

1998 Nebraska Individual Income Tax

Dear Nebraska Taxpayer:

This year Form 1040N has been expanded to two pages.

Two new lines have also been added, a refundable child care credit on line 31 if your federal adjusted gross income is \$29,000 or less and the Form 829N credit added to line 24 for those participating employees who have had their wages withheld by a firm with a contract that has qualified under the Nebraska Quality Jobs Act.

You may elect to have your refund directly deposited into your checking or savings bank account. This will provide better security compared to a refund check sent through the mail, and should also serve to expedite receipt of your refund. See instructions for line 39.

The personal exemption credit is increased to \$88 per each federal exemption.

This booklet contains the information you will need to make filing your income tax return as easy as possible. We at the Nebraska Department of Revenue are ready to assist you in filing your return.

Complete and accurate information on the enclosed forms helps us process your return as quickly as possible. Please:

- ✓ Include your public high school district county name and district number as of December 31, 1998;
- ✓ Include your county of residence as of December 31, 1998;
- ✓ Use the address label provided in the center of this booklet (make any corrections on the label);
- ✓ Enclose any schedules required and attach supporting documentation;
- ✓ Staple your Nebraska copies of Forms W-2, W-2G, 1099-R, or 1099-MISC; and
- ✓ Sign your return.

There are alternative ways to file without using the paper Nebraska Forms 1040N and 1040NS. See the inside back cover for more information.

If you have questions about filing your Nebraska income tax return, contact Taxpayer's Assistance at one of our offices in Norfolk, Scottsbluff, North Platte, Grand Island, Omaha, or Lincoln which are listed on the back of this booklet, or by calling toll free 1-800-742-7474. Lincoln residents must call locally 471-5729 for Taxpayer's Assistance. Hearing-impaired individuals may call our toll free TDD number, 1-800-382-9309. Our internet address is: <http://www.nol.org/revenue>.

Sincerely,

M. Berri Balka, State Tax Commissioner

The Privacy Act of 1974 says that when we ask you for your social security number we must first tell you our legal right to ask for this information, why we are asking for it, and how it will be used. We must also tell you what would happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law. Our legal right to ask for the information is Nebraska Revised Statutes section 77-27,119. That law says that you must include your social security number with your return. Your response is mandatory under this section. We need the social security number so that we can identify you and process your return and other documents.

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Before you begin, note the following:

✓ NEW FOR 1998:

- **FORM 1040N HAS EXPANDED TO TWO PAGES.**
- **TWO NEW LINES HAVE ALSO BEEN ADDED**, a refundable child care credit on line 31 if your federal adjusted gross income is \$29,000 or less and the Form 829N credit added to line 24 for those participating employees who have had wages withheld by a firm with a contract that has qualified under the Nebraska Quality Jobs Act.
- **REFUNDS CAN NOW BE DIRECT DEPOSITED.** A routing number has been added to Forms 1040N and 1040NS. This will allow you to elect to have any refund directly deposited into your checking or savings account. See line 39 instructions.
- The **personal exemption credit is increased** to \$88 per each federal exemption.
- As a reminder, the law continues to require that you enter your **high school** district number on your tax form.

FEDERAL/STATE ELECTRONIC TAX FILING

Most Nebraska filers have the option to file their 1998 Individual Income Tax Return electronically either through a qualified tax professional, or using home-based filing software. These methods allow you to file both your federal and state income taxes in one step. Advantages include computer filing accuracy and faster refund processing. You can also choose to have your refund directly deposited into your bank account. You can file a Nebraska Form 1040NS (short form), or 1040N (long form) with optional Schedules I, II, or III, along with your federal return. Refund, balance due, and zero balance returns are accepted. Contact your tax professional for more information about preparer-based electronic filing. Software for **home-based filing** can be purchased through retail outlets or you can file your return through the **Internet**. Visit the department's web site at <http://www.nol.org/revenue> for more information.

- ✓ **IF YOU FILED FEDERAL FORM 1040EZ OR USED THE IRS TELEFILE PROGRAM**, be sure to review Form 1040NS and the instructions on the back of this form to see if you can file this short form. It follows page 12 in this booklet.
- ✓ **PUBLIC HIGH SCHOOL DISTRICT DATA** is required for all taxpayers with a permanent place of abode or a domicile in Nebraska on December 31, 1998. If you reside outside Nebraska but are still domiciled in Nebraska, this information is still required. **The processing of your return and any refund may be delayed without this information.**

Enter the **county name** and **high school identification number** from the shaded column of public high school districts on pages 13 through 16 of this booklet. If you reside in an elementary-only school district, you must report the high school district you are affiliated or joined with. Do not use any school identification number not included in the list. If you are unsure of the district where you reside, you may get the information from a property tax statement or by contacting the county assessor or county election officials. If you have property in more than one high school district, be sure to enter the high school identification number of the school district where your **home** is located.
- ✓ **COMPLETE YOUR FEDERAL RETURN OR TELEFILE WORKSHEET** before starting your Nebraska return so you will have the federal information needed to figure Nebraska tax. If you do not have to complete a federal return to report a federal liability, you may have to file a Nebraska return to claim a state withholding credit, or because you have \$5,000 or

more of adjustments increasing income, such as non-Nebraska state and local bond interest that must be reported to Nebraska. In either situation, complete your Nebraska return with the same information you would have had to use if you did file a federal return. See more information under line 5 instructions.

- ✓ **THE NAME AND ADDRESS LABEL** can be found attached to the return envelope in the center of this booklet. It has been provided for your convenience and allows your return to be handled more efficiently. If any label information is in error, make the correction on the label and place the label over the name and address area of the return.

If you have someone else prepare your return, take your label to the preparer to be placed on the return. If you did not receive a name and address label, type or clearly print your name and current address in the space provided. Include your spouse's social security number.
- ✓ **YOUR NEBRASKA INCOME TAX RETURN** for calendar year 1998 must be postmarked by April 15, 1999. Mail your return to the Nebraska Department of Revenue, P.O. Box 94818, Lincoln, Nebraska 68509-4818.
- ✓ **TAX ASSISTANCE** — See the back cover.
- ✓ **ADDITIONAL FORMS AND SCHEDULES** are available at banks, some public libraries, most federal buildings, including U.S. Post Offices, the Nebraska Department of Revenue, 301 Centennial Mall South, Lincoln, Nebraska, and the regional offices shown on the back cover. Forms are also available on the department's website.
- ✓ **CONFIDENTIAL TAX INFORMATION** will be given only by return telephone call after the caller's identity has been confirmed. A taxpayer's representative requesting confidential information must have a power of attorney on file with the department before any information will be released. **A signed income tax return that is also signed by the preparer is considered to be a limited power of attorney** authorizing the department to release only the information contained on that return to the preparer.
- ✓ **FARMERS OR RANCHERS** deriving at least two-thirds of their yearly gross income from farming or ranching are to check the box below the social security number block. This allows the return to be properly processed.
- ✓ **COUNTY OF RESIDENCE** is the place in Nebraska where you maintain your home. If you did not have a permanent place of abode or a domicile in this state on December 31, 1998, enter "nonresident" instead of the name of the county. If you are residing outside Nebraska but still are domiciled in Nebraska, list the county of your domicile.
- ✓ **ROUND TO WHOLE DOLLARS** the amounts on your return and schedules. Round any amount from 50 cents through 99 cents to the next higher dollar. Round any amount less than 50 cents to the next lower dollar.
- ✓ **SIGN AND DATE YOUR TAX RETURN.** Both husband and wife must sign their joint return. An unsigned return cannot be processed. If another person signs this return for the taxpayer, a copy of a power of attorney or court order authorizing the person to sign the return must be on file with this department or be attached to the return. Include your daytime phone number in the space provided in case the department needs to contact you about your account.

Any person who is paid for preparing a taxpayer's return must also sign the return as preparer. If the return is prepared by a firm or corporation, the return should also be signed in the name of the firm or corporation.

