

# 1998 Oregon

## Nonresident and Part-Year Resident Forms 40N & 40P with Instructions

Dear Taxpayer,

Paying income taxes is important. Taxes provide funding for education, public safety, and health services. Page two of this booklet shows how our income tax dollars are spent. Thank you for supporting these important services.

The Department of Revenue is committed to administering tax laws fairly and efficiently to fund services for those who live or work in Oregon. We are continually looking for ways to make filing your return easier.

I urge you to check your return carefully to avoid delays in processing your return and issuing your refund. The back cover of this booklet shows how to get help and includes our Web site address.

Sincerely,

*Elizabeth Harchenko*

Elizabeth Harchenko, Director  
Oregon Department of Revenue

### How to get your refund faster

- ✓ Type or legibly print your name, address, and Social Security number.
- ✓ Be sure to attach your W-2s.
- ✓ Use the correct Social Security number.
- ✓ Double-check your math.
- ✓ Make sure you subtract your correct federal tax liability (see instructions for the correct amount).
- ✓ Be sure to sign your return.

Oregon Department of Revenue  
955 Center Street NE  
Salem OR 97310-2551

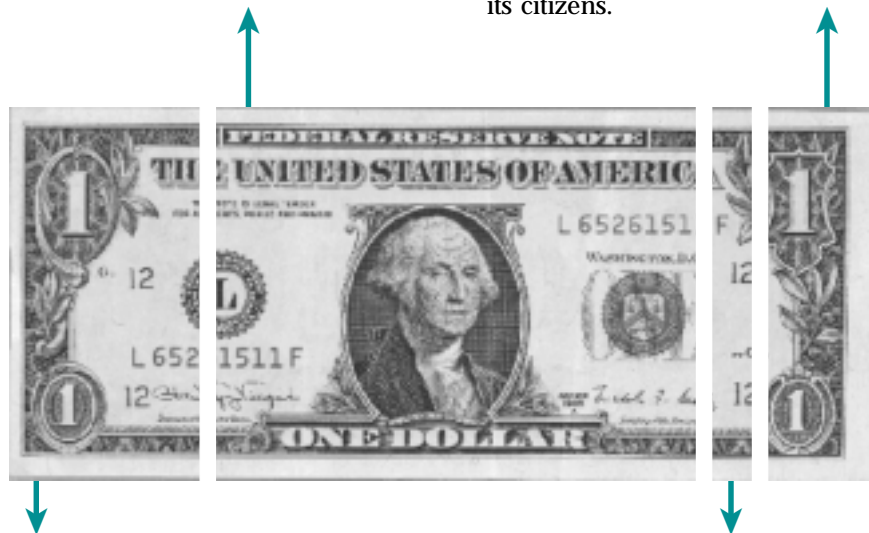
# What services are paid for with your income tax dollar

## Education—57¢

- ✓ The Department of Education is responsible for the 505,000 students in the K-12 system. Its mission is to raise academic achievement to measurable standards.
- ✓ The Office of Community College Services is responsible for 17 community colleges. It serves more than 335,000 students each year. It is the largest educator of adults seeking new knowledge and skills.
- ✓ The Department of Higher Education enhances our quality of life by providing excellent and affordable post-secondary education. Seven campuses statewide offer education, research, and community service programs. These programs help sustain Oregon's quality of life.

## Public Safety—14¢

- ✓ The Department of Corrections promotes public safety by holding offenders responsible for their actions. They work to reduce the risk of future criminal behavior.
- ✓ The Department of Justice is the state's legal counsel. It manages programs that include crime victims' compensation, organized crime, consumer protection, and district attorney assistance.
- ✓ The Oregon State Police develop, promote, and maintain protection of the people, property, and natural resources of Oregon. They enhance the safety and livability of Oregon by serving and protecting its citizens.



## Human Resources—22¢

- ✓ The Department of Human Resources is the state's health and human services agency. Its mission is to assist Oregonians to become independent, healthy, and safe. More than 150 field offices directly serve several hundred thousand Oregonians. Human Resources works to achieve its mission through programs such as Medicaid, food stamps, senior services, mental health, and child protective services.

## Other Services—7¢

- ✓ This category includes the states' environmental, regulatory, and administrative agencies. Forestry, State Library, Office of Energy, Agriculture, Transportation, Consumer and Business Services, and Environmental Quality are just a few of the departments, commissions, and boards that make up this group.

To find out more about these and other state agencies that work to serve Oregon and its 3.2 million citizens, visit Oregon Online at [www.state.or.us](http://www.state.or.us)

The following instructions aren't a complete statement of laws and Oregon Department of Revenue rules. You may need more information or forms. See page 36.

If you have disabilities and need special accommodations, see page 36 for numbers to call and places to get help.

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## New information

**Address labels.** The department did not issue address labels this year in response to a growing concern over the use of Social Security numbers on the labels. Be sure to type or legibly write your name, address, and Social Security number on the form you file with the department.

**Oregon Lottery.** Oregon Lottery winnings greater than \$600 are no longer exempt from Oregon tax. Taxable winning amounts are determined on a per ticket basis. Winnings from any individual ticket of more than \$600 must be included in Oregon income if the winning ticket was purchased on or after January 1, 1998.

*Example 1:* You purchase three tickets in 1998 that pay \$500 each, none are taxable for Oregon. If one ticket pays more than \$600, only that one would be taxable.

Winnings of \$600 or less or winnings from a ticket purchased before January 1, 1998 do not have to be included in Oregon income. A subtraction is allowed on the Oregon return for any of these winnings included in federal income.

*Example 2:* You bought a winning Megabucks ticket in August of 1997. The winnings are paid in equal payments over 20 years. None of these payments are taxable.

This new law includes all games offered by the Oregon Lottery (Keno, Megabucks, Powerball, Sports Action, video poker, etc.). It applies to all individuals that receive lottery winnings while residents of Oregon.

**Federal pensions.** Beginning in 1998, some or all of your federal pension income may be subtracted from Oregon income. The subtraction amount is based on

the number of months of federal service before and after October 1, 1991. For example, if all months of service were before October 1, 1991, the entire federal pension is subtracted from Oregon income. If no months of service were before October 1, 1991, no subtraction is allowed. If your months of service were both before and after October 1, 1991, you will subtract a percentage of your pension income. See page 25 for line instructions and worksheet to determine your subtraction amount.

**Roth IRA's.** If you converted a regular Individual Retirement Account to a Roth IRA in 1998, the converted amount is taxable by Oregon to the same extent as federal. Part-year residents will prorate the federal amount based on the number of months lived in Oregon.

**Federal law.** Oregon is permanently tied to federal law. Most items are treated the same way on your Oregon and federal returns. Any future federal law changes will automatically be adopted by Oregon.

**Blue ink.** Throughout this booklet, there are special instructions to use blue ink when filling out forms or writing checks. New equipment used to scan documents cannot read certain colors of ink, especially red. Using blue ink will make the information on the forms easier to read and make processing faster. We appreciate your cooperation.

**Estimated tax.** Oregon laws differ from federal laws for estimated tax. You still must make estimated tax payments for Oregon if you expect to owe more than \$500 when you file your return.

# General information

## Residency

Am I a resident, a nonresident, or a part-year resident? The following will help you decide:

**Resident.** You are a full-year Oregon resident, even if you live outside Oregon, if all of the following are true:

- You think of Oregon as your permanent home,
- Oregon is the center of your financial, social, and family life, and
- Oregon is the place you intend to come back to when you are away.

**Nonresident.** You are a nonresident if your permanent home is outside Oregon all year.

**Part-year resident.** You are a part-year resident if you moved into or out of Oregon during 1998. You are still a full-year resident if:

- You temporarily moved out of Oregon, or
- You moved back to Oregon after only a temporary absence.

**Special-case Oregon residents.** You are considered a nonresident if all the following are true:

- You are an Oregon resident who lived outside Oregon the entire year,
- You didn't keep a home in Oregon during any part of the year,
- You maintained a permanent home outside of Oregon, and
- You spent less than 31 days in Oregon during the year.

## Military personnel

**Nonresidents stationed in Oregon.** Oregon doesn't tax your military pay while you are stationed in Oregon. You don't need to file an Oregon return unless you had income from other Oregon sources. If you do, or if your spouse worked in Oregon, you should file Form 40N.

**Residents stationed in Oregon.** If you are an Oregon resident stationed in Oregon, you should use Form 40.

**Residents stationed outside Oregon.** If you are an Oregon resident stationed outside Oregon, you may file Form 40N if you meet all of the following requirements:

- You didn't have a personal residence in Oregon for yourself or your family during any part of 1998,
- Your personal residence was outside Oregon during all of 1998, and
- You spent less than 31 days in Oregon during 1998.

Write "Military nonresident" at the top left corner of your return. We prefer you use blue ink. Include any other income taxable by Oregon.

If you don't meet all three listed requirements, file Form 40 in the full-year resident booklet.

**More information.** Oregon provides more detailed information for military personnel in an information circular. See page 36 to order the circular.

## Filing information

Should I file an Oregon return?

File if you have any income taxable by Oregon. Also file if you want a refund of the Oregon tax that was withheld from your wages.

Use Form 40N if:

- You are a nonresident, or
- You are a special-case Oregon resident, or
- You are a nonresident filing a joint return, and your spouse is a full-year or part-year resident, or
- You and your spouse are both nonresidents filing jointly.

Use Form 40P if:

- You are a part-year resident, or
- You are a part-year resident filing a joint return, and your spouse is a full-year resident, or
- You and your spouse are both part-year residents filing jointly.

Use Form 40 or 40S if:

- You are a full-year resident, or
- You and your spouse are both full-year residents filing jointly.

Forms 40 and 40S are available at many post offices, banks, and libraries in Oregon. See page 36 to order forms.

What income does Oregon tax?

**Full-year residents.** Oregon taxes your income from all sources.

**Part-year residents.** Oregon taxes your income from all sources earned or received while you were an Oregon resident. Oregon also taxes your income from Oregon sources while you were a nonresident.

**Nonresidents.** Oregon taxes only your income from Oregon sources.

What does income from Oregon sources include?

It includes income shown on your federal return from:

- Wages, fees, or income for services performed in Oregon, except for wages described in the next section.

If your Oregon wages are not stated separately on your W-2, compute your Oregon source income using the following formula:

$$\frac{\text{Days actually worked in Oregon}}{\text{Days actually worked everywhere}} \times \frac{\text{Total wages}}{\text{wages}} = \frac{\text{Oregon wages}}{\text{wages}}$$

Do not include holidays, vacation days, and sick days as actual work days. Do include sick pay, holiday pay, and vacation pay in total wages.

*Example:* Jordan lives in Washington but works in Oregon. Out of 220 work days, she worked 132 days in Oregon and 88 days in Washington. She earned \$50,000 in wages. She figured her compensation subject to Oregon tax as follows:

Total days paid	260
Less: Vacation days	(27)
Sick days	(5)
Holidays	(8)
Total days worked everywhere	<u>220</u>

$$\frac{\text{Days actually worked in Oregon}}{\text{Days actually worked everywhere}} \frac{132}{220} \times \frac{\text{Total Wages}}{\$50,000} = \frac{\$30,000}{\$50,000}$$

Jordan's compensation reported in the Oregon column of Form 40N is \$30,000.

Other income from Oregon sources:

- Businesses, S corporations, and partnerships located in or doing business in Oregon.
- Oregon farms.
- Oregon estates and trusts.
- Sales of Oregon property.
- Rents and royalties for use of Oregon property.
- Community property income. If you are a resident of Oregon and your spouse is a resident of a state with community property laws, you may be subject to tax on part of your spouse's income.

Community property laws in the state where your spouse lives determine if you are taxed on any of your spouse's income. For example, Washington law recognizes the right of a husband and wife to keep separate earnings, as long as the earnings don't involve income from real property. You may need more information from the state where your spouse resides.

What income is not included in Oregon sources?

