule B, line 32 and enter the amount from Schedule B, line 31 in Schedule B, line 33. If Schedule D, line 14 is a loss, go to Schedule B, line 32.

#### Line 32. Long-Term Losses Applied Against Interest and Dividends

If Schedule B, line 31 is a positive amount and Schedule D, line 14 is a loss, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Line 15. When completing the worksheet, be sure to enter all losses as a positive amount.

### Part 4. Taxable Interest, Dividends and Certain Capital Gains

#### Line 36. Excess Exemptions

Enter the amount from line 7 of the Excess Exemption and Excess Home Heating Fuel Deduction Worksheet. Complete only if single, head of household or married filing a joint return and Form 1-NR/PY, line 22 is greater than Form 1-NR/PY, line 21.

**Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Line 15.**  
**Complete only if Schedule B, line 31 is a positive amount and Schedule D, line 14 is a loss. Enter all losses as positive amounts.**

1. Enter amount from Schedule B, line 29 . . . . . \_\_\_\_\_
2. Enter the lesser of line 1 or \$2,000 \_\_\_\_\_
3. Enter the amount from Schedule B, line 30 . . . . . \_\_\_\_\_
4. Subtract line 3 from line 2. If "0" or less omit the remainder of worksheet. Otherwise, complete lines 5 and 6 . . . . . \_\_\_\_\_
5. Enter any loss from Schedule D, line 14 as a positive amount. Otherwise, enter "0" . . . . . \_\_\_\_\_
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule B, line 32 and in Schedule D, line 15. If line 4 is larger than line 5, enter line 5 here and in Schedule B, line 32 and in Schedule D, line 15. . . . . \_\_\_\_\_

## Schedule D

**Note:** If showing a loss, be sure to mark over the X in the box to the left.

### Long-Term Capital Gains and Losses Excluding Collectibles

**Nonresidents.** The long-term gain or loss realized from the transaction of assets being sold or exchanged which are considered to be from Massachusetts sources must be reported on Massachusetts Schedule D. Long-term capital gains are gains on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Long-term capital losses are losses on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Massachusetts source assets are (1) real or tangible personal property located in Massachusetts and (2) property connected with a Massachusetts trade, business or employment.

**Part-year residents.** The long-term gains or losses realized while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, from the sale or exchange of capital assets or from similar transactions which are granted capital gain or loss treatment on your U.S. return, or any capital gains distributions received, must be reported on Massachusetts Schedule D. Include gains from all property, wherever located. Long-term capital gains are gains on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Long-term capital losses are losses on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange.

The law defines "capital gain income" as gain from the sale or exchange of a capital asset. The definition of "capital asset" includes: (1) an asset which is a capital asset under IRC sec. 1221, or (2) property that is used in a trade or business within the meaning of IRC sec. 1231(b) without regard to the holding period as defined in said sec. 1231(b). For a detailed explanation of the new law, see the Department's Regulation on Capital Gains and Losses at 830 CMR 62.4.1.

#### Differences

Significant differences between the U.S. and Massachusetts capital gain provisions are:

- ▶ IRC sec. 1244 losses reported as ordinary losses on your U.S. return must be reported on Massachusetts Schedule D;
- ▶ If you made a federal election under sec. 311 of the Tax Relief Act of 1997 to recognize gain on the deemed sale of a capital asset held on January 1,

2001, Massachusetts does not follow the federal rules at sec. 311 for determining the basis of the asset. See TIR 02-3. If you sold a capital asset in 2005 for which you made a federal sec. 311 election, the Massachusetts initial basis will not be the federal basis. The Massachusetts initial basis will be determined as of the date the asset was first acquired;

- ▶ Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7.

Net ordinary losses that are itemized deductions on U.S. Schedule A are not allowable.

#### Installment Sales

If a sale was treated as an installment sale for U.S. income tax purposes, it may be treated the same way on your Massachusetts income tax return. Gains from pre-1996 installment sales are classified as either capital gains or ordinary income under the Massachusetts law in effect on the date the sale or exchange took place.

Gains from pre-1996 installment sales that are classified as capital gains should be reported as 12% income on Massachusetts Schedule B. If the asset was held for more than one year when it was sold, the gain will be eligible for a 50% long-term deduction. Gains from pre-1996 installment sales that are classified as capital gains included on Massachusetts Schedule D, line 3 should be reported on Massachusetts Schedule D, line 11 ("Long-term gains on collectibles and pre-1996 installment sales"). The amount of such gain is then reported on Massachusetts Schedule B, Part 2, line 11.

Gains from pre-1996 installment sales classified as ordinary income and that are included on Massachusetts Schedule D, line 3 should be reported on Massachusetts Schedule D, line 9 ("Differences"). The amount of such gain classified as ordinary income should then be reported on Form 1-NR/PY, line 11 ("Other income") and included on Schedule X, line 4 and identified as "2005 gain from pre-1996 installment sale."

**Note:** If you are reporting capital gains on installment sales that occurred during January 1, 1996 through December 31, 2002, do **not** file Schedule D. Instead, you must file Schedule D-IS, Installment Sales. If you are reporting an installment sale occurring on or after January 1, 2003, report those gains on Schedule D. Schedule D-IS can be obtained on DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor).

Effective for sales on or after January 1, 2005, if you wish to report a sale on your Massachusetts return as an installment sale and the Massachusetts gain is \$1 million or greater, you must apply in writing to the Department of Revenue's Installment Sales Unit. See TIR 04-28. The Commissioner of Revenue must approve your application to report the sale on the installment basis in Massachusetts before you file your return, and appropriate security must be posted. An explanatory statement must be enclosed with each return for the life of the installment sale. For further information contact the Installment Sales Unit at (617) 887-6950.

**Long-Term Capital Gains and Losses, Excluding Collectibles**

**Line 1. Long-Term Capital Gains and Losses**

Enter the gain or loss included in U.S. Schedule D, line 8, column f.

**Line 2. Additional Long-Term Capital Gains and Losses**

Enter the gain or loss included in U.S. Schedule D, line 9, column f.