Who Must File

You must file a Form 1040N or 1040NS if you are required to file a federal return or use the Federal TeleFile Program and report a federal liability. You must also file if you have \$5,000 or more of Nebraska adjustments to federal adjusted gross income, including non-Nebraska state and local bond interest income exempt from federal tax.

Residents

FULL-YEAR RESIDENTS are subject to tax on their entire federal adjusted gross income, even if some of it may have been earned for services performed outside Nebraska. A credit is allowed for tax properly paid to another state. Credit for Tax Paid to Another State, Nebraska Schedule II, must be completed and attached to the Form 1040N with a copy of the other state's return, including all schedules, to receive the credit.

A resident individual is a person who is domiciled in Nebraska or who has maintained a permanent place of abode and spent over six months in Nebraska.

Permanent place of abode means a dwelling place permanently maintained by the taxpayer, whether or not it is owned. It does not include a vacation camp, cottage, or dwelling place kept only for a temporary purpose.

EXAMPLE: John and Eileen own a drive-in restaurant in Grand Island, Nebraska. They operate the restaurant from April through October each year. They also own a house in Grand Island and live there during the seven months the restaurant is open. During the months the restaurant is closed, John and Eileen return to their home in Texas. They consider Texas to be their domicile

because they own a home there, they register to vote in Texas, and they hold Texas driver's licenses. Even though John and Eileen do not consider Nebraska to be their domicile, they are full-year Nebraska residents for Nebraska income tax purposes since they maintain a permanent place of abode and spend more than six months in Nebraska.

Domicile is the place an individual considers his or her permanent home, the place to which he or she intends to return after a period of absence. A domicile, once established, continues until a new, fixed, and permanent home is acquired. No change in domicile results from moving to a new location if the individual's intention is to remain only for a limited time, even if it is several years. A person declaring a change in residence must show an intention to assume a new domicile while physically present in the new location for other than a temporary purpose.

EXAMPLE: Don and Deb own a home in Gothenburg, Nebraska. They also rent a townhouse in Richmond, Virginia. Every year from May 1 to September 1, they go to Virginia and stay in the townhouse while Deb teaches at a local university. Don and Deb are full-year residents of Nebraska for income tax purposes because the yearly trips to Virginia are only temporary. Their domicile is in Nebraska.

Nonresidents

The calculation of tax for nonresidents and partial-year residents is **not** a matter of simply determining Nebraska source income and calculating tax based on that income. Nonresidents and partial-year residents must calculate a tax based on all income, and then determine actual tax liability based on the percentage of Nebraska source income to all income.

NONRESIDENT INDIVIDUALS who have income derived from or connected with Nebraska sources must file Form 1040N. They cannot file Form 1040NS.

A nonresident individual is a person who is domiciled for the entire year in a state other than Nebraska, and does not reside in Nebraska for over six months during the year. Nonresident individuals are subject to Nebraska income tax on all income included in federal gross income which is obtained from or connected with Nebraska sources. This includes wages, salaries, and other compensation earned in Nebraska. It includes the distributive share of income and deductions from partnerships, limited liability companies, S corporations, estates, and trusts. Only deductions which are related to income received from Nebraska sources are allowed. **Credit for personal exemption is claimed by nonresidents on line 61, Schedule III, and not on line 19, Form 1040N.** For more information, see instructions on Computation of Nebraska Tax, Nebraska Schedule III, in this booklet.

Items of income, gain, loss, and deduction related to sources in this state include items directly associated with:

1. The ownership or sale of any interest in real or tangible personal property in Nebraska.
2. A business, trade, profession, or occupation carried on in this state.
3. The income from intangible personal property. This includes annuities, dividends, interest, and gains from the sale of intangible personal property to the extent that such income is from property used in a business, trade, profession, or occupation carried on in Nebraska.
4. Capital gains or losses and net operating losses, determined solely with respect to income, gains, losses, and deductions obtained or connected with sources in this state.
5. The income from fiduciary services performed for a resident estate or trust.
6. Amounts paid to a corporation controlled by a nonresident for personal services performed by the nonresident.

Nonresident partners, shareholders, or beneficiaries, whose only connection with this state is the conduct of the business activities of a partnership, limited liability company, S corporation, or trust, are not required to file a Nebraska income tax return if the organization has properly withheld from the nonresident's share of the organization's income. All of the withholding will be retained by the state in satisfaction of the liability. Any nonresident who files an agreement on Form 12N to avoid withholding must file Form 1040N.

Partial-Year Residents

PARTIAL-YEAR RESIDENTS OF NEBRASKA who have income derived from or connected with Nebraska sources must file Form 1040N. They cannot file Form 1040NS.

A partial-year resident is an individual who either establishes or ends his or her domicile in Nebraska during the tax year or resides in Nebraska for more than six months during the year. Partial-year residents are subject to Nebraska income tax on income included in federal gross income which is derived from or connected with Nebraska

sources while either a resident or nonresident of Nebraska. A partial-year resident will make those adjustments which relate to income subject to Nebraska tax. A partial-year resident may claim a Nebraska credit for the elderly or disabled and a Nebraska nonrefundable credit for child and dependent care expenses on line 60, Nebraska Schedule III or a refundable child and dependent care credit on line 31, (see page 8).

The credit for personal exemption is claimed on line 61. Do not claim this credit on line 19, Form 1040N. For more information, refer to instructions on Schedule III.

Important Information for All Taxpayers

PROCESSING OF YOUR RETURN MAY BE DELAYED WITHOUT THE PUBLIC HIGH SCHOOL DISTRICT DATA.

Under the law, all taxpayers must enter their high school district county and number on their returns. Without this information, the processing of your return and any refund may be delayed. See pages 13 through 16 for a list of high school districts.

FEDERAL FORMS W-2, W-2G, 1099-R, and 1099-MISC, Nebraska copy, must be sent to you by your employer or payor by February 15. If you have not received the form by that date, you should immediately contact your employer or payor. Request that the form be issued to you. If the Form W-2, W-2G, 1099-R, or 1099-MISC is incorrect, obtain a corrected form from the employer or payor. Such statements should be clearly marked "Corrected by Employer/Payor." If a wage and tax statement is lost or destroyed, request a substitute copy clearly marked "Reissued by Employer."

THE BALANCE OF THE TAX DUE must be paid in full with your return. Make your check or money order payable to the Nebraska Department of Revenue and type or print your social security number and the tax year on the face of your payment. An amount due of less than \$2.00 need not be paid unless the amount is for penalty or interest. Any overpayment of \$2.00 or more will be refunded. Any overpayment must be reported within three years of the original due date, as extended, or the overpayment will be denied.

CONSUMER'S USE TAX is imposed on the storage, use, or consumption of any tangible personal property purchased by the final consumer when the proper sales tax has not been paid, such as with deliveries into Nebraska from an out-of-state seller. Individual consumer's use tax is to be reported on Nebraska and City Individual Consumer's Use Tax Return, Form 3. Contact the Nebraska Department of Revenue for a copy.

CHANGES IN YOUR FEDERAL INCOME TAX RETURN OR IN A RETURN FILED WITH ANOTHER STATE made by an IRS Processing Center, district office, or by the other state **must be reported to the department within 90 days of the change.** Report these changes by filing an Amended Nebraska Individual Income Tax Return, Form 1040XN, for the tax year involved. When requesting forms, please specify the tax year being amended. File any amended return separately from any other return. Include payment for any additional tax. Any taxpayer, on request by the department, must furnish a copy of his or her Federal Form 1040 and supporting schedules.

FORM 1040XN-5 is used to amend the 1998 Nebraska individual income tax return, 1040N, 1040NS, or Nebraska TeleFile. For years prior to 1998, contact the taxpayer assistance offices listed on the back of this booklet for the correct form. An amended return must

be filed if information on a Nebraska income tax return previously filed is not correct.

PENALTY AND INTEREST may be imposed under the following conditions:

1. Failure to file a Nebraska income tax return;
2. Failure to file a return and pay the tax due on or before the due date;
3. Failure to file an amended Nebraska tax return to report changes made to your federal income tax return;
4. Preparing or filing a fraudulent income tax return; or,
5. Understatement of income on an income tax return.

