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## INSTRUCTIONS FOR 2009 PIT-ADJ SCHEDULE OF ADDITIONS AND DEDUCTIONS/EXEMPTIONS

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### GENERAL INFORMATION

If you qualify, you are required to make certain additions to your federal adjusted gross income, and you can take certain deductions and exemptions from your federal adjusted gross income to arrive at New Mexico taxable income. Use the 2009 Schedule PIT-ADJ if any of the additions to, or deductions or exemptions from, federal adjusted gross income apply to you. If the items on the 2009 Schedule PIT-ADJ do not apply to you, do not complete this schedule or attach it to Form PIT-1.

NOTE: Do not add amounts to Schedule PIT-ADJ that are not listed. If an item is not listed on the schedule it is not a valid New Mexico exemption or deduction, or it is not being properly reported. Also, do not include a statement in lieu of completing this schedule.

### Additions to Federal Adjusted Gross Income

You must file Schedule PIT-ADJ if you:

- received interest and dividends from federally tax-exempt bonds;
- have a net operating loss;
- have had contributions refunded when closing a New Mexico-approved Section 529 college savings plan account, or
- have had certain contributions rolled out of a New Mexico-approved Section 529 college savings plan account.

### Deductions/Exemptions from Federal Adjusted Gross Income

File Schedule PIT-ADJ if:

- you have interest or dividend income on New Mexico state and local bonds;
- you have a New Mexico net operating loss carryover;
- you have interest income from U.S. government securities;
- you have railroad retirement income not taxable by New Mexico;

- you or your spouse, or both, are members of an Indian nation, tribe or pueblo and your income was wholly earned on the lands of the reservation or pueblo of which the individual is an enrolled member while domiciled on that reservation, tribe or pueblo;
- you or your spouse -- or both -- are age 100 or over and you are not dependents of another taxpayer;
- you or your spouse -- or both -- are age 65 or over or blind and your adjusted gross income is not over \$51,000 for a joint return, \$28,500 for a single taxpayer, or \$25,500 for married taxpayers filing separately;
- you have a New Mexico Medical Care Savings Account;
- you contribute to a New Mexico-approved Section 529 college savings plan;
- you have net capital gains for which you can claim a deduction of up to \$1,000, or 50% of your net capital gains, whichever is greater;
- you have military wages or salary from active duty service;
- you or your spouse -- or both -- are age 65 or over and you have unreimbursed or uncompensated medical care expenses of \$28,000 or more for yourself, your spouse or dependents;
- you, your spouse or dependents have expenses related to donating human organs for transfer to another person;
- you received a reimbursement from the New Mexico National Guard Service Member's Life Insurance Reimbursement Fund, or
- you received the 2005 income tax energy rebate in 2009 and are required to report all or a portion of the rebate as income on your 2009 federal income tax return.

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### STEPS FOR PREPARING THE SCHEDULE PIT-ADJ

Read the section "Filling in Your Tax Return" on page 16 of the Form PIT-1 Instructions.

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#### STEP 1

**Make sure you have all the necessary records, approvals and certifications.**

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#### STEP 2

**Fill in the 2009 Schedule PIT-ADJ.**

Complete the 2009 Schedule PIT-ADJ using the line instructions that follow.

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#### STEP 3

**Check the figures on your 2009 Schedule PIT-ADJ.**

Be sure your arithmetic is correct. Check that all entries are complete and correct, and that the checkboxes on lines 10 and 11, if applicable, have been correctly marked.

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#### STEP 4

**Transfer the totals on lines 4 and 20 to your Form PIT-1.**

Be careful to correctly transfer the totals from the 2009 Schedule PIT-ADJ to your Form PIT-1. Make sure the name and social security number on the 2009 Schedule PIT-ADJ is correct and readable.

Continue with the line instructions and remaining steps for completing your 2009 Form PIT-1.

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### LINE INSTRUCTIONS

Enter the primary taxpayer's name and social security number from line 1 of the Form PIT-1.

#### ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME Lines 1 through 4.

##### LINE 1.

**Interest and Dividend Income from Federal Tax-exempt Bonds**

Enter the interest or dividend income from all state and municipal bonds that

was excluded from federal adjusted gross income. This means all federally tax-exempt interest and dividends reported on IRS Forms 1040 or 1040A from state and municipal obligations. If you subtracted expenses for tax-exempt investment income on your federal return, add them back on this line to determine New Mexico taxable income. A deduction for interest and dividends of obligations exempt from New Mexico taxable income is allowed on line 5, Schedule PIT-ADJ.