- Interest and dividends, unless they are from an Oregon business you own.
- Interstate transportation wages from an interstate railroad company, interstate motor carrier, or private motor carrier. You must be a nonresident and have regularly assigned duties in more than one state. You must be a driver, mechanic, freight handler, or someone who directly affects the safety of a commercial motor vehicle. See page 36 to order the information circular, "Interstate Transportation Wages."
- Oregon retirement income received while you were a nonresident.
- Hydroelectric dam wages, if you are a nonresident federal employee working on a dam that spans the Columbia River between Oregon and Washington.

May I round off cents to the nearest whole dollar?

Yes. You may round off cents to the nearest whole dollar on your return and schedules. If you round off, do so for all amounts. You may drop amounts less than 50 cents. Increase amounts from 50 to 99 cents to the next dollar. For example, \$12.15 becomes \$12 and \$233.50 becomes \$234.

Is my tax return private information?

Yes. Any Oregon Department of Revenue employee who gives out unauthorized information about your return may be convicted of a class C felony.

I'm getting an income tax refund this year. When will I get my check?

- If you file your return before April 1:
  - Allow 6–8 weeks.
- If you file your return on or after April 1:
  - Allow 8–11 weeks.

If there is a mistake on your return, your refund will be delayed.

Should I put my return together in a special order?

Yes. Put your Oregon return in the following order to speed processing. Top to bottom:

1. Form 40N or 40P with W-2s and all 1099s showing Oregon tax withheld stapled to the lower front.
2. Attach any payment on top of the W-2 forms.
3. Copy of front and back of federal Form 1040, 1040A, 1040EZ, 1040PC, or Telefile Tax Record.
4. If applicable, Oregon Form 10, "Underpayment of Oregon Estimated Tax."
5. If applicable, proof to claim "Credit for Income Tax Paid to Another State."
6. If applicable, the form "Oregon Deferral of Reinvested Capital Gain."

Don't attach any federal schedules such as A, B, C, D, Form 2441, etc. We receive some federal schedule information electronically. We may, however, ask you for schedules or additional information later.

Note: Be sure the second page of your return is the same form as the first page. *Example:* If you file Form 40N, be sure that "Page 2—Form 40N 1998" is printed at the top of the second page.

When should I file my return?

File as soon as possible. The filing deadline for calendar year 1998 is April 15, 1999.

For fiscal year filers, returns are due by the 15th day of the fourth month after the close of your tax year.

Do you need to file an amended Oregon return?

File an amended return if you need to correct your Oregon return or if you were audited by the Internal Revenue Service (IRS). To amend a nonresident or part-year

resident return, use Forms 40N or 40P for that year. A resident return can be amended using Form 40X. See page 36 for taxpayer assistance and to order forms.

## Extensions

Generally, Oregon allows you the same extension you have for your federal return. You are not required to send an extension form to Oregon unless:

- You are making a tax payment to Oregon.
  - Send us a copy of the federal extension with your Oregon payment.
- You are filing an extension for Oregon only.
  - Send us the federal extension Form 4868 and write "For Oregon Only" across the top. Use Oregon amounts on the form. We'll notify you only if your extension is denied.

Send your extension and payment to: Extension Clerk, Oregon Department of Revenue, PO Box 14950, Salem OR 97309-0980.

✓ Be sure to check the extension filed box on the front of your Oregon return when you file.

More time to file doesn't mean more time to pay!

You must pay the tax due when filing your extension. If you don't pay all of the tax due with your extension, you will owe interest after April 15, 1999, until the date you pay. The current interest rate is 9 percent per year (.75 percent per month). If the tax is not paid within 60 days of our bill, the interest rate increases to 13 percent per year.

Were you stationed in the Persian Gulf or another designated combat zone? Did you receive additional time to file your 1998 federal return? If so, Oregon allows the same additional time to file. Write "Combat zone" at the top of your form. We prefer you use blue ink.

## Penalties

You will owe a 5 percent penalty if you pay after April 15, 1999.

If you file more than three months late, an additional 20 percent penalty will be added.

Exception: You don't have to pay a penalty if you do all of the following:

1. Get an extension of time to file your return,
2. Pay at least 90 percent of the tax due by April 15, 1999,
3. Pay the balance of tax due at the time you file within the extension period, and
4. Pay interest on the balance of tax due when you file your return, or within 30 days of our billing date.

A 100 percent penalty is charged if you don't file a return for three consecutive years by the due date of the third

year including extensions. The penalty is 100 percent of each year's tax due.

## 1999 estimated tax

Some Oregon estimated tax laws are different than federal laws. Use Oregon instructions to determine if: 1) you need to make estimated tax payments for 1999, or 2) you had an underpayment in 1998. See page 36 for taxpayer assistance information.

Who must make estimated tax payments?

In most cases, people who expect to owe \$500 or more on their 1999 Oregon income tax return.

The first payment is due April 15, 1999. The estimated tax coupons and instructions and the information circular, "Estimated Tax," have more information. See page 36 to order.

## Are you self-employed?

If you are self-employed and do business in Washington, Multnomah, or Clackamas counties, you may need to file Form TM, Tri-Met Self-Employment tax return. If you are self-employed and do business in Lane County, you may need to file Form LTD, Lane Transit District Self-Employment tax return. See page 36 to order forms.

## Elderly Rental Assistance (ERA)

To qualify for an ERA refund, you must: 1) be a renter who resided in Oregon on December 31, 1998; 2) be age 58 or older; 3) have household income less than \$10,000; and 4) use more than 20 percent of your household income to pay for rent, fuel, and utilities. If you think you qualify, see page 36 to order an ERA booklet.

## Fiscal year filers

Write "Fiscal year" in the center at the top of the form. We prefer you use blue ink. Be sure to fill in the dates of your fiscal year.

## Address section

The department did not issue labels this year in response to a growing concern over the use of Social Security numbers on the labels. Please type or legibly print your name, address, telephone number, and Social Security number on your return.

Social Security number. The request for your Social Security number(s) is authorized by Section 405, Title 42, of the United States Code. You must give us this information. It will be used to establish your identity for tax purposes only.

Age. Fill in your age as of December 31, 1998.

Some of the page number references in the instructions will appear to be inaccurate. The reason for this is that I removed the forms from this instruction booklet. Please use the numbers at the bottom of each page.

Webmaster

# Form 40N instructions

Use Form 40N if:

- You are a nonresident, or
- You are a nonresident filing a joint return and your spouse is a full-year or part-year resident, or
- You meet the requirements as a special-case Oregon resident (see page 4), or
- You meet the requirements as an Oregon resident in the military stationed outside Oregon (see page 4).

Fill out your federal return first, then your Oregon return. You must attach a copy (front and back) of your federal 1040, 1040A, 1040EZ, 1040PC, or Telefile Tax Record to your Oregon tax return. Don't attach any federal schedules such as A, B, C, D, Form 2441, etc. Keep a complete copy of both your federal and state returns. Also, keep all receipts, cancelled checks, statements and other records you used to prepare your return for at least three years after you file your return. Save records for property and investments you purchased for at least three years after you sell the property.

See the instructions on page 6 for "Fiscal year filers" and the "Address section."

## Check the boxes

### Filing status

Check the box next to your filing status. Generally, you must check the same filing status you checked on your federal return.

Exception: If you and your spouse don't have the same residency status, you may file separate returns for Oregon even if you filed your federal return as married filing jointly. See page 36 to order the information circular, "Married Persons Filing Separate Returns."

How to file separate returns:

If you are married filing separately, enter your spouse's name and Social Security number by box 3. Don't fill in your spouse's name or Social Security number in the heading of the return.

If you file separate returns for Oregon only, report your own share of income and deductions. Also, report your share of any Oregon additions or subtractions. To figure your federal tax subtraction or itemized deductions, use the following formula:

$$\frac{\text{Your share of federal AGI}}{\text{Joint federal AGI}} = \text{Your percentage (not to exceed 100\%)}$$

Write "MFS for Oregon only" at the top of the Form 40N. We prefer you use blue ink. Attach the following to both Oregon returns:

- A federal Form 1040 or 1040A prepared as if you had filed "married filing separately."
- A copy of your joint Form 1040, 1040A, 1040EZ, or 1040PC.

If possible, mail both Oregon returns in the same envelope. Do not staple the returns together.

If filing as head of household, enter the name of the qualifying person from your federal return by box 4.

## Exemptions

**6a** & **6b** Yourself and spouse. Check "Yourself" and other boxes that apply. If you can be claimed as a dependent on someone else's return, you can't claim an exemption for yourself. Enter "0" on line 6a.

Severely disabled. If you had a severe disability at the end of 1998, you may claim an additional exemption credit. You are considered to have a severe disability if any of the following apply:

- You permanently lost the use of one or both feet.
- You permanently lost the use of both hands.
- You have a permanent condition that, without special equipment or help, limits your ability to:
  - earn a living, or
  - maintain a household, or
  - transport yourself.

Special equipment doesn't include such items as glasses, contact lenses, ordinary crutches, or hearing aids.

You don't qualify for this exemption if either of the following applies:

- You have a temporary disability from an injury or illness and are expected to recover, or
- Your condition keeps you from doing your former work, but allows you to do other kinds of work without special equipment.

If you have a severe disability that is permanent, your physician must write a letter describing your disability. Keep the letter with your permanent health records.

Check the "Severely disabled" exemption box. If your spouse qualifies, he or she may also claim this exemption. You and your spouse may also qualify for the credit for loss of use of limbs. See page 36 for taxpayer assistance information.

**6c** Dependents. Enter the number of your children claimed as dependents and other dependents in box 6c. In most cases, you must claim the same number of dependents as you claimed on your federal return.



**6d** Disabled child. You may have an additional exemption for your dependent child with a disability. To qualify, your child must meet all of the following:

- Qualify as your dependent.
- Be age 17 or younger.
- Be in school in Oregon.
- Be eligible for “early intervention services” or diagnosed with a disability for special education purposes. Learning disabilities alone don’t qualify for this exemption.
- Your child must have a health-related disability requiring special education as defined by the Oregon Department of Education, such as autism, hearing, visual or orthopedic impairment, trainable mental retardation, serious emotional disturbance, traumatic brain injury, or multiple disabilities.
- Your child must have been diagnosed as of December 31, 1998, through the child’s local school district by a qualified examiner authorized by the Oregon Department of Education.

Keep a copy of the child’s statement of eligibility and cover sheet of your child’s Individualized Education Program (IEP) or Individualized Family Service Plan (IFSP) with your permanent health records.

Write in your child’s name on the “Disabled children only” line. Also, be sure to include the child as a dependent in the total for line 6c.

**7** Age 65 or older, or blind. Check the boxes on line 7 if you or your spouse were age 65 or older, or were blind on December 31, 1998. Check the same boxes you checked on the back of your federal return. You are entitled to a larger standard deduction. If you or your spouse are blind, you may also qualify for an additional exemption credit. See lines 6a and 6b on page 11.

## Line instructions

The following instructions are for lines not fully explained on the form.

Form 40N has two columns for figures.

The first column on Form 40N is labeled “Federal column.” In this column, lines 8 through 28, fill in the same amounts you reported on your federal return. On lines 31 through 38, fill in the additions and subtractions as they apply to your total federal income.

The second column on Form 40N is labeled “Oregon column.” This column is where you list the amounts that apply to Oregon.

Nonresidents. Oregon taxes only your income from Oregon sources. See “What does income from Oregon sources include?” on page 4.

Full-year residents. Oregon taxes your income from all sources.

Part-year residents. Oregon taxes your income from all sources earned or received while you were an Oregon resident. Oregon also taxes your income from Oregon sources while you were a nonresident.

## Income

**8** Wages, salaries, and other pay for work.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount earned while working in Oregon. If that amount differs from the Oregon wages on your W-2 form, you must attach an explanation from your employer to the back of your return. If your Oregon wages are not stated separately on your W-2, compute your Oregon source income using the following formula:

$$\frac{\text{Days actually worked in Oregon}}{\text{Days actually worked everywhere}} \times \text{Total wages} = \text{Oregon wages}$$

Do not include holidays, vacation days, and sick days as days actually worked. Do include sick pay, holiday pay, and vacation pay in total wages. See the example on page 5.

Full-year and part-year residents—fill in amounts you earned while an Oregon resident and any amounts you earned working in Oregon while you were a nonresident.