The amounts reported on your Nebraska return, even if taken from your federal return, will not relieve you from the penalty for an inaccurate return or for filing a false or fraudulent return. **Any unpaid tax is subject to interest at the statutory rate from the original due date to the date the tax is paid.**

A NEBRASKA EXTENSION OF TIME to file Forms 1040N or 1040NS may only be obtained by:

1. Attaching an **approved** copy of Application for Additional Extension of Time to File U.S. Individual Income Tax Return, Federal Form 2688, to the Nebraska return when filed;
2. Attaching a copy of a timely filed Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, Federal Form 4868, to the Nebraska return when filed;
3. Filing a Nebraska Application for Extension of Time, Form 2688N, on or before the due date of the return, when you need to make a tentative Nebraska payment or a federal extension is not being requested;
4. Attaching a copy of the statement or letter submitted with your federal return requesting the automatic extension of time for a U.S. citizen residing or traveling outside the U.S. or Puerto Rico, to the Nebraska return when filed; or
5. Attaching information to document a combat zone-related extension.

Failure to attach the applicable extension document will result in a late filing penalty. **When an extension of time is given, interest is due on any unpaid tax.** An extension of time cannot exceed a total of seven months after the due date of the return.

You can make a tentative payment to stop interest from accruing. If such payment is made, Nebraska Application for Extension of Time, Form 2688N, must also be filed. When filing your Nebraska Individual Income Tax Return, Form 1040N, claim the tentative payment on line 29, Form 1040N, as an estimated tax payment.

Additional Information for Certain Taxpayers

IF YOU FILED FEDERAL FORM 1040EZ OR USED THE IRS TELEFILE PROGRAM, carefully review lines 4, 5, and 8, Form 1040NS instructions, or lines 4, 6, and 19, Form 1040N instructions. These instructions will tell you how to compute the number of personal exemptions and the amount of the federal standard deduction you can claim on your Nebraska return

IF YOU HAVE THE INTERNAL REVENUE SERVICE CALCULATE YOUR FEDERAL INCOME TAX, you may request that the Nebraska Department of Revenue calculate your Nebraska income tax. Your Form 1040N or Form 1040NS **must be filed by April 1** to allow time to calculate and bill you for any tax due. Interest will be assessed on any amount not paid by April 15, 1999.

Follow these instructions:

Form 1040NS

1. Complete the top portion of Form 1040NS through line 5, personal exemptions (be sure to complete your Public High School District Data and County of Residence).
2. Enter your withholding amount on line 10 and attach state copies of Form W-2 from all employers.
3. Complete lines 16a, 16b, and 16c if you want your refund deposited directly into your bank account.
4. Sign and date your return. If married, both husband and wife must sign.

Form 1040N

1. Be sure to complete your Public High School District Data and County of Residence.

2. Complete the parts of your return through line 13 that apply to you. The line-by-line instructions that start on page 5 explain how to complete your return.
3. Read the instructions for lines 19 through 25, and lines 28 through 31, filling in the lines that apply to you. Please be sure to complete line 28 for Nebraska income tax withheld and attach withholding statements, W-2, W-2G, 1099-R, or 1099-MISC, from all employers or payors.
4. Complete any forms or schedules asked for on the lines you completed. Attach them when you file the return.
5. If you are claiming credit for taxes paid to another state, attach a **complete** copy of the income tax return, including all schedules, for each state for which credit is claimed. If tax was paid but no return filed for a subdivision of the other state, attach a W-2 statement supporting the tax paid.
6. Complete lines 40 and 41, Schedule I, if you have adjustments increasing Nebraska income such as interest income from state and local obligations.
7. Complete lines 43 through 48, Schedule I, if you have U.S. bond interest or other adjustments decreasing Nebraska income. This includes any Tier I or II benefits paid by the Railroad Retirement Board included in federal adjusted gross income.
8. Credit for child and dependent care expenses. If you qualify to take this federal credit, and you are a full-year or partial-year resident, see lines 25 and 31 instructions.
9. Credit for the elderly or the disabled. If you qualify to take this federal credit, and you are a full-year or partial-year resident, attach a copy of Federal Schedule R, Form 1040, or Federal Schedule 3, Form 1040A. If you want the department to calculate your state credit, supply the same information as required by the IRS when you ask them to calculate the federal credit. Refer to line 21 instructions.
10. Complete lines 39a, 39b, and 39c if you want your refund deposited directly in your bank account.
11. **Sign and date your return.** Both husband and wife must sign if a joint return is being filed.

ESTIMATED TAX PAYMENTS must be filed if your Nebraska income tax can reasonably be expected to exceed allowable credits by \$300 or more. Allowable credits for income tax include, but are not limited to, those listed on lines 19 through 25 of Form 1040N. Lines 28 through 31 of Form 1040N may also be used to offset income tax owed.

Payment of estimated tax ordinarily must be made in four equal installments on or before April 15, June 15, September 15, and January 15. Nebraska Individual Estimated Income Tax Payment Voucher, Form 1040N-ES, is to be used to report this tax.

PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX. If line 27 is more than your total payments on line 32 by \$300 or more and this difference is more than ten percent of your line 27 amount, you may owe a penalty. If you have underpaid your estimated tax for any period, obtain Form 2210N, Individual Underpayment of Estimated Tax, from the department to calculate any possible penalty. Enter any penalty in the space provided on line 33, include it in the line 33 total, and attach Form 2210N to your Form 1040N.

ESTIMATING YOUR 1999 INCOME TAX. If you need to estimate 1999 taxes, contact the department and request an estimated tax booklet. If you filed estimated payments in 1998, a booklet will automatically be mailed to you.

MILITARY SERVICE PAY is subject to income tax only by the state where the service member is a legal resident. The place of legal residence at the time of entry into the service is presumed to be the state of legal residence. It remains so until legal residence in another state is established. The Nebraska income tax is imposed on all the federal adjusted gross income of a resident who is a member of the armed forces, regardless of where the income is received.

Be sure to check the box for active military on Forms 1040N or 1040NS, if you or your spouse are in the active military.

Military pay received by a nonresident service member stationed in Nebraska is not subject to Nebraska income tax. Other income derived from Nebraska sources by a service member, such as income earned from a separate job not connected with the member's military service, is subject to Nebraska income tax.

A service member's spouse living in Nebraska more than six months is a resident. If the nonresident service member and the spouse who has become a resident file a joint Nebraska return, the service member has elected to have the service pay taxed by Nebraska. More information is contained in the Form 1040N instructions for line 1 on page 5 and in the Nebraska Department of Revenue's information guide titled, "Nebraska Income Tax for Military Service Members." Contact the department, or any of the regional offices listed on the back cover of this booklet, for copies.

DEATH OF TAXPAYER. If a taxpayer died before filing a return for 1998, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return must write "**DECEASED**" across the top of the return. The taxpayer's name and the date of death is to be noted in the filing status area of the return.

If your spouse died in 1998 and you did not remarry in 1998, you may file a joint return. You may also file a joint return if your spouse died in 1999 before filing a 1998 return. A joint return should show your spouse's 1998 income before death and your income for all of 1998. Write "filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

CLAIMING A REFUND FOR A DECEASED TAXPAYER. If you are a surviving spouse filing a joint return with the deceased, file only the tax return to claim the refund. If you are a court-appointed representative, file the return **and** attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach **Form 1310N** and proof of death.

FISCAL YEAR RETURNS. The taxable year used for Nebraska must be the same as the year used for federal income tax purposes. For fiscal years beginning after January 1, 1998, the 1998 Nebraska Tax Table and Additional Tax Rate Schedule, and Personal Exemption Credit Table are to be used without adjustment.

The due date for a fiscal year return is the 15th day of the fourth month of the following taxable year. If the due date falls on a Saturday, Sunday, or legal holiday, you may file your return the first business day after the 15th day of the fourth month.

Refer to page 8, line 28 instructions for information on claiming withholding credit by a fiscal year taxpayer with a calendar year Federal Form W-2.