**LINE 2.**  
**Net Operating Loss**

Enter the amount of any federal net operating loss carry-forward or carry-back from "Other income" (line 21) of IRS Form 1040. Enter as a positive amount. The federal net operating loss carry-forward is added to the income you reported on line 7 of the Form PIT-1 because the rules for applying a net operating loss deduction to New Mexico taxable income are different from the federal rules. See the instructions for PIT-ADJ, line 6, for more information on the deduction for a New Mexico net operating loss carry-forward.

**LINE 3.**  
**Contributions Refunded When Closing a New Mexico-approved Section 529 College Savings Plan Account; Certain Contributions Rolled Out of a New Mexico-approved Section 529 College Savings Plan Account**

Enter the amount of contributions refunded to you during the tax year from the New Mexico Education Trust Fund (from one of the New Mexico-approved Section 529 college savings plans) if you closed a New Mexico-approved Section 529 college savings plan account, and enter contributions rolled-over from a New Mexico-approved Section 529 college savings plan account to a non-New Mexico-approved Section 529 college savings plan account. Do this only if you deducted *the Contributions to a New Mexico-approved Section 529 Plan* on Schedule PIT-ADJ of an earlier New Mexico personal income tax return. Do not include *earnings* refunded to the investor, *earnings* rolled-over

from a New Mexico-approved Section 529 college savings plan account to a non-New Mexico-approved Section 529 college savings plan, or qualified distributions from the account. See the bulletin on *New Mexico Income Tax and Your Education Trust (529) Plan*, from the Department's web page.

**DEDUCTIONS/EXEMPTIONS FROM FEDERAL ADJUSTED GROSS INCOME**  
**Lines 5 through 20**

**LINE 5.**  
**New Mexico Tax-Exempt Interest and Dividends**

Enter the total interest or dividend income you received from the following state and local bonds exempt from New Mexico taxable income: obligations of the State of New Mexico or its agencies, institutions, instrumentalities or political subdivisions. Also enter interest or dividend income from obligations of the Commonwealth of Puerto Rico, Guam, Virgin Islands, American Samoa or Northern Mariana Islands.

Income from investments in mutual funds, unit investment trusts or simple trusts that are invested in obligations of the State of New Mexico or its agencies, institutions, instrumentalities or political subdivisions, or from the Commonwealth of Puerto Rico, Guam, Virgin Islands, American Samoa or Northern Mariana Islands may also be deducted from New Mexico taxable income. You may deduct only the amount shown on the annual statement provided by the mutual fund, unit investment trust, or simple trust as flowing through to the investor from such investment income. **NOTE:** IRAs invested in obligations of the State of New Mexico or its agencies, institutions, instrumentalities or political subdivisions, or from the Commonwealth of Puerto Rico, Guam, Virgin Islands, American Samoa or Northern Mariana Islands do not qualify as a simple trust and may not be deducted.

**NOTE:** On this line you may also deduct interest on *federally taxable* bonds issued by the State of New Mexico.

If the amount on line 5 is more than the amount on line 1, attach an explanation to your return.

**LINE 6.**  
**New Mexico Net Operating Loss**

Enter the carry-forward amount to be applied against New Mexico taxable income for 2009, but only if:

- Your current federal tax return shows a net operating loss carry-forward amount, or
- You have an unused New Mexico net operating loss carry-forward amount from a previous year.

All New Mexico net operating losses must flow from a federal net operating loss. You cannot have a New Mexico net operating loss without first having a federal net operating loss.

When you calculate New Mexico taxable income using a New Mexico net operating loss carry-forward amount, federal rules apply for modifications to exemptions and taxable income. Use your New Mexico net operating loss carry-forward against taxable income *before* you apply your personal and dependents' exemptions.

To compute the carry-forward amount from a New Mexico net operating loss recognized in a previous year, add together the federal adjusted gross income (AGI) figure, any federal net operating loss carry-back or carry-forward deduction, and any other income not included in federal adjusted gross income, but upon which a federal tax is calculated (except amounts for which a tax calculation is made according to the alternative minimum tax under Section 55 of the Internal Revenue Code). From that total, subtract the federal standard or itemized deduction. The result is the maximum amount of New Mexico net operating loss that may be applied to the current tax return.

Attach a schedule to your return showing the tax year when each New Mexico net operating loss occurred. The schedule also should list each loss for each tax year for which it was carried forward, including 2009.

