



2001 Massachusetts Resident Income Tax Form 1

Full-Year Residents Only
All Schedules and Instructions



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- It's fast!
- It's accurate!
- It's safe!
- See page 3 for details.



Department of Revenue

Commonwealth of Massachusetts

Completing Your Form 1

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

PRINT IN BLACK INK
Ovals must be filled in completely. Example: For the year January 1–December 31, 2001 or other taxable year beginning _____, 2001, ending _____

FOR PRIVACY ACT NOTICE, SEE PAGE 7.

Form 1 Massachusetts Resident Income Tax Return 2001

MICHAEL MURRAY
PEGGY MURRAY
123 ANY STREET
ANYTOWN MA 02345

1 YOUR SOCIAL SECURITY NUMBER
0 1 2 3 4 5 6 7 8
2 SPOUSE'S SOCIAL SECURITY NUMBER
9 8 7 6 5 4 3 2 1

Note: Be Sure to Enter Your Social Security Number(s) Above

If name/address has changed since 2000, fill in oval: If taxpayer(s) is deceased, fill in appropriate oval(s) (see instr.): 1 2

1 Filing status: (select one only) Single Married filing joint return (both must sign return) Married filing separate return. (Enter spouse's Soc. Sec. number in the appropriate space above.)

2 Exemptions: Fill in if noncustodial parent

a. Personal exemptions. If single or married filing separately, enter \$4,400. If head of household, enter \$6,800. If married filing jointly, enter \$8,800. a 8 8 0 0 0 0

b. Number of dependents. (Do not include yourself or your spouse.) Enter number b 2 0 0 0 0 0

c. Age 65 or over before 2002: You + Spouse = x \$700 c

d. Blindness: You + Spouse = x \$2,200 d

e. Other: 1. Medical/Dental From U.S. Schedule A, line 4 2. Adoption See instructions 1 + 2 = e

f. Total exemptions. Add items a, b, c, d and e. Enter here and on line 18. f 1 0 8 0 0 0 0

3 Wages, salaries, tips and other employee compensation (from all Forms W-2) 3

4 Taxable pensions and annuities (see instructions) 4

5 Mass. bank interest: a 1 8 0 0 0 0 - b. exemption 2 0 0 0 0 0 = 5

6 Business/profession or farm income/loss (enclose Mass. & U.S. Sch. C or C-EZ or U.S. Sch. F) 6

7 Rental, royalty, REMIC, partnership, S corp., trust income/loss (enclose Mass. & U.S. Sch. E) 7 X 4 5 0 0 0 0

8 Unemployment compensation (from U.S. return or U.S. Telefile Tax Record) 8

9 Other income (alimony, taxable IRA/Keogh distr., winnings, fees) from Sch. X, line 6 (enclose Sch. X) 9

10 TOTAL 5.6% INCOME. Add lines 3 through 9. (Be sure to subtract any loss(es) in lines 6 or 7) 10 5 5 5 0 0 0 0

11 Amount paid to Soc. Sec., Medicare, R.R., U.S. or Mass. retirement. Not more than \$2,000 per person. a. You 2 0 0 0 0 0 + b. Spouse 1 2 0 0 0 0 a + b = 11 3 2 0 0 0 0

12 Child under age 13, or disabled dependent/spouse care expenses (from worksheet in instructions) 12

13 Number of dependent member(s) of household under age 12, or dependents age 65 or over (not you or your spouse) as of 12/31/01, or disabled dependent(s) (only if not claiming line 12 and if single, head of household or married filing joint return). Not more than two: a. 2 x \$2,400 = 13 4 8 0 0 0 0

14 Rental deduction (rent paid in 2001): a. + 2 = Not more than \$3,000 (\$1,500 if married filing separately) 14

15 Other deductions from Schedule Y, line 10 (enclose Schedule Y) 15

16 TOTAL DEDUCTIONS. Add lines 11 through 15 16 8 0 0 0 0 0

17 5.6% INCOME AFTER DEDUCTIONS. Subtract line 16 from line 10. Not less than "0" 17 4 7 5 0 0 0 0

18 Exemption amount (from line 2, item f) 18 1 0 8 0 0 0 0

19 5.6% INCOME AFTER EXEMPTIONS. Subtract line 18 from line 17. Not less than "0" 19 3 6 7 0 0 0 0

Name and Address

Use the preaddressed return in the front of the booklet we sent you. Print in black ink the Social Security number of each person filing the return in the space provided. If your address has changed, please make all changes on the preprinted form. If you did not receive a preaddressed booklet, print in **black ink** the full name and address. Enter names as they appear on your federal tax return.

Social Security Number

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

Whole-Dollar Method

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

\$1.00–\$1.49 =

\$1.50–\$2.00 =

Filling in the Ovals

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

Filling in Dollar Amounts/Reporting Losses

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

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

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

X 1 2 3 4 5 6 7 8 9 0

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

Mailing Checks and Enclosing Forms

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

FILING TIP You may be able to lower your taxes by taking advantage of other deductions and/or other credits on Form 1. See lines 15 and 29 of Form 1 and Schedule Y and Schedule Z instructions for a complete list of other deductions and/or credits for which you may be eligible.

See Form 1, line 38 for the new Senior Circuit Breaker Credit, and Schedule Y, line 9 for the charitable contributions deduction.

38 Senior Circuit Breaker Credit (enclose Schedule CB) 38 3 8 5 0 0

9 Charitable contributions. Full-year residents, total of a and b below. Part-year residents, multiply total of a and b by line 2 of Form 1-NR/PY and enter the result in line 9; nonresidents, multiply total of a and b by line 14g of Form 1-NR/PY and enter the result in line 9.

a. + b. = 9

Gifts by cash or check Other than by cash or check (if over \$500, enclose U.S. Form 8283)

1700000

You Can If You E-File

What Is E-File?

E-File is filing your state personal income tax return electronically through one of four methods offered by the Massachusetts Department of Revenue (DOR).

The Web



E-Filing via DOR's website, www.mass.gov/dor, is easy and secure. The online short form or online Form 1 performs most of the calculations for you, including the charitable contributions deduction and the Senior Circuit Breaker Credit; after you submit it you will receive confirmation that you have filed. **It's free and available 24 hours a day, 7 days a week.**

Telefile



Telefile allows eligible taxpayers to E-File by touch-tone telephone. Millions of taxpayers have used Telefile, completing their calls in an average of eight minutes. **It's free and available 24 hours a day, 7 days a week.** Call (617) 660-2001 or (413) 827-7100 to see if you qualify to Telefile.

Paid Preparer



Hundreds of thousands of taxpayers have had their returns E-Filed through DOR-approved preparers. If your preparer does not offer E-File, ask him or her to give it a try! Visit www.mass.gov/dor for a list of approved preparers.

Commercial Tax Preparation Software



You can also E-File using DOR-approved commercial tax filing websites or software products. Visit www.mass.gov/dor for a complete listing of approved websites and products. This E-File method is also known as "Online Filing."

Personal Identification Number (PIN)

If you received this booklet in the mail, be sure to retain the PIN printed on the back cover. You will need it in order to Web File or Telefile. You may also need it to access the Department's telephone and Web-based systems that allow you to check the status of your refund and perform other actions. If you did not get this booklet in the mail and do not have a PIN, you will need the amount of your requested refund or tax due from your 2000 Massachusetts tax return to access these systems. If you are a first-time filer, you will still be able to access these systems without a PIN.

Why Should You E-File?

► **Less stress.** If you E-File you will not have to worry about math errors, missing schedules or other common mistakes which could delay your refund or cause other problems that take time to resolve. And E-File is safe. Returns are transmitted via secure telephone connections or encrypted Web con-

nections. PLUS, you will receive immediate confirmation that serves as proof you filed. **E-File and relax.**

► **Fast refunds.** Whether you E-File in January or mid-April, you will receive your refund, on average, in four days. You also have the option of having your refund deposited directly into your bank account. (Some commercial tax preparation products may not offer direct deposit.) **Call or click, get it quick!**

► **Easy to use.** Whether you call or click to file your return, or have your preparer E-File for you, the E-File system walks you through it step by step, and does the calculations for you. **Try it! What do you have to lose?**

► **Convenient payment options.** If you have a tax due, you can pay by Electronic Funds Withdrawal, credit or check card, or file now and pay later using Form PV, Massachusetts Income Tax Payment Voucher (by April 16, 2002). Form PV is attached to the back of the "Payment Due" envelope found in this booklet.

Filing Your Extension by Telephone or Via the Web

Taxpayers who want to file an Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, Form M-4868, may do so by telephone or via DOR's website. This option is available to taxpayers who meet the following requirements:

- you filed a 2000 Massachusetts income tax return;
- you owe no tax; or
- if there is a tax due with your extension, payment is made with a Mastercard, Visa, Discover or Novus brand card and your extension is filed by telephone.

If you meet all of the criteria above, call (617) 660-2222 to file your extension by telephone or visit www.mass.gov/dor to file via the Web if you owe no tax. If you do not have Form M-4868, complete the following worksheet before you call to determine whether or not you have a tax due.

1. Enter amount from Form 1, line 31.	_____
2. Enter the total of Form 1, lines 34-38	_____
3. Amount due. Subtract line 2 from line 1, not less than "0".	_____

Would You Like More Information?

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

TaxTalk



TaxTalk is our automated system of recorded tax information available by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089 during non-business hours. TaxTalk topics are also available through the Department's Fax on Demand system or via the Department's website at www.mass.gov/dor. For a menu of tax topics available by Fax on Demand, please call (617) 887-1900 using the handset and keypad on your fax machine and, when prompted, enter document retrieval number 4000. To access the list of tax topics through DOR's website, go to "Help/Resources."

TaxTalk Topics

What's New for Tax Year 2001

- 101 Income Tax Rate Change
- 102 What's New in Exemptions?
- 103 Charitable Contributions Deduction
- 104 Long-Term Capital Gains, Filing Your 2001 Tax Return
- 105 Credit for Real Estate Taxes Paid for Persons Age 65 and Older, also known as the Circuit Breaker
- 106 Massachusetts Low-Income Housing Credit
- 107 Increase in Rental Deduction
- 108 Deduction for Employment Related Child and Dependent Care Expenses
- 109 Deduction for Non-Employment Related Child and Dependent Care Expenses
- 110 Increase in Earned Income Credit
- 111 Undergraduate Student Loan Deduction
- 112 Increase in Exemption for Adoption Fee

Filing Options

- 131 Telefile
- 132 E-File Your Tax Return Using DOR's Website
- 133 Online Filing

Residency Status/Filing Status/ Filing Requirements

- 151 Am I a Resident?/Which Return Should I File?
- 152 Am I a Nonresident?/Which Return Should I File?
- 153 Am I a Part-Year Resident?/Which Return Should I File?
- 154 What is My Filing Status?
- 155 Guidelines for Filing an Extension
- 156 Should I Be Making Estimated Tax Payments?
- 157 Guidelines for Filing an Amended Return

Types of Income

- 201 Understanding Your Form W-2 and Your Form 1099G
- 202 Roth and Education IRAs
- 203 Pensions
- 204 IRA and Keogh Plans
- 205 403(b) Retirement Plans
- 206 401K and 457 Massachusetts Government Employees' Deferred Compensation Plans
- 207 Unemployment Compensation
- 208 Interest & Dividend Income
- 209 Short-Term Capital Gains/Losses & Long-Term Gains on Collectibles
- 210 Disability/Sick Pay/Workers' Compensation
- 211 Fiduciary/Trusts
- 212 Exclusion for Gain on the Sale of a Principal Residence

Credits

- 301 No Tax Status/Limited Income Credit
- 302 Earned Income Credit
- 303 Full Employment Credit
- 304 Title 5 Septic Credit
- 305 Credit for Taxes Paid to Other Jurisdictions
- 306 Lead Paint Credit
- 307 Tax Credit Provisions of the Brownfields Act

Deductions

- 331 Rental Deduction
- 332 Social Security and Retirement
- 333 Deduction for Employment Related Child and Dependent Care Expenses
- 334 Deduction for Non-Employment Related Child and Dependent Care Expenses
- 335 Student Loan Interest Deduction
- 336 Medical Savings Account Deduction
- 337 Self-Employed Health Insurance Premiums Deduction
- 338 Miscellaneous Deductions
- 339 Moving Expense Deduction
- 340 Employee Expenses/Trade or Business Expenses
- 341 College Tuition Deduction

Responding to Your Income Tax Bill

- 351 Responding to Your Income Tax Bill/Payment by Credit Card
- 352 Understanding Penalties and Interest
- 353 Wage and Bank Levy
- 354 Liens Upon Property

Withholding

- 511 Am I an Employer and What are My Responsibilities?
- 512 Who is an Employee and How Much Do I Withhold?
- 513 Which Employers Must File Form(s) W-2?
- 514 Do I Withhold Massachusetts Income Tax from Household Help?
- 515 Withholding and Reporting Requirements for Pensions and Annuities

Sales Tax on Motor Vehicles

- 551 Motor Vehicles — General Information

Partnerships and S Corporations

- 581 Partnerships — General Information/Forms
- 582 Partners' Requirements
- 583 S Corporations — General Information
- 584 S Corporations — Shareholders' Requirements and Form(s) to File

Corporate Excise

- 701 Who Must File and Pay Corporate Excise?
- 702 Which Form Should Be Filed?
- 707 Estimated Payment Requirements for Corporations
- 708 Extension Filing Requirements for Corporations

Estate Tax

- 801 General Information for Estates with Date of Death before January 1, 1997
- 802 Estate Tax Reduction and "Sponge Tax"
- 805 General Information for Estates with Date of Death on or after January 1, 1997

Your Rights as a Taxpayer

- 901 Taxpayer Rights and Responsibilities
- 902 When Do I Call the Problem Resolution Office?
- 903 Taxpayer Advocate
- 904 Office of Appeals
- 905 Repeal of Pay to Play Provisions

Use this checklist before mailing your return to help avoid any errors that may delay the processing of your return.

- Is your preprinted name and address correct?
- If you received a preprinted Form 1 booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund.
- Have you entered your Social Security number(s) on Form 1, even if you received a preprinted booklet in the mail?
- Have you completed your Form 1 in black ink?
- Are all ovals filled in as necessary?
- If using the whole-dollar method, have you filled in the correct oval?
- If filing Schedule D, have you completed and enclosed pages 1–4?
- Have you printed all dollar amounts completely within the boxes?
- Have you marked an "X" in any form or schedule box that shows a loss?
- Is your Social Security number correct on your Form(s) W-2 or 1099? If incorrect, make the necessary changes on Form(s) W-2 or 1099.
- Have you attached with a single staple your Form(s) W-2 or 1099 to the return where indicated?
- If making a payment, have you stapled your check to the front of Form PV, Massachusetts Income Tax Payment Voucher, and enclosed (not stapled) Form PV with your return? Form PV is attached to the back of the "Payment Due" envelope found in this booklet.
- Are you filing an original copy of the form? Remember, photocopies of the forms and schedules are not acceptable.
- Have you enclosed (not stapled) all supporting schedules and documentation?

Major 2001 Tax Changes

Tax Lowered on Wages, Salaries and Certain Other Items of Income

Legislation passed in 2000 resulting from a ballot initiative provides a reduction of the tax rate on wages, salaries, and certain other items of income that will be phased in over a three-year period starting with tax year 2001. This category of income, called "5.6% income" on Form 1, includes such items as wages, salaries, other employee compensation, tips, pensions, partnership income, business income, rents, alimony, winnings and

Massachusetts bank interest. The tax rate on this category of income is decreased from 5.85% to 5.6% for taxable year 2001. For taxable years beginning in 2002 the rate is reduced to 5.3%. For taxable years beginning in 2003 and thereafter, the rate is reduced to 5%.

Tax Lowered on Interest and Dividends

Under a recent law change, the tax rate on dividends and interest (other than interest from Massachusetts banks) is the same as the tax rate on the category of income including wages, salaries, etc., that is more fully described above. The tax rate on dividends and interest is decreased from 5.85% to 5.6% for taxable year 2001; to 5.3% for 2002; and to 5% for 2003 and thereafter. 12% income continues to include short-term capital gains, as well as short- and long-term capital gains arising from the sale of collectibles, and pre-1996 installment sales classified as capital gain income for Massachusetts purposes.

Lower Capital Gains Tax Rates Fully Phased In

Legislation passed in 1994 reduced the tax on gain from the sale of capital assets held for more than one year. For purposes of the law, holding periods will commence on January 1, 1995. The lower tax rates, ranging from 5% to 0%, have been gradually phased in over six years as holding periods increase from the commencement date.

Gains on the sale of capital assets (excluding collectibles) held for more than one year but not more than two years are taxed as 5% income, those held for more than two years but not more than three years are taxed as 4% income, those held for more than three years but not more than four years are taxed as 3% income, those held for more than four years but not more than five years are taxed as 2% income, those held for more than five years but not more than six years are taxed as 1% income, and those held for more than six years are taxed as 0% income. Deductions from these items of income include long-term capital losses, certain short-term capital losses, allowable deductions from your trade or business, and excess exemptions.

For a detailed explanation of the new law, see the Department's Regulation on Capital Gains and Losses at 830 CMR 62.4.1.

Exemption for Adoption Agency Fees Increased

Under prior law, an exemption was allowed for fees paid to a licensed adoption agency in connection with the adoption of a minor child by the taxpayer to the extent that such fees exceeded 3% of adjusted 5.6% income. Starting with tax year 2001, the exemption for adoption agency fees is allowed for the full amount of fees paid by the taxpayer regardless of the amount of adjusted gross income. In addition, the exemption is broadened to include fees paid by the taxpayer within the taxable year to any agency licensed to place children for adoption on account of the adoption process of a minor child regardless of whether an adoption actually takes place during the tax year.

New Charitable Contributions Deduction

Beginning with tax year 2001, a deduction is allowed for certain charitable contributions paid on or after January 1, 2001. In general, the deduction is equal to the amount of the charitable contributions deduction allowed to the taxpayer under IRC sec. 170 as in effect on January 1, 1998. The amount of the Massachusetts deduction will be subject to all of the requirements, conditions and limitations imposed on the federal charitable contributions deduction. However, although individual taxpayers must itemize deductions in order to claim the charitable deduction on their federal income tax returns, they are not required to itemize on the federal return in order to claim the Massachusetts charitable deduction. To claim this deduction, see Schedule Y, line 9. For more information, see the Department's proposed regulation, Deduction for Charitable Contributions.

Increase in the Deduction for Employment-Related Child and Dependent Care Expenses

Under prior law, a deduction was allowed for dependent care expenses up to the amount of employment-related expenses used for determining the federal dependent care credit under IRC sec. 21. Starting with tax year 2001, a taxpayer may exceed the federal limit on the work-related child and dependent care deduction. For tax year 2001, the maximum Massachusetts deduction is \$3,600 of employment-related expenses for one qualifying individual, and \$7,200 of employment-related expenses for two or more qualified individuals.