**Line 3. Gain from Sales of Business Property and Other Long-Term Gains and Losses**

Enter the gain or loss included in U.S. Schedule D, line 11, column f.

**Line 4. Net Long-Term Gain or Loss from Partnerships, S Corporations, Estates and Trusts**

Enter the gain or loss included in U.S. Schedule D, line 12, column f.

**Line 5. Capital Gain Distributions**

If you did not file U.S. Schedule D, enter the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10.

If you did file a U.S. Schedule D, enter the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f.

**Line 6. Massachusetts Long-Term Capital Gains and Losses Included in U.S. Form 4797, Part II**

Enter amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes (not included in lines 1 through 5 above). These include ordinary gains from the sale

of Section 1231 property, recapture amounts under Sections 1245, 1250 and 1255, Section 1244 losses and the loss on the sale, exchange or involuntary conversion of property used in a trade or business.

**Line 7. Carryover Losses from Previous Years**

If you have a carryover loss from a prior year, enter in line 7 the total amount of carryover losses from your 2004 Schedule D, line 22.

**Line 9. Differences**

**Nonresidents.** Enter in line 9 any long-term capital gains and losses included on Schedule D, lines 1 through 7 which are not Massachusetts source income and thus not taxable to you as a nonresident. A nonresident's capital gains and losses are subject to tax if the gain or loss resulted from the sale or exchange of property connected with a Massachusetts trade or business or from the ownership of real or tangible personal property located in Massachusetts.

**Part-year residents.** Enter in line 9 any long-term capital gains or losses included on Schedule D, lines 1 through 7 that occurred while you were legally domiciled in another state or country during the taxable year.

**Nonresidents and part-year residents.** Enter here any other differences between the gains or losses reportable for Massachusetts tax purposes and the gains or losses reported on U.S. Schedule D. For example:

- ▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes;
- ▶ Massachusetts long-term capital gains or losses from transactions reported as installment sales for U.S. income tax purposes but not for Massachusetts; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws.

**Line 10. Adjusted Capital Gains and Losses**

Exclude/subtract line 9 from line 8 and enter the result in line 10.

- ▶ If line 9 is a loss, add loss as a positive number to the amount recorded in line 8. See the following examples:

Schedule D				
Line	ex. A	ex. B	ex. C	ex. D
8	\$1,000	\$1,000	\$ 700*	\$700*
9	500	300*	500	500*
10	500	1,300	1,200*	200*

\*denotes loss

- ▶ If in line 9 you entered amounts which increase the amounts reported from U.S. to Massachusetts, for example, a long-term gain reported as installment sales for U.S. tax purposes but not for Massachusetts, add the amount in line 9 to the amount in line 8.

**Line 11. Long-Term Gains on Collectibles and Pre-1996 Installment Sales**

Enter in line 11 the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10.

Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes are taxed at the 12% rate and should be entered on Schedule B, line 11.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

**Line 12. Subtotal**

Subtract line 11 from line 10 and enter the result in line 12.

If Schedule D, line 12 is a loss and Schedule B, line 21 is less than "0," omit Schedule D, lines 13 through 15, enter the amount from Schedule D, line 12 in Schedule D, line 16, omit Schedule D, lines 17 through 21 and enter the amount from Schedule D, line 16 in Schedule D, line 22, and enter "0" on Form 1-NR/PY, line 28.

If Schedule D, line 12 is a gain and Schedule B, line 21 is a loss, go to Schedule D, line 13.

If Schedule D, line 12 is a loss and Schedule B, line 24 is "0" or greater, go to Schedule D, line 13.

If Schedule D, line 12 is a gain, and Schedule B, line 24 is "0" or greater, omit Schedule D, lines 13 through 15 and enter the amount from Schedule D, line 12 in Schedule D, line 16.

**Line 13. Capital Losses Applied Against Capital Gains**

If Schedule D, line 12 is a positive amount and Schedule B, line 21 is a loss, enter the smaller of Schedule D, line 12 or Schedule B, line 21 (considered as a positive amount) in Schedule D, line 13 and in Schedule B, line 22.

If Schedule D, line 12 is a loss and Schedule B, line 24 is a positive amount, enter the smaller of Schedule D, line 12 (considered as a positive amount) or Schedule B, line 24 in Schedule D, line 13 and in Schedule B, line 25.

**Line 14. Subtotal**

If line 12 is greater than "0," subtract line 13 from line 12. If line 12 is less than "0," combine lines 12 and 13.

If Schedule D, line 14 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, go to Schedule D, line 15.

If Schedule D, line 14 is a loss, and Schedule B, line 21 is "0" or less, omit Schedule D, line 15, enter the amount from Schedule D, line 14 in Schedule D, line 16, omit Schedule D, lines 17 through 21 and enter the amount from Schedule D, line 16 in Schedule D, line 22, and enter "0" on Form 1-NR/PY, line 28.

**Line 15. Long-Term Capital Losses Applied Against Interest and Dividends**

If Schedule D, line 14 is a loss, and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Line 15.

**Line 16. Subtotal**

Combine line 14 and line 15. If Schedule D, line 16 is "0," enter "0" in lines 17 through 20 and omit lines 21 and 22. If Schedule D, line 16 is a loss, omit lines 17 through 21 and enter the amount from line 16 in line 22.

**Line 17. Allowable Deductions From Your Trade or Business**

Generally, taxpayers may not use excess 5.3% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade of business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return.

Enter in line 17 the amount from Schedule C-2, line 14.

**Line 19. Excess Exemptions**

Enter in line 19 the amount from line 10 of the Excess Exemption and Excess Home Heating Fuel Deduction Worksheet.

**Line 21. Tax On Long-Term Capital Gains**

Multiply line 20 by .053 (5.3%) and enter the result here and in Form 1-NR/PY, line 28.

**Note:** If choosing the optional 5.85% tax rate, multiply line 20 by .0585 and enter the result here and in Form 1-NR/PY, line 28.

**Line 22. Available Losses for Carryover**

Enter the amount from Schedule D, line 16, only if it is a loss.