Exceptions:

- See “Interstate transportation wages,” page 5, to see if you qualify to exclude this income.
- Nonresident federal employees who work on either Bonneville, The Dalles, John Day, or McNary dams should exclude this income from the Oregon column. Write the name of the dam you work on at the top left corner of the return. We prefer you use blue ink.

**9** Taxable interest and dividend income.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in only interest income from an Oregon business you own. Fill in only the dividends passed through to you from an S corporation or partnership doing business in Oregon. These are dividends your S corporation or partnership received on the stock of another corporation.

Full-year and part-year residents:

- 9a. Figure the total interest you received while you were an Oregon resident that is included on your federal return. Add to that your share of interest income received while you were a nonresident on funds used for business activity in Oregon.
- 9b. Figure the total dividends you received while you were an Oregon resident that are included on your federal

return. Add to that figure any dividends received while you were a nonresident that were passed through to you from an S corporation that has no business activity outside of Oregon.

Add lines 9a and 9b. Fill in the total amount on line 9 in the Oregon column.

**10** State and local income tax refunds.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in other state and local income tax refunds for which you claimed a deduction on an Oregon return in a prior year. Fill in your Oregon income tax refund if you included it as income on your federal return. Full-year and part-year residents—fill in state and local income tax refunds received while you were an Oregon resident that are included on your federal return.

**11** Alimony received.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—don't fill in any amount. Full-year and part-year residents—fill in any alimony you received while you were an Oregon resident.

**12** Business income or loss. Nonresidents must include income from an Oregon activity. This includes apportioned business income and allocated non-business income from sole proprietorships.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of income or loss from an Oregon business. Full-year and part-year residents—see page 4 for sources of income to report to Oregon.

**13** Capital gain or loss.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of gain or loss from Oregon sources and capital gain distributions from Oregon sources. Full-year and part-year residents—see page 4 for sources of income to report to Oregon. Limit net losses to \$3,000 (\$1,500 if married filing separately).

**14** Other gains or losses.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of gain or loss from Oregon sources. Full-year and part-year residents—see page 4 for sources of income to report to Oregon.

**15** Total IRA distributions.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—don't fill in any amount. Full-year and part-year residents—see page 4 for sources of income to report to Oregon. You may need more information. See page 36 for taxpayer assistance information.

**16** Pensions and annuities.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—don't fill in any amount. Full-year and part-year residents—see page 4 for sources of income to report to Oregon. You may need more information. See page 36 for taxpayer assistance information.

**17** Rents, royalties, partnerships, estates, trusts, etc. from federal Schedule E.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of rent, royalty, REMIC, partnership, S corporation, estate, and trust income from Oregon sources. Full-year and part-year residents—see page 4 for sources of income to report to Oregon.

**18** Farm income or loss.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of income or loss from an Oregon farm. Full-year and part-year residents—see page 4 for sources of income to report to Oregon.

**19** Unemployment compensation, taxable Social Security, and other taxable income.

Federal column. Fill in the total of these amounts you reported on your federal return.

Oregon column. Nonresidents—fill in any unemployment benefits you received from Oregon. Add any other taxable income you received from Oregon sources. Don't fill in any amount of your Social Security, Railroad retirement benefits, or Railroad unemployment benefits. Oregon doesn't tax this income. Full-year and part-year residents—see page 4 for sources of income to report to Oregon.

## Adjustments to income

**21** IRA or Keogh contributions. Enter allowable IRA and Keogh contributions on line 21. Oregon follows the federal definition of earned income and compensation used to calculate your IRA and Keogh deductions.

Federal column. Fill in the total amounts you reported on your federal return.

Oregon column. Nonresidents—you may be limited in the amount of IRA and Keogh contributions you can deduct for Oregon. Use the formulas below to figure your deduction.

IRA. If you have a federal IRA deduction, you must multiply it by the compensation you earned in Oregon divided by compensation you earned from all sources.

$$\frac{\text{Oregon compensation}}{\text{Total compensation}} \times \text{Federal IRA deduction} = \text{Oregon deduction}$$

Keogh. If you have a federal Keogh deduction, you must multiply it by your earned income from Oregon sources divided by your earned income from all sources.

$$\frac{\text{Oregon earned income}}{\text{Total earned income}} \times \text{Federal Keogh deduction} = \text{Oregon deduction}$$

Full-year and part-year residents will generally deduct the same amount as for federal. The deduction can't be more than your Oregon income.

**22** Student loan interest.

Federal column. Fill in the same amount you reported on your federal return from Form 1098-E.

Oregon column. Nonresidents—fill in the amount of this deduction related to Oregon source income. Divide Oregon income by federal income from all sources and multiply this by the amount of student interest. Full-year residents and part-year residents will generally deduct the same amount as for federal.

**23** Medical savings account contributions. Enter your allowable medical savings account (MSA) contributions on line 23. Oregon follows the federal definitions of allowable contributions.

Federal column. Fill in the amounts you reported on your federal return from Form 8853.

Oregon column. Nonresidents—you may be limited in the amount of MSA contributions you can deduct for Oregon. Use the IRA formula above to figure the portion of the federal deduction allowed for Oregon. Full-year and part-year residents will generally deduct the same amount as for federal. The deduction can't be more than your Oregon income.

**24** Moving expenses.

Federal column. Fill in the same amount you reported on your federal return from Form 3903.

Oregon column. Fill in moving expenses only if they are connected with gaining employment in Oregon or moving to Oregon to take a job in another state. Otherwise, enter -0-. For example, if you moved from California to Washington to take a job in Oregon, fill in your allowable moving expenses in the Oregon column. If you left Oregon to take a job in another state, you cannot deduct your moving expenses.

**25** Deduction for self-employment tax.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of your self-employment tax on earnings from Oregon sources. Use the following formula:

$$\frac{\text{Oregon self-employment earnings}}{\text{Total self-employment earnings}} \times \text{Federal deduction for self-employment tax} = \text{Oregon deduction}$$

Full-year and part-year residents—fill in the amount of your federal self-employment tax deduction related to income earned while you were an Oregon resident.

The Oregon deduction cannot exceed the federal deduction.

**26** Self-employed health insurance deduction.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—fill in the amount of this deduction related to Oregon source income. Full-year and part-year residents—fill in the amount of this deduction related to income earned while you were an Oregon resident. Use the following formula:

$$\text{Total Oregon source health insurance premiums} \times 45\% (.45) = \text{Oregon deduction}$$

Total Oregon source health insurance premiums are those premiums paid for by an Oregon business. The deduction is limited to earned income for which the insurance plan was established.

**27** Penalty on early withdrawal of savings.

Federal column. Fill in the same amount of penalty you reported on your federal return.

Oregon column. Fill in the amount of penalty related to the amount of withdrawal of savings taxed by Oregon.

### 28 Alimony paid.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Nonresidents—deduct a percentage of the alimony you paid. The alimony must be taxable income to your former spouse.

Figure your allowable Oregon deduction on a separate sheet of paper. Compute a special Oregon percentage (line 40) which does not include any alimony you paid. Apply that percentage to the total alimony you paid. Deduct that amount in the Oregon column.

Full-year residents—enter all alimony paid. Part-year residents—see Form 40P instructions, page 24.

## Additions

Oregon treats these items differently than the federal government.

### 31 Interest on government bonds of states other than Oregon.

Federal column. If you didn't include this interest in your federal income, fill in the interest you received from state and local governments outside of Oregon.

Oregon column. Nonresidents—don't fill in any amount. Full-year and part-year residents—if you didn't include this interest in your federal income, fill in the amount of interest you got from states and local governments outside of Oregon while you were an Oregon resident.

### 32 Federal election on interest and dividends of a minor child. Did you make the election to report the interest and dividends of your minor child on your federal return? If so, you must add the amount that is subject to the special federal tax to your Oregon income.

Federal column. Fill in the smaller of line 7 or 8 from federal Form 8814.

Oregon column. Nonresidents—don't fill in any amount. Full-year and part-year residents—fill in interest and dividends received while the minor child was an Oregon resident.

### 33 Other additions. You may qualify for one or more other additions explained below. Identify the addition in the space on the form. If you have more than one, show the type and amount of each addition. Fill in the total amount of "Other additions" on line 33.

- Unused business credits. If you claimed a deduction on your federal return for unused business credits, you

must add this amount to Oregon income. Include it in both the federal and Oregon columns.

- Difference in depreciation for Oregon. You may need the Oregon Depreciation Schedule. See page 36 to order the form.

Federal column. Is your Oregon depreciation less than your federal depreciation? If so, on line 33, fill in the amount from the Oregon Depreciation Schedule, line 2. If not, see the instructions for line 38.

Oregon column. On line 33, fill in the amount from the Oregon Depreciation Schedule relating to income taxable by Oregon.

- The following additions apply to only a few people and are not explained in this booklet. Make the addition in both the federal and Oregon columns. If you need help, see page 36 for taxpayer assistance information.
  - Gain or loss on the sale of depreciated property.
  - Depletion in excess of basis.
  - Gain on sale of inherited Oregon farm or forest property acquired from a decedent who died before January 1, 1987.
  - Lump sum distributions.
  - Gain on certain involuntary conversions.
  - Passive losses.
  - Fiduciary adjustments from Oregon estates and simple or complex trusts.
  - Previously deferred reinvested capital gain.

## Subtractions

Oregon treats these items differently than the federal government.

### 37 Subtract Social Security and Tier 1 Railroad retirement benefits only if you included them on line 19.

### 38 Other subtractions. You may qualify for one or more other subtractions explained below. Identify the subtraction in the space on the form. If you have more than one, show the type and amount of each subtraction. Fill in the total amount of "Other subtractions" on line 38.

Federal pension. If you have federal pension income, see page 25 of the Form 40P instructions.

- Difference in depreciation for Oregon. You may need the Oregon Depreciation Schedule. See page 36 for order instructions.

Federal column. Is your Oregon depreciation more than your federal depreciation? If so, on line 38a, fill in the amount from the Oregon Depreciation Schedule, line 2. If not, see the instructions for line 38.

Oregon column. On line 38b, fill in the amount from the Oregon Depreciation Schedule, line 2, relating to income taxable by Oregon.

- **Military active duty pay.** You may qualify for three different subtractions.

1. You can subtract active duty pay earned outside of Oregon from January 1 through the date the President sets as the end of combat activities in the Persian Gulf. The date was not set when these instructions were published.

**Federal column.** Fill in the amount of active duty pay earned outside of Oregon that is included in federal income, line 8, federal column. Write "Combat zone" in the center at the top of your return. We prefer you use blue ink.

**Oregon column.** Nonresidents—don't fill in any amount. Full-year and part-year residents—fill in your U.S. military active duty pay earned outside of Oregon which is included in line 8, Oregon column.

2. If you were an Oregon resident who entered the military for the first time in 1998 or left the military during 1998, you may subtract active duty pay earned outside of Oregon.

**Federal column.** Fill in the amount of active duty pay earned outside of Oregon that is included in federal income, line 8.

**Oregon column.** Nonresidents—don't fill in any amount. Full-year and part-year residents—fill in your U.S. military active duty pay earned outside of Oregon that is included in line 8, Oregon column.

3. Whether or not you are eligible for the other military subtractions, you may still subtract up to \$3,000 of active duty pay.

**Federal column.** Fill in your U.S. military active duty pay included in your federal income. The subtraction for each spouse receiving active duty pay is limited to \$3,000. Reserve summer camp is active duty. However, drills and weekend meetings of reserve units aren't active duty. If you are in the National Guard or reserves and your W-2 doesn't show a separate amount for active duty pay, contact your paymaster.

**Oregon column.** Nonresidents—don't fill in any amount. Drill pay and weekend meeting pay for nonresident members of the Oregon National Guard or reserves may not be subtracted. Report that pay in the Oregon column, line 8. Full-year and part-year residents—fill in your U.S. military active duty pay that is included in line 8, Oregon column.

**Note:** Your total active duty pay subtractions cannot exceed your total active duty pay income.

- **Interest and dividends from the U.S. government.**

**Federal column.** Fill in interest and dividends from the U.S. government you included on your federal return. Include U.S. government interest you got through partnerships or grantor trusts. *Examples:* interest from U.S.