Expansion and Increase in the Non-Work-Related Dependent Deduction

Under prior law, a \$1,200 deduction was allowed to taxpayers that maintain a household which includes one or more dependents under age 12. Beginning with tax year 2001, the non-work-related child and dependent care deduction extends to households with one or more dependents under age 12, or one or more dependents who are age 65 or older, or who are disabled. For tax year 2001, the deduction is increased to \$2,400 for one qualifying dependent, and to \$4,800 for two or more qualifying dependents.

Increase in the Maximum Rental Deduction

Under prior law, renters were allowed a deduction for one-half their rent for their principal place of residence if located in Massachusetts, up to a maximum of \$2,500. Starting with tax year 2001, the maximum rental deduction is increased from \$2,500 to \$3,000 (\$1,500 if married filing separately).

Undergraduate Student Loan Interest Deduction

Starting with tax year 2001, a taxpayer may take a deduction, on Schedule Y, line 8, for interest payments on "education debt" that is not limited to the dollar amount or the 60-month period of the federal deduction for student loan interest. However, the new Massachusetts deduction applies only to undergraduate educa-

tion and not to graduate education. "Education debt" includes any loan which is or was administered by the financial aid office of a two-year or four-year college at which the taxpayer or taxpayer's dependent was enrolled as an undergraduate. The loan must have been obtained and expended solely for the purpose of paying tuition and other expenses directly related to undergraduate student enrollment. Unlike the federal deduction, the Massachusetts deduction applies regardless of the total income of the taxpayer. The new deduction will not be allowed for the same expenses claimed on Schedule Y, line 5, Student Loan Interest Deduction.

New Real Estate Tax Credit for Certain Persons Age 65 and Older

Starting in 2001, a new refundable Circuit Breaker credit is allowed to an owner or tenant of residential property located in Massachusetts equal to the amount by which the real estate tax payment or the rent constituting real estate tax payment exceeds 10% of the taxpayer's total income, not to exceed \$385. In order to qualify for the credit, a taxpayer must be age 65 or older and must occupy the property as his or her principal residence. "Rent constituting real estate tax payment" is 25% of the rent actually paid by the taxpayer, under a good faith rental agreement, for the right of occupancy of the residence during the taxable year. The amount of the credit is subject to limitations based on the taxpayer's total income and the assessed value of the real estate. No credit is allowed if the taxpayer receives a federal or state rent subsidy or is the dependent of another taxpayer. For more information, see Technical Information Release (TIR) 01-19, Real Estate Tax Credit for Certain Persons Age 65 and Older.

Increase in Earned Income Credit

Beginning with tax year 2001, the Massachusetts earned income credit is increased to 15% of the federal earned income credit allowed under IRC sec. 32. To claim the Massachusetts earned income credit, the taxpayer must be qualified for and must claim the federal earned income credit.

Credit for Building or Development of Low-Income Housing

Effective for tax years beginning on or after January 1, 2001, a new low-income housing credit is available to certain taxpayers that claim a federal low-income housing credit for the building or development of low-income housing under IRC sec. 42. The amount of credit a taxpayer can claim for a qualified Massachusetts project will be allocated by the Massachusetts Department of Housing and Community Development. A qualified Massachusetts project is a "qualified low-income housing project" as that term is defined in IRC sec. 42 if it is located in Massachusetts, meets the requirements of M.G.L. c. 62, sec. 6I and the owner enters into a regulatory agreement with the Department of Housing and Community Development.

The U.S. Internal Revenue Code as of January 1, 1998

Massachusetts generally adopts the federal treatment of items of income and the federal exclusions from gross income. In addition, certain deductions allowed for federal tax purposes are allowed for Massachusetts tax purposes. With certain exceptions, Massachusetts now adopts the Internal Revenue Code as amended and in effect on January 1, 1998. The exceptions, which will be treated according to the current Internal Revenue Code, are listed below. See TIR 98-15 for an explanation of the major changes to the Massachusetts personal income tax provisions as a result of the adoption of the January 1, 1998 Internal Revenue Code.

Federal Law Changes NOT Adopted by Massachusetts

► **Employer-Provided Educational Assistance — IRC sec. 127.** Massachusetts adopts the provisions of IRC sec. 127 in effect on January 1, 1998, that provide an exclusion from gross income of up to \$5,250 for certain employer-provided education assistance for undergraduate courses, but the exclusion does not apply to payments for any course that began after May 31, 2000. After January 1, 1998, federal legislation made the IRC sec. 127 exclusion permanent and expanded it to graduate courses. These federal changes have not been adopted by Massachusetts. Therefore, employer-provided educational assistance benefits excluded from federal gross income under IRC sec. 127 are included in Massachusetts gross income in 2001.

► **Parking, T-Pass and Vanpool Fringe Benefits — IRC sec. 132(f).** Generally, Massachusetts follows the exclusion from an employee's gross income for employer-provided parking, T-Pass, and vanpool benefits. However, two federal Acts subsequent to January 1, 1998, have created differences between the Massachusetts and federal treatment of this exclusion. The federal exclusion amounts for tax year 2001 are \$180 per month for employer-provided parking and \$65 per month for employer-provided vanpool and T-pass benefits combined. The Massachusetts exclusion amounts for tax year 2001 are \$185 per month for employer-provided parking and \$70 per month for employer-provided vanpool and T-pass benefits combined. Further, Massachusetts will not allow an exclusion for T-pass and vanpool benefits unless they are provided by an employer without charge to the employee. These differences will be reflected in the Form W-2 provided by your employer. See TIR 01-12.

► **Self-Employed Health Insurance Deduction — IRC sec. 162(l).** A federal and Massachusetts deduction is allowed for amounts paid for medical care insurance for a self-employed taxpayer and his or her spouse and dependents. For federal purposes the deduction will be 60% of the qualified insurance payments for the 2001 tax year. However, due to differences between the Internal Revenue Code as amended and in effect as of January 1, 1998, and the current year, only 50% of the qualified

insurance payments are deductible for Massachusetts purposes for the 2001 tax year.

Massachusetts Adopts the Current Internal Revenue Code for Certain Federal Tax Provisions.

The areas in which Massachusetts applies the current Internal Revenue Code consist of:

- exclusions of certain income derived from Roth IRAs as defined in IRC sec. 408A and Education IRAs as defined in IRC sec. 530;
- treatment of rollovers from a traditional to Roth IRAs;
- exclusion of gain from the sale of a principal residence provided by IRC sec. 121;
- deduction of trade or business expenses under IRC sec. 162(a); and
- the limitations provided by IRC secs. 274(m) and (n) for the deduction of certain travel and meals and entertainment expenses.

For the above items, Massachusetts automatically adopts all changes to the Internal Revenue Code, including changes made after January 1, 1998. For more information, see TIR 98-8 and TIR 98-15.

Privacy Act Notice

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

Getting Started

If you follow this easy three-step process, you should be able to complete your form with a minimum amount of time and effort.

Step One — Gather Your Records

Before you begin, gather all your records together, including your Form(s) W-2 (Wages), W-2G (Winnings), and any Form(s) 1099. Use this information to complete your U.S. Form 1040,

1040A, 1040EZ or U.S. Telefile Tax Record first. The information on your U.S. return will help you complete your Massachusetts return.

Step Two — Complete Your Return

First, remove the forms from this booklet. If you received this booklet in the mail and the information in the preaddressed area is correct, file this return with the Department of Revenue. Be sure to enter your Social Security number(s) in the spaces provided. If you received a preprinted Form 1 booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund. If your address has changed, make all of the necessary changes on the preprinted form. Please keep the extra copy for your records; you may need information from it when you complete your return next year.

When completing your return, simply proceed line by line, reading the instructions for each line before you enter any amounts. Make entries in black ink only. If a line does not apply to you, leave it blank. Be sure to check your return to make sure it is correct.

Step Three — Sign Your Return

After you have checked your return, be sure to sign it. Your spouse must also sign if it is a joint return. Form 1 is not considered a valid return unless it is signed. Original signatures are required or the return will not be accepted. If a payment is due, be sure to staple your payment to the front of Form PV, Massachusetts Income Tax Payment Voucher, and enclose Form PV with your return. Form PV is attached to the back of the "Payment Due" envelope found in this booklet.

Common Form 1 Mistakes

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

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

▶ **Missing Social Security Number(s).** Be sure to enter your Social Security number(s) in the spaces provided, even if you received a preprinted booklet in the mail.

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

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

▶ **Exemptions.** Be sure that you specify the number of exemptions you are claiming in line 2, items b, c and d. Enter the appropriate number(s) in the small white box(es).

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

▶ **Missing Supporting Schedules.** Be sure all required schedules are enclosed to support the information on your Form 1. These include Massachusetts Schedules X, Y, Z, B, C, C-2, D (all four pages), E, BC, CB, EC, EOA, FEC, LP, SC and all required U.S. schedules. Also remember to enclose: copies of other states' return when claiming a credit for income tax paid to another state or jurisdiction; a certificate of compliance or verification letter if claiming the Septic Credit; a letter of compliance or interim control if claiming the Lead Paint Credit; a copy of the response action outcome statement or remedy operation status submittal stamped by the Department of Environmental Protection if claiming the Brownfields Credit; and a copy of the eligibility statement issued by the Department of Housing and Community Development if claiming the Low Income Housing Credit. We cannot process your return without these forms.

▶ **Government Employee Pension Contributions.** If you were a state, local or county employee and made contributions to a Massachusetts state or local pension plan, your total wages for state purposes will be different from the amount you report on your U.S. return. Report your total state wages from your Form(s) W-2 on Form 1. This is generally box 16 of Form W-2.

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

▶ **Charitable Contributions Deduction.** If you are claiming the charitable contributions deduction on Schedule Y, line 9 and made contributions other than by cash or check in excess of \$500, be sure to enclose U.S. Form 8283.

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

▶ **Missing Signatures.** Thousands of unsigned returns are received by the Department every year. These returns must be returned to the taxpayers for signatures. If a joint return is filed, both spouses must sign the return. Make sure signatures are on the correct lines.

▶ **Missing Form PV.** If you are making a payment, make certain you fill out Form PV, Massachusetts Income Tax Payment Voucher, and staple your payment to the front of Form PV. Form

PV is attached to the back of the “Payment Due” envelope found in this booklet. Enclose Form PV with your return.

Filing Your Mass. Return

If you were a legal resident of Massachusetts and your gross income was more than \$8,000 — whether received from sources inside or outside of Massachusetts — you are required to file a Massachusetts income tax return. If your gross income was \$8,000 or less, you do not need to file a return.

If you did not live in Massachusetts but received Massachusetts source income in excess of your personal exemption amount multiplied by the ratio of your Massachusetts income to your total income, you must file as a nonresident on the Nonresident/Part-Year Resident Income Tax Return, Form 1-NR/PY. Generally, this means you must file Form 1-NR/PY if you were a nonresident of Massachusetts and you received Massachusetts source income in excess of \$4,400 if single, \$6,800 if head of household or \$8,800 if married filing jointly.

If, during the taxable year, you either moved to Massachusetts or terminated your status as a Massachusetts resident to establish residency outside the state, and your gross income was more than \$8,000, you must file as a part-year resident on the Nonresident/Part-Year Resident Income Tax Return, Form 1-NR/PY.

If your Massachusetts Adjusted Gross Income (AGI) is \$8,000 or less if single, \$14,400 or less plus \$1,000 for each dependent if filing as head of household, or \$16,400 or less plus \$1,000 for each dependent if married filing jointly, you may qualify for No Tax Status. See the instructions for Massachusetts AGI on page 18.

What Is Gross Income?

Massachusetts gross income **includes** the following:

- all wages, salaries, tips, bonuses, fees and other compensation;
- taxable pensions and annuities;
- pension income from another state or political subdivision before any deduction;
- taxable IRA/Keogh and Roth IRA distributions;
- alimony;
- income from a business, trade, profession, partnership, S corporation, trust or estate;
- rental, royalty and REMIC income;
- unemployment compensation;
- taxable interest and dividends;
- gambling winnings;
- capital gains;
- taxable portion of scholarships and fellowships; and
- any other income not specifically exempt.

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

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

Massachusetts gross income **does not include**:

- interest on obligations of the U.S.; and
- amounts received as U.S. Social Security, public welfare assistance, Veterans Administration disability payments, G.I. Bill education payments, worker’s compensation, gifts, accident or life insurance payments, or certain payments received by Holocaust survivors.

Am I a Resident, Nonresident, or Part-Year Resident?

There are three different categories of resident status under Massachusetts tax law:

- 1. You are a Full-Year Resident** if your legal residence (domicile) is in Massachusetts or if you maintain a permanent place of abode in Massachusetts and during the year spend more than 183 days, in the aggregate, in the state. If you fit this description you should file a Massachusetts Resident Income Tax Return, Form 1.
- 2. You are a Nonresident** if you were not a resident of Massachusetts but earned Massachusetts income (e.g., from a job in Massachusetts). You must report such income by filing a Massachusetts Nonresident/Part-Year Resident Income Tax Return, Form 1-NR/PY.
- 3. You are a Part-Year Resident** if you were not considered a resident of Massachusetts for the full year. In this case, you must reduce certain income, deductions and exemptions based on the number of days you were a resident or on the amount of your income that is subject to Massachusetts tax. Part-year residents must file a Massachusetts Nonresident/Part-Year Resident Income Tax Return, Form 1-NR/PY.

If **both** categories 2 and 3 apply to you, you will have to **file both** as a nonresident and as a part-year resident. In these cases, you must file **one** Massachusetts Form 1-NR/PY and complete the Resident/Nonresident Worksheet, Schedule R/NR, to calculate the portion of income earned while a part-year resident and the portion of income earned while a nonresident. If you are required to **file as both** a part-year resident and a nonresident, be sure to fill in the oval below the address section of Form 1-NR/PY to indicate that you are completing Schedule R/NR and enclose Schedule R/NR with your return.

For additional information on how to file as a part-year resident/nonresident, refer to the *Guide to Filing Your 2001 Massachusetts Income Taxes*. This publication is available by visiting DOR’s website at www.mass.gov/dor or calling (617) 887-MDOR.

Are Military Personnel Required to File?

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

The following examples illustrate circumstances under which military pay is or is not taxable in Massachusetts. No guidance is intended on the tax status of such pay under the laws of other states. Generally, when income is taxable in two jurisdictions, a credit for taxes paid to the other jurisdiction is allowed on the taxpayer’s return in the state of his/her residence.

Example: *Betsy enlisted in the Navy in Massachusetts, but moved with her husband, Eric, from Massachusetts to Delaware when she was stationed there. They did not change their domicile to Delaware. She received military income while her husband received income working as a reporter for a local newspaper.*

Betsy’s income from the Navy, as well as her husband’s income from the newspaper, are both subject to Massachusetts income tax since she enlisted in the Navy in Massachusetts and they did not become legal residents of Delaware. Betsy and her husband are, therefore, Massachusetts residents, and any income they receive, whether derived in Massachusetts or not, is included in their Massachusetts gross income.

Example: *Tom and Ellen are residents of Georgia. Tom enlisted in the Army in Georgia, but was stationed in Massachusetts and moved here with his wife, Ellen. He earned \$30,000 in military pay. Tom and Ellen had no other income.*

Military personnel and their spouses are residents of the state in which they resided when they enlisted. Since Tom enlisted in Georgia, he and his wife are considered residents of that state. They are not residents of Massachusetts and do not have to file a Massachusetts resident income tax return.

What Are the Rules for Filing a Joint Return?

If you are legally married, you have the option of filing either a joint return or a married filing separate return. Married taxpayers who file a joint return are allowed to claim the following exemptions, deductions and credits which married taxpayers filing separate returns may not claim:

- ▶ a deduction of \$2,400 (\$4,800 for two or more dependents) for a dependent member of household under age 12, or dependent age 65 or over (not you or your spouse) as of December 31, 2001 or disabled dependent;

- ▶ No Tax Status if joint Massachusetts Adjusted Gross Income (Massachusetts AGI) was \$16,400 or less plus \$1,000 for each dependent;

- ▶ Limited Income Credit if joint Massachusetts AGI is between \$16,400 and \$28,700 plus \$1,750 for each dependent;

- ▶ exemptions from interest income (other than interest from Massachusetts banks), dividends or capital gain income; and

- ▶ a senior circuit breaker tax credit which allows senior citizens meeting certain eligibility criteria to claim a refundable credit on their state income taxes for the real estate taxes paid on the Massachusetts residential property they own or rent, and which they occupy as their principal residence. The credit is refundable to the amount by which the real estate tax payment exceeds 10% of their total income.

If your spouse died during 2001, you may still choose to file a joint return.

Note: A joint Form 1 is not allowed if both spouses were not Massachusetts residents for the same portion of 2001.

Example: *John and Jane Taxpayer were married in June 2001. John moved to Massachusetts to live with Jane. They would not be allowed to file a joint return because John was a Massachusetts resident for only half of the year.*

How Do I File a Decedent’s Return?

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

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

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

If the decedent’s return shows a refund due, and if the Probate Court has not appointed a legal representative and none is contemplated, a Massachusetts Form M-1310, Statement of Claimant to Refund Due on Behalf of Deceased Taxpayer, must be enclosed with the return so the refund check may be made payable to the proper person.

Should I Make Estimated Tax Payments in 2002?

Every resident or nonresident who expects to pay more than \$200 in Massachusetts income tax on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes on Massachusetts Form 1-ES. See line 36 instructions for a further discussion of who must pay quarterly estimated taxes to the Department of Revenue.

When to File Your Return

Your Massachusetts Form 1 is due on or before April 16, 2002.

How Do I File for an Extension?

To receive an extension of time to file, you must file Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, and pay the amount of tax you expect to owe on or before the due date for filing your Massachusetts income tax return. The filing and approval of this form will extend the due date for six months. An approved extension means only that you will not be assessed a late return penalty for filing your return after the due date. Interest is charged on any tax not paid by the original due date.

If you are applying for an extension and either owe no tax or choose to pay your tax due by Mastercard, Visa, Discover or Novus brand card, you may file your application for extension by touch-tone telephone or via the Web (see page 3 for more information), or if you owe no tax, you may substitute U.S. Form 4868 for the Massachusetts extension form. If you substitute U.S. Form 4868, be sure to indicate on the form that this extension is for Massachusetts purposes.

Note: Your extension will not be valid if you fail to pay 80% of your total tax liability through withholding, estimated tax payments or with your Massachusetts Form M-4868. Massachusetts Form M-4868 is available at www.mass.gov/dor, or at any Department of Revenue location or by calling (617) 887-MDOR.

Must I File on a Calendar Year Basis?

No. You may file on a fiscal year basis if you keep your books and records on that fiscal year basis and if you receive permission from the Commissioner of Revenue. If you file on a fiscal year basis, you must file on or before the fifteenth day of the fourth month after the end of your fiscal year.

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

If, after filing your income tax return, you receive an additional tax statement or discover that an error was made, do not submit a second tax return. If corrections are necessary, you must file Form CA-6, Application for Abatement/Amended Return. Form

CA-6 is available at www.mass.gov/dor, or you may have one mailed to you by calling (617) 887-MDOR.