**Schedule E, Part I**

**Note:** If showing a loss, be sure to mark over the "X" in the box to the left.

**Rental, Royalty and REMIC Income or Loss****Line 2. Massachusetts Differences**

Enter and explain any amounts or differences included in line 1 which are not taxable to you in Massachusetts or which have already been taxed on a Massachusetts return. Explain the differences in the space provided or attach an additional sheet if necessary. Possible differences include:

**Nonresidents.** Enter any rental, royalty or REMIC income or losses included in line 1 which is not Massachusetts source income and thus not taxable to you as a nonresident. Massachusetts source rental income must be from real or tangible personal property located in Massachusetts.

**Part-year residents.** Enter any rental, royalty or REMIC income or losses included in line 1 you received while you were not a resident of Massachusetts.

**Trust Provisions**

Enter any rental or royalty income or losses shown on your U.S. return that is taxed on a Massachusetts Fiduciary Return, Form 2.

**Deductible Royalties from U.S. Energy Conservation Patents**

Enter any income you received from U.S. patents that are approved by the Massachusetts Division of Energy Resources as being useful for energy conservation or for alternative energy development. For more information, contact the Division of Energy Resources by calling (617) 727-4732. Enclose a copy of such approval to your tax return. If such approved income is other than royalty income, use the applicable schedule and explain.

**Passive Losses**

As a result of differences in U.S. and Massachusetts rules in 1987, the calculations you made for passive losses on your 1987 U.S. and Massachusetts returns may have differed. Differences in amounts reported in 1987 for U.S. and Massachusetts tax purposes should be adjusted when the property is disposed of or the deduction is used up. In addition, passive losses allowed for Massachusetts tax purposes in 1987, but carried over for U.S. tax purposes, cannot be used again for Massachusetts tax purposes when such carryover losses are eventually allowed for U.S. tax purposes.

To the extent there are applicable adjustments for Massachusetts differences, taxpayers must calculate allowable losses on a pro forma U.S. Form 8582, Passive Activity Loss Limitations.

**Note:** Same-sex joint filers should use Federal Form 8582 to recalculate their loss limitations as though they were filing a joint federal return. See TIR 04-17 for more information.

**"Bonus" Depreciation**

Massachusetts depreciation has been decoupled from the federal "bonus" depreciation law. Massachusetts does not adopt the special first-year depreciation allowance for certain property placed in service during the period beginning September 11, 2001 and ending December 31, 2004. The federal changes made in 2003 to IRC sec. 168(k) (Pub. L. 108-27), including extending the time period for acquisition of qualified property until December 31, 2004, increasing the depreciation allowance to 50% of the adjusted basis of the qualified property, and increasing the limitations on depreciation for luxury vehicles, are not, therefore, adopted in Massachusetts. Amendments made under the Jobs Creation Act of 2004, which extended bonus depreciation until January 1, 2006 for certain aircraft, are not adopted. For more information, see TIR 03-25, Depreciable Business Assets; Modifications for Decoupling from Federal Bonus Depreciation.

**Line 4. Abandoned Building Renovation Deduction**

Enter 10% of the costs of renovating a qualifying abandoned building in an Economic Opportunity Area. For further information, contact the Massachusetts Office of Business Development by calling (617) 973-8600.

**Line 5. Total Rental and Royalty Income or Loss for Massachusetts**

Subtract line 4 from line 3. Remember to subtract losses when calculating the total. Line 5 should be added to any amounts in Schedule E, Part II, line 8 and/or Part III, line 11 and the total entered on Form 1-NR/PY, line 9.

## Schedule E, Part II

**Note:** If showing a loss, be sure to mark over the “X” in the box to the left.

### Income or Loss from Partnerships and S Corporations

#### Line 2. Massachusetts Differences

Enter and explain any differences between total partnership and S corporation income on the U.S. return and the same type of income on your Massachusetts return. Enclose an additional statement, if necessary. Refer back to Schedule E, Part I, line 2 instructions for further guidance. If you use information from Massachusetts Schedule 3K-1 or Schedule SK-1, take care not to duplicate adjustments already made for differences in U.S. and Massachusetts tax treatments.

**Nonresidents.** Income or loss included in U.S. Schedule E, Part II, line 32, which is derived from partnerships or S corporations not doing business in Massachusetts is not taxable to you as a nonresident. Also, enter adjustments as differences if your partnerships or S corporations are entitled to apportion income in Massachusetts.

**Part-year residents.** Income or loss from partnerships or S corporations you received while you were not a resident of Massachusetts is not taxable to you as a part-year resident.

#### Line 4. Abandoned Building Renovation Deduction

Enter 10% of the costs of renovating a qualifying abandoned building. For further information, refer to the instructions for Schedule E, Part I, line 4.

#### Line 6. 12% Interest and Dividends

Enter 12% interest and dividends from trade or business activity(ies) if included in line 5 from partnerships and S corporations. This income must be entered in Massachusetts Schedule B, line 3. This information should be provided by the partnership or S corporation.

#### Line 7. Interest from Massachusetts Banks

Enter interest from Massachusetts banks from trade or business activity(ies) if reported in line 5. This income must be reported on Form 1-NR/PY, line 7a. This information should be provided by the partnership or S corporation.

#### Line 8. Total Income or Loss from Partnerships and S Corporations

Subtract the total of lines 6 and 7 from line 5. Remember to subtract losses when calculating the total. Line 8 should be added to any amounts in Schedule E, Part I, line 5 and/or Part III, line 11 and the total entered on Form 1-NR/PY, line 9.

## Schedule E, Part III

**Note:** If showing a loss, be sure to mark over the “X” in the box to the left.

### Income or Loss from Grantor-Type Trusts and Non-Massachusetts Estates and Trusts

#### Line 2. Massachusetts Differences

Enter and explain any differences between estate and trust income or loss on the U.S. return and the same type of income on your Massachusetts return. Refer to Schedule E, Part I, line 2 instructions for further guidance.

#### Line 4. Abandoned Building Renovation Deduction

Enter 10% of the costs of renovating a qualifying abandoned building. For further information, refer to the instructions for Schedule E, Part I, line 4.