A FARMER OR RANCHER who files the 1998 Form 1040N and pays the Nebraska income tax due on or before March 1, 1999, is not required to make estimated tax payments during 1998; otherwise, the entire amount of estimated tax must be paid by January 15, 1999.

Form 1040N Line Instructions

(for Form 1040NS instructions, see back of Form 1040NS)

LINE 1, FEDERAL FILING STATUS. Your Nebraska filing status must be the same as your federal filing status, unless a joint federal return was filed and the residency status of the two spouses is different. Check the box for the filing status actually used to calculate your Nebraska tax. Different residencies arise when one spouse is a resident while the other spouse is a nonresident at the same time. A couple with different residencies may file either a joint or separate returns with Nebraska after filing a joint federal return.

The separate return must be calculated as if a federal separate return had been filed. The married filing separate income, deductions, and exemptions must be used. The spouse's social security number and name must be entered on the married filing separate line of the Nebraska separate return.

When a joint return for Nebraska is filed, the couple with different residencies has made an election for both to be treated as Nebraska residents while either is a resident. As residents, the income of both spouses is subject to Nebraska income tax. Follow the appropriate instructions for either full-year or partial-year residents. To change this election of a joint return to separate returns on an amended return, see the instructions on the amended return.

LINE 2a. Check the following if, during 1998:

- Box 1. **You** were 65 or older.
- Box 2. **You** were blind.
- Boxes 1 and 2. **You** were 65 or older **and** blind.
- Box 3. Your **spouse** was 65 or older.
- Box 4. Your **spouse** was blind.
- Boxes 3 and 4. Your **spouse** was 65 or older **and** blind.

LINE 2b. Check box 5 if someone (such as a parent) can claim you or your spouse as a dependent.

LINE 3, TYPE OF RETURN BEING FILED. Resident taxpayers check box 1. Nonresident and partial-year resident taxpayers check box 2. Nonresident and partial-year resident taxpayers must complete and attach Nebraska Schedule III, even if all income is earned in Nebraska. Partial-year residents must enter the dates of their Nebraska residency. If one spouse is a full-year resident and the other is a nonresident or partial-year resident and they elect to file a joint return, a resident return must be filed and Schedule III cannot be used.

LINE 4, FEDERAL EXEMPTIONS, will be the same number of exemptions claimed on your federal return unless a different filing status is used for Nebraska. This includes the number of exemptions claimed on line 6d, Form 1040 or Form 1040A. **If you filed a Federal Form 1040EZ or used the Federal TeleFile Program,** and you checked the "no" box on line 5 of the 1040EZ or line B of the TeleFile Worksheet, enter "1" exemption if you are single, and enter "2" if married. If you checked the "yes" box on line 5 of the 1040EZ or if you checked either "yes" box on line B of the TeleFile Worksheet, enter "0" exemptions if you are single and enter "0" if you are married and both spouses can be claimed as dependents on another person's return. Enter "1" if you are married and only one of you can be claimed as a dependent on another person's return. **See the instructions for line 19, personal exemption credit, for information on claiming the credit for each personal exemption.**

If one spouse is a resident and the other is a nonresident, and a separate Nebraska return is being filed, enter the number of federal exemptions allowable in computing the separate federal return for Nebraska purposes.

SPECIAL INSTRUCTIONS

CHECK THE BOX AFTER FEDERAL EXEMPTIONS only to show that **you had no federal liability**, had adjustments increasing Nebraska income of less than \$5,000, and are **not reporting a 1998 net operating loss**. If you checked this box, do not complete lines 5 through 16 and 19 through 26. Enter "0" on lines 17 and 27. Complete lines 28 through 38 as they apply. Generally, taxpayers checking this box are those filing to receive a refund of Nebraska income tax withholding, **not** to report a state tax liability.

EXAMPLE: Chris and Morgan are married, have three children, and have adjusted gross income for 1998 of \$19,000. Chris' employer withheld \$108 for Nebraska income tax. Chris and Morgan filed a federal return, subtracted their federal standard deduction (\$7,100) and five federal exemptions (\$13,500), and found they had no federal taxable income. **Chris and Morgan have no federal liability. Therefore, they have no Nebraska liability.** They will want to file a Nebraska return to claim a refund of the income tax withheld by Chris' employer.

If you did not have a federal liability, but have adjustments such as non-Nebraska tax-exempt state and local bond interest, see the line 5 instructions which follow.

LINE 5, FEDERAL ADJUSTED GROSS INCOME (AGI) is the amount reported on the federal return as adjusted gross income. Enter the amount from the following forms:

- Form 1040A Line 18
- Form 1040EZ Line 4
- TeleFile Worksheet Line H
- Form 1040 Line 33

If you were not required to file a federal return but must file a Nebraska return to report state and local bond interest, enter on line 5 all income which would have been included in federal adjusted gross income.

EXAMPLE: George is retired and receives a pension and interest from a savings account which total \$5,650 in 1998. He also receives income from federally tax-exempt state and local bonds from sources outside Nebraska, totalling \$7,200. His 1998 income for federal purposes is \$5,650. He is not required to file a federal return; however, since his income from non-Nebraska state and local bonds exceeds \$5,000, George is required to file a Nebraska return.

He must include the \$5,650 of income on line 5 **as if he had completed a federal return.** He must include the \$7,200 of non-Nebraska, tax-exempt state and local bond interest income on line 12, Form 1040N, and lines 40 and 42 of Nebraska Schedule I. George completes the remainder of the return as it applies.

Nonresident and partial-year resident taxpayers are reminded to include their total federal adjusted gross income on line 5, not merely Nebraska source income.

If you have a **Nebraska net operating loss**, include any negative Federal AGI on line 5, and complete the rest of

the form. Use Form NOL to compute the loss to carry back. A net operating loss carryback from a 1998 loss is not allowed unless the loss has been reported on a 1998 Form 1040N.

Any taxpayers who include as income on Federal Form 1040 their children's interest and dividends (elected on Federal Form 8814) must include that income on line 5, Form 1040N.

LINE 6, FEDERAL STANDARD DEDUCTION. Enter the allowable amount of your federal standard deduction. Do not enter the amount of your federal itemized deductions.

If you filed —

FEDERAL FORM 1040A. Enter the line 21 amount.

FEDERAL FORM 1040EZ. If you checked "no" on Federal Form 1040EZ, line 5, enter \$4,250 if single; or enter \$7,100 if married.

If you checked "yes" on line 5, enter the amount from line E on the worksheet on the back of the Federal Form 1040EZ.

IRS TELEFILE PROGRAM. Enter the standard deduction from line I of the TeleFile Worksheet.

FEDERAL FORM 1040. If you claimed the federal standard deduction, enter the line 36 federal standard deduction amount. If you claimed itemized deductions on line 36 of Federal Form 1040, enter the federal standard deduction for your filing status:

- ✓ Single – \$4,250
- ✓ Head of household – \$6,250
- ✓ Married filing jointly or qualifying widow – \$7,100
- ✓ Married filing separately – \$3,550
- ✓ 65 or over, and/or blind – see federal instructions
- ✓ Claimed as a dependent on another return – see federal instructions.

HIGHER INCOME TAXPAYERS with federal adjusted gross income in excess of \$124,500 (\$62,250 if married filing separate) must complete the Nebraska Standard Deduction Worksheet on page 9 of these instructions to determine their allowable standard deduction.

LINE 7, FEDERAL ITEMIZED DEDUCTIONS. If you itemized, enter the line 36 amount from Federal Form 1040. If your federal adjusted gross income is more than \$124,500 (\$62,250 married filing separate), complete the Nebraska Itemized Deduction Worksheet on page 10 to determine your line 7 entry. If you did not claim itemized deductions on your federal return, skip lines 7 through 9.

LINE 8, STATE AND LOCAL INCOME TAXES. Enter your state and local income taxes included on line 5 of Schedule A, Federal Form 1040 (even if your itemized deductions have been limited).

LINE 10. Enter line 6 or 9, whichever is greater.