Unlike a federal net operating loss carry-forward, a New Mexico net operating loss incurred in tax years after 1990 *cannot be carried back* and may only be carried forward for five years or until the total amount of the loss carry-over has been used, whichever occurs first. You cannot apply a New Mexico net operating loss carry-forward until the following tax year -- provided you have filed a timely return -- or until the first tax year that begins after the date you file a return establishing the loss.

**LINE 7.  
Interest from U.S. Government Obligations**

Enter the interest you received from U.S. government obligations. These include U.S. savings bonds, treasury bills, interest on notes issued by the Federal Home Loan Bank, but not dividends issued by the Federal Home Loan Bank, etc. (See note below.) Also enter interest on U.S. government obligations from your share of income from partnerships, S corporations, limited liability companies or a distribution from a unit investment or simple trust.

You may deduct dividends from mutual funds invested in U.S. government obligations according to the percentage of the total fund invested in U.S. government obligations. The fund must give investors a statement of the amount of interest income from investments in U.S. government obligations.

Expenses related to tax-exempt investment income, if you deducted them on your federal return, must be added

back now to determine New Mexico taxable income.

**NOTE:** Interest from the Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), or Federal National Home Loan Mortgage Association (Freddie Mac), **IS NOT** deductible as interest on U.S. government obligations.

**LINE 8.  
Taxable Railroad Retirement Act Annuities and Benefits; Taxable Railroad Unemployment Insurance Act Sick Pay**

Deduct taxable Railroad Retirement Act annuities and benefits and taxable sick pay under the Railroad Unemployment Insurance Act, and attach Form(s) RRB-1099 and RRB-1099R if those amounts were part of your federal taxable income.

**LINE 9.  
Income of an Indian**

If you or your spouse, or both, were enrolled members of a New Mexico federally recognized Indian nation, tribe or pueblo, your income is exempt from base income IF:

- You lived on the land of the Indian nation, tribe or pueblo of membership when you earned it, *and*
  - You earned that income on the lands of that nation, tribe or pueblo.
- You must meet both conditions.

**CAUTION:** Income earned **off** the lands of your own or your spouse's na-

tion, tribe or pueblo is subject to New Mexico income tax no matter where you live.

Military pay of an enrolled member is exempt only for times when the home of record is on the member's own Indian nation, tribe or pueblo lands.

Retirement or pension income is exempt only when the retirement or pension is the result of employment on the member's Indian nation, tribe or pueblo. Retirement or pension income from employment off the lands of the nation, tribe or pueblo may not be deducted.

Enter the amount of qualifying income on line 9. Enter the name of your and your spouse's (if applicable) nation, tribe or pueblo in the space provided.

A person may not claim combined exemptions and deductions for more than 100% of income. You must also include the exemption or deduction of income when you claim rebates and credits on Schedule PIT-RC. Include your income in calculating modified gross income. See the instructions for Schedule PIT-RC.

**LINE 10.  
Exemption for Income of a Person Age 100 Years or More**

The income of a person 100 years old or more is exempt from New Mexico's income tax, but only if the centenarian cannot be claimed as a dependent by someone else. Make sure to check the box(es) on line 10. *The Department*

| TABLE 1 - EXEMPTION TABLE FOR PERSONS 65 OR OLDER OR BLIND (See line 11 instructions) |              |  |              |  |  |
|---|--------------|--|--------------|--|--|
| Married Filing Jointly, Head of Household, Qualifying Widow(er)                       |              | Single                                   |              | Married Filing Separately                | Amount for each taxpayer 65 or older, or blind for federal income tax purposes |
| Adjusted Gross Income Line 7, Form PIT-1  |              | Adjusted Gross Income Line 7, Form PIT-1 |              | Adjusted Gross Income Line 7, Form PIT-1 |  |
|   | But Not Over |  | But Not Over |  |  |
| \$0   | \$30,000     | \$0                                      | \$18,000     | \$0                                      | But Not Over \$15,000  |
| 30,001  | 33,000       | 18,001                                   | 19,500       | 15,001                                   | 16,500   |
| 33,001  | 36,000       | 19,501                                   | 21,000       | 16,501                                   | 18,000   |
| 36,001  | 39,000       | 21,001                                   | 22,500       | 18,001                                   | 19,500   |
| 39,001  | 42,000       | 22,501                                   | 24,000       | 19,501                                   | 21,000   |
| 42,001  | 45,000       | 24,001                                   | 25,500       | 21,001                                   | 22,500   |
| 45,001  | 48,000       | 25,501                                   | 27,000       | 22,501                                   | 24,000   |
| 48,001  | 51,000       | 27,001                                   | 28,500       | 24,001                                   | 25,500   |
| 51,001  | -----        | 28,501                                   | -----        | 25,501                                   | -----  |
|   |              |  |              |  | -----  |
|   |              |  |              |  | \$ 8,000   |
|   |              |  |              |  | 7,000  |
|   |              |  |              |  | 6,000  |
|   |              |  |              |  | 5,000  |
|   |              |  |              |  | 4,000  |
|   |              |  |              |  | 3,000  |
|   |              |  |              |  | 2,000  |
|   |              |  |              |  | 1,000  |
|   |              |  |              |  | 0  |

will deny your exemption if you do not check the box or boxes.