#### Line 6. Estate or Nongrantor-Type Trust Income

Enter estate or nongrantor-type trust income taxed directly on your Massachusetts Fiduciary Return, Form 2, if included in line 5. If you do not know this amount, check either your U.S. Schedule K-1 or contact your trustee or other fiduciary.

#### Line 7. Massachusetts Taxable Income from Estates or Trusts Not Previously Taxed

Subtract line 6 from line 5. Generally, for nonresidents, the only amount entered in line 5 will be the income from grantor-type trusts. Other Massachusetts source income should be taxed at the estate or trust level.

#### Line 8. 12% Interest and Dividends

Enter any 12% interest and dividends if included in line 7 and enter on Massachusetts Schedule B, line 3.

#### Line 9. Adjustment of 5.3% Income

Enter the total of interest from Massachusetts banks if included in line 7. This income must be reported on Form 1-NR/PY, line 7a. Enter the total of pension and annuity income if included in line 7. This income must be reported on Form 1-NR/PY, line 6.

#### Line 11. Income or Loss from Grantor-Type and Non-Massachusetts Estates and Trusts

Subtract line 10 from line 7. Remember to subtract losses when calculating the total. Line 11 should be added to any amount(s) in Schedule E, Part I, line 5 and/or Part II, line 8 and the total entered on Form 1-NR/PY, line 9.

## Schedule C

**Note:** If showing a loss, be sure to mark over the “X” in the box to the left.

### Substituting U.S. Schedules C or C-EZ

If you are substituting U.S. Schedule C or Schedule C-EZ for Massachusetts Schedule C and there are no differences between the amounts reported on U.S. Schedule C or Schedule C-EZ and amounts that would be reported on Massachusetts Schedule C, write “No Massachusetts Differences” on the top of U.S. Schedule C or Schedule C-EZ.

### Profit or Loss from Business or Profession

Massachusetts Schedule C is provided to report income and deductions from each business or profession operated as a sole proprietorship.

### Registration Information

In the space provided, describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service.

### Employer Identification Number

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco and firearms tax return or employ contract labor. If you do not have an EIN, leave the line blank. Do not enter your SSN.

### Small Business Energy Exemption

If you are claiming the small business energy exemption from the sales tax on purchases of taxable energy or heating fuel during 2005, you must have five or fewer employees. You must enter the number of your employees in the space provided.

### Accounting Method

If you filed a return on the accrual basis last year, your return for this year must be on the same basis. If a taxpayer requesting permission to change an accounting method for Massachusetts purposes is eligible for an automatic change of accounting method federally, and has correctly followed the most recently issued federal revenue procedure for requesting an automatic change, then the taxpayer should file his/her annual return using the new method and write at the top, “Automatic Change of Accounting Method — Filed in compliance with DOR Directive 02-13.” The taxpayer should enclose a copy of federal Form 3115, together with any required statements. See DOR Directive 02-13 for further information.

## Material Participation

Indicate if you materially participated in the operation of this business during 2005. If you did not materially participate and have a loss from this business, see line 33 for further instructions.

### Line 1a. Gross Receipts or Sales

In the boxes provided, enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on Form 1099-MISC, Miscellaneous Income. If the nature of your business is such that you have gross or other income that interest (other than from Massachusetts banks) and dividend, exclude this income from lines 1 and 4 on Massachusetts Schedule C and include it in line 32 and in Schedule B, line 3. Examples of interest (other than from Massachusetts banks) and dividend income are interest received on loans, notes receivable or charge accounts that you accept in the ordinary course of business, and dividends on stocks received in payment for goods and services. Capital gains from the sale or exchange of assets used in your business are not reported on Schedule C. Use U.S. Form 4797 and report the amount in Form 1-NR/PY, Schedule B and/or Schedule D. You must also exclude from Schedule C any income and expenses that pertain to activities for yourself as distinguished from those performed for your customers. Such income must be reported by class of income in Schedules B and D. Personal expenses are not deductible. If you received Form W-2 and the "Statutory employee" box in item 13 of that form was checked, report your income and expenses related to that income on Schedule C. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C and fill in the oval. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons and certain homeworkers. If you had both self-employment income and statutory employee income, do not combine these amounts on a single Schedule C. In this case, you must file two Schedules C.

### Line 7. Bad Debts From Sales or Services

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected.

**Note:** Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

### Line 11. Depreciation and Section 179 Deduction

Massachusetts adopts the current federal rules at section 179 for expensing certain depreciable business assets. For property placed in service in tax years beginning on or after January 1, 2005 the maximum section 179 expensing allowance is \$105,000.

Massachusetts depreciation has been decoupled from the federal "bonus" depreciation law. Massachusetts does not adopt the special first-year depreciation allowance for certain property placed in service during the period beginning September 11, 2001 and ending December 31, 2004. The federal changes made in 2003 to IRC sec. 168(k) (Pub. L. 108-27), including extending the time period for acquisition of qualified property until December 31, 2004, increasing the depreciation allowance to 50% of the adjusted basis of the qualified property, and increasing the limitations on depreciation for luxury vehicles, are not, therefore, adopted in Massachusetts. Amendments made under the Jobs Creation Act of 2004, which extended bonus depreciation until January 1, 2006 for certain aircraft, are not adopted. For more information, see TIR 03-25, Depreciable Business Assets; Modifications for Decoupling from Federal Bonus Depreciation.

### Line 17. Pension and Profit-Sharing Plans

Enter your deduction for contributions to a pension, profit-sharing or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, do not include contributions made as an employer on your behalf.

### Line 22. Travel

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds one year. Spouse's and other family members' travel expenses are generally disallowed as a business deduction.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 23a and 23b.

### Line 23. Meals and Entertainment

**Line 23a.** Enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance.

Business meal expenses are deductible only if they are (a) directly related to or associated with the conduct of your trade or business, (b) not lavish or extravagant and (c) incurred while you or your employee is present at the meal. Club dues are not allowed as a business deduction.