EXAMPLE: Ellen and Ray claim itemized deductions of \$7,350 on their federal return which included \$850 of state income tax. After completing lines 6 through 9, they find that when they file their Nebraska income tax return, they will claim the standard deduction because it is larger than their Nebraska itemized deductions:

Line 6, Federal standard deduction	\$7,100
Line 7, Federal itemized deductions	\$7,350
Line 8, State and local income taxes	\$ 850
Line 9, Subtract line 8 from line 7	\$6,500
Line 10, Line 6 or line 9, whichever is greater	\$7,100

ADJUSTMENTS TO FEDERAL ADJUSTED GROSS INCOME. Adjustments to your federal adjusted gross income are made for income that may be taxable on your federal return, but not taxable on the Nebraska return. They are also made for income that is taxable in Nebraska, but not at the federal level. Attach Nebraska Schedule I to the return to report Nebraska adjustments unless you are only reporting a state income tax refund.

LINE 12, ADJUSTMENTS INCREASING FEDERAL AGI. You must include all federally exempt state and local government interest except that issued by Nebraska state and local subdivisions. See more instructions on page 10.

LINE 13, ADJUSTMENTS DECREASING FEDERAL AGI. If you have a state income tax refund or had interest from U.S. obligations, you may have a deduction from federal adjusted gross income to include on line 13. You should read the instructions on pages 11 and 12 to see what other adjustments are allowed.

If line 12 is -0-, and your only adjustment is a state income tax refund, enter the amount of the refund on line 13 and check the box below line 13. You do not need to complete Schedule I.

LINE 14, NEBRASKA TAX TABLE INCOME. If you do not have adjustments to federal adjusted gross income, enter the line 11 amount on line 14. If you have adjustments, complete Schedule I, add lines 11 and 12, and subtract any line 13 amount. Enter the result on line 14.

This is your Nebraska tax table income. This is the amount used to determine your Nebraska income tax. **Go to the 1998 Nebraska Tax Table located on pages 17 through 22 of this booklet to determine your tax liability.**

LINE 15, NEBRASKA INCOME TAX is taken from the Nebraska Tax Table on pages 17 through 22. All taxpayers must use the Nebraska Tax Table to calculate their Nebraska income tax liability. If federal adjusted gross income is more than \$124,500 (\$62,250 if married filing separate), include the total tax calculated on the Nebraska Tax Worksheet on page 23 which includes the additional tax calculated using the Nebraska Additional Tax Rate Schedule on page 23.

Nonresidents and partial-year residents will enter their tax calculation taken from line 63, Nebraska Schedule III.

LINE 16, NEBRASKA MINIMUM OR OTHER TAX is the sum of (1) federal **alternative minimum tax**, (2) federal tax on **lump-sum distributions of qualified retirement plans**, and (3) federal tax on **early distributions of qualified retirement plans**; multiplied by 29.6 percent.

Use the following worksheet to calculate line 16. Nonresidents and partial-year residents enter worksheet results on line 64, Nebraska Schedule III.

NEBRASKA MINIMUM OR OTHER TAX WORKSHEET	
1. Alternative minimum tax, from Federal Form 6251 recalculated for Nebraska using Nebraska Revenue Ruling 22-98-1	\$ _____
2. Tax on lump-sum distributions (enter federal tax amount from Federal Form 4972)	_____
3. Tax on early distributions (enter lesser of federal tax amount from Part I, Federal Form 5329 or line 53 of Federal Form 1040)	_____
4. SUBTOTAL (Add lines 1 through 3)	_____
	x .296
5. TOTAL (line 4 multiplied by 29.6%)	\$ _____

ENTER THIS TOTAL ON LINE 16, FORM 1040N

Attach a copy of your Federal Form 4972, 5329 (1040 if 5329 not required) or recalculated Form 6251 to your return.

A credit for prior year minimum tax must be calculated according to Revenue Ruling 22-98-2, and is entered on line 20, together with a notation, "AMT Credit." Nonresidents and partial-year residents claim this credit on line 60, Nebraska Schedule III.

LINE 17. All taxpayers enter the **total of lines 15 and 16.**

If you had no tax to report on your federal return, and adjustments increasing income on Schedule I, line 42, of less than \$5,000, enter "0" on lines 17 and 27. Complete lines 28 through 38 of Form 1040N.

LINE 18. Enter the amount from line 17.

LINE 19, NEBRASKA PERSONAL EXEMPTION CREDIT. Residents claim a \$88 credit for each federal exemption reported on line 4, Form 1040N. Nonresidents and partial-year residents claim the credit on line 61 of Nebraska Schedule III, not on line 19.

EXAMPLE: Mr. and Mrs. Bourg, who are Nebraska residents, have AGI of \$25,000 and claim three exemptions on line 4. Their personal exemption credit on line 19 is as follows: $\$88 \times 3 = \264 . They enter \$264 on line 19 and include it in the line 26 total.

If your federal adjusted gross income is more than \$104,000 (married-joint), \$62,000 (single), \$87,000 (head of household), or \$52,000 (married-separate), use the chart on page 9 to determine the credit you are to claim.

LINE 20, CREDIT FOR TAX PAID TO ANOTHER STATE, is calculated on line 54 of Nebraska Schedule II. Nebraska residents claiming credit for income tax paid to another state or its political subdivisions, or the District of Columbia are to complete and attach Schedule II. Attach a **complete** copy of the return, including schedules and attachments filed with the other state, or attach a letter or statement from the other state showing the income reported and tax paid to support the credit claimed. **A separate Schedule II must be completed for each state in which you paid income tax.**

Nebraska law does not allow credit for taxes paid to a foreign country or its political subdivisions.

If the other state's return is amended or changed by that state, file an Amended Nebraska Individual Income Tax Return, Form 1040XN, to report the change in the credit for tax paid to the other state.

LINE 21, CREDIT FOR THE ELDERLY OR THE DISABLED, is equal to the amount shown on line 42 of Federal Form 1040 or line 27 of Form 1040A. **If the federal credit has been limited by your federal tax liability, use the lesser amount.** This credit may be claimed only by Nebraska full-year or partial-year residents. Full-year residents should enter the amount of the federal credit on line 21. Partial-year residents must enter "0" on line 21; and enter the lesser of the federal credit or the total Nebraska tax on line 60, Nebraska Schedule III. Attach a copy of

Federal Schedule R, pages 1 and 2, or Federal Schedule 3 to your Form 1040N.

If you had the IRS calculate your federal credit for the elderly or disabled, attach a copy of the Schedule R or Schedule 3 mailed with your federal return to Form 1040N, and the department will figure this credit.

LINE 22, COMMUNITY DEVELOPMENT ASSISTANCE ACT CREDIT (CDA), is the credit allowable for contributions to approved projects of community betterment organizations recognized by the Nebraska Department of Economic Development. See the instructions on the 1998 Nebraska Community Development Assistance Act Credit Computation, Form CDN, for more information. Form CDN and the green copy of Form 1099NTC must be attached to the Form 1040N.

LINE 23, FORM 3800N CREDIT, is the credit allowed to qualified businesses that expand their economic investment or employment base in Nebraska. Request Form 3800N, or contact the department for more information.

LINE 24, FORM 829N CREDIT, is the credit allowed to participating employees who have had wages withheld by an employer who has a contract that has qualified under the Nebraska Quality Jobs Act. Employees qualifying for this credit will receive Forms 829N and W-829 from their employer. Complete Form 829N and enter the amount from line 12 of Form 829N on line 24 of Form 1040N. Attach Forms 829N and W-829.

LINE 25, NONREFUNDABLE CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES (if federal AGI is more than \$29,000), is 25 percent of either the amount on line 41 of Federal Form 1040, or line 26, Form 1040A, if this amount is less than your federal tax. This credit may be claimed only by Nebraska full-year or partial-year residents. If you filed a federal joint return but are filing a married separate state return, you cannot claim this Nebraska credit. **If the federal credit has been limited by your federal tax liability, use the worksheet below.** Full-year residents enter their credit on line 25, Form 1040N. Partial-year residents enter their credit on line 60, Nebraska Schedule III, Form 1040N and enter "0" on line 25.