What If I am Unable to Pay?

If you are unable to pay the full amount of tax that you owe, you should pay as much of your tax liability as possible with this return. You will receive a bill from the Department for the remaining amount of tax due plus accrued interest and penalty charges. If the amount of that bill is less than \$5,000 and you still cannot pay it in full, you must apply formally to the Department for a small payment agreement in order to avoid collection activity.

Note: Do not mail your request for a payment agreement with your tax return. Requests can be made once a bill is received by calling the Department at (617) 887-MDOR. Setting up a small payment agreement will allow you to make monthly payments within a set time period to meet your unpaid liability.

Name and Address

Use the preaddressed return in the front of the booklet we sent you if all of the preprinted information is correct. Be sure to enter your Social Security number(s) in the space(s) provided. If you received a preprinted Form 1 booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it to use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund. If your address has changed, please make all of the necessary changes on the preprinted form. If you did not receive a preaddressed return, print the full name, address, and Social Security number of each person filing the return in the spaces provided. Enter names as they appear on your federal return.

Social Security Number(s)

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

Name/Address Change

If you legally changed your name or address in 2001, fill in the oval. If you changed your name enclose a copy of your Social Security card or driver's license showing your new name. Failure to include this documentation could delay processing of your return. If you move after filing, be sure to leave a forwarding address with your local post office and file a Change of Address Form with the Massachusetts Department of Revenue. This form is available at www.mass.gov/dor.

Deceased Taxpayer

Be sure to fill in the appropriate oval if a taxpayer died during the taxable year. For further information, refer to the section “How Do I File a Decedent’s Return?” on page 10 of the instructions.

Voluntary Contribution to Massachusetts Clean Elections Fund

You, and your spouse if filing jointly, may voluntarily contribute \$1 each to the Massachusetts Clean Elections Fund. The purpose of this fund is to provide limited public financing for campaigns for statewide and legislative office and the Governor’s Council of candidates participating in the program set up under the 1998 Massachusetts Clean Elections Law. This contribution will not change your tax or reduce your refund.

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

1 Filing Status

Single

Fill in the “**Single**” oval if you were single as of December 31, 2001. This status applies to you if at the close of the taxable year you fit into any of the following categories:

- ▶ you were unmarried;
- ▶ you were a widow or widower whose spouse died before 2001; or
- ▶ you were legally separated under a final judgment of the probate court.

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

Married Filing Joint Return

Fill in the “**Married filing joint return**” oval if you were legally married as of December 31, 2001. Both spouses are responsible for the accuracy of all information entered on a joint return and both must sign. A joint return is allowed even if only one spouse had income or if one spouse died during 2001.

For further information, refer to the section “What Are the Rules for Filing a Joint Return?” on page 10.

Married Filing Separate Return

Fill in the “**Married filing separate return**” oval if you were legally married as of December 31, 2001, and if you and your spouse are not filing a joint return. Be sure to enter your spouse’s Social Security number in the space provided.

Head of Household

Fill in the “**Head of household**” oval if you qualify to file this status federally.

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

Noncustodial Parent

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

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

Whole-Dollar Method

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

▶ For example, amounts between \$1.00 and \$1.49 should be entered as \$1.00 and amounts between \$1.50 and \$2.00 should be entered as \$2.00.

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

2 Exemptions

Line 2a: Personal Exemptions

Each taxpayer is entitled to claim a personal exemption. The amount of your personal exemption depends on your filing status as filled in line 1: single, married filing a joint return, married filing a separate return or head of household.

- ▶ If you are single or married filing a separate return, enter \$4,400 in line 2a.
- ▶ If married filing a joint return, enter \$8,800 in line 2a.
- ▶ If filing as head of household, enter \$6,800 in line 2a.

Line 2b: Number of Dependents

You may claim a \$1,000 exemption for each of your dependents if you claimed them on your U.S. return. Enter in the box in item b the number of the dependents you listed on U.S. Form 1040, line 6c or U.S. Form 1040A, line 6c. Do not include yourself or your spouse. Then, multiply that total by \$1,000 and enter the total amount in line 2b.

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

Line 2c: Age 65 or Over Before 2002

You are allowed an additional \$700 exemption if you were age 65 or over before January 1, 2002. If your spouse was age 65 or over and you are filing a joint return, you may also claim a \$700 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of persons age 65 or over in the small box. Multiply that total by \$700 and enter the total in line 2c.

Line 2d: Blindness Exemption

You are allowed an additional \$2,200 exemption if you are legally blind. If your spouse is also legally blind and you are filing a joint return, you may also claim a \$2,200 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of blindness exemptions in the small box. Multiply that total by \$2,200 and enter the total in line 2d.

Legal Definition of Blindness

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

Line 2e: Other: Medical/Dental Expenses and Adoption Agency Fee

You may claim an exemption for medical and dental expenses paid during 2001 only if you itemized these expenses on your U.S. Form 1040, Schedule A. If you are married filing a joint U.S. Form 1040, you must file a joint Massachusetts Form 1 to claim this exemption. Enter in line 2e, item 1 the amount reported on your U.S. Form 1040, Schedule A, line 4.

If you paid adoption fees to a licensed adoption agency during 2001, you are eligible for an exemption of the total amount of the fees paid, including fees paid during 2001 to an agency licensed to place children for adoption on account of the adoption process of a minor child regardless of whether an adoption actually took place during 2001. Enter this amount in line 2e, item 2.

Note: No deduction is allowed for any portion of expenses that are paid or reimbursed by an employer and excluded from gross income under IRC sec. 137.

Enclose a statement showing the name and address of the licensed adoption agency and the agency fees.

Add item 1 and item 2 and enter the total in line 2e.

Line 2f: Total Exemptions

Add items 2a through 2e and enter the total in line 2f. This amount should also be entered on line 18 of Form 1.

5.6% Income

DOR and the IRS maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income, deductions, and schedules reported federally

and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

3 Wages, Salaries, Tips and Other Employee Compensation

Report in line 3 total state wages and allocated tips from Form(s) W-2. Income earned by a Massachusetts resident in another state is subject to taxation in Massachusetts. Generally, your total wages and allocated tips will be the same amount reported on your U.S. 1040 or 1040A, line 7; or 1040EZ, line 1. Below are instances that require an adjustment to these amounts.

Massachusetts Legal Residents Working in a Foreign Country

Income earned by a Massachusetts resident in a foreign country is subject to taxation in Massachusetts. If you excluded part or all of the compensation earned in a foreign country on your U.S. return (under Section 911 of the U.S. IRC), you must include any such amount in line 3 for Massachusetts tax purposes.

State or Local Employees Contributing to Pension Plans

If you are a Massachusetts state, city, town or county employee and contributed to your pension plan, enter in line 3 the Massachusetts W-2 state wage amount. This is generally box 16 of Form W-2. This amount will be higher than the U.S. amount because your pension contributions are excluded from your income for U.S. tax purposes. Contributions up to \$2,000 per taxpayer may still be deducted in line 11.

4 Taxable Pensions and Annuities

Income from most private pensions or annuity plans is taxable in Massachusetts. Certain government pensions, however, are exempt under Massachusetts law. In general, exempt pensions include contributory pensions from the U.S. Government or the Commonwealth of Massachusetts and its political subdivisions, and noncontributory military pensions. The following section describes some specific pensions which are exempt. If your pension is exempt, enter "0" in line 4 and note the source on the dotted line to the left.

If your pension is not exempt, you should generally enter in line 4 the taxable amount reported on your U.S. Form 1040, line 16b, or U.S. Form 1040A, line 12b. In some cases, however, Massachusetts law requires an adjustment to the federal amount. Distributions from annuity, stock bonus, pension, profit-sharing or deferred payment plans or contracts described in Sections 403(b) and 404 of the U.S. IRC must be adjusted to account for your contributions that have been previously taxed. Subtract from such income (as reported on your U.S. Form 1040, line 16a, or U.S. Form 1040A, line 12a) the amount of your contributions which was previously taxed by Massachusetts until the total of your taxed contributions is received. If your pension falls into this category, enter the adjusted amount in line 4 and explain briefly (in an enclosed statement) why this amount is different from the amount reported on your U.S. return. If you are receiv-

Line 5 Example

Jane had \$90 in Mass. bank interest in line 5a. The exemption amount is \$100. Therefore, Jane makes no entry in line 5.

5 Mass. bank interest: a. – b. exemption =

Exemption: if married filing jointly, subtract \$200 from Total; otherwise subtract \$100 & enter result

ing distributions from an IRA or Keogh plan, do not report the income here; instead, please refer to the instructions for Schedule X on page 23.

Note: Massachusetts does not tax Social Security income; therefore, you should not report such income on Massachusetts Form 1.

What pensions are exempt?

- ▶ Pension income received from a contributory annuity, pension, endowment or retirement fund of the U.S. Government or the Commonwealth of Massachusetts and its political subdivisions.
- ▶ Pensions from other states or its political subdivisions which do not tax such income from Massachusetts or its political subdivisions may be eligible to be deducted from Massachusetts taxable income. This pension income, however, should be reported in line 4. Refer to Schedule Y, line 6 instructions to determine eligibility for this deduction.
- ▶ Noncontributory pension income or survivorship benefits received from the U.S. uniformed services (Army, Navy, Marine Corps, Air Force, Coast Guard, commissioned corps of the Public Health Service and National Oceanic and Atmospheric Administration) is exempt from taxation in Massachusetts.
- ▶ Massachusetts state court judges who were appointed on or after January 2, 1975 are participants in the Massachusetts contributory retirement system and their pensions are nontaxable. State court judges who were appointed prior to January 2, 1975 receive taxable noncontributory pensions.

If you retired under Chapter 32, Sections 56–60 of Massachusetts General Laws and are a veteran who began Massachusetts state service prior to July 1, 1939, all or part of your pension income may be subject to tax. If you elected to receive your proceeds from contributions in one lump-sum distribution, your original contributions to the retirement system are not taxable. Noncontributory pension income received after a lump-sum distribution is fully taxable and should be reported in line 4.

How do I report lump-sum distributions?

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

Lump-sum distributions of qualified employee benefit plans in excess of the employee's contributions which were previously subject to Massachusetts tax (or not previously excluded from

Massachusetts tax) must be reported in line 4. Generally, qualified rollovers are not taxable in Massachusetts to the extent they are not taxable on your U.S. return. Lump-sum distributions related to IRA/Keogh and Roth IRA distributions should be reported in line 9.

Rollover from a traditional IRA to a Roth IRA. Taxpayers with \$100,000 or less in federal adjusted gross income are allowed to make partial or complete rollovers from existing IRAs to Roth IRAs. For rollovers completed in 1998, taxpayers were allowed an election to evenly spread the taxable portion over four tax years, starting with 1998. Any taxable portion of these rollovers included in federal gross income is also included in Massachusetts gross income, except for amounts previously subject to Massachusetts personal income tax. See Schedule X, line 2 instructions for further details.

5 Interest from Massachusetts Banks

Enter in line 5a the total amount of interest received or credited to deposit accounts (term and time deposits, including certificates of deposit, savings accounts, savings shares, and NOW accounts) in Massachusetts banks. Then, enter your exemption amount in line 5b (if married filing jointly, enter \$200; otherwise, enter \$100). Subtract line 5b from 5a and enter the result in line 5, **but not less than "0."** See the example above.

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

Lines 6, 7 and 10. If showing a loss in lines 6, 7 or 10, be sure to mark over the "X" in the box to the left. Do not use parentheses or negative signs to indicate losses.

6 Business/Profession or Farm Income or Loss

Enter in line 6 the amount of income or loss from a business or profession from Massachusetts Schedule C, line 31. You must enclose Massachusetts Schedule C with this return. Also, enclose a copy of your U.S. Schedule C or Schedule C-EZ.

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

If you operate a farm as an individual or cooperative, enter the amount of income or loss from operating a farm from U.S. Schedule F, Profit or Loss from Farming, line 36. Enclose a copy of U.S. Schedule F.

7 Rental, Royalty, REMIC, Partnership, S Corporation, Trust Income or Loss

Enter in line 7 the total of: Massachusetts Schedule E, Part I, line 5; Part II, line 8; and Part III, line 11. Remember to subtract losses when calculating the total. You must enclose Massachusetts Schedule E and a copy of U.S. Schedule E. Explain on an enclosed sheet any differences in amounts entered on the Massachusetts and U.S. schedules. See Massachusetts Schedule E instructions for an explanation of possible differences.

8 Unemployment Compensation

If you received unemployment compensation, enter in line 8 the amount reported on U.S. Form 1040, line 19; 1040A, line 13; 1040EZ, line 3; or U.S. Telefile Tax Record, item D. If you elected voluntary withholding of Massachusetts state income taxes on your unemployment compensation, be sure to include the amount of Massachusetts state income tax withheld, as reported on Form 1099-G, on Form 1, line 34 and attach with a single staple, where indicated on the return, Form 1099-G.

9 Other Income (from Schedule X)

Alimony Received, Taxable IRA/Keogh and Roth IRA Conversion Distributions, Massachusetts State Lottery Winnings, Other Gambling Winnings, Fees and Other 5.6% Income

“Other 5.6% income” includes the items listed above and must be included on Schedule X. Enter the total from Schedule X, line 6. Not less than “0.” Be sure to enclose Schedule X with your return. Enclose an additional statement if more space is needed. Failure to enclose this schedule will delay the processing of your return. See Schedule X instructions on page 23.

Deductions

Lines 11 through 15

Massachusetts allowable deductions differ from “Itemized Deductions” on Schedule A of U.S. Form 1040. You may claim only the deductions specified on Massachusetts Form 1, lines 11 through 14 and Schedule Y.

Please read the instructions for lines 12 and 13 to determine which deduction you qualify for or which is better for you. You cannot claim a deduction in both lines 12 and 13.

You are not allowed to deduct amounts unless they are directly related to income that is subject to taxation and reported on Massachusetts Form 1.

11 Amount Paid to Social Security (FICA), Medicare, Railroad, U.S. or Massachusetts Retirement Systems

If you have paid into any of the retirement systems listed above during 2001, you may deduct those contributions, up to a maximum of \$2,000.

Enter in lines 11a and 11b the amount you, and your spouse if filing jointly, paid to Social Security (FICA), Medicare or Railroad Retirement and the U.S. or Mass. Retirement Systems during 2001 as shown on your Form W-2, but not more than \$2,000 each. Payment amounts may not be combined or transferred from one spouse to the other. Add lines 11a and 11b and enter the result in line 11. Be sure to add any amount of Medicare tax withheld as shown on Form W-2 to the amount of Social Security tax withheld, the total not to exceed \$2,000 per person.

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

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

12 Child Under Age 13, or Disabled Dependent/ Spouse Care Expenses

Massachusetts now allows taxpayers to exceed the federal limit on employment-related expenses for the care of a qualified child under the age of 13, a disabled dependent or a disabled spouse. The maximum deduction is \$3,600 for one qualifying individual, and \$7,200 for two or more qualifying individuals. Complete the following worksheet to calculate your Massachusetts child or disabled dependent/spouse care expense deduction.

Note: Taxpayers who received dependent care benefits should complete a pro forma U.S. Form 2441 or U.S. Form 1040A, Schedule 2. When completing this pro forma form taxpayers should enter \$3,600 (or \$7,200 for two or more qualifying persons) in line 20 of U.S. Form 2441 or U.S. Form 1040A, Schedule 2. The amount from this pro forma Form 2441, line 24 or U.S. Form 1040A, Schedule 2, line 24 should then be entered in line 1 of the following worksheet.

Line 12 Worksheet — Child Under 13 or Disabled Dependent/ Spouse Care Deduction

Use the following worksheet to calculate your Massachusetts child under age 13 or disabled dependent/spouse care deduction. Also, enclose U.S. Form 2441 or U.S. Form 1040A, Schedule 2.

1. Enter the amount of qualified expenses you incurred and paid in 2001 for a qualifying person(s). This amount may exceed the federal limit of \$2,400 for one qualifying person or \$4,800 for two or more persons. However, do not enter more than \$3,600 for one qualifying person or \$7,200 for two or more persons

Worksheet continues on next page ...

... Continued from previous page

2. Enter the amount from U.S. Form 2441, line 4, or U.S. Form 1040A, Schedule 2, line 4
3. Enter the amount from U.S. Form 2441, line 5, or U.S. Form 1040A, Schedule 2, line 5
4. Enter the smallest of line 1, 2 or 3
5. If you paid 2000 expenses in 2001, enter the amount of the allowed 2000 expenses used to compute the credit on U.S. Form 2441, line 9, or U.S. Form 1040A, Schedule 2, line 9. Otherwise, enter "0"
6. Add lines 4 and 5. Enter here and in Form 1, line 12

If you choose to take a deduction in line 12, you cannot take the deduction in line 13.

13 Dependent Member(s) of Household Under Age 12, or Dependents Age 65 or Over (not you or your spouse) as of December 31, 2001, or Disabled Dependent

You may deduct \$2,400 for a dependent member of household, or \$4,800 for two or more dependents, under age 12, or dependent age 65 or over (not you or your spouse) as of December 31, 2001, or disabled dependent. Enter the number of qualified dependents in line 13a, not to exceed two, and multiply that amount by \$2,400. Enter the result in line 13. Only if single, head of household or married filing jointly.

You may claim an amount in line 13 only if there is no entry in line 12.

14 50% Rental Deduction

You may be entitled to a rental deduction equal to one-half (50%) of the rent you paid during 2001 (up to a maximum of \$3,000 per return) for your principal residence in Massachusetts. Enter the total amount of qualified rent paid by you during 2001 in line 14a. Divide line 14a by 2 and enter the result, or **\$3,000** (\$1,500 if married filing a separate return) — **whichever is smaller** — in line 14.

What Qualifies for the Rental Deduction?

The deduction must be for rent you paid to a landlord for the rental or lease of your principal residence in Massachusetts.

If two or more persons jointly rent a unit, each occupant using it as his/her principal residence is entitled to a deduction based on the amount of rent that each person paid.

If the rent is paid by a third party (such as a parent) who maintains a principal residence elsewhere, no 50% rental deduction is allowed for either party.

A principal residence does not include any residence for vacation, an apartment for a temporary assignment, or a student or faculty member who has a principal residence elsewhere. It also does not include any apartment or house in Mass. of a non-resident who has a legal residence in another state or country.

Payment for occupying a hotel, motel or rooming house is not considered rent unless a rental agreement exists. All separately stated charges such as utilities, furnishings or parking cannot be included in rent for purposes of this deduction. Also, rent does not include any advance payments (such as security deposit, last month's rent, etc.) until actually applied as rent.

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

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

15 Other Deductions (from Schedule Y)

Allowable Employee Business Expenses, Penalty on Early Savings Withdrawal, Alimony Paid, Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty, Student Loan Interest Deduction, Medical Savings Account Deduction, Moving Expenses, Self-Employed Health Insurance Deduction, Certain Qualified Deductions From U.S. Form 1040, Deductible Amount of Qualified Contributory Pension Income from Another State or Political Subdivision, College Tuition Deduction, Undergraduate Student Loan Interest Deduction and Charitable Contributions Deduction

"Other deductions" include the items listed above and must be included on Schedule Y. Enter the total from Schedule Y, line 10. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return. See Schedule Y instructions on page 25.