**Line 23b.** Generally, you may deduct only 50% of your business meal and entertainment expenses, including meals incurred while traveling away from home on business. However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. Figure how much of the amount on line 23a is subject to the 50% limit. Then, enter 50% of that amount on line 23b. This amount should be subtracted from the amount in line 23a. Enter the result in line 23 of Massachusetts Schedule C.

### Line 30. Abandoned Building Renovation Deduction

Massachusetts allows businesses to deduct 10% of the costs incurred in renovating certain buildings located in an Economic Opportunity Area (EOA). The buildings must be designated as abandoned by the Economic Assistance Coordinating Council. The renovation deduction may be taken in addition to any other deduction for which the renovation costs may qualify.

For more information, contact the Mass. Office of Business Development by calling (617) 973-8600.

In line 30 enter 10% of the costs of renovating a qualifying abandoned building.

### Line 33. If You Have a Loss

Fill in the oval in line 33a if all of your investment is at risk. Enter your loss from line 31 on Form 1-NR/PY, line 8 **unless** you answered "no" to the question on material participation on the front of Schedule C. If you answered "no" to this question, complete a pro forma copy of U.S. Form 8582 that reflects only income being reported on your Massachusetts return. Enter in Massachusetts Schedule C, line 31 your allowable loss calculated on Form 8582.

Fill in the oval in line 33b if only some of your investment is at risk. To determine the amount of your allowable loss, complete a pro forma copy of U.S. Form 6198 that reflects only income being reported on your Massachusetts return. Enter the amount calculated on U.S. Form 6198 in line 31 unless you answered "no" to the question on material participation on the front of Schedule C. In this case, your loss is further limited. Use the amounts

calculated on your pro forma U.S. Form 6198 to complete a pro forma U.S. Form 8582. If your at-risk amount is "0" or less, enter "0" in line 31.

## Schedule R/NR

### Part 1. Income Adjustments

#### Column A

Enter the amount of income reported on your federal return as modified as if it were received by a full-year Massachusetts resident. Refer to each specific line instruction for Form 1-NR/PY to determine income that should be added to or subtracted from the federal total.

#### Column B

Enter the amount of income from column A that you received while a Massachusetts resident.

#### Column C

Enter the amount of income from column A from both Massachusetts and non-Massachusetts sources that you received while a nonresident.

#### Column D

Enter the amount of income from column C from Massachusetts sources that you received while a nonresident.

See the instructions for a definition of Massachusetts source income.

Refer to each specific line instruction for Form 1-NR/PY to determine the income from Massachusetts sources received during your nonresident period. Also see Form 1-NR/PY, line 13 instruction for those nonresidents eligible to apportion income.

If you received income from a business/profession reported on a Schedule C, while a Massachusetts resident and from Massachusetts sources while a nonresident, you must complete a separate Massachusetts Schedule C for each period.

#### Column E

Add column B and column D. This is your total income received while a Massachusetts resident and received from Massachusetts sources while a nonresident. Enter the amount from column E in each applicable line on Form 1-NR/PY (see separate instruction for Schedule D). Subtract the total of column D from column C and enter the result in line 14e of Form 1-NR/PY. This is the additional income that you received from non-Massachusetts sources that would have been reported by you if you had been a Massachusetts resident.

Add Form 1-NR/PY lines 5 through 12 and complete Form 1-NR/PY line 14 before completing the rest of this worksheet.

### Schedule D

Enter in column A the amount from Schedule D, line 8. Enter in column B the amount of income from column A that you received while a Massachusetts resident. Enter in column C the amount of income from column A from both Massachusetts and non-Massachusetts sources that you received while a nonresident. Enter the amount of income from column C from Massachusetts sources that you received while nonresident. Subtract column D from column C and enter the result (plus any other applicable adjustments) in Schedule D, line 9. Complete Schedule D as otherwise instructed.

### Part 2. Deduction and Exemption Adjustments

**Note:** Schedule Y, line 9 is adjusted both in Sections A and B. See Schedule R/NR to determine which amounts are adjusted in Section A and Section B.

#### Section A

##### Lines 15a and 15b

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D. The column C total cannot exceed \$2,000.

##### Schedule Y, line 1

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D. Complete separate worksheets for columns A and B.

##### Schedule Y, line 2

The amounts reported in column A must be related to income reported in Part 1, column B or on a previous Massachusetts return. The amounts reported in column B must be related to income reported in Part 1, column D or on a previous Massachusetts return.

##### Schedule Y, line 4

The amounts reported in column A must be related to income reported in Part 1, line 5, column B. The amounts reported in column B must be related to income reported in Part 1, line 5, column D.

##### Schedule Y, line 5

The amounts reported in column A must be related to income reported in Part 1, line 5, column B. The amounts reported in column B must be related to income reported in Part 1, line 5, column D.

##### Schedule Y, line 7

The amounts reported in column A must be related to income reported in Part 1, line 8, column B. The amounts reported in column B must be related to income reported in Part 1, line 8, column D.

### Schedule Y, line 9

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D.

**Note:** If you are claiming a deduction for attorney's fees and court costs involving certain unlawful discrimination suits (Schedule Y, line 9), the part-year resident portion of the deduction must be directly related to Massachusetts income as reported on Form 1-NR/PY, line 12 and should be included on Section A of Schedule R/NR. For the nonresident portion of the deduction, taxpayers must use Section B of Schedule R/NR to determine the amount of the deduction, only if it is directly related to Massachusetts income as reported on Form 1-NR/PY, line 12. If it is not directly related to income reported on Form 1-NR/PY, you are not allowed any deduction for the nonresident period.

### Schedule Y, line 13

The amounts reported in column A must be related to income reported in Part 1, line 6, column B. The amounts reported in column B must be related to income reported in Part 1, line 6, column D.

### Column C

Add column A and column B and enter the total in each applicable line of Form 1-NR/PY or Schedule Y.

#### Section B

**Note:** You may claim only a deduction for either line 16 or line 17. Refer to the Form 1-NR/PY instructions to determine which deduction is better for you.

#### Line 16

Complete the worksheet in Form 1-NR/PY instructions through number 3 and enter that amount in column A. In column B enter the amount from column A that is related to your Massachusetts resident period. Subtract column B from column A and enter the result in column C. Multiply the amount from column C by Form 1-NR/PY, line 14g and enter the result in column D. Add columns B and D and enter the result in column E and Form 1-NR/PY, line 16.