Use the worksheet below: (if AGI is more than \$29,000)

CHILD CARE CREDIT WORKSHEET	
1. Enter line 26, Fed. Form 1040A or line 41, Fed. Form 1040, whichever applies to you	\$ _____
2. Enter federal tax liability (Form 1040A, line 25, or Form 1040, lines 40, 51, and 53)	_____
3. Lesser of lines 1 and 2	_____
4. Line 3 multiplied by 25%	_____

**Residents enter line 4 result on line 25, Form 1040N;
Partial-year residents use line 4 in line 60 calculation.**

LINE 27. Use the worksheet below to determine if you can enter your federal liability. Do not complete if you have adjustments increasing income of \$5,000 or more (Form 1040N, Schedule I, line 42).

FEDERAL LIABILITY WORKSHEET	
Complete the following worksheet to determine whether Nebraska tax after nonrefundable credits is larger than your federal tax liability and should be reduced to the federal tax liability amount.	
1. Enter federal tax before credits:	
a. Form 1040EZ, line 10	1a \$ _____
b. IRS TeleFile Worksheet, line J, column 2	1b _____
c. Form 1040A, line 25	1c _____
d. Form 1040, line 40	_____
Form 1040, line 51	_____
Form 1040, line 53	_____
Total tax-Form 1040	1d _____
Total federal tax	
(enter tax from 1a, 1b, 1c, or 1d)	1 _____
2. Nebraska Form 1040N, line 17 minus line 26 . . .	2 \$ _____

**Enter the smaller of lines 1 and 2 on line 27, Form 1040N,
and check federal liability box if line 1 is used.**

LINE 28, NEBRASKA INCOME TAX WITHHELD. Add the amounts shown as Nebraska income tax on the state copy of the Federal Form W-2, W-2G, 1099-R, or 1099-MISC sent to you by your employer or payor. If you had more than one employer or payor, attach the state copy from **each** employer or payor. Enter the total state withholding on line 28.

A fiscal year taxpayer who has W-2's issued on a calendar-year basis must attach the 1998 W-2's to the 1998 Form 1040N for the fiscal year beginning in 1998. If you receive your 1999 W-2 before filing your 1998 Form 1040N, save it to attach to your 1999 Form 1040N.

Nonresidents who had Nebraska income tax withheld from payments for personal services provided should attach a copy of the 1099-MISC issued to them by the payor.

Nonresidents claiming credit for Nebraska tax withheld by a partnership, limited liability company, S corporation, estate, or trust are to obtain from their organization two copies of the Statement of Nebraska Income Tax Withheld for Nonresident Individual, Form 14N. Enter the amount withheld and paid to Nebraska on line 28, and attach the pink copy of Form 14N to Form 1040N in the space provided for Form W-2. A nonresident who has a tax year different from the tax year shown on the Form 14N for his or her organization is to attach the Form 14N with a tax year ending during the individual's tax year. A calendar-year taxpayer is to attach the Form 14N for tax years ending in 1998 to the 1998 Form 1040N.

LINE 29, ESTIMATED TAX PAYMENTS, is the sum of the installment payments made for 1998 plus any 1997 overpayment that you applied to your 1998 estimated tax. If you made a tentative Nebraska income tax payment on or before the original due date of your return to stop the accumulation of interest, also claim this amount on line 29.

LINE 30, NONHIGHWAY USE MOTOR VEHICLE FUELS CREDIT, is the credit for a portion of the Nebraska tax paid in this program. See the instructions on Form 4136N for information. Attach Form 4136N to Form 1040N if this credit is claimed. For more information, contact Motor Fuels Taxpayer's Assistance toll free at 1-800-554-3835.

LINE 31. REFUNDABLE CHILD CARE EXPENSES CREDIT (AGI \$29,000 or less). This credit may be claimed only by Nebraska full-year residents or partial-year residents. It cannot be claimed if you filed a federal joint return but a married separate return for Nebraska. If you did not file Federal Form 2441 (Form 1040) or Schedule 2 (Form 1040A), you must complete such form and attach it to your Nebraska return. Refer to the following chart and enter on line 3 of the worksheet the applicable percentage for your adjusted gross income (AGI) level:

AGI over/but not over	Percent
\$0 or less - 22,000	100%
22,000 - 23,000	90%
23,000 - 24,000	80%
24,000 - 25,000	70%
25,000 - 26,000	60%
26,000 - 27,000	50%
27,000 - 28,000	40%
28,000 - 29,000	30%

REFUNDABLE CHILD CARE CREDIT WORKSHEET	
1. Enter line 9 amount from 1998 Federal Form 2441 , (Form 1040), or from Schedule 2 (Form 1040A) (Enter the amount calculated on line 9 prior to the federal credit limitation)	1. \$ _____
2. Enter federal adjusted gross income from line 5, Form 1040N	2. _____
3. Enter percentage from chart if AGI is \$29,000 or less	3. _____ % (Note: If AGI is more than \$29,000, STOP; you can not claim a credit on line 31, refer to line 25 instructions instead)
4. Multiply line 1 by line 3 percentage; residents, enter result on line 31, partial-year residents, complete lines 5 and 6	4. _____
5. Enter line 58 ratio from Schedule III	5. _____
6. Multiply line 4 by line 5, enter result on line 31 6.	_____

LINE 33, AMOUNT YOU OWE, is the amount owed to the State of Nebraska, including the applicable underpayment of estimated tax penalty. Attach a check or money order payable to the Nebraska Department of Revenue for the amount on line 33. Please type or print your social security number on the face of your check or money order. **A tax due amount of less than \$2.00 need not be paid.**

If the amount you owe is \$300 or more, review "Penalty for Underpayment of Estimated Tax" on page 4, and determine if you need to file Form 2210N.

LINE 35, 1999 ESTIMATED TAX. Enter on line 35 the amount of overpayment you want applied to your 1999 estimated tax.



LINE 36, NONGAME AND ENDANGERED SPECIES FUND. You can contribute \$1.00 or more of your refund to this fund. Your contributions are used by the Nebraska Game and Parks Commission to protect and manage nearly 500 kinds of nongame and endangered birds, mammals, amphibians, fish, and reptiles. The fund will help prevent species from becoming endangered by protecting their habitat.

If you are not entitled to a refund, you may send a contribution directly to the Nongame and Endangered Species Conservation Fund at the following address. For more information on the Nongame and Endangered Species Program, contact the Nebraska Game and Parks Commission, Wildlife Division, 2200 North 33rd Street, Lincoln, NE 68503-0370, or call (402) 471-0641.

LINE 37, NEBRASKA CAMPAIGN FINANCE CONTRIBUTION. You may voluntarily contribute \$2.00 of your refund (and either \$2.00 or \$4.00 if married filing jointly) to the Campaign Finance Limitation Cash Fund. The purpose of the Campaign Finance Limitation Act is to lessen the reliance of candidates on contributions from special interest organizations by providing contributed funds to assist in financing election campaigns of candidates seeking statewide offices. For more information, contact the Nebraska Accountability and Disclosure Commission, 11th Floor, State Capitol, P.O. Box 95086, Lincoln, NE 68509-5086, or call (402) 471-2522.

LINE 38, AMOUNT TO BE REFUNDED. Enter the amount of overpayment you want refunded to you on line 38 after subtracting lines 35, 36, and 37 from line 34. **No amount less than \$2.00 will be refunded.**

If a taxpayer has an existing tax liability of any kind with the Nebraska Department of Revenue, an overpayment reflected on this return may be applied to such liability. The department will then notify the taxpayer.

LINE 39. In order to have your refund deposited directly into your checking or savings account, it is necessary to enter the routing number and account number found on the bottom of the checks used with the account. The routing number is listed first and must be nine (9) digits. The account number is listed to the right of the routing number and can be up to seventeen (17) digits. Enter these numbers in the boxes found on lines 39a and 39c. Also complete line 39b.