17 5.6% Income After Deductions

Subtract line 16 from line 10. Enter the result in line 17. If line 16 exceeds line 10, enter "0" in line 17.

19 5.6% Income After Exemptions

Subtract line 18 from line 17. If line 18 exceeds line 17, enter "0" in line 19. Carry over this amount to the back of Form 1.

If line 18 exceeds line 17 and you were the beneficiary of an estate or trust taxed in Massachusetts, or if you received interest income (other than interest from Massachusetts banks), divi-

dends or capital gain income, read the following section and complete the worksheet for Schedule B, line 22 and Schedule D, line 19 beginning on page 17, if applicable. All others proceed to line 20.

Applying Exemptions for the Beneficiary of an Estate or Trust Taxed in Massachusetts

If you are reporting income on Form 1 and were also the beneficiary of an estate or trust, you may apply excess exemptions to your income taxed at 5.6% on Form 2, Massachusetts Fiduciary Income Tax Return. If you are single, head of household, or married filing jointly, you may then apply any remaining excess exemptions to your interest income (other than interest from Massachusetts banks), dividends or 12% capital gain income reported on Form 1. Any excess amount should then be applied against interest income (other than interest from Massachusetts banks), dividends or 12% capital gain income reported on Form 2 before applying any remaining excess amount against 5% income reported on Form 1. Any excess amount remaining should then be applied against 5% income reported on Form 2 before applying any remaining excess amount against 4% income reported on Form 1. Any excess amount remaining should then be applied against 4% income reported on Form 2 before applying any remaining excess amount against 3% income reported on Form 1. Any excess amount remaining should then be applied against 3% income reported on Form 2 before applying any remaining excess amount against 2% income reported on Form 1. Any excess amount remaining should then be applied against 2% income reported on Form 2 before applying any remaining excess amount against 1% income reported on Form 1. Any excess amount remaining should then be applied against 1% income reported on Form 2 before applying any remaining excess amount against 0% income reported on Form 1. Any excess amount still remaining should then be applied against 0% income reported on Form 2. You must complete and file with your Form 2 a copy of Form 20A, Beneficiary's Claim for Exemptions Applicable to Fiduciary Income, in order to apply the excess exemptions to your Form 2 income. Form 20A is included in the Form 2 booklet.

20 Interest and Dividend Income

If you have any interest income other than interest from deposits in banks located in Massachusetts, dividend income in excess of \$400, certain capital gains or losses, or any adjustments to interest income (other than interest from Massachusetts banks), you must complete Schedule B. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B refer to the Schedule B instructions beginning on page 31 of this booklet.

Enter in line 20 the amount from Schedule B, line 24. If not required to file Schedule B, enter dividend income of \$400 or less (from U.S. Form 1040 or 1040A, line 9) in line 20.

Tax on 5.6% Income

22 5.6% Tax (from Tax Table)

Based upon the amount in line 21, find the proper amount of tax in the blue table at the back of this booklet. Enter the tax in line 22. If line 21 is more than \$80,000, multiply the amount in line 21 by .056 and enter the result in line 22. You must use the tax table if line 21 is \$80,000 or less.

12% Income and Tax

23 12% Income from Certain Capital Gains

If you have any interest income other than interest from deposits in banks located in Massachusetts, dividend income in excess of \$400, certain capital gains or losses, or any adjustments to interest income (other than interest from Massachusetts banks), you must complete Schedule B. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B refer to the Schedule B instructions beginning on page 31 of this booklet.

Enter in line 23a the amount from Schedule B, line 25. Multiply this amount by .12 (12%) and enter the tax in line 23.

Long-Term Capital Gain Income and Tax

24 Schedule D (Long-Term Capital Gains and Losses Excluding Collectibles)

Enter in line 24 the amount from Schedule D, page 4, line 21, **but not less than "0."** Be sure to enclose all four pages of Massachusetts Schedule D. To determine if you need to file Schedule D, refer to the Schedule D instructions beginning on page 35 of this booklet.

Schedule B, Line 22 and Schedule D, Line 19 Worksheet — Exemptions from Interest and Dividend Income, 12% Income and Long-Term Capital Gain Income (Only if Single, Head of Household, or Married Filing Jointly)

If your total exemptions in line 18 are more than the amount of your 5.6% income after deductions in line 17, the excess may be applied against all your interest and dividend income and income taxed at 12%. Any remaining excess amount may then be applied against all your long-term capital gain income. (If you are the beneficiary of a Massachusetts trust or estate, see the instructions for line 19.) Complete the following worksheet only if line 17 is less than line 18 to determine if you qualify for the excess exemption. Enter all losses as "0."

1. Enter amount from Schedule B, line 21. Not less than "0".....
2. Enter amount from Form 1, line 18.....
3. Enter amount from Form 1, line 17.....

Worksheet continues on next page ...

... Continued from previous page

- 4.** Subtract line 3 from line 2. If "0" or less, you do not qualify for this exemption. Omit remainder of worksheet
- 5.** Excess exemptions applied against interest and dividend income and 12% income. If line 1 is larger than line 4, enter line 4 here and in Schedule B, line 22 and omit remainder of worksheet. If line 4 is equal to or larger than line 1, enter line 1 here and in Schedule B, line 22. Complete lines 6 through 8.
- 6.** Subtract line 5 from line 4. If "0" you have no remaining excess exemptions. Omit remainder of worksheet
- 7.** Enter Schedule D, line 18, column A. Not less than "0".
- 8.** Excess exemptions applied against long-term capital gain income taxed at 5%. If line 7 is larger than line 6, enter line 6 here and in Schedule D, line 19, column A and omit remainder of worksheet. If line 6 is equal to or larger than line 7, enter line 7 here and in Schedule D, line 19, column A. Complete lines 9 through 11.
- 9.** Subtract line 8 from line 6. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 10.** Enter Schedule D, line 18, column B. Not less than "0".
- 11.** Excess exemptions applied against long-term capital gain income taxed at 4%. If line 10 is larger than line 9, enter line 9 here and in Schedule D, line 19, column B and omit remainder of worksheet. If line 9 is equal to or larger than line 10, enter line 10 here and in Schedule D, line 19, column B. Complete lines 12 through 14.
- 12.** Subtract line 11 from line 9. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 13.** Enter Schedule D, line 18, column C (from page 2). Not less than "0".
- 14.** Excess exemptions applied against long-term capital gain income taxed at 3%. If line 13 is larger than line 12, enter line 12 here and in Schedule D, line 19, column C (on page 2) and omit remainder of worksheet. If line 12 is equal to or larger than line 13, enter line 13 here and in Schedule D, line 19, column C (on page 2). Complete lines 15 through 17.
- 15.** Subtract line 14 from line 12. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 16.** Enter Schedule D, line 18, column D (from page 2). Not less than "0".
- 17.** Excess exemptions applied against long-term capital gain income taxed at 2%. If line 16 is larger than line 15, enter line 15 here and in Schedule D, line 19, column D (on page 2) and omit remainder of worksheet. If line 15 is equal to or larger than line 16, enter line 16 here and in Schedule D, line 19, column D (on page 2). Complete lines 18 through 20.
- 18.** Subtract line 17 from line 15. If "0," you have no remaining excess exemptions. Omit remainder of worksheet

Worksheet continues on next column . . .

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- 19.** Enter Schedule D, line 18, column E (from page 3). Not less than "0".
- 20.** Excess exemptions applied against long-term capital gain income taxed at 1%. If line 19 is larger than line 18, enter line 18 here and in Schedule D, line 19, column E (on page 3). If line 18 is equal to or larger than line 19, enter line 19 here and in Schedule D, line 19, column E (on page 3). Complete lines 21 through 23.
- 21.** Subtract line 20 from line 18. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 22.** Enter Schedule D, line 18, column F (from page 3). Not less than "0".
- 23.** Excess exemptions applied against long-term capital gain income taxed at 0%. If line 22 is larger than line 21, enter line 21 here and in Schedule D, line 19, column F (on page 3). If line 21 is equal to or larger than line 22, enter line 22 here and in Schedule D, line 19, column F (on page 3).

Excess Exemptions

If excess exemptions were used in calculating lines 20, 23 or 24 (see Schedule B, line 22 and/or Schedule D, line 19), be sure to fill in the oval in line 24.

25 Credit Recapture Amount

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

Massachusetts AGI

College Tuition Deduction

If you paid tuition to a two- or four-year college for yourself or a dependent, you may be entitled to a deduction equal to the amount by which the tuition payment, less any scholarships, grants, or financial aid received, exceeds 25% of line 7 of the Massachusetts AGI worksheet. See Schedule Y, line 7.

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

If your Massachusetts Adjusted Gross Income (Massachusetts AGI) was \$8,000 or less if single, \$14,400 or less plus \$1,000 per dependent if head of household, or \$16,400 or less plus \$1,000 per dependent if married filing a joint return, you qualify for No Tax Status and are not required to pay any Massachusetts income taxes.

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

If you do not qualify for No Tax Status, but you are single and your Massachusetts AGI is between \$8,000 and \$14,000, or if you are filing as head of household and your Massachusetts AGI is between \$14,400 and \$25,200 plus \$1,750 per dependent, or if you are married filing a joint return and your Massachusetts AGI is between \$16,400 and \$28,700 plus \$1,750 per dependent, you may qualify for the Limited Income Credit. This credit is an alternative tax calculation that can result in a significant tax reduction for people whose income is close to the No Tax Status threshold.

Massachusetts Adjusted Gross Income

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

- wages, salaries, tips;
- taxable pensions and annuities;
- pension income from another state or political subdivision before any deduction;
- taxable IRA/Keogh and Roth IRA distributions;
- fees and unemployment compensation;
- income or loss from a business or profession;
- income or loss from partnerships, S corporations and trusts;
- rents, royalties and REMIC income;
- alimony and other 5.6% income;
- interest from Massachusetts banks before exemptions; and
- other interest, dividends, and capital gains.

Complete the Massachusetts AGI Worksheet below to see if you may qualify for the College Tuition Deduction, No Tax Status or the Limited Income Credit.

Massachusetts AGI Worksheet

Line 1. Enter your total 5.6% income from Form 1, line 10. Not less than "0"*

Line 2. Enter the total of Schedule Y, lines 1 through 5

Line 3. Subtract line 2 from line 1. Not less than "0"

Line 4. Enter total Massachusetts bank interest or the interest exemption amount, whichever is smaller, from Form 1, line 5a or line 5b

Note: If Form 1, line 10 is a loss, do not complete line 4 above. Instead, combine Form 1, line 10 with the smaller amount of total Massachusetts bank interest or the interest exemption amount. Enter the result in line 4 above, unless the result is a loss. If the result is a loss, enter "0."

Line 5. Enter amount from Schedule B, line 21. If there is no entry in Schedule B, line 21 or if not filing Schedule B, enter the amount from Form 1, line 20

Line 6. Enter the total of Schedule D, line 18, columns A, B, C, D, E and F. Not less than "0"

Line 7. Add lines 3, 4, 5 and 6

Worksheet continues on next column ...

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If you paid tuition to a two- or four-year college for yourself or a dependent, you may be entitled to a deduction equal to the amount by which the tuition payment, less any scholarships, grants, or financial aid received, exceeds 25% of line 7. See Schedule Y, line 7.

If you are single and the total in line 7 is \$8,000 or less, you qualify for No Tax Status (see line 26 instructions). If you are single but do not qualify for No Tax Status, and your total in line 7 is \$14,000 or less, complete line 27 and see line 28 instructions for the Limited Income Credit. If you are filing as head of household or married filing a joint return, compare line 7 with the following chart to see if you may qualify for No Tax Status or the Limited Income Credit.

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

Number of dependents (from Form 1, line 2b):	Filing status:			
	Head of household. Line 7 of the AGI worksheet is less than or equal to:		Married filing a joint return. Line 7 of the AGI worksheet is less than or equal to:	
0	\$14,400	\$25,200	\$16,400	\$28,700
1	15,400	26,950	17,400	30,450
2	16,400	28,700	18,400	32,200
3	17,400	30,450	19,400	33,950
4	18,400	32,200	20,400	35,700
5	19,400	33,950	21,400	37,450
6	20,400	35,700	22,400	39,200
	you qualify for No Tax Status	you may qualify for the Limited Income Credit	you qualify for No Tax Status	you may qualify for the Limited Income Credit

If the number of dependents is more than 6, add \$1,000 per dependent to the blue column for No Tax Status, or \$1,750 per dependent to the red column for the Limited Income Credit.

If you qualify for No Tax Status, see the instructions for line 26. If you may qualify for the Limited Income Credit, go to line 27 and complete the worksheet for line 28.

26 No Tax Status

If you qualify for No Tax Status, fill in the oval in line 26, enter "0" in line 27 and omit lines 28–30. Also, enter "0" in line 31 and complete Form 1. However, if there is an amount entered in line 25, Credit Recapture Amount, enter that amount in line 27.

Note: If married filing separately, you do not qualify for No Tax Status.

27 Total Tax

Add line 22 (5.6% tax), line 23 (12% tax), line 24 (tax on long-term capital gains) and line 25 (credit recapture amount). Enter the total in line 27.

28 Limited Income Credit

Line 28 Worksheet — Limited Income Credit (Only if Single, Head of Household, or Married Filing Jointly)

- Line 1.** Enter amount from line 7 of Massachusetts AGI Worksheet
- Line 2.** Enter \$8,000 if single. If married filing a joint return or head of household, enter the amount from the blue column of the preceding chart
- Line 3.** Subtract line 2 from line 1
- Line 4.** Enter in line 4 the amount of tax from Form 1, line 27
- Line 5.** Multiply line 3 by 10% (.10)
- Line 6.** If line 4 is smaller than line 5, you are not eligible for this credit. Enter "0." If line 4 is larger than line 5, subtract line 5 from line 4 and enter the result here and in line 28 on Form 1

29 Other Credits (from Schedule Z)

Lead Paint Credit, Economic Opportunity Area Credit, Full Employment Credit, Septic Credit, Brownfields Credit, Low-Income Housing Credit, Credit for Income Tax Paid to Another State or Jurisdiction and Energy Credit

"Other credits" include the items listed above and must be included on Schedule Z. Enter the total from Schedule Z, line 3. Be sure to enclose Schedule Z with your return. Failure to do so will delay the processing of your return. See Schedule Z instructions on page 27.

32 Voluntary Contributions

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

- a. **Organ Transplant Fund:** The Organ Transplant Fund is administered by the Massachusetts Department of Public Health. All contributions received by the Fund assist patients with the costs of medications without which they might lose their transplanted organs. Patients assisted by the Fund are not eligible for other forms of assistance.
- b. **Endangered Wildlife Conservation:** The Natural Heritage and Endangered Species Fund is administered by the Department of Fisheries, Wildlife and Environmental Law Enforcement to provide for conservation, protection and restoration of rare, endangered and nongame wildlife and plants in the Commonwealth.
- c. **Massachusetts AIDS Fund:** The Massachusetts AIDS Fund is administered by the Massachusetts Department of Public Health. Contributions are used for research, experimental treatment and education related to Acquired Immune Deficiency Syndrome (AIDS). Massachusetts residents living with AIDS receive experimental treatment through clinical trials which are wholly supported with this Fund. The Fund also educates peo-

ple with AIDS about treatment options and how to gain access to medication and experimental treatment.

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

Add items a, b, c and d and enter the total in line 32.

34 Massachusetts Income Tax Withheld

This represents all income taxes withheld for the Commonwealth of Massachusetts as indicated on your copies of Forms W-2, W-2G and certain 1099s, if applicable. Enter the total of all Massachusetts withholdings in line 34. Attach, with a single staple, state copies to your return; otherwise your claim of amounts withheld will not be allowed. If you have lost your state copy, ask the payer for a duplicate. Copies of 1099s need only be attached if they show an amount for Massachusetts tax withheld.

35 2000 Overpayment Applied to Your 2001 Estimated Tax

Include the exact amount of any 2000 overpayment you applied to your 2001 estimated taxes on your 2000 Massachusetts Form 1, line 38. Do not include any 2000 refund in this line.

36 2001 Massachusetts Estimated Tax Payments

If you paid Massachusetts estimated income tax for 2001, enter in line 36 the total of all Massachusetts estimated tax payments. Be sure to include any last quarter (of 2001) payment made on or before January 15, 2002. Do not include any 2000 overpayment applied to your 2001 estimated tax. Every resident who expects to pay more than \$200 in Massachusetts income tax on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes on Massachusetts Form 1-ES. These forms are available at any Department of Revenue location, or you may visit www.mass.gov/dor.

Income which is not subject to withholding includes:

- salaries and wages where the employer is not subject to Massachusetts withholding;
- dividends and interest, including interest from Mass. banks;
- gains from capital assets;
- income from an individual trade, business, profession, partnership or S corporation;
- income from any estate or trust not taxed directly;
- certain pensions;
- taxable Keogh or IRA distributions;
- rental, royalty or REMIC income;
- unemployment compensation (from which no Massachusetts income tax was withheld);
- alimony received;

- ▶ contributions to SIMPLE accounts;
- ▶ illegal income; and
- ▶ any other income received while a Massachusetts resident from which Massachusetts tax will not be withheld.

Generally, the first payment voucher, Massachusetts Form 1-ES, must be filed on or before April 15 of the taxable year. The estimated tax may be paid in full with the first payment voucher or in four installments on or before April 15, June 15, September 15 of the current taxable year and January 15 of the following year.

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

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

37 Earned Income Credit

Taxpayers who qualify for and claim the federal earned income credit are allowed a refundable credit equal to 15% of the federal amount. You must enter the number of qualifying children, if any, in line 37a. Then, enter the federal earned income credit amount from your U.S. Form 1040, line 61a, 1040A, line 39a; 1040EZ, line 9a; or U.S. Telefile Tax Record, item L (2). Multiply this amount by .15 (15%) and enter the result in line 37.

If you choose to have the IRS compute your federal earned income credit, wait until the IRS notifies you of that amount before making an entry in line 37. If you have not received your earned income credit amount as computed by the IRS by April 16, 2002, you may file Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return. See page 3 for information about filing your extension by telephone or via the Web.

38 Senior Circuit Breaker Credit

Certain senior citizens in Massachusetts may be eligible to claim a refundable credit on their state income taxes for the real estate taxes paid on the Massachusetts residential property they own or rent and which they occupy as their principal residence. The maximum credit allowed is \$385 for the tax year beginning January 1, 2001. If the credit due the taxpayer exceeds the amount of the total income tax payable for the year by the taxpayer, the excess amount of the credit will be refunded to the taxpayer without interest. To determine if you qualify for this credit, refer to the Senior Circuit Breaker Credit instructions beginning on page 46 of this booklet.

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

39 Payments Made with Extension

If you filed Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, for 2001 on or before April 16, 2002, enter in line 39 the amount you paid with Massachusetts Form M-4868, line 7. Enclose a copy of your extension form with your return.