#### Line 17

If you have a dependent member(s) of household under age 12, or dependents age 65 or over as of December 31, 2005, or disabled dependents and you are not claiming an amount in line 16, enter \$3,600, or \$7,200 for two or more such dependents, in column A. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column

B and column D and enter the result in column E and in Form 1-NR/PY, line 17.

### Line 22

In column A enter the amount from Form 1-NR/PY, line 4f. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Form 1-NR/PY, line 22.

### Line 43

Multiply the earned income credit amount from your U.S. Form 1040, line 66a; Form 1040A, line 41a; or Form 1040EZ, line 8a. by .15 (15%). Enter the result in column A. If you choose to have the IRS compute your federal earned income credit, wait until the IRS notifies you of your federal earned income credit amount before entering an amount in column A. If you have not received your earned income credit amount as computed by the IRS by April 18, 2006, you may file Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return. Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the amount in column C by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Form 1-NR/PY, line 43.

### Schedule Y, line 3

In column A enter the total alimony paid from U.S. Form 1040, line 31a. In column B enter the amount from column A paid while you were a Massachusetts resident. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 3.

### Schedule Y, line 6

In column A enter the total medical savings account deduction included on U.S. Form 1040, line 36. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 6.

### Schedule Y, line 8

In column A enter the total health savings account deduction from U.S. Form 1040, line 25. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 8.

### Schedule Y, line 9

In column A enter the total of U.S. Form 1040, line 34 and any amount included in line 36 for clean fuel vehicle deduction and attorney's fees and court costs involving certain unlawful discrimination claims (part-year residents and nonresidents, see note below). Multiply the column A amount by Form 1-NR/PY, line 2. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 9.

**Note:** If you are claiming a deduction for attorney's fees and court costs involving certain unlawful discrimination suits (Schedule Y, line 9), the part-year resident portion of the deduction must be directly related to Massachusetts income as reported on Form 1-NR/PY, line 12 and should be included on Section A of Schedule R/NR. For the nonresident portion of the deduction, taxpayers must use Section B of Schedule R/NR to determine the amount of the deduction, only if it is directly related to Massachusetts income as reported on Form 1-NR/PY, line 12. If it is not directly related to income reported on Form 1-NR/PY, you are not allowed any deduction for the nonresident period.

### Schedule Y, line 10

In column A enter the total student loan interest deduction from U.S. Form 1040, line 33. Multiply the column A amount by Form 1-NR/PY, line 2. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 10.

### Schedule Y, line 11

Complete the worksheet in Form 1-NR/PY instructions through item 6 and enter that amount in column A. Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A

and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Schedule Y, line 11.

### Schedule Y, Line 12

In column A enter the amount of interest paid on an undergraduate student loan(s) (see Schedule Y, line 12 instructions). Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Schedule Y, line 12.

### Schedule Y, Line 14

Complete the worksheet in Form 1-NR/PY instructions through item 7 and enter the lesser of the amount of home heating oil, natural gas or propane purchased while a resident between November 1, 2005 and December 31, 2005 or \$800 in columns A and C. (see Schedule Y, line 14 instructions). Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Schedule Y, line 14.

## Completing Form 1-NR/PY

After entering the amounts from this worksheet in the applicable lines of Form 1-NR/PY, complete Form 1-NR/PY, lines 28 through 50.

**Note:** In Form 1-NR/PY, line 40, only enter amounts listed as Massachusetts withholding.

## Schedule F

You may only claim a Credit for Income Taxes Paid to Another State or Jurisdictions on income received while a Massachusetts resident. Complete Schedule F based on income received during your Massachusetts resident period only.

# 2005 Massachusetts Income Tax Table at the 5.3% Rate

Use this table to calculate tax for taxable 5.3% income (line 25) of not more than \$24,000.

**Line 26 Instructions:** To find your **Tax on 5.3% Income** (line 26), read down the tax table income column to the line containing the amount you entered in line 25. Then read across to the **TAX** column and enter this amount in line 26. If your taxable 5.3% income in line 25 is greater than \$24,000, multiply the amount by .053. Enter the result in line 26.