Nebraska Personal Exemption Credit, Line 19, Form 1040N (Residents)

Nonresidents and partial-year residents use to complete Schedule III, line 61.

Use this table to determine the allowable personal credit for your adjusted gross income category. Find your filing status in the columns; then find the line corresponding to your federal adjusted gross income reported on line 5, Form 1040N. Take the amount you find and multiply by the number of federal exemptions reported on line 4, Form 1040N.

EXAMPLE: Earlene and Robert file a married-joint return. Their federal adjusted gross income is \$118,850. They look down the married filing joint column to the line where \$114,000-119,000 appears. They look across and see they have a \$73 personal exemption credit. Since they have a total of three federal exemptions, they multiply \$73 x 3 = \$219. The \$219 amount is then entered on line 19 of Form 1040N.

FEDERAL ADJUSTED GROSS INCOME					PERSONAL EXEMPTION CREDIT			
Single		Married Filing Joint (including qualifying widow(er))		Married Filing Separate		Head of Household		
Over	But not over	Over	But not over	Over	But not over	Over	But not over	
\$ 0	- 62,000	\$ 0	- 104,000	\$ 0	- 52,000	\$ 0	- 87,000	\$88
62,000	- 67,000	104,000	- 109,000	52,000	- 54,500	87,000	- 92,000	83
67,000	- 72,000	109,000	- 114,000	54,500	- 57,000	92,000	- 97,000	78
72,000	- 77,000	114,000	- 119,000	57,000	- 59,500	97,000	- 102,000	73
77,000	- 82,000	119,000	- 124,000	59,500	- 62,000	102,000	- 107,000	68
82,000	- 87,000	124,000	- 129,000	62,000	- 64,500	107,000	- 112,000	63
87,000	- 92,000	129,000	- 134,000	64,500	- 67,000	112,000	- 117,000	58
92,000	- 97,000	134,000	- 139,000	67,000	- 69,500	117,000	- 122,000	53
97,000	- 102,000	139,000	- 144,000	69,500	- 72,000	122,000	- 127,000	48
102,000	- 107,000	144,000	- 149,000	72,000	- 74,500	127,000	- 132,000	43
107,000	- 112,000	149,000	- 154,000	74,500	- 77,000	132,000	- 137,000	38
112,000	- 117,000	154,000	- 159,000	77,000	- 79,500	137,000	- 142,000	33
117,000	- 122,000	159,000	- 164,000	79,500	- 82,000	142,000	- 147,000	28
122,000	- 127,000	164,000	- 169,000	82,000	- 84,500	147,000	- 152,000	23
127,000	- 132,000	169,000	- 174,000	84,500	- 87,000	152,000	- 157,000	18
132,000	- 137,000	174,000	- 179,000	87,000	- 89,500	157,000	- 162,000	13
137,000	- 142,000	179,000	- 184,000	89,500	- 92,000	162,000	- 167,000	8
142,000	- 147,000	184,000	- 189,000	92,000	- 94,500	167,000	- 172,000	3
over 147,000		over 189,000		over 94,500		over 172,000		0

Nebraska Standard Deduction Worksheet – Line 6, Form 1040N

Use if federal adjusted gross income is more than \$124,500 (\$62,250 if married filing separate)

STANDARD DEDUCTION WORKSHEET	
1 Enter your Federal Adjusted Gross Income for 1998 (line 5, Form 1040N)	1
2 Enter \$124,500 (enter \$62,250 if married filing separate)	2
3 Difference (subtract line 2 from line 1). If less than zero, STOP; you do not have a limitation on your standard deduction.	3
4 Enter your 1998 Federal Standard Deduction (Single \$4,250, Married-Joint \$7,100, Head of Household \$6,250, Married-Separate \$3,550). Consult federal instructions if you have a different standard deduction for your filing status than that listed	4
5 Enter 10% of line 3	5
6 1998 Nebraska Standard Deduction (subtract line 5 from line 4; if zero or less, enter 0 on this line). Enter result here and on line 6, Form 1040N.	6

Nebraska Itemized Deduction Worksheet – Lines 7 and 8, Form 1040N

Use if your federal adjusted gross income is more than \$124,500

(\$62,250 if married filing separate)

ITEMIZED DEDUCTION WORKSHEET	
1 Enter itemized deductions from Federal Schedule A. Include totals from lines 4, 9, 14, 18, 19, 26, and 27	1
2 Add from Federal Schedule A, the amounts on lines 4,13,18,19, plus any gambling losses included on line 27	2
3 Enter state and local income taxes from line 5, Federal Schedule A (enter on line 8, Form 1040N)	3
4 Add lines 2 and 3	4
5 Difference (subtract line 4 from line 1). If the result is zero, STOP; enter the amount from line 1 above on line 7, Form 1040N	5
6 Multiply line 5 by 80% (.80)	6
7 Enter your federal adjusted gross income (line 5, Form 1040N)	7
8 Enter \$124,500, or \$62,250 if married-separate	8
9 Difference (subtract line 8 from line 7). If the result is zero or less, STOP; enter the amount from line 1 above on line 7, Form 1040N	9
10 Multiply line 9 by 10% (.10)	10
11 Compare line 6 and line 10 and enter the smaller of the two amounts here	11
12 Subtract line 11 from line 5	12
13 Add line 12 and line 4 (enter on line 7, Form 1040N, total itemized deductions)	13

Note: If your Nebraska itemized deductions on line 9, Form 1040N, are less than the federal standard deduction for your filing status, complete the Nebraska standard deduction worksheet on page 9 to determine the larger of line 6 and line 9, Form 1040N (see instructions).

Nebraska Adjustments to Income

Nebraska Schedule I

Adjustments Increasing Federal AGI (line 12, Form 1040N)

- Interest Income Received from State and Local Bonds
- Regulated Investment Company
- Federal Net Operating Loss Deduction
- S Corporation and LLC Non-Nebraska Loss

INTEREST INCOME RECEIVED FROM STATE AND LOCAL BONDS

Include on line 40a all of your interest received from state and local bonds. While this income is exempt for federal tax purposes, it is an addition to income for Nebraska income tax purposes.

The interest income to be reported on line 40a includes, but is not limited to, that which is reported on line 8b of Federal Form 1040 or 1040A. This amount can be reduced by expenses not previously deducted which relate to the production of this income only if you claim federal itemized deductions.

On line 40b, include interest from those bonds issued by Nebraska state and local government subdivisions. This includes bonds such as Nebraska municipal water bonds,

NPPD bonds, NIFA bonds, or local school district bond obligations.

REGULATED INVESTMENT COMPANY

You must include on line 40a any income from a regulated investment company (including certain mutual funds) which invests in state and local obligations. Any part of the fund dividend **attributable to Nebraska source bonds** may be used to reduce the total income amount. Enter such part on line 40b.

FEDERAL NET OPERATING LOSS DEDUCTION

If you deducted a federal net operating loss carryforward in computing your federal AGI, you must include this amount as a positive number on line 41 of Schedule I.

S CORPORATION AND LIMITED LIABILITY COMPANY (LLC) NON-NEBRASKA LOSS

A loss from an S corporation or LLC that is not from Nebraska sources increases an individual's adjusted gross income. The loss should be entered on line 41, Schedule I, as a positive number.

Adjustments Decreasing Federal AGI (line 13, Form 1040N)

- State Income Tax Refund Deduction
- U.S. Government Obligations Exempt for State Purposes
- Obligations Which Cannot be Deducted for Nebraska Tax Purposes
- Government Money Market or Mutual Funds (page 12)
- Repurchase Agreements (page 12)
- Railroad Retirement Board Pension Payments (page 12)
- Special Capital Gains Deduction (page 12)
- Self-Employed Health Insurance Deduction (page 12)
- S Corporation and Limited Liability Company Non-Nebraska Income (page 12)
- Native American Indian Reservation Income (page 12)
- Claim of Right Repayment (page 12)
- Nebraska Net Operating Loss Carryforward (page 12)

STATE INCOME TAX REFUND DEDUCTION

If you received a refund, credit, or offset of state or local individual income tax in 1998 that is included as taxable income on line 10 of your Federal Form 1040, you may deduct this amount on line 43 of Nebraska Schedule I.