Refund Amount

41 Overpayment

If line 33 is smaller than line 40, subtract line 33 from line 40 and enter the result in line 41. This is the amount of your overpayment. If line 33 is larger than line 40, go to line 44.

42 Amount of Overpayment You Want Applied to Your 2002 Massachusetts Estimated Tax

Enter the amount of your 2001 overpayment that you wish to apply to your 2002 Massachusetts estimated tax. Once an election is made to apply your overpayment to your 2002 estimated tax, it cannot be refunded later or applied to any additional tax you may owe for 2001. The amount entered in this line can only be claimed as a credit on your 2002 Massachusetts return.

43 Refund Amount

Subtract line 42 from line 41. Enter the result in line 43. This is the amount of your refund.

D Direct Deposit

You may elect to have your refund deposited directly into your savings or checking account. Check with your financial institution to make sure that it accepts direct deposit and verify the routing transit number (RTN) of the issuing financial institution. If we are unable to honor your request for a direct deposit, a paper check will be sent to you.

JANE TAXPAYER JOHN TAXPAYER 123 Main Street Anyplace, MA 02000		1234 <small>15-000010000</small>
Date _____		
PAY TO THE ORDER OF _____		\$ _____
		DOLLARS
YOUR BANK Anyplace, MA 02000	Routing number (020250025)	Account number (202020186)
For _____		

The routing number of your financial institution is nine digits and begins with 01 through 12 or 21 through 32. The account number can be up to 17 characters (both numbers and letters). Omit hyphens, spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. You **must enter** the routing number and the account number in the spaces provided in line 43 if you are requesting direct deposit. Failure to do

so will result in your request for direct deposit being denied. See sample check on previous page for location of this information.

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

Tax Due

44 Tax Due

If line 33 is larger than line 40, subtract line 40 from line 33, and enter the result in line 44. This is the amount of tax you owe with your return. Pay in full with your return. Make your check or money order payable to the Commonwealth of Massachusetts and write your Social Security number on the front of your check or money order in the lower left corner. Complete and remove Form PV, Massachusetts Income Tax Payment Voucher, attached to the back of the "Payment Due" envelope. Staple the check to the front of Form PV and enclose Form PV with your return.

Failure to file or failure to pay the proper amount of tax when due will result in an increasing amount of interest and penalties. It is to your advantage to file when your return is due, whether or not you are able to make full payment.

If you owe any interest, penalty or addition for the underpayment of estimated tax, add those amounts to the tax you owe and enter the total amount in line 44.

What Are Interest and Penalties?

Interest: If you fail to pay the tax when due, interest will be charged. For an explanation of how interest is compounded in Massachusetts, see TIR 92-6 or call the Customer Service Bureau at (617) 887-MDOR or toll-free, in Massachusetts at 1-800-392-6089.

Penalty for Late Payment: The penalty for late payment is $\frac{1}{2}$ % per month (or fraction thereof) of the tax due, up to a maximum of 25%.

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

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

Addition for Underpayment of Estimated Tax: You will generally be subject to this addition to tax if you did not have withholding and/or estimated payments equal to 80% of the total tax liability required to be paid and your 2001 tax due after credits and withholding is greater than \$200. The 80% requirement is reduced to 66% for individuals who receive two-thirds of their income

from fishing or farming. If you failed to meet these requirements, you must complete and enclose Massachusetts Form M-2210 to calculate the amount you must add to line 44. You do not have to complete Form M-2210 if the balance due with your return is \$200 or less.

You may not be subject to an underpayment penalty if you qualify for one of the following exceptions:

- you are a qualified farmer or fisherman and are paying the full amount of the tax due on or before March 1, 2002;
- you were a Massachusetts resident and were not liable for 2000 taxes (where the taxable year was 12 months); or
- the sum of your estimated payments and withholding equals or exceeds your 2000 total tax due (where the taxable year was 12 months and a return was filed).

If you qualify for one of these exceptions, please fill in the oval marked "EX" under line 44 on Form 1 and enclose Form M-2210 indicating which of the exceptions applies to your circumstances.

A limited number of taxpayers may also qualify for a waiver of the underpayment penalty for one or more installments if:

- the underpayment was because of casualty or disaster; or
- you retired after reaching age 62 or became disabled during 2000 or 2001 and the underpayment was due to reasonable cause and not willful neglect.

If you think you qualify for one of these waivers, please enclose Form M-2210 and an explanatory statement with your return and fill in the oval marked "EX" under line 44. If your waiver is not for all four installments, complete Form M-2210 to calculate the underpayment penalty for the installments which are not covered by the waiver. Form M-2210 is available by visiting www.mass.gov/dor or at any Massachusetts Department of Revenue location.

Penalty for Failure to Report Federal Change: If the U.S. Internal Revenue Service changes your income for a prior year (generally through audit), file a Massachusetts Form CA-6, Application for Abatement/Amended Return, together with any required schedules or additional payments within one year of the final federal determination, to avoid this penalty. This penalty is equal to 10% of the additional tax due or \$100, whichever is smaller. If the change indicates a refund, file Form CA-6 within one year, including acceptance of an amended federal return by the Internal Revenue Service.

Sign Here

Now that you have completed Form 1, sign your name. Your spouse must also sign if this is a joint return. Write the date you signed the return.

Attach to your Form 1, with a single staple, all state copies of your Forms W-2, W-2G and any Forms 1099 which included

Massachusetts withholding. If making a payment, be sure to staple your check or money order to the front of Form PV and enclose Form PV with your Form 1. Form PV is attached to the back of the "Payment Due" envelope found in this booklet. Make your check or money order payable to Commonwealth of Massachusetts and be sure to sign the check and write your Social Security number on it. Also, enclose all required Massachusetts forms and schedules. Do not staple your forms together.

Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

Paid Preparer Authorization

If you want to allow the Massachusetts Department of Revenue (DOR) to discuss your 2001 tax return with the paid preparer who signed it, fill in the "Yes" oval in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer" section of your return. It does not apply to the firm, if any, shown in that section.

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

- ▶ give DOR any information that is missing from your return;
- ▶ call DOR for information about the processing of your return or the status of your refund or payment(s); and
- ▶ respond to certain DOR notices that you have shared with the preparer about math errors, offsets and return preparation. The notices will not be sent to the preparer.

You are not authorizing the paid preparer to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before DOR. If you want to expand the paid preparer's authorization, see Form M-2848, Power of Attorney and Declaration of Representative. Form M-2848 is available by visiting www.mass.gov/dor or at any Massachusetts Department of Revenue location.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2002 tax return. This is April 15, 2003 for most people.

Mailing

If you are expecting a refund or if you have no tax due, use the blue envelope that came with this booklet. If you do not have one, mail Form 1 to:

Massachusetts Department of Revenue
PO Box 7000
Boston, MA 02204-7000

If you have a tax due, use the green envelope that came with this booklet. If you do not have one, mail Form 1 to:

Massachusetts Department of Revenue
PO Box 7003
Boston, MA 02204-7003

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

Schedule X

Other Income

Be sure to enclose with Form 1.

1 Alimony Received

Enter in Schedule X, line 1 the total amount of all periodic payments of alimony or separate maintenance received under a court judgment or decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 11. Payments specified as child support are not taxable.

2 Taxable IRA/Keogh and Roth IRA Conversion Distributions

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

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

Massachusetts generally adopts the federal conversion rules for partial or complete rollovers from existing IRAs to Roth IRAs. Generally, the rollover amount is treated as a distribution and included in federal gross income to the extent it is attributable to investment growth or previously deducted contributions. In 1998 a special four-tax year averaging rule applied at the election of the taxpayer on their U.S. return, whereby the taxable portion of the 1998 rollover amount was included in gross income evenly over four taxable years beginning in 1998. This election applies for Massachusetts purposes; however, only the portion previously not subject to Massachusetts taxation will be included in Massachusetts gross income evenly over four tax years. When completing the worksheet, taxpayers who elected the special four-tax year averaging rule should include on line 9 the fourth installment of the taxable 1998 rollover amount. See

TIR 98-8, *Massachusetts 1998 Reducing Income Taxes Act*, for further details.

If you have Roth IRA distributions during the four-year spread that are treated federally as an accelerated income inclusion (i.e., a greater proportion of the income is included in an earlier tax year), you must also treat the distribution as an accelerated income inclusion for Massachusetts purposes.

Example: Federally, you have \$800 of gross income from a 1998 Roth IRA conversion that is included evenly (\$200 each tax year) over four tax years. For Massachusetts purposes, you will include \$400 of gross income (\$100 each tax year), because \$400 of the 1998 Roth IRA conversion was attributed to contributions previously subject to Massachusetts taxation. In 1999 you received additional Roth IRA distributions that for federal tax purposes resulted in an accelerated income inclusion. For federal purposes the remaining three tax years will include \$300 in 1999, \$200 in 2000 and \$100 in 2001. For Massachusetts purposes, the remaining tax years will include \$150 in 1999, \$100 in 2000 and \$50 in 2001. In this example, the taxpayer would enter the \$50 taxable amount for tax year 2001 in line 9 of the worksheet below.

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

If completing the worksheet to report conventional IRA/Keogh distributions or Roth IRA conversion distributions, complete lines 1 through 5, omit lines 6 through 9 and complete line 10.

If completing the worksheet to report Roth IRA conversion distributions if four-year tax averaging was elected on your 1998 U.S. tax return, omit lines 1 through 5 and complete lines 6 through 10.

Note: If during 2001 you received a distribution from a Roth IRA that was treated as an accelerated income inclusion for federal tax purposes, you must also treat the distribution as an accelerated income inclusion for Massachusetts purposes. See the example in the instructions for further details.

If completing the worksheet to report conventional IRA/Keogh distributions, Roth IRA conversion distributions occurring in 2001 and Roth IRA conversion distributions if four-year tax averaging was elected on your 1998 U.S. tax return, complete lines 1 through 10.

Roth IRA distributions are taxable in Massachusetts to the extent they are federally taxable. Report taxable 2001 Roth IRA distributions on line 10.

Line 1. Total IRA/Keogh plan distributions, Roth IRA conversion distributions received during 2001

Line 2. Total contributions previously taxed by Massachusetts

Line 3. Total distributions received in previous years

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

Worksheet continues on next column . . .

... Continued from previous column

Line 5. Taxable IRA/Keogh distributions. Subtract line 4 from line 1 and enter the result here. Not less than "0"

Note: Taxpayers who elected on their 1998 U.S. return four-year tax averaging for 1998 Roth IRA conversion distributions must complete lines 6–9 to report the fourth installment for tax year 2001.

Line 6. Total 1998 Roth IRA conversion distributions if four-year tax averaging elected on 1998 U.S. tax return received during 1998

Line 7. Amount of contributions in line 6 that were previously taxed by Massachusetts

Line 8. Subtract line 7 from line 6. Not less than "0"

Line 9. 2001 taxable Roth IRA conversion distributions if four-year tax averaging elected on your 1998 U.S. tax return. Divide line 8 by 4

Line 10. Total taxable IRA/Keogh distributions, 2001 Roth IRA conversion distributions, 2001 taxable Roth IRA distributions and the fourth installment of four-year tax averaging of 1998 Roth IRA conversion distributions. Add line 5 and line 9 and enter the result here and in line 2 on Schedule X

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

3 Massachusetts State Lottery Winnings

Enter in Schedule X, line 3 all winnings from the Massachusetts state lottery. Do not enter less than "0." You may only deduct the price of your winning ticket. Lottery losses are not deductible under Massachusetts law. Lottery losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

4 Other Gambling Winnings

Enter in Schedule X, line 4 all gambling winnings from casinos, raffles, races, beano or other events of chance, wherever held, and winnings from non-Massachusetts lotteries. Do not enter less than "0." You may only deduct the price of the winning ticket. Gambling losses are not deductible under Massachusetts law. Gambling losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

5 Fees and Other 5.6% Income

The following items should be reported on line 5 of Schedule X. **Do not enter less than "0."** Enclose additional statements if more space is needed.

- ▶ All fee income, such as payments for jury duty, election worker payments, director's fees, compensation received as executor or administrator of an estate, and commission income or tips not reported in line 3 of Form 1 are taxable. Also, report

all bartering income not reported on Schedule C (the fair market value of goods or services received in payment for your services).

- ▶ All prizes and awards won in a quiz program, drawing, beauty contest, etc. are taxable at fair market value. Awards and bonuses received from your employer for performance of services not part of a qualified award plan are also taxable.
- ▶ Other Massachusetts 5.6% income reported on U.S. Form 1040, line 21 and not reported elsewhere in Form 1, lines 3 through 8 or Schedule X, lines 1 through 4 must be reported in line 5 of Schedule X.
- ▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes (from Massachusetts Schedule D, line 9) are taxed as 5.6% income and must be reported on line 5 of Schedule X.
- ▶ Embezzled or other income from illegal activities is taxable and should be reported on Schedule X, line 5.

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

- ▶ Any “net operating loss” reported as a negative amount on U.S. Form 1040, line 21 cannot be entered on Schedule X. A net operating loss from a business or profession cannot be carried forward or backward to offset individual income in any other year under Massachusetts law.
- ▶ Refunds of U.S. and Massachusetts income taxes are not considered income under Massachusetts law, including any 2001 U.S. Advance Payment check. If you received interest on refunds, report such interest on Massachusetts Schedule B.

6 Total

Add lines 1 through 5 and enter the total in line 6 of Schedule X and in line 9 of Form 1. Do not enter less than “0.” Be sure to enclose Schedule X with your return. Failure to do so will delay the processing of your return.

Schedule Y

Other Deductions

Be sure to enclose with Form 1.

1 Allowable Employee Business Expenses

Generally, reimbursed employee business expenses are not included in your wages or salary and therefore are not allowed as deductions. However, there are unreimbursed and certain reimbursed expenses for which you are allowed a deduction. Complete the following worksheet in order to calculate your Massachusetts employee business expense deduction. The expenses must relate to income reported in lines 3 or 9 on Form 1.

Employees may deduct the following:

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

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

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

If you are a qualified performing artist or a fee-basis state or local government official, do not complete the worksheet. Enter on Schedule Y, line 5 your federally deductible business expenses included on U.S. Form 1040, line 32 and fill in the appropriate oval in Schedule Y, line 5. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 32. For example, qualified performing arts-related expenses should be identified as “QPA” and employee business expenses of fee-basis state or local government officials should be identified as “FBO.” Enclose U.S. Form 2106 or 2106-EZ with your return.

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

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

Be sure to enclose U.S. Form 2106 or 2106-EZ with your return.

2 Penalty on Early Savings Withdrawal

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

3 Alimony Paid

Enter in Schedule Y, line 3 the total amount that you paid to your former spouse during 2001 for alimony or separate maintenance under court decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 31a.

4 Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty Included in Form 1, Line 3.

Massachusetts allows an exclusion from income of amounts received by a firefighter or police officer incapacitated in the line of duty, per MGL Ch. 41, sec. 111F, and an exclusion from income of amounts received by qualifying students exempt under a U.S. tax treaty.

Enter any excludible amount of income received while you were a firefighter or police officer incapacitated in the line of duty in line 4 of Schedule Y that was included in Form 1, line 3, and fill in the appropriate oval. Enclose a statement from your employer.

If you were a qualifying student, enter any excludible amount of income received that was exempt under a U.S. tax treaty in line 4 of Schedule Y that was included in Form 1, line 3, and fill in the appropriate oval. Enclose U.S. Form 1042-S.

5 Other Qualified Deductions

You may claim **only** the deductions listed below for Schedule Y, line 5. If you are entitled to claim any of the deductions in line 5, fill in the appropriate oval(s) and enter the total amount of deductions claimed in line 5.

► **Student Loan Interest Deduction:** Enter the amount from U.S. Form 1040, line 24 or 1040A, line 17 (not to exceed \$2,500 for tax year 2001) and fill in the appropriate oval in line 5 of Schedule Y. Only if not claiming the same expenses in line 8 of Schedule Y, Undergraduate Student Loan Interest deduction.

► **Archer Medical Savings Account (MSA) Deduction:** Enter the amount from U.S. Form 1040, line 25, enclose U.S. Form 8853 and fill in the appropriate oval in line 5 of Schedule Y.

► **Moving Expenses:** Enter the amount from U.S. Form 1040, line 26, enclose U.S. Form 3903 and fill in the appropriate oval in line 5 of Schedule Y.

► **Self-Employed Health Insurance Deduction:** Due to differences between the Internal Revenue Code as amended and in effect as of January 1, 1998 and the current year, **only 50%** of

the qualified insurance payments are deductible for Massachusetts purposes for the 2001 tax year. As a result, you must complete a pro forma version of the U.S. Self-Employed Health Insurance Deduction Worksheet (U.S. Form 1040 instructions) using .50 (50%) in line 2 of the worksheet. If you used the worksheet in IRS Pub. 535, you must complete a pro forma version using .50 (50%) in line 4 of the worksheet. Enter the result here and fill in the appropriate oval in line 5 of Schedule Y.

► **Certain Qualified Deductions from U.S. Form 1040:** **Do not include** any amounts reported on U.S. Form 1040, lines 23 through 31a that are included in Form 1040, line 32 total. Enter **only** amounts included in U.S. Form 1040, line 32 as an adjustment, **except** amounts contributed to sec. 501(c)(18) pension plan and contributions by certain chaplains to sec. 403(b) plans. For Massachusetts purposes, contributions to sec. 501(c)(18) pension plans and contributions by certain chaplains to sec. 403(b) plans are not deductible. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 32. Identify qualified performing arts-related expenses as "QPA"; jury duty pay given to your employer as "Jury Pay"; reforestation amortization as "RFST"; repayment of supplemental unemployment benefits under the Trade Act of 1974 as "Sub-Pay TRA"; the deduction for clean-fuel vehicles as "Clean-Fuel"; employee business expenses of fee-basis state or local government officials as "FBO"; and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 5 from the rental of personal property engaged in for profit as "PPR." Fill in the appropriate oval in line 5 of Schedule Y.

6 Deductible Amount of Qualified Contributory Pension Income from Another State or Political Subdivision Included in Form 1, Line 4

Massachusetts allows a deduction for contributory pension income received from another state or one of its political subdivisions which does not tax such income from Massachusetts or its political subdivisions. For guidelines to determine which state's pensions are exempt in Massachusetts, see TIR 95-9. Enter any deductible amount of such income in line 6 of Schedule Y that was included in Form 1, line 4.

7 College Tuition Deduction

A deduction is allowed for tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college leading to an undergraduate or associate's degree, diploma or certificate. Tuition payments for students pursuing graduate degrees at such a college or university are not eligible for the college tuition deduction. The deduction is equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceed 25% of Massachusetts adjusted

gross income. Qualified tuition expenses include only those expenses designated as tuition or mandatory fees required for the enrollment or attendance of the taxpayer or any dependent of the taxpayer at an eligible educational institution. No deduction is allowed for any amount paid for room and board, books, supplies, equipment, personal living expenses, meals, lodging, travel or research, athletic fees, insurance expenses or other expenses unrelated to an individual's academic course of instruction. Complete the Massachusetts AGI Worksheet on page 19 and the Schedule Y, line 7 worksheet below to see if you may qualify for this deduction. See TIR 97-13 for more information.