Series EE and HH bonds, and Treasury bills and notes. You may also subtract interest and dividends paid to you by organizations that invest in U.S. government securities. Check the information on your Form 1099. The payer may have given the percentage of interest and dividends from U.S. government securities. U.S. government interest must be reduced by any interest expense relating to U.S. government obligations you deducted on your federal Schedule A.

**Oregon column.** If you included interest and dividends from the U.S. government on line 9 of the Oregon column, fill in this amount of U.S. government interest on line 38.

**Note:** When you sell or dispose of a U.S. government obligation, you must include any gain or loss in income.

- **Local government bond interest.**

**Federal column.** The U.S. government taxes certain types of local government bond interest (e.g., private activity bonds). If you included income from Oregon bonds on your federal return, deduct it on this line. Label it "Local government bond interest."

**Oregon column.** Fill in Oregon local government bond interest if you included it in Oregon income on line 9.

- **Oregon tax refund included in federal income.** This subtraction is for Oregon income tax refunds only.

**Federal column.** Fill in your Oregon income tax refund only if you included it on line 10 of the federal column. Label the subtraction "Oregon refund."

**Oregon column.** Fill in your Oregon income tax refund only if you included it on line 10 of the Oregon column.

- **Railroad retirement benefits.**

**Federal column.** Fill in your Tier 2, supplemental, windfall, and dual-vested Railroad retirement benefits included on line 16 of the federal column. Fill in Railroad unemployment benefits included on line 19.

**Oregon column.** Don't fill in any amount. Oregon does not tax Railroad retirement benefits or Railroad unemployment benefits.

- **Oregon Lottery.** Oregon does not tax Oregon Lottery and Powerball winnings of \$600 or less per winning ticket, or winnings on tickets purchased before January 1, 1998.

**Federal column and Oregon column.** Nonresidents—fill in all Oregon Lottery winnings included on line 19. Full-year and part-year residents—fill in Oregon Lottery winnings included on line 19 of \$600 or less if the winning ticket was purchased on or after January 1, 1998 while an Oregon resident. Add to that all winnings from tickets purchased before January 1, 1998.

Are you claiming gambling losses as an itemized deduction? See instructions for line 46, page 18.

You may also need to reduce your gambling losses claimed on Schedule A. See instructions for line 46, page 18. If you need help, see page 36 for taxpayer assistance information.

- The following subtractions apply to only a few people and are not explained in this booklet. Make the subtraction in both the federal and Oregon columns if the related income was included in both columns. See page 36 for taxpayer assistance information.
  - Logging and construction commuting costs.
  - Income earned by an enrolled member of an American Indian tribe while living on and working on an Oregon reservation or land held in trust by the United States for a tribe.
  - Gain or loss on the sale of depreciated property.
  - Business expenses reduced because of federal tax credits (e.g., targeted jobs, work opportunities).
  - Deferral of reinvested capital gain on Oregon business property.
  - Passive losses.
  - Fiduciary adjustments from Oregon estates and simple or complex trusts.
  - Certain pension distributions when the contributions were taxed by another state.
  - Underground storage tank pollution grants.
  - Gain on certain involuntary conversions previously reported.

**40** Oregon percentage. Divide the amount on line 39b by the amount on line 39a. Carry your decimal to three places without rounding to figure your percentage. Write the percentage on line 40. Don't fill in more than 100 percent or less than -0-.

			Oregon percentage	
Example	Line 39b	Line 39a	Line 40	
1	\$8,000	÷ \$30,000	= .266 (26.6%)	
2	(1,000)	÷ 15,000	= -0- (0%)	
3	20,000	÷ 15,000	= 1.000 (100.0%)	

## Deductions and modifications

You may claim either net itemized deductions or Oregon's standard deduction, whichever is larger.

**41** Itemized deductions. Generally, you may claim your total itemized deductions shown on federal Schedule A, line 28. You may itemize for Oregon even if you took the federal standard deduction on your federal return. If you itemize for Oregon only, fill out a separate Schedule A. Use your federal adjusted gross income to figure the Schedule A limitations. Keep Schedule A with your tax records.

Note: Married people filing separate returns must itemize deductions if their spouse itemizes. Are you filing separate returns for Oregon only? If so, determine your share of itemized deductions by multiplying your total joint deductions by the percentage you figured on page 11. You may separate each spouse's itemized deductions if you can clearly show your own itemized deductions.

**42** State income tax claimed as an itemized deduction. Fill in the amount of Oregon income tax you claimed as an itemized deduction on federal Schedule A, line 5. Also, if you claim a credit for income tax paid to another state, include the other state's tax after credits or the other state's tax claimed as an itemized deduction, whichever is less. See part-year instructions for line 59 on page 30.

Did you limit itemized deductions on your federal return because your adjusted gross income (AGI) exceeded \$124,500 (\$62,250 if married filing separately)? If so, you may need to complete a worksheet to figure how much Oregon income tax to subtract from itemized deductions. See page 36 to order the information circular, "Limit on Itemized Deductions."

**44** Standard deduction. Generally, your standard deduction is based on your filing status, as follows:

Single	\$1,800
Married filing jointly	3,000
Married filing separately	1,500
Head of household	2,640
Qualifying widow(er)	3,000

Caution: If you can be claimed as a dependent on another person's return, your standard deduction is limited to the greater of:

1. Your earned income plus \$250, but no more than the maximum allowed for your filing status as shown above, or
2. \$700.

The limit applies even if you can be, but are not, claimed as a dependent on another person's return.

Also: You are allowed an additional deduction if you or your spouse are age 65 or older or blind. The additional amount is based on your filing status:

Single or head of household—	\$1,200
All others—	\$1,000

**45** 1998 federal tax liability. Caution: Carefully follow the instructions below. Don't confuse your federal tax liability from your federal return with the federal tax withheld on your W-2. They aren't the same.

You may deduct your total federal income tax liability after credits up to \$3,000. Don't fill in less than -0- or more than \$3,000 (\$1,500 if married filing separately).

Fill in your federal tax liability from:

- Form 1040, line 49, or
- Form 1040A, line 32, or
- Form 1040EZ, line 10, or
- Telefile Tax Record, tax from second box, line J.

On your federal return did you have:

- Alternative minimum tax, Form 1040, line 51?
- Tax on qualified retirement plans, Form 1040, line 53?

If so, include these in your federal tax subtraction.

Caution: Don't add:

- Self-Employment tax, Form 1040, line 50.
- Social Security and Medicare tax on tips, Form 1040, line 52.
- Advance earned income credit payments, Form 1040, line 54, or Form 1040A, line 33.
- Household employment taxes, Form 1040, line 55.

If you file married filing separately for Oregon only, multiply your joint federal tax liability (after credits) by the percentage calculated on page 11. Each spouse is limited to a maximum subtraction of \$1,500.

Did you pay additional federal tax in 1998 because you were audited or you filed an amended return? If so, read the instructions for line 46, "Other deductions and modifications."

**46** Other deductions and modifications. Only a few people have other deductions and modifications. Some of these items are multiplied by the Oregon percentage. Enter these amounts on Form 40N, line 46. Others are not multiplied by the Oregon percentage. Enter these amounts on line 49. Identify the deduction or modification in the space on the form. If you have more than one, show the type and amount of each. Modifications can be either additions or subtractions. You need to net the total amount of these items and enter that amount on this line.

- Federal tax from a prior year. Did you pay additional federal tax in 1998 because you were audited or because you amended a prior year return? If so, you may be able to deduct the additional tax. This deduction applies only to additional tax you paid because your return was changed. It doesn't include the tax you paid on the original return or interest or penalties you paid.

To figure your deduction for federal tax from a prior year, follow these steps:

Step 1: From \$3,000 (\$1,500 if married filing separately) subtract your federal tax, Form 40N, line 45, or Form 40P, line 46.

Step 2: On Form 40N, line 46, or Form 40P, line 47, fill in the lesser of:

- The amount you figured in step 1, or
- Your additional federal tax from a prior year.

Label the line "Prior year's federal tax."

- Foreign tax. Did you pay tax to a foreign country in 1998? You may deduct this tax if you:
  - Took a foreign tax credit on your federal return, or
  - Didn't take a foreign tax credit and didn't itemize deductions on your federal return.

To figure your foreign tax deduction, follow these steps:

Step 1: From \$3,000 (\$1,500 if married filing separately) subtract:

- Your federal tax, Form 40N, line 45, or Form 40P, line 46, and
- Your federal tax from a prior year (see instructions above).

Step 2: On Form 40N, line 46, or Form 40P, line 47, fill in the lesser of:

- The amount you figured in step 1, or
- Your foreign tax.

Label the line "Foreign tax."

Caution: If you claim foreign tax as an itemized deduction on your federal return, don't claim an additional deduction on your Oregon return.

The sum of your foreign tax deduction and your federal tax deduction can't be more than \$3,000.

- Gambling losses claimed as an itemized deduction. Did you have winnings from the Oregon Lottery or Powerball and claim gambling losses on your federal Schedule A? If so, fill in and bracket on line 46 the gambling losses that exceed gambling winnings taxed by Oregon.
- Federal income tax refunds. Did you get a federal tax refund in 1998 because you filed an amended federal return for a prior year or you were audited? If so, fill in and bracket the amount on line 46 if you subtracted that amount on a prior Oregon return. If you need help, see page 36 for taxpayer assistance information.
- Special Oregon medical deduction. You may qualify for an additional Oregon itemized deduction for medical expenses. You or your spouse must be age 61 or older by December 31, 1998. You must itemize your deductions for Oregon. Fill in the lesser of line 1 or line 3 from your federal Schedule A.

**49** Deductions and modifications not multiplied by the Oregon percentage. Artists who make a charitable art donation may take a full deduction. To order the information circular, "Art Contribution Subtraction," see page 36.

## Oregon tax

**52** Oregon tax. Figure the tax on your Oregon taxable income, line 51. Use the rate charts on page 35. Fill in the amount of tax on line 52.

*Example:* A married couple's Oregon taxable income, line 51, is \$19,500. They are filing jointly. They use chart B for married filing jointly. They figure their tax like this:

Oregon taxable income	\$19,500
Subtract	<u>-11,600</u>
	7,900
Multiply by 9%	<u>× .09</u>
	711
Then add	<u>+ 720</u>
Their Oregon tax is	<u>\$ 1,431</u>

**53** Interest on certain installment sales. Do you have installment sales on which you were required to pay interest on the deferred tax liability for federal purposes? If so, you must also compute interest for Oregon. The amount due for Oregon is computed the same way as for federal. The current interest rate is 9 percent per year.

As a nonresident, consider only those installment obligations that arose from dispositions of property in this state. Enter the amount on line 53.

## Credits

You must prorate some Oregon credits on your return. This means you need to multiply your total credit by your Oregon percentage, line 40, to figure the amount you can claim on your Oregon return. The credits that must be prorated are:

- Exemption.
- Earned income.
- Working family.
- Child and dependent care.
- Alternative energy devices.
- Elderly or the disabled.
- Farmworker housing.
- Fish habitat improvements.
- Fish screening devices.
- Rural medical practitioners, dentists, or optometrists.

**56** Earned income credit. You are allowed an Oregon earned income credit only if you qualify for and claim the earned income credit on your federal return.

Use the following formula to compute your credit:

1. Enter your federal earned income credit (Form 1040EZ, line 8a; Form 1040A, line 37a; Form 1040, line 59a; or Telefile Tax Record, line K). 1. \_\_\_\_\_
2. Multiply line 1 by 5 percent (.05). 2. \_\_\_\_\_
3. Multiply line 2 by the Oregon percentage (Form 40N, line 40). 3. \_\_\_\_\_  
Enter here and on Form 40N, line 56.

The Oregon earned income credit is limited to your tax liability. You cannot carry over any amount that exceeds your tax liability to next year's return.