If this is your *only* adjustment decreasing or increasing income, do not file Schedule I. Instead, check the box on line 13 of Form 1040N and enter the state income tax refund on line 13.

U.S. GOVERNMENT OBLIGATIONS EXEMPT FOR STATE PURPOSES

Interest or dividend income included in federal adjusted gross income from the following sources is deductible for Nebraska tax purposes. If you have income from one of these obligations, include the **type of bond** and the **amount received** from each on line 44a of Schedule I. Attach a schedule, if necessary, listing all the bonds for which a deduction is claimed. **Note: capital gains from the sale of U.S. obligations are not deductible.** Exempt U.S. government obligations include:

1. U.S. government bonds, such as series HH and EE (interest is deductible only if the bond has been issued after March 1, 1942),
2. U.S. Treasury bills (interest is deductible only if the bill has been issued after March 1, 1942),
3. U.S. government notes,
4. U.S. government certificates,
5. Commodity Credit Corporation,
6. Federal Home Loan Banks,
7. Federal Reserve Banks (dividends are deductible only if from stock issued after March 1, 1942),
8. Federal Savings and Loan Insurance Corporation,
9. Tennessee Valley Authority securities,
10. Interest on debentures issued to mortgagees of mortgages foreclosed under the National Housing Act if insured after February 3, 1938,
11. Postal Service bonds,
12. Retirement bond as provided by I.R.C. section 409 (none issued after April 30, 1982),
13. Farm Credit Bank Consolidated System Wide bonds,
14. Farm Credit System including the following members unless noted elsewhere:

- a. Federal Land Banks and Federal Land Bank Associations (dividends are deductible only if from stock issued after March 28, 1942),
 - b. Federal Intermediate Credit Banks, and
 - c. Any other institution chartered by and subject to the supervision of the Farm Credit Administration unless noted elsewhere,
15. General Service Administration Participation Certificates,
 16. Financing Corporation established by Federal Housing Finance Board, and
 17. Resolution Funding Corporation.

Interest, but not dividend income, included in federal adjusted gross income from the following sources is deductible for Nebraska individual income tax purposes:

1. Federal Deposit Insurance Corporation (F.D.I.C.),
2. Student Loan Marketing Association,
3. Production Credit Association, or
4. Banks for Cooperatives.

OBLIGATIONS WHICH CANNOT BE DEDUCTED FOR NEBRASKA TAX PURPOSES

Several quasi-governmental organizations issue bonds which are not considered to be backed by the full faith and credit of the U.S. government or whose licensing act did not specifically exempt them from state taxation. **These are NOT deductible for Nebraska purposes:**

1. Federal or State Banks,
2. Federal or State Savings and Loan Associations,
3. Building and Loan Associations,
4. Postal Savings Accounts (discontinued in 1966),
5. Export Import Bank bonds,
6. Federal or State Credit Unions,
7. Interest on debentures issued to mortgagees of mortgages foreclosed under the National Housing Act if insured before February 3, 1938,
8. Interest on federal income tax refunds,
9. Farmers Home Administration,
10. New Community debentures,
11. Merchant Marine bond,
12. Ship Financing bond,
13. U.S. Merchant Marine Ship notes,
14. U.S. Merchant Marine Offshore Ship Services notes,
15. Federal Home Loan Mortgage Corporation,
16. World Bank,
17. International Bank for Reconstruction and Development bonds,
18. Asian Development Bank notes and bonds,
19. Inter-American Development Bank bonds,
20. Interest from U.S. Government Life Insurance (unless exempted by I.R.C. section 101[d][1][B]),
21. Bankers' Acceptance,

22. Certificates of Deposit,
23. Penn Central Transportation certificates,
24. Federal Financing Bank,
25. Federal National Mortgage Association (FNMA's),
26. Government National Mortgage Association (GNMA's),
27. Chrysler Corporation secured notes,
28. Lockheed convertible bonds, and
29. Washington Metropolitan Area Transit Authority bonds.

**GOVERNMENT MONEY MARKET
OR MUTUAL FUNDS**

Certain government money market or mutual funds issued by regulated investment companies claim to be obligations of the U.S. government.

Nebraska law provides that dividends from a regulated investment company investing directly in exempt U.S. government obligations are **deductible to the extent they represent exempt U.S. government obligations**. To claim a deduction on line 44b, the fund must issue to the holder a statement showing the percent of the dividend which represents exempt U.S. obligations. If you have received a dividend from such a fund, you must list on line 44b of Part B, Schedule I, the name of the fund and the portion of the dividend representing exempt U.S. government obligations.

Refer to the list on page 11 on what constitutes a deductible U.S. government obligation.

REPURCHASE AGREEMENTS

Interest income from repurchase agreements involving U.S. government obligations is **not** deductible as U.S. government interest, and **cannot** be taken as an adjustment decreasing federal adjusted gross income on line 13 of Form 1040N.

**RAILROAD RETIREMENT BOARD
PENSION PAYMENTS**

These payments are deductible on line 45 of Nebraska Schedule I. They include Tier I and II payments, vested dual benefits, and supplemental annuities, including sick pay and unemployment paid by the Railroad Retirement Board that are included in federal adjusted gross income. Attach a copy of Forms RRB-1099 and RRB-1099-R to your return.

SPECIAL CAPITAL GAINS DEDUCTION

Nebraska resident individuals may elect to deduct from their adjusted gross income the gain received from the sale or exchange of capital stock of a "qualified" corporation acquired either because of employment by the corporation or while

employed by the "qualified" corporation. Individuals are entitled to one election during their lifetime for the capital stock of one "qualified" corporation.

Special Capital Gains Election Computation, Form 4797N, and a copy of Federal Schedule D must be attached to your Form 1040N to report your election. The amount of the deductible capital gain is entered on line 46, Schedule I.

NEBRASKA SELF-EMPLOYED

HEALTH INSURANCE DEDUCTION WORKSHEET

A deduction is allowed for health insurance coverage for self-employed taxpayers to the extent not allowed as a deduction or an adjustment on their federal return. Complete the worksheet below to determine the amount that you can deduct. Enter the result on line 47 of Nebraska Schedule I.

1. Enter line 1 of Federal Self-Employed Health Insurance Deduction Worksheet	1. _____
2. Enter line 3 of Federal Self-Employed Health Insurance Deduction Worksheet	2. _____
3. Enter the smaller of line 1 or line 2	3. _____
4. Enter amount from line 4 of Federal Self-Employed Health Insurance Deduction Worksheet	4. _____
5. Subtract line 4 from line 3	5. _____
6. If you itemized deductions , enter line 3 of Schedule A, Form 1040. If you did not itemize deductions , enter line 5 from above.	6. _____
7. Enter the smaller of line 5 or line 6. This is your Nebr. self-employed health insurance deduction. Enter here and on line 47 of Schedule I	7. _____

**S CORPORATION AND LIMITED LIABILITY COMPANY
NON-NEBRASKA INCOME**

Income from an S corporation or limited liability company that is not from Nebraska sources is deductible on line 48, Schedule I. Attach the Schedule K-1 received from the S corporation or limited liability company together with a copy of the Nebraska apportionment factor of the S corporation or limited liability company.

NATIVE AMERICAN INDIAN RESERVATION INCOME

Native American Indians residing on a Nebraska Native American Indian reservation with income derived from sources within the boundaries of the reservation may deduct such income on line 48, Schedule I.

CLAIM OF RIGHT REPAYMENT

A taxpayer who is required on a federal return to take a credit for a claim of right repayment may deduct the amount of the repayment on line 48, Schedule I.

**NEBRASKA NET OPERATING LOSS
CARRYFORWARD**

A Nebraska net operating loss from an earlier year which is available for carryforward to 1998 is deducted on line 48 of Schedule I as an adjustment decreasing Federal AGI.