**Note:** If choosing the optional 5.85% tax rate, multiply line 25 and the amount in Schedule D, line 20 by .0585.

INCOME			INCOME			INCOME			INCOME			INCOME			INCOME		
More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX
\$ 1 - \$ 50		\$ 1	\$ 4,000 - \$ 4,050		\$ 213	\$ 8,000 - \$ 8,050		\$ 425	\$12,000 - \$12,050		\$ 637	\$16,000 - \$16,050		\$ 849	\$20,000 - \$20,050		\$1,061
50 - 100		4	4,050 - 4,100		216	8,050 - 8,100		428	12,050 - 12,100		640	16,050 - 16,100		852	20,050 - 20,100		1,064
100 - 150		7	4,100 - 4,150		219	8,100 - 8,150		431	12,100 - 12,150		643	16,100 - 16,150		855	20,100 - 20,150		1,067
150 - 200		9	4,150 - 4,200		221	8,150 - 8,200		433	12,150 - 12,200		645	16,150 - 16,200		857	20,150 - 20,200		1,069
200 - 250		12	4,200 - 4,250		224	8,200 - 8,250		436	12,200 - 12,250		648	16,200 - 16,250		860	20,200 - 20,250		1,072
250 - 300		15	4,250 - 4,300		227	8,250 - 8,300		439	12,250 - 12,300		651	16,250 - 16,300		863	20,250 - 20,300		1,075
300 - 350		17	4,300 - 4,350		229	8,300 - 8,350		441	12,300 - 12,350		653	16,300 - 16,350		865	20,300 - 20,350		1,077
350 - 400		20	4,350 - 4,400		232	8,350 - 8,400		444	12,350 - 12,400		656	16,350 - 16,400		868	20,350 - 20,400		1,080
400 - 450		23	4,400 - 4,450		235	8,400 - 8,450		447	12,400 - 12,450		659	16,400 - 16,450		871	20,400 - 20,450		1,083
450 - 500		25	4,450 - 4,500		237	8,450 - 8,500		449	12,450 - 12,500		661	16,450 - 16,500		873	20,450 - 20,500		1,085
500 - 550		28	4,500 - 4,550		240	8,500 - 8,550		452	12,500 - 12,550		664	16,500 - 16,550		876	20,500 - 20,550		1,088
550 - 600		30	4,550 - 4,600		242	8,550 - 8,600		454	12,550 - 12,600		666	16,550 - 16,600		878	20,550 - 20,600		1,090
600 - 650		33	4,600 - 4,650		245	8,600 - 8,650		457	12,600 - 12,650		669	16,600 - 16,650		881	20,600 - 20,650		1,093
650 - 700		36	4,650 - 4,700		248	8,650 - 8,700		460	12,650 - 12,700		672	16,650 - 16,700		884	20,650 - 20,700		1,096
700 - 750		38	4,700 - 4,750		250	8,700 - 8,750		462	12,700 - 12,750		674	16,700 - 16,750		886	20,700 - 20,750		1,098
750 - 800		41	4,750 - 4,800		253	8,750 - 8,800		465	12,750 - 12,800		677	16,750 - 16,800		889	20,750 - 20,800		1,101
800 - 850		44	4,800 - 4,850		256	8,800 - 8,850		468	12,800 - 12,850		680	16,800 - 16,850		892	20,800 - 20,850		1,104
850 - 900		46	4,850 - 4,900		258	8,850 - 8,900		470	12,850 - 12,900		682	16,850 - 16,900		894	20,850 - 20,900		1,106
900 - 950		49	4,900 - 4,950		261	8,900 - 8,950		473	12,900 - 12,950		685	16,900 - 16,950		897	20,900 - 20,950		1,109
950 - 1,000		52	4,950 - 5,000		264	8,950 - 9,000		476	12,950 - 13,000		688	16,950 - 17,000		900	20,950 - 21,000		1,112
1,000 - 1,050		54	5,000 - 5,050		266	9,000 - 9,050		478	13,000 - 13,050		690	17,000 - 17,050		902	21,000 - 21,050		1,114
1,050 - 1,100		57	5,050 - 5,100		269	9,050 - 9,100		481	13,050 - 13,100		693	17,050 - 17,100		905	21,050 - 21,100		1,117
1,100 - 1,150		60	5,100 - 5,150		272	9,100 - 9,150		484	13,100 - 13,150		696	17,100 - 17,150		908	21,100 - 21,150		1,120
1,150 - 1,200		62	5,150 - 5,200		274	9,150 - 9,200		486	13,150 - 13,200		698	17,150 - 17,200		910	21,150 - 21,200		1,122
1,200 - 1,250		65	5,200 - 5,250		277	9,200 - 9,250		489	13,200 - 13,250		701	17,200 - 17,250		913	21,200 - 21,250		1,125
1,250 - 1,300		68	5,250 - 5,300		280	9,250 - 9,300		492	13,250 - 13,300		704	17,250 - 17,300		916	21,250 - 21,300		1,128
1,300 - 1,350		70	5,300 - 5,350		282	9,300 - 9,350		494	13,300 - 13,350		706	17,300 - 17,350		918	21,300 - 21,350		1,130
1,350 - 1,400		73	5,350 - 5,400		285	9,350 - 9,400		497	13,350 - 13,400		709	17,350 - 17,400		921	21,350 - 21,400		1,133
1,400 - 1,450		76	5,400 - 5,450		288	9,400 - 9,450		500	13,400 - 13,450		712	17,400 - 17,450		924	21,400 - 21,450		1,136
1,450 - 1,500		78	5,450 - 5,500		290	9,450 - 9,500		502	13,450 - 13,500		714	17,450 - 17,500		926	21,450 - 21,500		1,138
1,500 - 1,550		81	5,500 - 5,550		293	9,500 - 9,550		505	13,500 - 13,550		717	17,500 - 17,550		929	21,500 - 21,550		1,141
1,550 - 1,600		83	5,550 - 5,600		295	9,550 - 9,600		507	13,550 - 13,600		719	17,550 - 17,600		931	21,550 - 21,600		1,143
1,600 - 1,650		86	5,600 - 5,650		298	9,600 - 9,650		510	13,600 - 13,650		722	17,600 - 17,650		934	21,600 - 21,650		1,146
1,650 - 1,700		89	5,650 - 5,700		301	9,650 - 9,700		513	13,650 - 13,700		725	17,650 - 17,700		937	21,650 - 21,700		1,149
1,700 - 1,750		91	5,700 - 5,750		303	9,700 - 9,750		515	13,700 - 13,750		727	17,700 - 17,750		939	21,700 - 21,750		1,151
1,750 - 1,800		94	5,750 - 5,800		306	9,750 - 9,800		518	13,750 - 13,800		730	17,750 - 17,800		942	21,750 - 21,800		1,154
1,800 - 1,850		97	5,800 - 5,850		309	9,800 - 9,850		521	13,800 - 13,850		733	17,800 - 17,850		945	21,800 - 21,850		1,157
1,850 - 1,900		99	5,850 - 5,900		311	9,850 - 9,900		523	13,850 - 13,900		735	17,850 - 17,900		947	21,850 - 21,900		1,159
1,900 - 1,950		102	5,900 - 5,950		314	9,900 - 9,950		526	13,900 - 13,950		738	17,900 - 17,950		950	21,900 - 21,950		1,162
1,950 - 2,000		105	5,950 - 6,000		317	9,950 - 10,000		529	13,950 - 14,000		741	17,950 - 18,000		953	21,950 - 22,000		1,165
2,000 - 2,050		107	6,000 - 6,050		319	10,000 - 10,050		531	14,000 - 14,050		743	18,000 - 18,050		955	22,000 - 22,050		1,167
2,050 - 2,100		110	6,050 - 6,100		322	10,050 - 10,100		534	14,050 - 14,100		746	18,050 - 18,100		958	22,050 - 22,100		1,170
2,100 - 2,150		113	6,100 - 6,150		325	10,100 - 10,150		537	14,100 - 14,150		749	18,100 - 18,150		961	22,100 - 22,150		1,173
2,150 - 2,200		115	6,150 - 6,200		327	10,150 - 10,200		539	14,150 - 14,200		751	18,150 - 18,200		963	22,150 - 22,200		1,175
2,200 - 2,250		118	6,200 - 6,250		330	10,200 - 10,250		542	14,200 - 14,250		754	18,200 - 18,250		966	22,200 - 22,250		1,178
2,250 - 2,300		121	6,250 - 6,300		333	10,250 - 10,300		545	14,250 - 14,300		757	18,250 - 18,300		969	22,250 - 22,300		1,181
2,300 - 2,350		123	6,300 - 6,350		335	10,300 - 10,350		547	14,300 - 14,350		759	18,300 - 18,350		971	22,300 - 22,350		1,183
2,350 - 2,400		126	6,350 - 6,400		338	10,350 - 10,400		550	14,350 - 14,400		762	18,350 - 18,400		974	22,350 - 22,400		1,186
2,400 - 2,450		129	6,400 - 6,450		341	10,400 - 10,450		553	14,400 - 14,450		765	18,400 - 18,450		977	22,400 - 22,450		1,189
2,450 - 2,500		131	6,450 - 6,500		343	10,450 - 10,500		555	14,450 - 14,500		767	18,450 - 18,500		979	22,450 - 22,500		1,191
2,500 - 2,550		134	6,500 - 6,550		346	10,500 - 10,550		558	14,500 - 14,550		770	18,500 - 18,550		982	22,500 - 22,550		1,194
2,550 - 2,600		136	6,550 - 6,600		348	10,550 - 10,600		560	14,550 - 14,600		772	18,550 - 18,600		984	22,550 - 22,600		1,196
2,600 - 2,650		139	6,600 - 6,650		351	10,600 - 10,650		563	14,600 - 14,650		775	18,600 - 18,650		987	22,600 - 22,650		1,199
2,650 - 2,700		142	6,650 - 6,700		354	10,650 - 10,700		566	14,650 - 14,700		778	18,650 - 18,700		990	22,650 - 22,700		1,202
2,700 - 2,750		144	6,700 - 6,750		356	10,700 - 10,750		568	14,700 - 14,750		780	18,700 - 18,750		992	22,700 - 22,750		1,204
2,750 - 2,800		147	6,750 - 6,800		359	10,750 - 10,800		571	14,750 - 14,800		783	18,750 - 18,800		995	22,750 - 22,800		1,207
2,800 - 2,850		150	6,800 - 6,850		362	10,800 - 10,850		574	14,800 - 14,850		786	18,800 - 18,850		998	22,800 - 22,850		1,210