Schedule Y, Line 7 Worksheet — College Tuition Deduction

- Line 1. Enter total tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college in 2001* _____
- Line 2. Enter amount of scholarships, grants or financial aid received in 2001 for amounts shown in line 1* _____
- Line 3. Subtract line 2 from line 1. If "0" or less, you do not qualify for this deduction* _____
- Line 4. Enter amount from line 7 of Massachusetts AGI Worksheet (page 19)* _____
- Line 5. Multiply line 4 by .25.* _____
- Line 6. If line 3 is smaller than line 5, you are not eligible for this deduction. Enter "0." If line 3 is larger than line 5, subtract line 5 from line 3 and enter the result here and in line 7 on Schedule Y* _____

8 Undergraduate Student Loan Interest Deduction

A deduction is allowed for interest paid on a qualified undergraduate student loan. To be eligible for the deduction, the "education debt" must be a loan that is administered by the financial aid office of a two-year or four-year college at which you, or a qualified dependent, were enrolled as an undergraduate student. Additionally, the loan must have been secured through a state student loan program, a federal student loan program, or a commercial lender, and must have been spent solely for the purposes of paying tuition and other expenses directly related to the school enrollment. Enter the amount of such interest paid in Schedule Y, line 8. Only if not claiming the same expenses in line 5 of Schedule Y, Student Loan Interest Deduction.

9 Charitable Contributions

Massachusetts now allows a deduction for charitable contributions made during 2001. Amounts reported on U.S. Schedule A, line 17 are **not** allowed. Generally, taxpayers who itemize deductions on their federal income tax return should use the amount allowed on their federal return for the taxable year. Taxpayers who do not itemize on their federal income tax return must use the amount that would have been allowed on their federal income tax return for the taxable year if they had itemized. In order to be deductible, a contribution must meet all the requirements

for deductibility of charitable contributions under Internal Revenue Code, section 170. Taxpayers must keep records to substantiate cash and non-cash charitable contributions.

Note: A taxpayer claiming a deduction on their Massachusetts return whose charitable contributions exceed the applicable federal limit should see DOR Directive 01-10, Deduction of Charitable Contributions for Taxpayers Whose Charitable Contributions Exceed Federal Deduction Limits.

► **If you itemized deductions on your U.S. return:** Enter in line 9a charitable contributions made by cash or check reported on U.S. Schedule A, line 15. Enter in line 9b charitable contributions made other than by cash or check reported on U.S. Schedule A, line 16. Enter the total of line 9a and line 9b in Schedule Y, line 9. Enclose U.S. Form 8283 if the amount in line 9b is over \$500.

► **If you did not itemize deductions on your U.S. return:** Enter in line 9a charitable contributions made by cash or check that would have been allowed on U.S. Schedule A, line 15. Enter in line 9b charitable contributions made other than by cash or check that would have been allowed on U.S. Schedule A, line 16. For further information on what is allowable as charitable deductions see the instructions for U.S. Form 1040, Schedule A. Enter the total of line 9a and line 9b in Schedule Y, line 9. Complete and enclose a pro-forma U.S. Form 8283 if the amount in line 9b is over \$500.

10 Total Other Deductions

Add lines 1 through 9 and enter the total in line 10 of Schedule Y and on line 15 of Form 1. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return.

Schedule Z

Other Credits

Be sure to enclose with Form 1.

1 Part 1 Credits

► **Lead Paint:** If you incurred expenses for covering or removing lead paint on residential premises in Massachusetts, you may claim a credit for expenses up to \$1,500 for each residential unit. The basic rules are explained on Massachusetts Schedule LP, Credit for Removing or Covering Lead Paint on Residential Premises. If you qualify for the credit, complete and enclose Schedule LP and fill in the appropriate oval in Part 1.

► **Economic Opportunity Area Credit:** Massachusetts allows a credit equal to 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA). If you qualify for the credit, complete and enclose Schedule EOA and fill in the appropriate oval in Part 1.

► **Full Employment Credit:** Every employer who participates in the Full Employment Program and continues to employ a partic-

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

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

► **Brownfields Credit:** Effective for tax years beginning on or after January 1, 1999, taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area. In general, the credit is 25% or 50% of certain environmental response and removal costs incurred between August 1, 1998, and January 1, 2007, provided that the taxpayer commences and diligently pursues an environmental response action before August 5, 2003. The credit that may be taken in any taxable year is limited to 50% of the taxpayer's tax liability. A five-year carryforward of unused credit is allowed, provided the taxpayer continues to maintain the remedies required by law. For more information, see TIRs 99-13 and 00-9.

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

you qualify for the credit, be sure to enclose a copy of the eligibility statement issued by the Department of Housing and Community Development and fill in the appropriate oval in Part 1.

Enter the total amount of all credits claimed in Part 1 in Schedule Z, line 1 and complete lines 2 and 3.

2 Part 2 Credits for Residents and Part-Year Residents Only

► **Income Tax Paid to Another State:** If any of the income reported on this return is subject to taxation in another state or jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete the Schedule Z, line 2 worksheet on the next page, enclose a copy of your return filed with another state or jurisdiction and fill in the appropriate oval in Part 2. Do not include taxes paid to the U.S. government. (This credit does not apply to city or local taxes.) You are allowed to claim a credit for taxes paid to the following jurisdictions: (a) other states in the U.S.; (b) any territory or dependency of the U.S. (including Puerto Rico, the Virgin Islands, Guam, the District of Columbia); or (c) the Dominion of Canada or any of its provinces (less any U.S. credit amount allowable from U.S. Form 1116).

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

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

You must complete separate worksheets if you had 5.6% and interest income (other than interest from Massachusetts banks), dividends or capital gain income taxed by another jurisdiction. If you use this worksheet to calculate a credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, substitute interest income (other than interest from Massachusetts banks), dividends or capital gain income for 5.6% income in line 1. You must also substitute Schedule B, line 11 (interest and dividend income and taxable 12% capital gains) or Schedule D, line 12, columns A, B, C, D, E and F (gross long-term capital gains and losses), but not less than "0," for Form 1, line 10 in line 2 of the worksheet, and the total of Form 1, line 20 multiplied by .056 (tax on interest and dividend income) and Form 1, line 23 (12% tax) or line 24 (tax on long-term capital gains) for Form 1, line 19 in line 4 of the worksheet.

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

Schedule Z, Line 2 Worksheet — Income Tax Paid to Another Jurisdiction

Note: If you have income other than from Form 1, line 10 taxed by other jurisdictions, see instructions.

Line 1. Enter the total 5.6% income included in Form 1, line 10 on which you paid taxes to another jurisdiction.

Line 2. Enter the total of Form 1, line 10 and the total Massachusetts bank interest or the interest exemption amount, whichever is smaller, from Form 1, line 5a or line 5b.

Line 3. Divide line 1 by line 2.

Line 4. Multiply Form 1, line 19 by .056.

Line 5. Enter any Limited Income Credit from Form 1, line 28.

Line 6. Subtract line 5 from line 4.

Line 7. Multiply line 6 by line 3.

Line 8. Enter the total tax paid to other jurisdictions on income also reported on this return unless the tax was paid to Canada. If the tax was paid to Canada, the amount reported in this line must be reduced by the amount claimed as a foreign tax credit on U.S. Form 1040, line 43. Credit is only allowable for amount of tax paid.

Line 9. Enter the smaller of lines 7 or 8 here and on Schedule Z, line 2.

Be sure to enclose copies of other state's returns with Form 1.

► **Energy:** If you had expenditures for certain renewable energy source items, such as equipment which uses or transmits solar or wind energy to heat, cool, or provide hot water for your principal residence in Massachusetts, you may qualify for a credit. Massachusetts does not allow a credit for expenditures on items such as: insulation, storm or thermal windows or doors, caulking, weather-stripping, heat pumps (air and water), wood burning stoves or furnaces, and costs for energy conservation. If you qualify for the credit, complete and enclose Massachusetts Schedule EC, Residential Energy Credit, and fill in the appropriate oval in Part 2.

Enter the total amount of the credits claimed in Part 2 in Schedule Z, line 2. Then, add line 1 and line 2 and enter the result in Schedule Z, line 3 and in Form 1, line 29.

Schedule E, Part I

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

Rental, Royalty and REMIC Income or Loss

1a Rental and Royalty Income or Loss

Enter total rental and royalty income or loss included in U.S. Form 1040, Schedule E, Part I, line 26 and U.S. Schedule E, Part V, line 39.

1b Real Estate Mortgage Investment Conduit (REMIC) Income or Loss

Enter total Real Estate Mortgage Investment Conduit (REMIC) residual income or loss from U.S. Schedule E, Part IV, line 38.

2 Massachusetts Differences

Enter and explain any differences between total rental, royalty and REMIC income on the U.S. return and the same type of income on your Massachusetts return. Possible differences include trust provisions, deductible royalties from approved U.S. energy conservation patents and passive losses as described below. Explain the differences in the space provided or enclose an additional sheet if necessary.

Trust Provisions

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

Deductible Royalties from U.S. Energy Conservation Patents

Enter any income you received from certain U.S. patents that are approved by the Massachusetts Division of Energy Resources as being useful for energy conservation or for alternative energy development. Request approval from the Division of Energy Resources, Attention: General Counsel, 70 Franklin Street, 7th Floor, Boston, MA 02110, or call (617) 727-4732. Enclose evidence of such approval with your tax return. If such approved patent income is other than royalty income, use the applicable schedule and explain.

Passive Losses

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

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

For more information, see the *Guide to Filing Your 2001 Massachusetts Income Taxes*.

4 Abandoned Building Renovation Deduction

In line 4 enter 10% of the costs of renovating a qualifying abandoned building in an Economic Opportunity Area. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building. For further information, contact the

Massachusetts Office of Business Development, 10 Park Plaza, Suite 3720, Boston, MA 02116, or call (617) 973-8600.

5 Total Rental, Royalty and REMIC Income or Loss for Massachusetts

Subtract line 4 from line 3. Remember to subtract losses when calculating the total. This figure should be added to any amount(s) in Schedule E, Part II, line 8 and/or Part III, line 11 and the total entered on Form 1, line 7.

Schedule E, Part II

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

Income or Loss From Partnerships and S Corporations

1 Partnership and S Corporation Income or Loss

Enter your total partnership and S corporation income or loss from your U.S. Form 1040, Schedule E, Part II, line 31.

2 Massachusetts Differences

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

4 Abandoned Building Renovation Deduction

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

6 Interest (Other Than from Massachusetts Banks) and Dividends

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

7 Interest from Massachusetts Banks

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

8 Total Income or Loss from Partnerships and S Corporations

Subtract the total of lines 6 and 7 from line 5. Remember to subtract losses when calculating the total. This figure should be added to any amount(s) in Schedule E, Part I, line 5 and/or Part III, line 11 and the total entered on Form 1, line 7.

Schedule E, Part III

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

Income or Loss From Grantor-Type Trusts and Non-Massachusetts Estates and Trusts

1 Estate and Trust Income or Loss

Enter your total estate and trust income or loss from your U.S. Schedule E, Part III, line 36.

2 Massachusetts Differences

Enter and explain any differences between estate and trust income or loss on the U.S. return and the same type of income on your Massachusetts return. Explain the differences in the space provided or enclose an additional sheet if necessary. See explanation in Schedule E, Part I, line 2.

4 Abandoned Building Renovation Deduction

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

6 Estate or Nongrantor-Type Trust Income

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

8 Interest (Other Than from Massachusetts Banks) and Dividends

Enter interest (other than from Mass. banks) and dividends if included in line 7 and enter on Massachusetts Schedule B, line 3.

9 Adjustment of 5.6% Income

Enter the total of interest from Massachusetts banks if included in line 7. This income must be reported on Form 1, line 5a. Enter the total of pension and annuity income if included in line 7. This income must be reported on Form 1, line 4.

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

Subtract line 10 from line 7. Remember to subtract losses when calculating the total. This figure should be added to any amount(s)

in Schedule E, Part I, line 5 and/or Part II, line 8 and the total entered on Form 1, line 7.

Schedule B

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

Interest, Dividends and Certain Capital Gains and Losses

You must file Massachusetts Schedule B if you had:

- ▶ dividend income in excess of \$400;
- ▶ any interest income other than from Massachusetts banks taxed at 5.6%;
- ▶ short-term capital gains or losses;
- ▶ carryover short-term losses from prior years;
- ▶ long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes;
- ▶ gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business;
- ▶ net long-term capital gains and losses; or
- ▶ excess exemptions.

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

- ▶ You need not file Massachusetts Schedule B if all interest income you had was from Massachusetts banks (reportable in Form 1, line 5a), and your gross dividend income was \$400 or less (dividend income of \$400 or less is reportable on Form 1, line 20), and you have no short-term capital gains or losses, long-term gains on collectibles and pre-1996 installment sales, gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business, allowable deductions from your trade or business, carryover short-term losses from prior years, net long-term capital gains or losses, or excess exemptions.
- ▶ You must complete Massachusetts Schedule B if your interest or dividend income includes: dividends taxed directly to trusts or estates on a Massachusetts Fiduciary Return, Form 2; distributions that are returns of capital; or exempt portions of any interest or dividends from a mutual fund or dividends from current earnings of a corporate trust that are taxed directly on a Massachusetts Corporate Trust Return, Form 3F.
- ▶ You need not complete Schedule B, Part 2 if you do not have any of the following: short-term capital gains or losses; carryover short-term losses from prior years; long-term gains on collect-

ibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes; gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less; allowable deductions from your trade or business; net long-term capital gains or losses; or excess exemptions (see line 7 instructions).

Part 1. Interest and Dividend Income

1 Total Interest Income

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

2 Total Ordinary Dividends

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

3 Other Interest and Dividends

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

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

Lines 5 and 6

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

5 Total Interest from Massachusetts Banks

Enter the total interest included in Form 1, line 5a (prior to the exemption amount being subtracted) only if it has been included in lines 1 or 3 of this schedule.

6 Other Interest and Dividends to Be Excluded

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

- ▶ Interest on U.S. debt obligations. Enter interest received on U.S. treasury bills, notes and bonds, savings bonds or other obligations of the United States, including its territories or dependencies. Such interest is tax-exempt in Massachusetts. For further information concerning exempt obligations of the United States, see TIR 89-8;
- ▶ Interest and dividends taxed directly to Massachusetts estates and trusts. Enter the interest and dividends that are taxed directly to a Massachusetts estate or trust (reportable on a Massachusetts Fiduciary Return, Form 2);
- ▶ Any distribution which is a return of capital included in total gross dividends, line 2;
- ▶ Any interest or dividends from obligations of the Commonwealth of Massachusetts or its political subdivisions held by you;
- ▶ Any exempt portion of interest or dividends from a mutual fund included in lines 1, 2 or 3 of this schedule. Enter only the exempt portion of interest or dividends derived from obligations of the U.S. government or the Commonwealth of Massachusetts or its political subdivisions;
- ▶ Any dividends from current earnings of a corporate trust only if such entity is taxed directly on a Massachusetts Corporate Trust Return, Massachusetts Form 3F; or
- ▶ Any interest on pre-retirement distributions from state and municipal contributory pension plans.

Do not enter in line 6 either of the following:

- ▶ Dividends from the earnings and profits accumulated prior to January 1, 1971 by any corporate trust which was not taxed directly by Massachusetts in prior years, even though such an entity is taxed directly now (obtain from the entity the taxable status of dividends paid to you); or
- ▶ Dividends from any corporate trust which is not taxed directly by Massachusetts. Such entities include: those not doing business in Massachusetts; regulated investment companies or real estate investment trusts (both as defined under the U.S. Internal Revenue Code, Sections 851 and 856); holding companies (as defined in Massachusetts General Laws, Chapter 62, section 8); or those which derive less than 10% of their income from business activities or transactions in Massachusetts.

7 Subtotal Interest and Dividend Income

Subtract the total of lines 5 and 6 from line 4. If you have no short-term capital gains or losses, carryover short-term losses from prior years, long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes, gains or losses from the sale, exchange or

involuntary conversion of property used in a trade or business and held for one year or less, allowable deductions from your trade or business, net long-term capital gains or losses, or excess exemptions, omit lines 8–23. Enter the amount from line 7 in line 24 of Schedule B and on Form 1, line 20, and omit lines 25 and 26 of Schedule B. Otherwise, complete Parts 2 and 3.

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

If there are any differences between U.S. and Massachusetts amounts reported in lines 8, 9, 10, 14 and 15, be sure to enter the Massachusetts amount and enclose a statement that includes the line number and an explanation of the differences. Possible differences include:

- ▶ Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7 or the *Guide to Filing Your 2001 Massachusetts Income Taxes*.

8 Short-Term Capital Gains

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

9 Long-Term Capital Gains on Collectibles and Pre-1996 Installment Sales

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

10 Gain on Sale of Business Property

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

12 Allowable Deductions From Your Trade or Business

Enter the amount from Massachusetts Schedule C-2, line 10 if you qualify for an excess trade or business deduction. Generally, taxpayers may not use excess 5.6% deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.6% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deduc-

tions may only be used to offset other income which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return.

14 Short-Term Capital Losses

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

15 Loss on Sale of Business Property

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

16 Prior Years Short-Term Unused Losses

You may use short-term losses accumulated in the previous taxable years beginning after 1981 in the computation of short-term gain or loss for the current year. Enter here the amount from your 2000 Massachusetts Schedule B, line 26.

17 Subtotal Interest and Dividends and Certain Capital Gains and Losses

Combine lines 13, 14, 15 and 16. If Schedule B, line 17 is a loss and all amounts in Schedule D, line 14, columns A, B, C, D, E or F are "0" or less, omit lines 18–23, enter "0" in lines 24 and 25, enter the amount from line 17 on line 26 (Schedule B, page 2) and enter "0" on Form 1, lines 20 and 23. If line 17 is a positive amount and any amount in Schedule D, line 14, columns A, B, C, D, E or F is greater than "0," omit line 18 and enter the amount from line 17 in line 19. Otherwise, go to line 18.

18 Capital Losses Applied Against Interest, Dividends and/or Capital Gains

If Schedule B, line 17 is a loss and any amount in Schedule D, line 14, columns A, B, C, D, E or F is a positive amount, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34. When completing the worksheet, be sure to enter all losses as a positive amount.

If Schedule B, line 17 is a positive amount and any amount in Schedule D, line 14, columns A, B, C, D, E or F is a loss, complete the Long-Term Capital Losses Applied Against Interest, Dividends and Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34. When completing the worksheet, be sure to enter all losses as a positive amount.

19 Subtotal Interest and Dividends and Certain Capital Gains and Losses

If line 17 is greater than "0," subtract line 18 from line 17. If line 17 is less than "0," combine lines 17 and 18. If line 19 is a

loss, omit lines 20 through 25, enter the amount from line 19 in line 26 and enter "0" on Form 1, lines 20 and 23. Otherwise, continue completing Schedule B.