To qualify you must be 100 years or older at the end of the tax year for which you claim the exemption.

*Unmarried centenarians do not need to file a return unless they want to claim rebates and credits available for low-income filers.*

**Married Centenarians.** New Mexico is a community property state. Rules are different for married 100-year-olds. Married centenarians filing jointly or separately may exempt *half* of all community income and *all* of the centenarian's separate income. If you report an exemption for more — or less — than 50% of total joint income, attach a statement showing a correct division of community and separate income and payments.

Persons 100 years old or older may not claim combined exemptions and deductions for more than 100% of income. When you claim rebates and credits on Schedule PIT-RC, include your income in calculating modified gross income. See the instructions for Schedule PIT-RC.

For further details see Bulletin B-300.3, *New Mexico Exempts 100(+)-Year-Olds from Personal Income Tax*.

**LINE 11.  
Exemption for Persons 65 or Older or Blind**

You may be eligible for an exemption of up to \$8,000 based on your filing status and your federal adjusted gross income from line 7, Form PIT-1, if:

- You are 65 or older, or
- You are not yet 65, but are considered blind for federal income tax purposes.

Find the column in Table 1, page 3A, that matches your filing status. Then find the row that includes your federal adjusted gross income. Read across to the last column to locate the exemption amount.

The amount in the table applies to *each* taxpayer on a joint return if both

the husband and wife are either 65 or older *or* blind on the last day of the tax year.

**Be sure to mark the correct box** on line 11 if you or your spouse are 65 or older *or* blind. The Department must deny your exemption if the box(es) are blank.

The Department at some time may request proof that you are blind for IRS purposes. Please do not attach the proof to your return.

**NOTE:** One person cannot take deductions for being both 65 or older *and* blind. One deduction is allowed per person.

**EXAMPLE:** A married couple files jointly. Both are 65 or older. Their federal adjusted gross income is \$35,000. According to the table on page 3A, the exemption amount is \$12,000 (\$6,000 x 2).

If the same couple was also blind, the exemption is still \$12,000.

**EXAMPLE:** A married couple files jointly. One is 65. The spouse is 45 and blind. Their federal adjusted gross income is \$28,000. According to the table on page 3A, the exemption is \$16,000 (\$8,000 x 2).

**LINE 12.  
Exemption for New Mexico Medical Care Savings Account**

If you or your spouse are enrolled in a New Mexico Medical Care Savings Account, (NMMSA) established by an employer, and during 2009 you have made or received contributions to the account or have made or received distributions from the account you may be entitled to claim a New Mexico medical care savings account exemption. An NMMSA is a tax-exempt trust or custodial account set up by a self-employed individual or a small employer that maintains a high-deductible individual or family health plan. The funds from the NMMSA are used to pay the employee's unreimbursed medical care expenses. To qualify for the exemption, the qualified contributions or distributions may not be excluded,

exempted or deducted from federal taxable income.

Principal contributed to an NMMSA, interest earned on an NMMSA, money paid for eligible medical expenses from funds in an NMMSA, or money advanced to the employee by the employer for eligible medical expenses pursuant to the Medical Care Savings Account Act, are exempt from New Mexico income tax.

*Caution: Generally, qualified contributions and earnings are excluded, exempted or deducted from federal adjusted gross income and distributions paid for eligible medical expenses are excluded, exempted or deducted from federal taxable income. You may not claim the exemption from New Mexico taxable income if your qualified contribution or distribution is excluded, exempted or deducted from federal taxable income.*

Do not include excess contributions, unqualified distributions, or money rolled over into another MSA.

**LINE 13.  
Deduction for Contributions to a New Mexico-approved Section 529 College Savings Plan**

Deduct contributions you made during the tax year to the New Mexico Education Trust Fund (to an account in one of the New Mexico-approved Section 529 college savings plans) for each beneficiary. Contributions include the principal and earnings portion of amounts rolled over to a New Mexico-approved Section 529 college savings plan account from a non-New Mexico-approved Section 529 college savings plan.