**57** Working family credit. This credit is available to low income families with qualifying child care expenses.

### Qualifications

You qualify for this credit if all the following are true:

- Your federal adjusted gross income is less than the limit for your household size (see tables on page 29);
- Your expenses are for your child under age 13, (or for your disabled child, see page 12);
- Care is not provided by the child's parent or guardian (unless provided in a licensed child care facility);
- Care is not provided by a brother or sister under age 19;
- You have earned income of at least \$6,000;
- You have less than \$2,300 of investment income (investment income is generally interest, dividends, and capital gains); and,
- If you are married filing separately, you must be legally separated or living apart on December 31, 1998.

Use the following worksheet to figure your credit:

### Household size

1. Enter the number of exemptions reported on your federal return. 1. \_\_\_\_\_
2. Add any children who live with you, but are claimed as dependents by your former spouse. 2. \_\_\_\_\_
3. Line 1 plus line 2. This is your household size. 3. \_\_\_\_\_

### Credit amount

4. Enter your federal adjusted gross income (Form 1040EZ, line 4; Form 1040A, line 18; Form 1040, line 33; or Telefile Tax Record, line H). 4. \_\_\_\_\_
5. Enter total child care expenses paid by you in 1998. 5. \_\_\_\_\_
6. Enter the decimal amount from the correct table on page 29. The tables are based on household size (line 3 from above). For example, if the amount on line 3 is 7, use Table 7. 6. \_\_\_\_\_
7. Multiply line 5 by line 6. 7. \_\_\_\_\_
8. Multiply line 7 by the Oregon percentage (Form 40N, line 40). Enter here and on Form 40N, line 57. 8. \_\_\_\_\_

The working family credit is limited to your tax liability. You cannot carry over any amount that exceeds your tax liability to next year's return. This credit may be claimed in addition to the child and dependent care credit.

**58** Credit for income tax paid to another state. Oregon will allow a credit for tax paid to another state on Form 40N if you meet all of the following:

- a. You are a nonresident of Oregon,
- b. You are a resident of Arizona, California, Indiana, or Virginia, and



- c. You have income that is taxed by both Oregon and your resident state.

See page 30 of the Form 40P instructions to figure your credit.

If your income is taxed by Oregon and a state not listed above, you may be eligible for a credit from your resident state. For more information, contact your resident state.

**59** Child and dependent care credit. You are allowed an Oregon credit only if you qualify for the federal child and dependent care credit. You may still be able to claim the Oregon credit even if you can't use all of your federal credit. Use the following worksheet to figure your credit for Oregon.

1. Enter the amount from federal Form 2441, line 6, or Form 1040A, Schedule 2, line 6. 1. \_\_\_\_\_
2. Enter the decimal amount from the following table. 2.  $\times$  \_\_\_\_\_

If your federal taxable income from Form 1040, line 39, or Form 1040A, line 24 is:		Your decimal amount is:
Over—	But not over—	
_____	\$5,000	.30
\$ 5,000	10,000	.15
10,000	15,000	.08
15,000	25,000	.06
25,000	35,000	.05
35,000	45,000	.04
45,000	_____	.00

3. Multiply the amount on line 1 by the decimal amount on line 2. Enter the result here. 3. \_\_\_\_\_

Multiply line 3 by the Oregon percentage from Form 40N or Form 40P, line 40. Enter the result on Form 40N, line 59, or Form 40P, line 58.

Note: Did you pay 1997 child care expenses in 1998? If so, you may be able to use that amount to increase your 1998 Oregon child and dependent care credit. See page 36 for taxpayer assistance information.

Carryforward. Your total 1998 child care credit can't be more than your 1998 tax liability for Oregon. Any excess can be carried forward over the next five years. If the excess isn't used within five years, it's lost. See instructions for line 60.

**60** Other credits. You may qualify for other credits explained below. Identify the credit in the space on line 60. If you have more than one, show the type and amount of each credit.

- Retirement income credit. Nonresidents are not eligible for this credit. The credit can be claimed by an eligible full-year or part-year resident when filing jointly with a nonresident spouse on Form 40N. See part-year instructions, line 57, on page 28.
- Child and dependent care credit carryover from prior years. Fill in the amount of the carryover on Form 40N or Form 40P, line 60. Label the line "Child care credit carryover." The amount of prior year carryover plus your current year's credit can't exceed your Oregon tax liability. If it does, the excess credit can be carried forward over the next five years. If the excess isn't used within five years, it's lost.
- Political contribution credit. Include your total political contributions but not more than \$100 on a joint return, or \$50 on all others. The contributions must have been made during 1998. They must have been donations of money to any of the following: a political party recognized by Oregon; a qualified candidate (or the candidate's principal campaign committee) for federal, state, or local office to be voted for in Oregon; or a political committee organized only to support or oppose ballot measures to be voted on in Oregon.
- Credit for the elderly or the disabled. The credit is 40 percent of the federal credit. Multiply the amount from federal Schedule R, line 20, or Form 1040A, Schedule 3, line 20, by 40 percent (.40). Then multiply the result by the Oregon percentage on Form 40N, line 40. You may claim this credit or the retirement income credit, but not both.

The following credits apply to only a few people. Some are prorated and some aren't. See page 36 for taxpayer assistance information.

These credits are:

- Alternative energy devices.
- Bone marrow donation programs.
- Business energy.
- Child development.
- Crops donated to gleaning cooperatives.
- Dependent care assistance.
- Farmworker housing.
- First Break Program.
- Fish habitat improvements.
- Fish screening devices.
- Gain from the sale of your house also taxed by another state or country.
- Home care for the elderly.
- Reclaimed plastics (investment in capital assets).
- Involuntary moving of an Oregon mobile home.
- Loss of use of limbs.
- Pollution control facilities.
- Pollution prevention credit.
- Reforestation of underproductive forest lands.
- Rural medical practitioners, dentists, or optometrists.

## Tax payments, penalties, and interest

**63** Oregon income tax withheld from income. Fill in the total amount of Oregon tax withheld from your wages and other income. That's the amount shown on your W-2 or 1099 forms. Don't use FICA (Social Security) tax withheld from your pay. Don't use tax withheld from your wages by other states. Staple readable copies of your W-2 or 1099 forms to the lower front of your return.

If you don't have a W-2 or 1099, you must provide other proof of any tax withheld from your income. Proof may include a final paycheck stub or a letter from your employer. We can't accept anything but W-2 forms until after February 1, 1999.

**64** Estimated tax payments for 1998. Fill in the total Oregon estimated tax payments you made before filing your 1998 Oregon return. Include any payments made with your extension. Also, include any refund applied from your 1997 income tax return.

**68** Penalty and interest. Your return is due April 15, 1999, unless you get an extension.

Penalty. Include a penalty payment if you:

- Pay your tax after April 15 (even if you have an extension).
- File your income tax return showing tax-to-pay after the due date (including any extension).

The penalty is 5 percent of the unpaid balance of your tax.

If you file more than three months late, add an additional 20 percent penalty.

Exception: You don't have to pay a penalty if you do all of the following:

1. Get an extension of time to file your return.
2. Pay at least 90 percent of the tax due by April 15, 1999.
3. Pay the balance of tax due at the time you file within the extension period.
4. Pay the interest on the balance of tax due at the time you file your return or within 30 days of our billing date.

Interest. If you are filing your return or paying your tax after April 15, 1999, include interest on any unpaid tax. The current interest rate is 9 percent per year. If the tax is not paid within 60 days of our bill, the interest rate increases to 13 percent per year.

Interest is figured daily for periods of less than a month. A full month, for example, is April 16 to May 15. Here's how to figure daily interest:

$$\text{Tax} \times .000247 \times \text{number of days}$$

**69** Interest on underpayment of estimated tax. You have an underpayment if you pay less than 90 percent of the tax due on each estimated tax payment date. If you have an underpayment, you must file Oregon Form 10, "Underpayment of Oregon Estimated Tax." See page 36 to order this form.

Use Form 10 to figure the amount of interest you owe or to see if you qualify for an exception to the payment of this interest.

You don't have an underpayment if you owe less than \$500 tax on your 1998 return.

The tax you owe is net income tax less your Oregon withholding.

**71** Amount-you-owe. Attach a check or money order to your return on top of the W-2s. Make it payable to "Oregon Department of Revenue." We prefer you use blue ink. Do not use red ink. Do not make your check out to "IRS" or "Internal Revenue Service." Write your Social Security number and "1998 Oregon Form 40N" on your check. Don't send cash or post-dated checks. Mail your return to:

Oregon Department of Revenue  
PO Box 14555  
Salem OR 97309-0940

Special instructions. Do you owe interest on line 69 and have an overpayment on line 66? If your overpayment is less than the interest due, fill in the result of line 70 minus line 66.

Stop here on the form.

**72** Refund. You must have a refund of \$5 or greater on line 72 to use lines 73-78.

**73** Estimated tax. If your refund is \$5 or more, you may apply part or all of your refund (line 72) to your 1999 estimated tax. Fill in the amount you want to apply. But don't fill in more than the amount on line 72.

**74** - **78** You may donate part or all of your refund to the charitable organizations listed on the form. Descriptions of each charity are on page 35. A donation will reduce your refund. If you don't have a refund on line 72 but want to contribute, mail your donations to the addresses shown on page 35.

**80** Net refund. You must reduce your refund by any amounts applied to 1999 estimated tax and donations on lines 73-78. By law, the Oregon Department of Revenue cannot refund amounts less than \$5. Generally, the department cannot issue a refund when the return is filed more than three years after the due date of the return. Mail your return to:

Refund  
PO Box 14700  
Salem OR 97309-0930

# Form 40P instructions

Use Form 40P if:

- You're a part-year resident, or
- You meet the exception below and choose to file a joint return.

Fill out your federal return, then your Oregon return. You must attach a copy (front and back) of your federal 1040, 1040A, 1040EZ, 1040PC, or Telefile Tax Record to your Oregon tax return. Don't attach any federal schedules such as A, B, C, D, Form 2441, etc. Keep a complete copy of your federal and state returns. Also, keep all receipts, cancelled checks, statements, and other records you used to prepare your return for at least three years after you file your return. Save records for property and investments you purchased for at least three years after you sell the property.

See page 6 for instructions for "Fiscal year filers" and the "Address section."

## Check the boxes

### Filing status

Check the box next to your filing status. Generally, you must check the same filing status you checked on your federal return.

Exception: If you and your spouse don't have the same residency status, you may file separate returns for Oregon even if you filed married filing jointly for federal. See page 36 to order the information circular, "Married Persons Filing Separate Returns."

How to file separate returns:

If you are married filing separately, see page 11 of the Form 40N instructions.

If possible, mail your Oregon returns in the same envelope. Do not staple the returns together.

If filing as head of household, enter the name of the qualifying person from your federal return by box 4.

### Exemptions

**6a** & **6b** Yourself and spouse. Check "Yourself" and other boxes that apply. If you can be claimed as a dependent on someone else's return, you can't claim an exemption for yourself. Enter "0" on line 6a.

Severely disabled. If you had a severe disability at the end of 1998, you may qualify for an additional exemption credit. See "Severely disabled" on page 11 of the Form 40N instructions.

**6c** Dependents. Enter the number of your children claimed as dependents and other dependents in box 6c. In most cases, you must claim the same number of dependents as claimed on your federal return.

**6d** Disabled child. If your child had a disability at the end of 1998, you may qualify for an additional exemption credit. See "Disabled child," page 12 of the Form 40N instructions for qualifications.

**7** Age 65 or older, or blind. If you or your spouse are age 65 or older, or blind, see page 12.

## Line instructions

The following instructions are for lines not fully explained on the form.

Form 40P has two columns for figures.

The first column on Form 40P is labeled "Federal column." In this column, lines 8 through 28, fill in the same amounts you reported on your federal return. On lines 31 through 38, fill in the additions and subtractions as they apply to your total federal income.

The second column on Form 40P is labeled "Oregon column." This column is where you list the amounts that apply to Oregon. Oregon taxes your income from all sources earned or received while you were an Oregon resident. Oregon also taxes your income from Oregon sources while you were a nonresident.

## Income

**8** Wages, salaries, and other pay for work.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount you earned while an Oregon resident. Add to that figure any amount earned while working in Oregon as a nonresident. See page 12 to calculate Oregon wages while a nonresident. If an amount differs from your Oregon wages on your W-2 form, you must attach an explanation from your employer to the back of your Oregon return.