# Department of Revenue Resources

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## What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call us at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089 Monday through Friday, between 8:45 a.m. and 5:00 p.m. DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor) is also a valuable resource for tax information 24 hours a day. Thousands of taxpayers use DOR's website to e-mail and receive prompt answers to their general tax inquiries. Taxpayers can also check the status of their refunds, make estimated tax payments and review their estimated tax payment histories through the Web Services for Income section of our website.

## Where to get forms and publications



Most Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is [www.mass.gov/dor](http://www.mass.gov/dor).



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



During the income tax filing season, you can pick up Massachusetts personal income tax forms at your local library or at IRS district offices across the state.



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

## For help in one of the following specific areas

 7-6950

- ▶ Teletype (TTY) (617) 887-6140
- ▶ Small Business Workshop (617) 887-5660
- ▶ Vision-impaired taxpayers can contact DOR by calling one of the phone numbers listed above to receive assistance.
- ▶ Upon request, this publication is available in an alternative format. Please send your request to: Office of Affirmative Action, PO Box 9550, Boston, MA 02114-9550 or call (617) 626-3410.

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 9568, Boston, MA 02114-9568.

## Volunteer in Your Community

Be sure to visit the Commonwealth's new Connect and Serve website to learn about the wide variety of volunteering opportunities available to Massachusetts residents. The site may be found at [www.mass.gov/connectandserve](http://www.mass.gov/connectandserve).

Massachusetts

Department of

Revenue

PO Box 7011

Boston, MA 02204

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MASSACHUSETTS



## Dear Taxpayer,

This year you will see several new items on your 2005 personal income tax return. Due to recent legislation, several new deductions, a new credit and a new voluntary contribution are now available to Massachusetts taxpayers. Some of the changes include the creation of the Military Family Relief Fund, which helps Massachusetts guardsmen, activated since September 11, 2001, and their families defray the cost of food, housing, utilities, medical and other expenses; an increase in the amount of allowable personal exemptions and a new Schedule DI for those individuals claiming dependent exemptions. Qualifying low- to moderate-income taxpayers may deduct up to \$800 in heating costs, while all taxpayers are eligible for a credit of up to \$600 for certain energy improvements made to their homes. In addition, the Senior Circuit Breaker credit has been expanded to include taxpayers aged 65 and older who live in homes valued at \$600,000 or less. Please be sure to read the instructions for more detailed information on these changes.

Massachusetts taxpayers led the nation last year in making the switch from paper filing to e-file, which resulted in DOR expediting more than \$1 billion in refunds. This year, DOR is even more committed to encouraging the use of electronic filing of state income tax returns. Whether you call or click, e-file produces the fastest refund turnaround times while being completely secure, convenient and efficient. In addition, DOR continues to expand its online services, allowing taxpayers and their authorized representatives the opportunity to manage their tax accounts from the comfort of their home or office.

Please visit our website, [www.mass.gov/dor](http://www.mass.gov/dor), for more information or to take advantage of our secure and easy-to-use applications. You may also call our Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at (800) 392-6089.

Sincerely,

A handwritten signature in black ink that reads "Alan LeBovidge". The signature is written in a cursive, flowing style.

Alan LeBovidge  
Commissioner

**Important Mailing Information!**  
When mailing a return generated from a 2-D software product, be sure to use one of the special 2-D PO boxes listed on page 3.