20 Long-Term Gain Deduction

Complete only if lines 9 and 19 are greater than "0." If there is no entry in line 9, enter "0." If line 9 shows a gain, enter 50% of line 9 less 50% of losses in lines 14, 15, 16 and 18, but not less than "0."

Example: Jack has a long-term capital gain on collectibles of \$1,000 entered in line 9 and line 13. He does not have any other interest income (other than interest from Massachusetts banks) and dividend income. Jack also has a short-term capital loss of \$100 entered in line 14 and a prior year short-term unused loss of \$200 entered in line 16. Jack enters \$350 in line 20: \$500 (50% of \$1,000) minus \$150 (50% of \$300) = \$350.

Part 3. Taxable Interest, Dividends and Certain Capital Gains

22 Excess Exemptions

Enter the amount from line 5 of the Excess Exemption Worksheet beginning on page 17. Complete only if single, head of household or married filing jointly and Form 1, line 18 is greater than Form 1, line 17.

24 Interest and Dividends Taxable at 5.6%

If line 23 is greater than or equal to line 7, enter the amount from line 7 here and on Form 1, line 20. If line 23 is less than line 7, enter the amount from line 23 here and on Form 1, line 20.

25 Taxable 12% Capital Gains

Subtract line 24 from line 23. Not less than "0." Enter the result here and on Form 1, line 23a.

26 Available Short-Term Losses for Carryover in 2002

Enter the amount from line 19 (Schedule B, page 1), only if it is a loss. If line 19 is not completed, enter the amount from line 17, only if it is a loss.

Note: Before completing the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15, or the Long-Term Capital Losses Applied Against Interest, Dividends and Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15, you must have completed Schedule B, line 17 and Schedule D, line 14.

If you need additional information on how to net capital gains against capital losses, visit DOR's website at www.mass.gov/dor.

Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15. Complete only if Schedule B, line 17 is a loss and any amount in Schedule D, line 14, column A, B, C, D, E or F is a positive amount. Enter all losses as positive amounts.

1. Enter amount from Schedule B, line 17 as a positive amount. _____
2. Enter any gain from Schedule D, line 14, column A. Otherwise, enter "0". _____
3. If line 1 is smaller than or equal to line 2, enter line 1 here and in Schedule D, line 15, column A. If line 1 is larger than line 2, enter line 2 here and in Schedule D, line 15, column A. _____
4. Subtract line 3 from line 1. Enter result here. If "0," omit lines 5 through 18 and complete line 19. Otherwise, complete lines 5 through 7. _____
5. Enter any gain from Schedule D, line 14, column B. Otherwise, enter "0". _____
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule D, line 15, column B. If line 4 is larger than line 5, enter line 5 here and in Schedule D, line 15, column B. _____
7. Subtract line 6 from line 4. Enter result here. If "0," omit lines 8 through 18 and complete line 19. Otherwise, complete lines 8 through 10. _____
8. Enter any gain from Schedule D, line 14, column C. Otherwise, enter "0". _____
9. If line 7 is smaller than or equal to line 8, enter line 7 here and in Schedule D, line 15, column C. If line 7 is larger than line 8, enter line 8 here and in Schedule D, line 15, column C. _____
10. Subtract line 9 from line 7. Enter result here. If "0," omit lines 11 through 18 and complete line 19. Otherwise, complete lines 11 through 13. _____
11. Enter any gain from Schedule D, line 14, column D. Otherwise, enter "0". _____
12. If line 10 is smaller than or equal to line 11, enter line 10 here and in Schedule D, line 15, column D. If line 10 is larger than line 11, enter line 11 here and in Schedule D, line 15, column D. _____
13. Subtract line 12 from line 10. Enter result here. If "0," omit lines 14 through 18 and complete line 19. Otherwise, complete lines 14 through 16. _____
14. Enter any gain from Schedule D, line 14, column E. Otherwise, enter "0". _____
15. If line 13 is smaller than or equal to line 14, enter line 13 here and in Schedule D, line 15, column E. If line 13 is larger than line 14, enter line 14 here and in Schedule D, line 15, column E. _____
16. Subtract line 15 from line 13. Enter result here. If "0," omit lines 17 and 18 and complete line 19. Otherwise, complete lines 17 through 19. _____
17. Enter any gain from Schedule D, line 14, column F. Otherwise, enter "0". _____
18. If line 16 is smaller than or equal to line 17, enter line 16 here and in Schedule D, line 15, column F. If line 16 is larger than line 17, enter line 17 here and in Schedule D, line 15, column F. _____
19. Add items 3, 6, 9, 12, 15 and 18. Enter the result here and in Schedule B, line 18. _____

Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15. Complete only if Schedule B, line 17 is a positive amount and any amount in Schedule D, line 14, column A, B, C, D, E or F is a loss. Enter all losses as positive amounts.

1. Enter amount from Schedule B, line 17. _____
2. Enter any loss from Schedule D, line 14, column A as a positive amount. Otherwise, enter "0". _____
3. If line 1 is smaller than or equal to line 2, enter line 1 here and in Schedule D, line 15, column A. If line 1 is larger than line 2, enter line 2 here and in Schedule D, line 15, column A. _____
4. Subtract line 3 from line 1. Enter result here. If "0," omit lines 5 through 18 and complete line 19. Otherwise, complete lines 5 through 7. _____
5. Enter any loss from Schedule D, line 14, column B as a positive amount. Otherwise, enter "0". _____
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule D, line 15, column B. If line 4 is larger than line 5, enter line 5 here and in Schedule D, line 15, column B. _____
7. Subtract line 6 from line 4. Enter result here. If "0," omit lines 8 through 18 and complete line 19. Otherwise, complete lines 8 through 10. _____
8. Enter any loss from Schedule D, line 14, column C as a positive amount. Otherwise, enter "0". _____
9. If line 7 is smaller than or equal to line 8, enter line 7 here and in Schedule D, line 15, column C. If line 7 is larger than line 8, enter line 8 here and in Schedule D, line 15, column C. _____
10. Subtract line 9 from line 7. Enter result here. If "0," omit lines 11 through 18 and complete line 19. Otherwise, complete lines 11 through 13. _____
11. Enter any loss from Schedule D, line 14, column D as a positive amount. Otherwise, enter "0". _____
12. If line 10 is smaller than or equal to line 11, enter line 10 here and in Schedule D, line 15, column D. If line 10 is larger than line 11, enter line 11 here and in Schedule D, line 15, column D. _____
13. Subtract line 12 from line 10. Enter result here. If "0," omit lines 14 through 18 and complete line 19. Otherwise, complete lines 14 through 16. _____
14. Enter any loss from Schedule D, line 14, column E as a positive amount. Otherwise, enter "0". _____
15. If line 13 is smaller than or equal to line 14, enter line 13 here and in Schedule D, line 15, column E. If line 13 is larger than line 14, enter line 14 here and in Schedule D, line 15, column E. _____
16. Subtract line 15 from line 13. Enter result here. If "0," omit lines 17 and 18 and complete line 19. Otherwise, complete lines 17 through 19. _____
17. Enter any loss from Schedule D, line 14, column F as a positive amount. Otherwise, enter "0". _____
18. If line 16 is smaller than or equal to line 17, enter line 16 here and in Schedule D, line 15, column F. If line 16 is larger than line 17, enter line 17 here and in Schedule D, line 15, column F. _____
19. Add items 3, 6, 9, 12, 15 and 18. Enter the result here and in Schedule B, line 18. _____

Schedule D

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

Long-Term Capital Gains and Losses Excluding Collectibles

You must complete Massachusetts Schedule D if you had long-term and short-term gains or losses from the sale or exchange of capital assets or from similar transactions which are granted capital gain or loss treatment on your U.S. return, or if you had capital gain distributions. If you did not file U.S. Schedule D but are reporting capital gain distributions on U.S. Form 1040, line 13 or 1040A, line 10, you must complete Massachusetts Schedule D (see line 5 instructions). Include gains from all property, wherever located. Long-term capital gains are gains on the sale or exchange of capital assets that have been held for more than one year on the date of the sale or exchange. Long-term capital losses are losses on the sale or exchange of capital assets that have been held for more than one year on the date of the sale or exchange. Holding periods will be deemed not to have begun prior to January 1, 1995.

The new law defines “capital gain income” as gain from the sale or exchange of a capital asset. The definition of “capital asset” has been expanded to include: (1) an asset which is a capital asset under IRC sec. 1221, or (2) property that is used in a trade or business within the meaning of IRC sec. 1231(b) without regard to the holding period as defined in said sec. 1231(b).

For tax year 2001 the applicable tax rates are 5% if the capital asset was held for more than one year but not more than two years (column A), 4% if the capital asset was held more than two years but not more than three years (column B), 3% if the capital asset was held more than three years but not more than four years (column C), 2% if the capital asset was held more than four years but not more than five years (column D), 1% if the capital asset was held more than five years but not more than six years (column E), and 0% if the capital asset was held more than six years (column F). For a detailed explanation of the new law, see the Department’s Regulation on Capital Gains and Losses at 830 CMR 62.4.1.

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

- ▶ Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7 or the *Guide to Filing Your 2001 Massachusetts Income Taxes*.

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

Installment Sales

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

Gains from pre-1996 installment sales that are classified as capital gains should be reported as 12% income on Massachusetts Schedule B. If the asset was held for more than one year when it was sold, the gain will be eligible for a 50% long-term deduction. Gains from pre-1996 installment sales that are classified as capital gains included on Massachusetts Schedule D, line 3 should be reported on Massachusetts Schedule D, line 11 (“Long-term gains on collectibles and pre-1996 installment sales”). The amount of such gain is then reported on Massachusetts Schedule B, Part 2, line 9. Enclose a statement with Massachusetts Schedule D identifying such amount in line 11 as “2001 gain from pre-1996 installment sale.”

Gains from pre-1996 installment sales classified as ordinary income and that are included on Massachusetts Schedule D, line 3 should be reported on Massachusetts Schedule D, line 9 (“Differences”). The amount of such gain classified as ordinary income should then be reported on Form 1, line 9 (“Other income”) and included on Schedule X, line 5 and identified as “2001 gain from pre-1996 installment sale.”

If you wish to report a sale on your Massachusetts return as an installment sale, you must apply in writing to the Department of Revenue’s Installment Sales Unit. The Commissioner of Revenue must approve your application to report the sale on the installment basis in Massachusetts before you file your return, and appropriate security must be posted. An explanatory statement must be enclosed with each return for the life of the installment sale. For further information contact the Installment Sales Unit at (617) 887-6950.

Note: Complete Schedule D, lines 1–20, columns A, B, C, D, E or F (Schedule D, pages 1–3) before completing Schedule D, lines 21 and 22 (Schedule D, page 4). Also, be sure to enclose pages 1–4 of Schedule D with Form 1.

1 Long-Term Capital Gains and Losses

Enter in column A the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D

(Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than six years.

2 Additional Long-Term Capital Gains and Losses

Enter in column A the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than six years.

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

Enter in column A the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than six years.

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

If a partnership, S corporation, estate or trust does not report capital gains in a manner that allows you to determine the amounts attributable to assets held more than two years, report the amount in column A.

Enter in column A the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than six years.

5 Capital Gain Distributions

If a mutual fund or real estate investment trust does not report capital gain distributions in a manner that allows you to determine the amounts attributable to assets held more than two years, report the amount in column A.

If you did not file U.S. Schedule D, enter in column A the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment

trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than six years.

If you did file a U.S. Schedule D, enter in column A the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than six years.

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

Enter amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes (not included in lines 1–5 above). These include ordinary gains from the sale of Section 1231 property, recapture amounts under Sections 1245, 1250 and 1255, Section 1244 losses and the loss on the sale, exchange or involuntary conversion of property used in a trade or business.

Enter in column A the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or

loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than four years but not more than five years. Enter in Column E (Schedule D, page 3) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than six years.

7 Carryover Losses from Previous Years

If you have a carryover loss from a prior year, enter in the applicable column in line 7 the amount of carryover losses from your 2000 Schedule D, line 22, columns A, B, C, D and E. This line is not applicable for column F.

8 Subtotal Long-Term Capital Gains and Losses

Combine lines 1 through 7, column A and enter the result in line 8, column A. Combine lines 1 through 7, column B and enter the result in line 8, column B. Combine lines 1 through 7, column C (Schedule D, page 2) and enter the result in line 8, column C. Combine lines 1 through 7, column D (Schedule D, page 2) and enter the result in line 8, column D. Combine lines 1 through 7, column E (Schedule D, page 3) and enter the result in line 8, column E. Combine lines 1 through 6, column F (Schedule D, page 3) and enter the result in line 8, column F.

9 Differences

Enter any differences between the gains or losses reportable for Massachusetts tax purposes and the U.S. gains or losses reported in Massachusetts Schedule D, lines 1–7, columns A, B, C, D, E and F. Differences include:

- ▶ Net gains or losses taxed to a Massachusetts estate or trust. Enter in line 9 only gains or losses of a Massachusetts estate or trust that are taxed directly on the Massachusetts Fiduciary Return, Form 2, if you are the beneficiary and if you included the amounts on Schedule D, line 4;

Note: Do not enter gains or losses from any grantor-type trust or from an estate or trust that is not subject to taxation in Massachusetts.

- ▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes;

- ▶ Long-term capital gains or losses from transactions reported as installment sales for U.S. income tax purposes but not for Massachusetts; and

- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Mass. and federal tax laws.

Entries in line 9 must be clearly explained in an enclosed statement.

10 Adjusted Capital Gains and Losses

Exclude/subtract line 9, column A from line 8, column A and enter the result in line 10, column A. Exclude/subtract line 9, column B from line 8, column B and enter the result in line 10, column B. Exclude/subtract line 9, column C (Schedule D, page 2) from line 8, column C and enter the result in line 10, column C. Exclude/subtract line 9, column D (Schedule D, page 2) from line 8, column D and enter the result in line 10, column D. Exclude/subtract line 9, column E (Schedule D, page 3) from line 8, column E and enter the result in line 10, column E. Exclude/subtract line 9, column F (Schedule D, page 3) from line 8, column F and enter the result in line 10, column F.

► If line 9 in any column is a loss, add loss as a positive number to the amount recorded in line 8 of that column. See the following examples:

Sch. D	Example A		Example B	
Line	col. A	col. B	col. A	col. B
8	\$1,000	\$1,000	\$700*	\$700*
9	500	300*	500	500*
10	500	1,300	1,200*	200*

*denotes loss

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

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

Enter in line 11, column A the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column A. Enter in line 11, column B the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column B. Enter in line 11, column C (Schedule D, page 2) the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column C. Enter in line 11, column D (Schedule D, page 2) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column D. Enter in line 11, column E (Schedule D, page 3) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column E. Enter in line 11, column F (Schedule D, page 3) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as

capital gain income for Massachusetts purposes that are included in line 10, column F.

Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes are taxed at the 12% rate and the total of columns A, B, C, D, E and F should be entered on Schedule B, line 9.

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

12 Subtotal

Subtract line 11, column A from line 10, column A and enter the result in line 12, column A. Subtract line 11, column B from line 10, column B and enter the result in line 12, column B. Subtract line 11, column C (Schedule D, page 2) from line 10, column C and enter the result in line 12, column C. Subtract line 11, column D (Schedule D, page 2) from line 10, column D and enter the result in line 12, column D. Subtract line 11, column E (Schedule D, page 3) from line 10, column E and enter the result in line 12, column E. Subtract line 11, column F (Schedule D, page 3) from line 10, column F and enter the result in line 12, column F.

If any amount in Schedule D, line 12, columns A, B, C, D, E or F is a gain and any amount in Schedule D, line 12, columns A, B, C, D, E or F is a loss, complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Line 13 on pages 39–42.

If any amount in Schedule D, line 12 is a gain, no other amount in Schedule D, line 12 is a loss, and Schedule B, line 17 is "0" or greater, omit Schedule D, lines 13–15 and enter the amount from Schedule D, line 12 in Schedule D, line 16.

If any amount in Schedule D, line 12 is a loss, no other amount in Schedule D, line 12 is a gain, and Schedule B, line 17 is a positive amount, omit Schedule D, line 13, enter the amount from Schedule D, line 12 in Schedule D, line 14 and complete the Long-Term Capital Losses Applied Against Interest, Dividends and Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34.

If any amount in Schedule D, line 12 is a gain, no other amount in Schedule D, line 12 is a loss, and Schedule B, line 17 is a loss, omit Schedule D, line 13, enter the amount from Schedule D, line 12 on Schedule D, line 14 and complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34.

If any amount in Schedule D, line 12 is a loss, no other amount in Schedule D, line 12 is a gain, and Schedule B, line 17 is "0"

or less, omit Schedule D, lines 13–15, enter the amount from Schedule D, line 12 in Schedule D, line 16, omit Schedule D, lines 17–21, enter the amount from Schedule D, line 16 in Schedule D, line 22, and enter “0” on Form 1, line 24.

13 Long-Term Capital Loss Applied Against Long-Term Capital Gains

Complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Line 13 below only if any amount in Schedule D, line 12, columns A, B, C, D, E or F is a gain and any amount in Schedule D, line 12, columns A, B, C, D, E or F is a loss. When completing the worksheet, be sure to enter all losses as a positive amount.

This worksheet was designed to provide for the netting of long-term gains and losses. First, gains and losses within each holding period are netted. For example, 5% gains are applied against 5% losses, 4% gains are applied against 4% losses, 3% gains are applied against 3% losses, 2% gains are applied against 2% losses, 1% gains are applied against 1% losses and 0% gains are applied against 0% losses. Then, any net losses within a particular holding period can be applied against net gains within other holding periods, beginning with the highest tax rate and applying any remaining losses against the next highest tax rate. For example, a 3% loss is first applied to 5% gains, any remaining loss is applied to 4% gains, any remaining loss is applied against 2% gains, any remaining loss then is applied against 1% gains, and any loss still remaining then is applied against 0% gains.

If you need additional information on how to net long-term gains against long-term losses, visit DOR’s website at www.mass.gov/dor.

Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Line 13. Complete only if any amount in Schedule D, line 12, columns A, B, C, D, E or F is a gain and any amount in Schedule D, line 12, columns A, B, C, D, E or F is a loss.

Part 1. Complete only if you have a gain in Schedule D, line 12, column A. Otherwise, enter “0” in lines 1–15 and go to Part 2.

1. Enter any gain from Schedule D, line 12, column A.
2. Enter any loss from Schedule D, line 12, column B as positive figure. If Schedule D, line 12, column B is “0” or greater, enter “0”.
3. If line 1 is smaller than or equal to line 2, enter line 1 here. If line 1 is larger than line 2, enter line 2 here.
4. Subtract line 3 from line 1. Enter result here.
5. If line 4 is “0,” enter “0” in lines 5–15 and go to Part 2. If line 4 is greater than “0,” enter any loss from Schedule D, line 12, column C as a positive figure. If Schedule D, line 12, column C is “0” or greater, enter “0”.

Worksheet continues on next column ...