Exceptions: See "Interstate transportation wages" and "Hydroelectric dam wages," page 5, to see if you qualify to exclude this income.

**9** Taxable interest and dividend income.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column.

9a. Figure the total interest you received while you were an Oregon resident that is included on your federal return. Add to that your share of interest income received while you were a nonresident on funds used for business activity in Oregon.

9b. Figure the total dividends you received while you were an Oregon resident that are included on your federal return. Add to that figure any dividends received while you were a nonresident that were passed through to you from an S corporation that has no business activity outside Oregon.

Add lines 9a and 9b. Fill in the total on line 9 in the Oregon column.

**10** State and local income tax refunds.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in state and local income tax refunds for which you claimed a deduction on an Oregon return in a prior year. Fill in your Oregon income tax refund if you included it as income on your federal return.

**11** Alimony received.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in any alimony you received while you were an Oregon resident.

**12** Business income or loss. Nonresidents must include income from any Oregon activity. This includes apportioned business income and allocated nonbusiness income.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount of your business income or loss while you were an Oregon resident. Add to that figure the amount received from an Oregon business while you were a nonresident.

**13** Capital gain or loss.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount of your capital gain or loss and capital gain distributions received while you were an Oregon resident. Add to this figure the amount received from Oregon sources while you were a nonresident. Limit net losses to \$3,000 (\$1,500 if married filing separately).

**14** Other gains or losses.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount of gain or loss received while you were an Oregon resident. Add to that figure the amount received from Oregon sources while you were a nonresident.

**15** Total IRA distributions.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in any taxable individual retirement arrangement (IRA) distributions received while an Oregon resident. Include any amounts you converted from a regular IRA into a Roth IRA. Prorate these amounts based on the number of months you lived in Oregon. You may need more information. See page 36 for taxpayer assistance information.

**16** Pensions and annuities.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in any taxable pensions and annuities received while an Oregon resident. You may need more information. See page 36 for taxpayer assistance information.

**17** Rents, royalties, partnerships, estates, trusts, etc. from federal Schedule E.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount of rent, royalty, estate, and trust income you received while an Oregon resident. Add any Schedule E income you received from Oregon sources while you were a nonresident.

Partnership and S corporation income is generally considered earned and received on the last day of the partnership or S corporation's taxable year. If you were an Oregon resident at the partnership or S corporation's year end, report all of that income or loss to Oregon.

**18** Farm income or loss.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Figure the amount of farm income or loss received while you were an Oregon resident. Add to that figure the amount received from an Oregon farm while you were a nonresident.

**19** Unemployment compensation, taxable Social Security, and other taxable income.

Federal column. Fill in the total amounts you reported on your federal return.

Oregon column. Fill in any unemployment benefits and any other taxable income you received while you were an Oregon resident. Add to that figure any unemployment benefits and any other income you received from Oregon sources while you were a nonresident. Don't fill in any amount of your Social Security, Railroad retirement benefits, or Railroad unemployment benefits. Oregon doesn't tax this income.

## Adjustments to income

**21** IRA or Keogh contributions. Enter your allowable IRA and Keogh contributions on line 21. Oregon follows the federal definition of earned income and compensation used to calculate your IRA and Keogh deductions.

Federal column. Fill in the total amounts you reported on your federal return.

Oregon column. You may be limited in the amount of your IRA and Keogh contributions you can deduct for Oregon. Figure the amount you paid while you were an Oregon resident. Add to that the amount calculated for the time you were a nonresident.

IRA. For the part of the year you were a nonresident, multiply your federal IRA deduction by the amount of compensation earned in Oregon divided by your compensation from all sources.

$$\frac{\text{Oregon compensation}}{\text{Total compensation}} \times \text{Federal IRA deduction} = \text{Oregon deduction}$$

Keogh. For the part of the year you were a nonresident, multiply your federal Keogh deduction by the amount of earned income from Oregon sources divided by your earned income from all sources.

$$\frac{\text{Oregon earned income}}{\text{Total earned income}} \times \text{Federal Keogh deduction} = \text{Oregon deduction}$$

The deduction in the Oregon column is subject to:

1. The federal limitations, and
2. Income included in the Oregon column.

**22** Student loan interest.

Federal column. Fill in the same amount you reported on your federal return from Form 1098-E.

Oregon column. Nonresidents—fill in the amount of this deduction related to Oregon source income. Divide Oregon income by federal income from all sources and multiply this by the amount of student interest. Full-year residents and part-year residents will generally deduct the same amount as for federal.

**23** Medical savings account contributions. Enter your allowable medical savings account (MSA) contributions on line 23. Oregon follows the federal definitions of allowable contributions.

Federal column. Fill in the amounts you reported on your federal return from Form 8853.

Oregon column. Nonresidents—you may be limited in the amount of MSA contributions you can deduct for Oregon. Use the IRA formula above to figure the portion of the federal deduction allowed for Oregon. Full-year and part-year residents will generally deduct the same amount as for federal. The deduction can't be more than your Oregon income.

**24** Moving expenses.

Federal column. Fill in the same amount you reported on your federal return from Form 3903.

Oregon column. Fill in moving expenses only if they are connected with gaining employment in Oregon or moving to Oregon to take a job elsewhere. Otherwise, enter -0-. For example, if you moved from California to Washington to take a job in Oregon, your allowable moving expenses should be entered in the Oregon column. If you left Oregon to take a job outside of Oregon, your expenses are not deductible.

**25** Deduction for self-employment tax.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in the amount of your federal self-employment tax deduction related to earnings from Oregon sources while you were a nonresident and earnings from all sources while you were a resident. The Oregon deduction cannot exceed the federal deduction. Use the following formula:

$$\frac{\text{Oregon self-employment earnings while a nonresident plus self-employment earnings while a resident}}{\text{Total self-employment earnings}} \times \text{Federal deduction for self-employment tax} = \text{Oregon deduction}$$

**26** Self-employed health insurance deduction.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. Fill in the deduction amount related to self-employment earnings taxable to Oregon. Use the following formula:

$$\text{Total Oregon source health insurance premiums} \times 45\% (.45) = \text{Oregon deduction}$$

Total Oregon source health insurance premiums are those premiums paid for by an Oregon business while you were a nonresident plus premiums paid for by any qualifying business while you were a resident.

The deduction is limited to earned income for which the insurance plan was established.

**27** Penalty on early withdrawal of savings.

Federal column. Fill in the same amount of penalty you reported on your federal return.

Oregon column. Fill in the amount of penalty related to the amount of withdrawal of savings taxed by Oregon.

**28** Alimony paid.

Federal column. Fill in the same amount you reported on your federal return.

Oregon column. For the portion of the year that you were a resident, all of the alimony you paid is deductible.

For the portion of the year that you were a nonresident, you may deduct a percentage of the alimony you paid. The alimony must be taxable income to your former spouse. Figure your allowable Oregon deduction by computing a special Oregon percentage on a separate sheet of paper as follows:

1. Divide Oregon source income from when you were a nonresident by your total income while you were a nonresident,
2. Multiply this percentage by the alimony you paid while you were a nonresident, and
3. Add the amount computed while you were a nonresident and the amount paid while you were a resident. Enter this amount on line 28 in the Oregon column.

## Additions

Oregon treats these items differently than the federal government.

- 31** Interest and dividends on government bonds of states other than Oregon.

Federal column. If you didn't include interest or dividends in your federal income, fill in the amount you received from state and local governments outside of Oregon.

Oregon column. Fill in the amount of interest and dividends you got from states and local governments outside of Oregon while you were an Oregon resident.

- 32** Federal election on interest and dividends of a minor child. Did you make the election to report the interest and dividends of your minor child on your federal return? If so, see instructions on page 15.

- 33** Other additions. You may qualify for one or more other additions explained below. Identify the addition in the space on the form. If you have more than one, show the type and amount of each addition. Fill in the total amount of "Other additions" on line 33.

Difference in depreciation for Oregon. Are you moving into Oregon with depreciable property located in another state? You may need the "Oregon Depreciation Schedule." See page 36 to order the form.

There are also additions which apply to only a few people. They are listed on page 15 of the 40N instructions. Make the addition in both the federal and Oregon columns. If you need help, see page 36 for taxpayer assistance information.

## Subtractions

Oregon treats these items differently than the federal government.

- 37** Subtract Social Security and Tier 1 Railroad retirement benefits only if you included them on line 19.

- 38** Other subtractions. You may qualify for one or more other subtractions explained below. Identify

the subtraction in the space on the form. If you have more than one, show the type and amount of each subtraction. Fill in the total amount of "Other subtractions" on line 38.

- Federal pension income. You may be able to subtract some or all of your pension income. This includes benefits paid to the retiree or to the surviving spouse. The subtraction amount is based on the number of months of federal service before and after October 1, 1991. Subtract your entire federal pension if all your months of federal service occurred before October 1, 1991. If you have no months of service before October 1, 1991, you cannot subtract any federal pension. If your service was both before and after October 1, 1991, you will subtract a percentage of your pension income. Once you have determined the percentage, it will not change from year to year.

*Example:* Joe began working for the U.S. Postal Service February 5, 1965 and retired November 16, 1995. He worked 320 months before October 1, 1991 and a total of 370 months. Joe moved to Oregon May 31, 1998. He can subtract 86.5 percent ( $320 \div 370$ ) of his federal pension included in the Oregon column. He will continue to subtract 86.5 percent of his federal pension from Oregon income in future years.

Use the following worksheet to determine your subtraction amount:

- |  |          |
|--|----------|
| 1. Federal pension included in Oregon column.                                  | 1. _____ |
| 2. Divide months of service before October 1, 1991 by total months of service. | 2. _____ |
| 3. Multiply line 1 by line 2. Enter here and on Form 40P, lines 38a and 38b.   | 3. _____ |

- Difference in depreciation for Oregon. Are you moving into Oregon with depreciable property located in another state? You may need the "Oregon Depreciation Schedule." See page 36 to order the form.
- Military active duty pay. Military active duty pay qualifies for a subtraction. See page 16 of the Form 40N instructions.
- Interest and dividends from the U.S. government. If you received interest and dividends from the U.S. government that you included on your federal return, see page 16 of the Form 40N instructions.

- Local government bond interest.

Federal column. The U.S. government taxes certain types of local government bond interest (e.g., private activity bonds). If you included income from Oregon bonds on your federal return, deduct it on this line. Label it "Local government bond interest."

Oregon column. Fill in Oregon local government bond interest if you included it in Oregon income on line 9.

- Oregon tax refund included in federal income. This subtraction is for Oregon income tax refunds only.

Federal column. Fill in your Oregon income tax refund only if you included it on line 10 of the federal column. Label the subtraction "Oregon refund."

Oregon column. Fill in your Oregon income tax refund only if you included it on line 10 of the Oregon column.

- Railroad retirement benefits.

Federal column. Fill in your Tier 2, supplemental, windfall, and dual-vested Railroad retirement benefits included on line 16 of the federal column. Fill in Railroad unemployment benefits included on line 19.

Oregon column. Don't fill in any amount. Oregon does not tax Railroad retirement or Railroad unemployment benefits.

- Oregon Lottery. Oregon does not tax Oregon Lottery and Powerball winnings of \$600 or less per winning ticket, or winnings on tickets purchased before January 1, 1998.

Federal column and Oregon column. Fill in Oregon Lottery winnings included on line 19 of \$600 or less if the winning ticket was purchased on or after January 1, 1998, while an Oregon resident. Add to that any amount of Oregon Lottery winnings from tickets purchased before January 1, 1998 and any amounts received while you were a nonresident.

You may also need to reduce your gambling losses claimed on Schedule A. See instructions for line 47. If you need help, see page 36.

There are also subtractions which apply to only a few people. They are listed on page 17 of the 40N instructions. Make the subtraction in both the federal and Oregon columns if the related income was included in both columns.

- 40 Oregon percentage. Divide the amount on line 39b by the amount on line 39a. Carry your decimal to three places without rounding to figure your percentage. Write the percentage on line 40. Don't fill in more than 100 percent or less than -0-.