**NOTE:** You may *only* deduct contributions to a Section 529 Plan established and approved by the New Mexico Education Trust Board. See the Bulletin on *New Mexico Income Tax and Your Education Trust (529) Plan* on the Department's web site or obtain one from one of the district offices.

A husband and wife who file separate returns may each claim half the deduction allowed on a joint return.

**LINE 14.**  
**Net Capital Gains Deduction**

You may deduct \$1,000 of the net capital gains reported and claimed on your federal tax return, or 50% of the net capital gains, whichever amount is greater.

A husband and wife who file separate returns may each claim only half the net capital gains deduction allowed on a joint return.

**NOTE:** A taxpayer may not claim the net capital gains deduction in addition to credit provided by the Venture Capital Investments Act.

**LINE 15.**  
**Military Active Duty Pay**

Enter the pay, wages or salaries paid to you or your spouse for active duty military service in the United States Armed Forces, if it was included in the federal adjusted gross income *and* reported on line 7 of Form PIT-1. This exemption from state income tax applies to residents and non-residents of New Mexico.

Active duty, as defined in 37 USC 101, means full-time duty in active service and includes full-time training duty, annual training duty, full-time National Guard duty, and attendance, while in the active service, at a school designated as a service school by law or by the Secretary concerned. Armed forces includes the Army, Navy, Air Force, Marine Corps and Coast Guard.

**NOTE:** Also see the 2009 Schedule PIT-B Instructions for lines 1 and 12 if you have income from within and outside New Mexico.

**LINE 16.**  
**Medical Care Expense Exemption for Persons Age 65 Years or Older**

If you or your spouse are 65 years of age or older and you paid unreimbursed and uncompensated medical

care expenses of \$28,000 or more during tax year 2009, you may claim an exemption of \$3,000. The medical care expenses may be made for the care of any combination of yourself, your spouse or dependents. The deduction is allowed for out-of-state residents with income tax responsibility to New Mexico. Enter \$3,000 if you qualify.

If you are eligible to claim the medical care expense exemption for persons age 65 years or older, you are also eligible to claim the refundable medical care credit for persons 65 years or older reported on line 23 of Schedule PIT-RC allowing an additional tax benefit. You must complete Schedule PIT-RC to claim the tax credit.

The types of medical expenses that you may include are described in the instructions for line 13, Form PIT-1 with the following exception. You may also include unreimbursed and uncompensated medical care expenses which have been included in itemized deductions on Schedule A, federal Form 1040.

To compute the unreimbursed and uncompensated medical care expenses for purposes of this exemption, you may include all of the qualified expenses which are used to compute the refundable medical care credit for persons 65 or older reported on line 23 of Schedule PIT-RC. Unreimbursed and uncompensated medical care expenses used to compute the medical care expense deduction claimed on line 13, Form PIT-1 also may be used to compute the medical expenses for purposes of this exemption.

**LINE 17.**  
**Deduction for Organ Donation-related Expenses**

Enter any human organ donation-related expenses, not to exceed \$10,000, including lost wages, lodging and travel expenses incurred during the taxable year by the taxpayer or the taxpayer's dependent. "Human

organs" are defined as all or part of a heart, liver, pancreas, kidney, intestine, lung or bone marrow. A husband and wife who file separate returns for a tax year in which they could have filed a joint return may each claim only one-half of the deduction that would have been allowed on a joint return.

**LINE 18.**  
**New Mexico National Guard Member's Life Insurance Reimbursements Exemption**

An individual who receives a reimbursement from the National Guard Service Member's Life Insurance Reimbursement Fund may claim a personal income tax exemption in the amount of the reimbursement. The reimbursements are issued by the New Mexico Office of Military Affairs which sends each recipient a Form 1099Misc for the reimbursement. Attach the Form 1099Misc to support the New Mexico National Guard member life insurance reimbursements tax exemption claimed.

**LINE 19.**  
**Exemption of 2005 Income Tax Energy Rebate Received in 2009 and Included in Federal Taxable Income**

If in 2009, you received a 2005 income tax energy rebate, the Internal Revenue Service advises that the rebate is considered federal miscellaneous taxable income and must be reported on the federal Form 1040, line 21, Form 1040EZ, line 3, or Form 1040A, on line 13. The 2005 income tax energy rebate is not taxable income for state of New Mexico tax purposes and may be subtracted on line 19, Schedule PIT-ADJ.

If you received a 2005 income tax energy rebate check in 2009, report the rebate on your 2009 federal return as miscellaneous income and enter the amount of the rebate on line 19 of Schedule PIT-ADJ.