Example	Line 39b		Line 39a		Oregon percentage Line 40
1	\$8,000	÷	\$30,000	=	.266 (26.6%)
2	(1,000)	÷	15,000	=	-0- (0%)
3	20,000	÷	15,000	=	1.000 (100.0%)

## Deductions and modifications

You may claim either net itemized deductions or Oregon's standard deduction, whichever is larger.

- 42 Itemized deductions. Generally, you may claim your total itemized deductions shown on federal Schedule A, line 28. You may itemize for Oregon even if you took the federal standard deduction on your federal

return. If you itemize for Oregon only, fill out a separate Schedule A. Use your federal adjusted gross income to figure the Schedule A limitations. Keep Schedule A with your tax records.

Note: Married people filing separate returns must itemize deductions if their spouse itemizes. Are you filing separate returns for Oregon only? If so, see Form 40N instructions, page 11.

- 43 State income tax claimed as an itemized deduction. Fill in the amount of Oregon income tax you claimed as an itemized deduction on federal Schedule A, line 5. Also, if you claim a credit for income tax paid to another state, include the other state's tax after credits or the other state's tax claimed as an itemized deduction, whichever is less. See instructions for line 59, page 30.

Did you limit itemized deductions on your federal return because your adjusted gross income exceeded \$124,500 (\$62,250 if married filing separately)? If so, you may need to complete a worksheet to figure how much Oregon income tax to subtract from itemized deductions. See page 36 to order the information circular, "Limit on Itemized Deductions."

- 45 Standard deduction. Generally, your standard deduction is based on your filing status, as follows:

Single	\$1,800
Married filing jointly	3,000
Married filing separately	1,500
Head of household	2,640
Qualifying widow(er)	3,000

Caution: If you can be claimed as a dependent on another person's return, your standard deduction is limited to the greater of:

1. Your earned income plus \$250, but no more than the maximum allowed for your filing status as shown above, or
2. \$700.

The limit applies even if you can be, but are not, claimed as a dependent on another person's return.

Also: You are allowed an additional deduction if you or your spouse are age 65 or older, or blind. The additional amount is based on your filing status:

Single or head of household—	\$1,200
All others—	\$1,000

- 46 1998 federal tax liability. Caution: Carefully follow the instructions below. Don't confuse your federal tax liability from your federal return with the federal tax withheld on your W-2. They aren't the same.

You may deduct your total federal income tax liability after credits, up to \$3,000. Don't fill in less than -0- or more than \$3,000 (\$1,500 if married filing separately).

Fill in your federal tax liability from:

- Form 1040, line 49, or
- Form 1040A, line 32, or

- Form 1040EZ, line 10, or
- Telefile Tax Record, tax from second box, line J.

On your federal return did you have:

- Alternative minimum tax, Form 1040, line 51?
- Tax on qualified retirement plans, Form 1040, line 53?

If so, include these in your federal tax subtraction.

Caution: Don't add:

- Self-Employment tax, Form 1040, line 50.
- Social Security and Medicare tax on tips, Form 1040, line 52.
- Advance earned income credit payments, Form 1040, line 54, or Form 1040A, line 33.
- Household employment taxes, Form 1040, line 55.

If you file married filing separately for Oregon only, multiply your joint federal tax liability (after credits) by the percentage calculated on page 11. Each spouse is limited to a maximum subtraction of \$1,500.

Did you pay additional federal tax in 1998 because you were audited or you filed an amended return? If so, read the instructions for line 47, "Other deductions and modifications."

**47** Other deductions and modifications. Identify the deduction or modification in the space on the form. If you have more than one, show the type and amount of each. Modifications can be either additions or subtractions. You need to sum the total of these items and enter that amount on this line.

- Federal tax from a prior year. If you paid additional federal tax in 1998 because you were audited or you amended a prior year return, you may be able to deduct the additional tax. See page 18, Form 40N, line 46 instructions, to figure your deduction.
- Foreign tax. If you paid tax to a foreign country in 1998, you may be able to deduct these taxes. See page 18, Form 40N, line 46 instructions.
- Artists who make a charitable art donation. See page 36 for taxpayer assistance information.
- Federal income tax refunds. Did you get a federal tax refund in 1998 because you filed an amended federal return for a prior year or you were audited? If so, fill in and bracket the amount on line 46 if you subtracted that amount on a prior Oregon return. If you need help, see page 36 for taxpayer assistance information.
- Gambling losses claimed as an itemized deduction. Did you have winnings from Oregon Lottery or Powerball and claim gambling losses on your federal Schedule A? If so, fill in and bracket on line 47 the gambling losses that exceed gambling winnings taxed by Oregon.
- Special Oregon medical deduction. You may qualify for an additional medical expense deduction for Oregon. See page 18, Form 40N, line 46 instructions to figure your deduction.

## Oregon tax

**50** Tax. Figure the tax on taxable income, line 49. Use the rate charts on page 35. Fill in the amount of tax on line 50.

*Example:* A single taxpayer's taxable income is \$19,500. Use tax rate chart A for single taxpayers. The tax is figured like this:

Taxable income	\$19,500
Subtract	- 5,800
	<u>13,700</u>
Multiply by 9%	× .09
	<u>1,233</u>
Then add	+ 360
Their tax is:	<u>\$ 1,593</u>

**52** Interest on certain installment sales. Do you have installment sales on which you were required to pay interest on the deferred tax liability for federal purposes? If so, you must also compute interest for Oregon. The amount due for Oregon is computed the same way as for federal. The current interest rate is 9 percent per year.

- For the part of the year that you were a nonresident, use only those installment obligations that arose from dispositions of Oregon property.
- For the part of the year that you were a resident, consider all installment obligations.

Enter the total of parts a and b on line 52.

## Credits

You must prorate some Oregon credits on your return. This means you need to multiply your total credit by your Oregon percentage, line 40, to figure the amount you can claim on your Oregon return. The credits that must be prorated are:

- Exemption.
- Earned income.
- Working family.
- Child and dependent care.
- Alternative energy devices.
- Elderly or the disabled.
- Farmworker housing.
- Fish habitat improvements.
- Fish screening devices.
- Rural medical practitioners, dentists, or optometrists.

**55** Earned income credit. You are allowed an Oregon earned income credit only if you qualify for and claim the earned income credit on your federal return.

Use the following formula to compute your credit:

- Enter your federal earned income credit (Form 1040EZ, line 8a; Form 1040A, line 37a; Form 1040, line 59a; or Telefile Tax Record, line K). 1. \_\_\_\_\_
- Multiply line 1 by 5 percent (.05). 2. \_\_\_\_\_



3. Multiply line 2 by the Oregon percentage (Form 40P, line 40). Enter here and on line 55 of Form 40P. 3. \_\_\_\_\_

The Oregon earned income credit is limited to your tax liability. You cannot carry over any amount that exceeds your tax liability to next year's return.

**56** Working family credit. This credit is available to low income families with qualifying child care expenses.

**Qualifications**

You qualify for this credit if all the following are true:

- Your federal adjusted gross income is less than the limit for your household size (see tables on page 29),
- Your expenses are for your child under age 13 (or for your disabled child, see page 12),
- Care is not provided by the child's parent or guardian (unless provided in a licensed child care facility),
- Care is not provided by a brother or sister under age 19,
- You have earned income of at least \$6,000,
- You have less than \$2,300 of investment income (investment income is generally interest, dividends, and capital gains), and
- If you are married filing separately, you must be legally separated or living apart on December 31, 1998.

Use the following worksheet to figure your credit:

**Household size**

- |  |          |
|--|----------|
| 1. Enter the number of exemptions reported on your federal return.                         | 1. _____ |
| 2. Add any children who live with you but are claimed as dependents by your former spouse. | 2. _____ |
| 3. Line 1 plus line 2. This is your household size.  | 3. _____ |

**Credit amount**

- |  |          |
|--|----------|
| 4. Enter your federal adjusted gross income (Form 1040EZ, line 4; Form 1040A, line 18; Form 1040, line 33; or Telefile Tax Record, line H).  | 4. _____ |
| 5. Enter total child care expenses paid by you in 1998.  | 5. _____ |
| 6. Enter the decimal amount from the correct table on page 29. The tables are based on household size (line 3 from above). For example, if the amount on line 3 is 7, use Table 7. | 6. _____ |
| 7. Multiply line 5 by line 6.  | 7. _____ |
| 8. Multiply line 7 by the Oregon percentage (Form 40P, line 40). Enter here and on Form 40P, line 56.  | 8. _____ |

The working family credit is limited to your tax liability. You cannot carry over any amount that exceeds your tax liability to next year's return. This credit may be claimed in addition to the child and dependent care credit.

**57** Retirement income credit. If you were age 61 or older on December 31, 1998, and receiving

retirement income, you may qualify for a credit. You don't qualify for this credit if your household income is \$22,500 or more (\$45,000 or more if married filing jointly), or if you received more than \$7,500 (\$15,000 if married filing jointly) in Social Security and/or Tier 1 Railroad retirement benefits. Retirement income includes payments included in Oregon taxable income from:

- A U.S. government pension (includes military).
- A state or local government public pension.
- An employee pension.
- An individual retirement plan.
- An employee annuity plan.
- A deferred compensation plan including defined benefit, profit sharing, and 401(k).

Note: The credit can't be more than your tax liability. There is no carryforward. You may claim this credit or the credit for the elderly or the disabled, but not both.

Use the following worksheet to figure your credit.

- |  |           |
|--|-----------|
| 1. Enter the retirement income of the eligible individual(s) from the Oregon column, lines 15 and 16.  | 1. _____  |
| 2. Enter \$7,500 (\$15,000 if married filing jointly).   | 2. _____  |
| 3. Enter both spouses' total 1998 Social Security and Tier 1 Railroad retirement benefits.             | 3. _____  |
| 4. Line 2 minus line 3, but not less than -0-.   | 4. _____  |
| 5. Enter your household income. See below to determine your household income.                          | 5. _____  |
| 6. Household income base. Enter \$15,000 (\$30,000 if married filing jointly).                         | 6. _____  |
| 7. Line 5 minus line 6, but not less than -0-.   | 7. _____  |
| 8. Line 4 minus line 7, but not less than -0-.   | 8. _____  |
| 9. Enter the lesser of line 1 or line 8.   | 9. _____  |
| 10. Multiply line 9 by 9% (.09). Enter the result here and on Form 40P, line 57, or Form 40N, line 60. | 10. _____ |

What is included in household income? Household income includes all taxable and nontaxable income of each spouse, except Social Security and Tier 1 Railroad retirement benefits. Include gross income reduced by adjustments on the federal form. Do not include your state tax refund, pension income excluded from federal AGI that is a return of contributions, or pensions that are rolled over into an IRA. Any losses claimed are limited to \$1,000 for each activity. Depreciation is limited to \$5,000. If you need more information, see page 36.

**58** Child and dependent care credit. You are allowed an Oregon credit only if you qualify for the federal child and dependent care credit. Use the worksheet on page 20 of the Form 40N instructions to figure your credit.

# Working Family Credit—1998 Tables

**Table 1, household size = 1**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$12,100	.40
\$12,100	12,900	.36
12,900	13,700	.32
13,700	14,500	.24
14,500	15,300	.16
15,300	16,100	.08
16,100	—	.00

**Table 2, household size = 2**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$16,300	.40
\$16,300	17,350	.36
17,350	18,450	.32
18,450	19,550	.24
19,550	20,600	.16
20,600	21,700	.08
21,700	—	.00

**Table 3, household size = 3**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$20,500	.40
\$20,500	21,850	.36
21,850	23,200	.32
23,200	24,550	.24
24,550	25,950	.16
25,950	27,300	.08
27,300	—	.00

**Table 4, household size = 4**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$24,700	.40
\$24,700	26,300	.36
26,300	27,950	.32
27,950	29,600	.24
29,600	31,250	.16
31,250	32,900	.08
32,900	—	.00

**Table 5, household size = 5**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$28,900	.40
\$28,900	30,800	.36
30,800	32,750	.32
32,750	34,650	.24
34,650	36,600	.16
36,600	38,500	.08
38,500	—	.00

**Table 6, household size = 6**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$33,100	.40
\$33,100	35,300	.36
35,300	37,500	.32
37,500	39,700	.24
39,700	41,900	.16
41,900	44,100	.08
44,100	—	.00

**Table 7, household size = 7**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$37,300	.40
\$37,300	39,750	.36
39,750	42,250	.32
42,250	44,750	.24
44,750	47,200	.16
47,200	49,700	.08
49,700	—	.00

**Table 8, household size = 8 or more**

If the amount on line 4 is:		Enter this decimal amount on line 6:
at least—	but less than—	
—	\$41,500	.40
\$41,500	44,250	.36
44,250	47,000	.32
47,000	49,750	.24
49,750	52,550	.16
52,550	55,300	.08
55,300	—	.00

**59** Credit for income tax paid to another state. If you paid 1998 income tax to another state on income also taxed by Oregon, you may claim a credit. You must have income that is taxed by both Oregon and the other state during 1998. Your 1998 income tax includes all payments made for the 1998 tax year.

You must claim the credit on your nonresident return if the income is taxed by both Oregon and one of the following: Arizona, California, Indiana, or Virginia.

If you were a resident of Oregon and paid tax to another state for a prior year on mutually taxed income, amend that year's Oregon return to claim the credit. See page 36 to order amended forms and instructions.

This credit is only for state income tax. You can't claim this credit for city or county income tax, sales tax, property tax, school tax, or building funds.

If you are a shareholder in an Oregon S corporation that paid taxes to another state, you may qualify for this credit. See page 36 to order the information circular.

Your credit is the lesser of the following:

- The other state's tax after credits.
- Your Oregon tax after all other credits.
- The amount figured using Formula 1.
- The amount figured using Formula 2.

Formula 1: Divide your adjusted gross income (AGI) taxed by both states by your modified AGI. Your modified AGI is your income on Form 40P or Form 40N, line 39b. Multiply the result by your Oregon tax after all other credits. The result can't be more than your Oregon tax after credits.

$$\frac{\text{Your AGI taxed by both states}}{\text{Your modified AGI}} \times \text{Your Oregon tax after all other credits}$$

Formula 2: Divide your AGI taxed by both states by your total income on the other state's return. Multiply the result by the other state's tax after all other credits. "Total income" means income before subtracting itemized deductions and exemptions.

The result can't be more than the other state's tax after credits.

$$\frac{\text{Your AGI taxed by both states}}{\text{Your total income on the other state's return}} \times \text{The other state's tax after all other credits}$$

**Caution:** You can't claim this credit and also claim the tax you paid to the other state as an itemized deduction. If you claim the tax as an itemized deduction, fill in either your tax liability to the other state or the amount of that state's tax claimed as an itemized deduction, whichever is less, on line 43.

Attach a copy of the other state's return and proof of payment to the back of your Oregon return.

**60** Other credits. You may qualify for other credits explained below. Identify the credit in the space on line 60. If you have more than one, show the type and amount of each credit. Fill in the amount of all "Other credits" on line 60.

- Political contribution credit. You may include your total political contributions but not more than \$100 on a joint return, or \$50 on all others. The contributions must have been made during 1998. They must have been donations of money to any of the following: a political party recognized by Oregon; a qualified candidate (or the candidate's principal campaign committee) for federal, state, or local office to be voted for in Oregon; or a political committee organized only to support or oppose ballot measures to be voted on in Oregon.
- Child and dependent care credit carryover from prior years. If you have a child and dependent care credit carryover, see page 20 of the Form 40N instructions.
- Credit for the elderly or the disabled. The credit is 40 percent of the federal credit. You may claim this credit or the retirement income credit, but not both.

Multiply the amount from federal Schedule R, line 20, or Form 1040A, Schedule 3, line 20, by 40 percent (.40). Then multiply the result by the Oregon percentage on Form 40P, line 40.

Note: Oregon has some credits which apply to only a few people. These credits are listed on page 20.

## Tax payments, penalties, and interest

**63** Oregon income tax withheld from income. Fill in the total amount of Oregon tax withheld from your wages and other income. That's the amount shown on your W-2 or 1099 forms. Don't use FICA (Social Security) tax withheld from your pay. Don't use tax withheld from your wages by other states. Staple readable copies of your W-2 or 1099 forms to the lower front of your return.

If you don't have a W-2 or 1099, you must provide other proof of any tax withheld from your income. Proof may include a final paycheck stub or a letter from your employer. We can't accept anything but W-2 forms until after February 1, 1999.

**64** Estimated tax payments for 1998. Fill in the total Oregon estimated tax payments you made before filing your 1998 Oregon return. Include any payments made with your extension. Also, include any refund applied from your 1997 income tax return.

**68** Penalty and interest. See 40N instructions on page 21.

**69** Interest on underpayment of estimated tax. See 40N instructions on page 21.

**71** Amount-you-owe. Attach a check or money order to your return on top of the W-2s. Make it payable to "Oregon Department of Revenue." We prefer you use blue ink. Do not use red ink. Do not make your check out to "IRS" or "Internal Revenue Service." Write your Social Security number and "1998 Oregon Form 40P" on your check. Don't send cash or post-dated checks. Mail your return to:

*(continued on page 35)*

## Tax Rate Charts for Form 40N and Form 40P Filers

### For persons filing Single, or Married filing separately

**Tax rate chart A:**

If your taxable income is: Not over \$2,300 ..... Over \$2,300, but not over \$5,800 .....  Over \$5,800 .....	To figure your tax: Multiply your taxable income by .05 (5%). Subtract \$2,300 from your taxable income. Multiply the result by .07 (7%). Then add \$115. Subtract \$5,800 from your taxable income. Multiply the result by .09 (9%). Then add \$360.
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### For persons filing Jointly, Head of household, or Qualifying widow(er) with dependent child

**Tax rate chart B:**

If your taxable income is: Not over \$4,600 ..... Over \$4,600, but not over \$11,600 .....  Over \$11,600 .....	To figure your tax: Multiply your taxable income by .05 (5%). Subtract \$4,600 from your taxable income. Multiply the result by .07 (7%). Then add \$230. Subtract \$11,600 from your taxable income. Multiply the result by .09 (9%). Then add \$720.
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*(continued from page 30)*

Oregon Department of Revenue  
 PO Box 14555  
 Salem OR 97309-0940

Special instructions. Do you owe interest on line 69 and have an overpayment on line 66? If your overpayment is less than the interest due, fill in the result of line 69 minus line 66.

Stop here on the form.

**72** Refund. You must have a refund of \$5 or greater on line 72 to use lines 73–78.

**73** Estimated tax. If your refund is \$5 or more, you may apply part or all of your refund (line 72) to your 1999 estimated tax. Fill in the amount you want to apply. Don't fill in more than the amount on line 72.

**74**–**78** You may donate all or part of your refund to the charitable organizations listed on the form. A donation will reduce your refund. If you don't have a refund on line 72 but want to contribute, mail your donations to the addresses shown below.

**74** Oregon Nongame Wildlife. Your donation will fund the protection of nongame wildlife and its habitat.

Oregon Department of Fish and Wildlife  
 Attention: Fiscal Manager  
 PO Box 59  
 Portland OR 97207

**75** Child Abuse Prevention. Your donation will fund programs through the Children's Trust Fund to help prevent child abuse and neglect.

Children's Trust Fund  
 800 NE Oregon St., Suite 1140  
 Portland OR 97232-2162

**76** Alzheimer's Disease Research. Your donation goes to the Alzheimer's Research Alliance of Oregon for research on Alzheimer's disease and related disorders.

Alzheimer's Research Alliance  
 PO Box 10051  
 Portland OR 97296

**77** Stop Domestic and Sexual Violence. Your donation will fund programs through the Oregon Coalition Against Domestic and Sexual Violence.

OCADSV  
 520 NW Davis, Suite 310  
 Portland OR 97209

**78** AIDS/HIV Research, Education, and Services. Your donation will fund AIDS/HIV research, education, and services by the Living With HIV Fund.

The Research and Education Group  
 2701 NW Vaughn St., Suite 840  
 Portland OR 97210-5311

**80** Net refund. You must reduce your refund by any amounts applied to your 1999 estimated tax and donations on lines 73–78. By law, the Oregon Department of Revenue cannot refund amounts less than \$5. Generally, the department cannot issue a refund when the return is filed more than three years after the due date of the return. Mail your return to:

Refund  
 PO Box 14700  
 Salem OR 97309-0930

# Taxpayer assistance

## Do you need help?

Telephone: Salem **503-378-4988**

Toll-free within Oregon **1-800-356-4222**

*The toll-free number is only available  
January through April.*

For touch-tone phones, our telephone voice response system has recorded tax information about many of your Oregon tax questions. You also may order tax forms. This service is available 24 hours a day.

Once you're in the system, push:

- 1** For current year personal income tax refund information (beginning March 1).
- 2** To order current year or amended forms. (Some federal forms available.)
- 6** For other information.
- 0** For assistance from a representative:
  - Monday–Friday\* 7:30 A.M.–5:10 P.M.
  - \*Except Wednesday 9 A.M.–5:10 P.M.
  - April 1–April 15, Monday–Friday 7 A.M.–7 P.M.
  - Closed on holidays

TTY (hearing or speech impaired only). These numbers are answered by machine only and are not for voice use. The year-round, toll-free number within Oregon is 1-800-886-7204. In Salem, the number is 503-945-8617.

Habla Español? Línea de mensaje. Las personas que necesitan asistencia en Español pueden dejar un mensaje. El número disponible todo el año en Salem es 503-945-8618.

A message line is available all year for those who need assistance in Spanish. The number in Salem is 503-945-8618.

Correspondence. Use the Salem address on the front of this booklet. Include your Social Security number and a daytime telephone number for faster service.

## To get forms

Internet: [www.dor.state.or.us](http://www.dor.state.or.us)

Income tax booklets are available at many post offices, banks, and libraries. Or write to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990.

Forms and assistance are available at these offices. Don't send your return to these addresses.

<b>Salem*</b>	<b>Portland**</b>
Revenue Building	Federal Building Lobby
First floor, Room 135	1220 SW Third Ave.
955 Center St. NE	

\* 7:45 A.M.–5 P.M. Monday–Friday, except holidays.

\*\* January 4–April 15: We'll provide walk-in help from 9 A.M.–4 P.M., Monday–Friday, except holidays.

Americans with Disabilities Act (ADA). In compliance with ADA, this information is available in alternative formats upon request by calling 503-378-4988.



### Printed information (free) State forms only

(Check individual boxes to order. Clip on the dotted line, then mail in the entire list with your return address. These forms and circulars are also available on the Internet.)

- Amended Form 40X and instructions... 150-101-046
- Computing Interest on Tax You Owe ... 150-800-691
- Credit for Income Tax Paid to Other States ..... 150-101-646
- Depreciation form ..... 150-101-025
- Elderly Rental Assistance booklet ..... 150-545-002
- Estimated Tax circular ..... 150-101-648
- Estimated Tax coupons ..... 150-101-026-2
- Estimated Tax instructions ..... 150-101-026
- Home Care for the Elderly Credit ..... 150-101-653
- Interest and Dividends on U.S. Bonds and Notes ..... 150-101-615
- Interstate Transportation Wages ..... 150-101-601
- Limit on Itemized Deductions ..... 150-101-611
- Married Persons Filing Separate Returns 150-101-656
- Military Personnel Filing Information ... 150-101-657
- Oregon Deferral of Reinvested Gain ... 150-101-614
- Oregon Income Tax Withholding: Some Special Cases ..... 150-206-643

- Political Contributions ..... 150-101-662
- Record Keeping Requirements ..... 150-101-608
- Residential Energy Devices ..... 150-101-641
- Retirement Income ..... 150-101-673
- Senior Citizen's Property Tax Deferral ..... 150-310-675
- What To Do if You are Audited ..... 150-101-607
- Your Rights as an Oregon Taxpayer ..... 150-800-406
- List of other printed information: Forms/Publications Request ..... 150-800-390

**Send to:** Forms  
Oregon Department of Revenue  
PO Box 14999  
Salem OR 97309-0990

Please print

Your name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_

State \_\_\_\_\_ ZIP \_\_\_\_\_