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6. If line 4 is smaller than or equal to line 5, enter line 4 here. If line 4 is larger than line 5, enter line 5 here.
7. Subtract line 6 from line 4. Enter result here.
8. If line 7 is “0,” enter “0” in lines 8–15 and go to Part 2. If line 7 is greater than “0,” enter any loss from Schedule D, line 12, column D as a positive figure. If Schedule D, line 12, column D is “0” or greater, enter “0”.
9. If line 7 is smaller than or equal to line 8, enter line 7 here. If line 7 is larger than line 8, enter line 8 here.
10. Subtract line 9 from line 7. Enter result here.
11. If line 10 is “0,” enter “0” in lines 11–15 and go to Part 2. If line 10 is greater than “0,” enter any loss from Schedule D, line 12, column E as a positive figure. If Schedule D, line 12, column E is “0” or greater, enter “0”.
12. If line 10 is smaller than or equal to line 11, enter line 10 here. If line 10 is larger than line 11, enter line 11 here.
13. Subtract line 12 from line 10. Enter result here.
14. If line 13 is “0,” enter “0” in lines 14 and 15 and go to Part 2. If line 13 is greater than “0,” enter any loss from Schedule D, line 12, column F as a positive figure. If Schedule D, line 12, column F is “0” or greater, enter “0”.
15. If line 13 is smaller than or equal to line 14, enter line 13 here. If line 13 is larger than line 14, enter line 14 here.

Part 2. Complete only if you have a gain in Schedule D, line 12, column B. Otherwise, enter “0” in lines 16–38 and go to Part 3.

16. Enter any gain from Schedule D, line 12, column B.
17. Enter any loss from Schedule D, line 12, column A as a positive figure. If Schedule D, line 12, column A is “0” or greater, enter “0”.
18. If line 16 is smaller than or equal to line 17, enter line 16 here. If line 16 is larger than line 17, enter line 17 here.
19. Subtract line 18 from line 16. Enter result here.
20. If line 19 is “0,” enter “0” in lines 20–38 and go to Part 3. If line 19 is greater than “0,” enter any loss from Schedule D, line 12, column C as a positive figure. If Schedule D, line 12, column C is “0” or greater, enter “0”.
21. Enter the amount from line 6.
22. Subtract line 21 from line 20. Enter result here.
23. If line 19 is smaller than or equal to line 22, enter line 19 here. If line 19 is larger than line 22, enter line 22 here.
24. Subtract line 23 from line 19. Enter result here.
25. If line 24 is “0,” enter “0” in lines 25–38 and go to Part 3. If line 24 is greater than “0,” enter any loss from Schedule D, line 12, column D as a positive figure. If Schedule D, line 12, column D is “0” or greater, enter “0”.
26. Enter the amount from line 9.
27. Subtract line 26 from line 25. Enter result here.
28. If line 24 is smaller than or equal to line 27, enter line 24 here. If line 24 is larger than line 27, enter line 27 here.

Worksheet continues on next page ...

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- 29.** Subtract line 28 from line 24. Enter result here _____
- 30.** If line 29 is "0," enter "0" in lines 30–38 and go to Part 3. If line 29 is greater than "0," enter any loss from Schedule D, line 12, column E as a positive figure. If Schedule D, line 12, column E is "0" or greater, enter "0" _____
- 31.** Enter the amount from line 12 _____
- 32.** Subtract line 31 from line 30. Enter result here _____
- 33.** If line 29 is smaller than or equal to line 32, enter line 29 here. If line 29 is larger than line 32, enter line 32 here _____
- 34.** Subtract line 33 from line 29. _____
- 35.** If line 34 is "0," enter "0" in lines 35–38 and go to Part 3. If line 34 is greater than "0," enter any loss from Schedule D, line 12, column F as a positive figure. If Schedule D, line 12, column F is "0" or greater, enter "0" _____
- 36.** Enter the amount from line 15 _____
- 37.** Subtract line 36 from line 35. Enter result here _____
- 38.** If line 34 is smaller than or equal to line 37, enter line 34 here. If line 34 is larger than line 37, enter line 37 here _____

Part 3. Complete only if you have a gain in Schedule D, line 12, column C. Otherwise, enter "0" in lines 39–63 and go to Part 4.

- 39.** Enter any gain from Schedule D, line 12, column C _____
- 40.** Enter any loss from Schedule D, line 12, column A as a positive figure. If Schedule D, line 12, column A is "0" or greater, enter "0" _____
- 41.** Enter the amount from line 18 _____
- 42.** Subtract line 41 from line 40. Enter result here _____
- 43.** If line 39 is smaller than or equal to line 42, enter line 39 here. If line 39 is larger than line 42, enter line 42 here _____
- 44.** Subtract line 43 from line 39. Enter result here _____
- 45.** If line 44 is "0," enter "0" in lines 45–63 and go to Part 4. If line 44 is greater than "0," enter any loss from Schedule D, line 12, column B as a positive figure. If Schedule D, line 12, column B is "0" or greater, enter "0" _____
- 46.** Enter the amount from line 3 _____
- 47.** Subtract line 46 from line 45. Enter result here _____
- 48.** If line 44 is smaller than or equal to line 47, enter line 44 here. If line 44 is larger than line 47, enter line 47 here _____
- 49.** Subtract line 48 from line 44. Enter result here _____
- 50.** If line 49 is "0," enter "0" in lines 50–63 and go to Part 4. If line 49 is greater than "0," enter any loss from Schedule D, line 12, column D as a positive figure. If Schedule D, line 12, column D is "0" or greater, enter "0" _____
- 51.** Add line 9 and line 28. Enter result here _____
- 52.** Subtract line 51 from line 50. Enter result here _____
- 53.** If line 49 is smaller than or equal to line 52, enter line 49 here. If line 49 is larger than line 52, enter line 52 here _____
- 54.** Subtract line 53 from line 49. Enter result here _____
- 55.** If line 54 is "0," enter "0" in lines 55–63 and go to Part 4. If line 54 is greater than "0," enter any loss from Schedule D, line 12, column E as a positive figure. If Schedule D, line 12, column E is "0" or greater, enter "0" _____
- 56.** Add line 12 and line 33. Enter result here _____

Worksheet continues on next column ...

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- 57.** Subtract line 56 from line 55. Enter result here _____
- 58.** If line 54 is smaller than or equal to line 57, enter line 54 here. If line 54 is larger than line 57, enter line 57 here _____
- 59.** Subtract line 58 from line 54. Enter result here _____
- 60.** If line 59 is "0," enter "0" in lines 60–63 and go to Part 4. If line 59 is greater than "0," enter any loss from Schedule D, line 12, column F as a positive figure. If Schedule D, line 12, column F is "0" or greater, enter "0" _____
- 61.** Add line 15 and line 38 _____
- 62.** Subtract line 61 from line 60. Enter result here _____
- 63.** If line 59 is smaller than or equal to line 62, enter line 59 here. If line 59 is larger than line 62, enter line 62 here _____

Part 4. Complete only if you have a gain in Schedule D, line 12, column D. Otherwise, enter "0" in lines 64–88 and go to Part 5.

- 64.** Enter any gain from Schedule D, line 12, column D _____
- 65.** Enter any loss from Schedule D, line 12, column A as a positive figure. If Schedule D, line 12, column A is "0" or greater, enter "0" _____
- 66.** Add line 18 and line 43. Enter result here _____
- 67.** Subtract line 66 from line 65. Enter result here _____
- 68.** If line 64 is smaller than or equal to line 67, enter line 64 here. If line 64 is larger than line 67, enter line 67 here _____
- 69.** Subtract line 68 from line 64. Enter result here _____
- 70.** If line 69 is "0," enter "0" in lines 70–88 and go to Part 5. If line 69 is greater than "0," enter any loss from Schedule D, line 12, column B as a positive figure. If Schedule D, line 12, column B is "0" or greater, enter "0" _____
- 71.** Add line 3 and line 48. Enter result here _____
- 72.** Subtract line 71 from line 70. Enter result here _____
- 73.** If line 69 is smaller than or equal to line 72, enter line 69 here. If line 69 is larger than line 72, enter line 72 here _____
- 74.** Subtract line 73 from line 69. Enter result here _____
- 75.** If line 74 is "0," enter "0" in lines 75–88 and go to Part 5. If line 74 is greater than "0," enter any loss from Schedule D, line 12, column C as a positive figure. If Schedule D, line 12, column C is "0" or greater, enter "0" _____
- 76.** Add line 6 and line 23. Enter result here _____
- 77.** Subtract line 76 from line 75. Enter result here _____
- 78.** If line 74 is smaller than or equal to line 77, enter line 74 here. If line 74 is larger than line 77, enter line 77 here _____
- 79.** Subtract line 78 from line 74. Enter result here _____
- 80.** If line 79 is "0," enter "0" in lines 80–88 and go to Part 5. If line 79 is greater than "0," enter any loss from Schedule D, line 12, column E as a positive figure. If Schedule D, line 12, column E is "0" or greater, enter "0" _____
- 81.** Add lines 12, 33 and 58. Enter result here _____
- 82.** Subtract line 81 from line 80. Enter result here _____
- 83.** If line 79 is smaller than or equal to line 82, enter line 79 here. If line 79 is larger than line 82, enter line 82 here _____
- 84.** Subtract line 83 from line 79. Enter result here _____

Worksheet continues on next page ...

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- 85.** If line 84 is "0," enter "0" in lines 85–88 and go to Part 5. If line 84 is greater than "0," enter any loss from Schedule D, line 12, column F as a positive figure. If Schedule D, line 12, column F is "0" or greater, enter "0"
- 86.** Add lines 15, 38 and 63. Enter result here
- 87.** Subtract line 86 from line 85. Enter result here
- 88.** If line 84 is smaller than or equal to line 87, enter line 84 here. If line 84 is larger than line 87, enter line 87 here

Part 5. Complete only if you have a gain in Schedule D, line 12, column E. Otherwise, enter "0" in lines 89–113 and go to Part 6.

- 89.** Enter any gain from Schedule D, line 12, column E
- 90.** Enter any loss from Schedule D, line 12, column A as a positive figure. If Schedule D, line 12, column A is "0" or greater, enter "0"
- 91.** Add lines 18, 43 and 68. Enter result here
- 92.** Subtract line 91 from line 90. Enter result here
- 93.** If line 89 is smaller than or equal to line 92, enter line 89 here. If line 89 is larger than line 92, enter line 92 here
- 94.** Subtract line 93 from line 89. Enter result here
- 95.** If line 94 is "0," enter "0" in lines 95–113 and go to Part 6. If line 94 is greater than "0," enter any loss from Schedule D, line 12, column B as a positive figure. If Schedule D, line 12, column B is "0" or greater, enter "0"
- 96.** Add lines 3, 48 and 73. Enter result here
- 97.** Subtract line 96 from line 95. Enter result here
- 98.** If line 94 is smaller than or equal to line 97, enter line 94 here. If line 94 is larger than line 97, enter line 97 here
- 99.** Subtract line 98 from line 94. Enter result here
- 100.** If line 99 is "0," enter "0" in lines 100–113 and go to Part 6. If line 99 is greater than "0," enter any loss from Schedule D, line 12, column C as a positive figure. If Schedule D, line 12, column C is "0" or greater, enter "0"
- 101.** Add lines 6, 23 and 78. Enter result here
- 102.** Subtract line 101 from line 100. Enter result here
- 103.** If line 99 is smaller than or equal to line 102, enter line 99 here. If line 99 is larger than line 102, enter line 102 here
- 104.** Subtract line 103 from line 99. Enter result here
- 105.** If line 104 is "0," enter "0" in lines 105–113 and go to Part 6. If line 104 is greater than "0," enter any loss from Schedule D, line 12, column D as a positive figure. If Schedule D, line 12, column D is "0" or greater, enter "0"
- 106.** Add lines 9, 28 and 53. Enter result here
- 107.** Subtract line 106 from line 105. Enter result here
- 108.** If line 104 is smaller than or equal to line 107, enter line 104 here. If line 104 is larger than line 107, enter line 107 here
- 109.** Subtract line 108 from line 104. Enter result here

Worksheet continues on next column ...

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- 110.** If line 109 is "0," enter "0" in lines 110–113 and go to Part 6. If line 109 is greater than "0," enter any loss from Schedule D, line 12, column F as a positive figure. If Schedule D, line 12, column F is "0" or greater, enter "0"
- 111.** Add lines 15, 38, 63 and 88. Enter result here
- 112.** Subtract line 111 from line 110. Enter result here
- 113.** If line 109 is smaller than or equal to line 112, enter line 109 here. If line 109 is larger than line 112, enter line 112 here

Part 6. Complete only if you have a gain in Schedule D, line 12, F. Otherwise, enter "0" in lines 114–138 and go to Part 7.

- 114.** Enter any gain from Schedule D, line 12, column F
- 115.** Enter any loss from Schedule D, line 12, column A as a positive figure. If Schedule D, line 12, column A is "0" or greater, enter "0"
- 116.** Add lines 18, 43, 68 and 93. Enter result here
- 117.** Subtract line 116 from line 115. Enter result here
- 118.** If line 114 is smaller than or equal to line 117, enter line 114 here. If line 114 is larger than line 117, enter line 117 here
- 119.** Subtract line 118 from line 114. Enter result here
- 120.** If line 119 is "0," enter "0" in lines 120–138 and go to Part 7. If line 119 is greater than "0," enter any loss from Schedule D, line 12, column B as a positive figure. If Schedule D, line 12, column B is "0" or greater, enter "0"
- 121.** Add lines 3, 48, 73 and 98. Enter result here
- 122.** Subtract line 121 from line 120. Enter result here
- 123.** If line 119 is smaller than or equal to line 122, enter line 119 here. If line 119 is larger than line 122, enter line 122 here
- 124.** Subtract line 123 from line 119. Enter result here
- 125.** If line 124 is "0," enter "0" in lines 125–138 and go to Part 7. If line 124 is greater than "0," enter any loss from Schedule D, line 12, column C as a positive figure. If Schedule D, line 12, column C is "0" or greater, enter "0"
- 126.** Add lines 6, 23, 78 and 103. Enter result here
- 127.** Subtract line 126 from line 125. Enter result here
- 128.** If line 124 is smaller than or equal to line 127, enter line 124 here. If line 124 is larger than line 127, enter line 127 here
- 129.** Subtract line 128 from line 124. Enter result here
- 130.** If line 129 is "0," enter "0" in lines 130–138 and go to Part 7. If line 129 is greater than "0," enter any loss from Schedule D, line 12, column D as a positive figure. If Schedule D, line 12, column D is "0" or greater, enter "0"
- 131.** Add lines 9, 28, 53 and 108. Enter result here
- 132.** Subtract line 131 from line 130. Enter result here

Worksheet continues on next page ...

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133. If line 129 is smaller than or equal to line 132, enter line 129 here. If line 129 is larger than line 132, enter line 132 here

134. Subtract line 133 from line 129. Enter result here

135. If line 134 is "0," enter "0" in lines 135–138 and go to Part 7. If line 134 is greater than "0," enter any loss from Schedule D, line 12, column E as a positive figure. If Schedule D, line 12, column E is "0" or greater, enter "0"

136. Add lines 12, 33, 58 and 83. Enter result here

137. Subtract line 136 from line 135. Enter result here

138. If line 134 is smaller than or equal to line 137, enter line 134 here. If line 134 is larger than line 137, enter line 137 here

Part 7. Complete only if you have completed Part 1, 2, 3, 4, 5 or 6.

139. If Schedule D, line 12, column A is a gain, add lines 3, 6, 9, 12 and 15. Enter result here and in Schedule D, line 13, column A as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 5%. If Schedule D line 12, column A is a loss, add lines 18, 43, 68, 93 and 118. Enter result here and in Schedule D, line 13, column A as a positive amount. This is the amount of long-term losses from assets held for more than one year but not more than two years applied to offset other long-term capital gains

140. If Schedule D, line 12, column B is a gain, add lines 18, 23, 28, 33 and 38. Enter result here and in Schedule D, line 13, column B as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 4%. If Schedule D line 12, column B is a loss, add lines 3, 48, 73, 98 and 123. Enter result here and in Schedule D, line 13, column B as a positive amount. This is the amount of long-term losses from assets held for more than two years but not more than three years applied to offset other long-term capital gains

141. If Schedule D, line 12, column C is a gain, add lines 43, 48, 53, 58 and 63. Enter result here and in Schedule D, line 13, column C as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 3%. If Schedule D line 12, column C is a loss, add lines 6, 23, 78, 103 and 128. Enter result here and in Schedule D, line 13, column C as a positive amount. This is the amount of long-term losses from assets held for more than three years but not more than four years applied to offset other long-term capital gains

142. If Schedule D, line 12, column D is a gain, add lines 68, 73, 78, 83 and 88. Enter result here and in Schedule D, line 13, column D as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 2%. If Schedule D, line 12, column D is a loss, add lines 9, 28, 53, 108 and 133. Enter result here and in Schedule D, line 13, column D as a positive amount. This is the amount of long-term losses from assets held for more than four years but not more than five years applied to offset other long-term capital gains

Worksheet continues on next column . . .

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143. If Schedule D, line 12, column E is a gain, add lines 93, 98, 103, 108 and 113. Enter result here and in Schedule D, line 13, column E as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 1%. If Schedule D, line 12, column E is a loss, add lines 12, 33, 58, 83 and 138. Enter result here and in Schedule D, line 13, column E as a positive amount. This is the amount of long-term losses from assets held for more than five years but not more than six years applied to offset other long-term capital gains

144. If Schedule D, line 12, column F is a gain, add lines 118, 123, 128, 133 and 138. Enter result here and in Schedule D, line 13, column F as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 0%. If Schedule D, line 12, column F is a loss, add lines 15, 38, 63, 88 and 113. Enter result here and in Schedule D, line 13, column F as a positive amount. This is the amount of long-term losses from assets held for more than six years applied to offset other long-term capital gains

14 Subtotal

Combine line 12, column A with line 13, column A and enter the result in line 14, column A. Combine line 12, column B with line 13, column B and enter the result in line 14, column B. Combine line 12, column C with line 13, column C and enter the result in line 14, column C. Combine line 12, column D with line 13, column D and enter the result in line 14, column D. Combine line 12, column E with line 13, column E and enter the result in line 14, column E. Combine line 12, column F with line 13, column F and enter the result in line 14, column F.

Note: After completing Schedule D, line 13, all amounts in Schedule D, line 14, columns A, B, C, D, E and F should be either "0" and/or gain(s) or "0" and/or loss(es). If all amounts in Schedule D, line 14 are "0," omit Schedule D, lines 15–17, enter "0" in Schedule D, line 18, omit the remainder of Schedule D and enter "0" in Form 1, line 24.

If any amount in any column in Schedule D, line 14 is "0," enter "0" in lines 15–20 for that column.

If any amount in Schedule D, line 14 is a loss, and Schedule B, line 17 is a positive amount, complete the Long-Term Capital Losses Applied Against Interest, Dividends and Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34.

If any amount in Schedule D, line 14 is a gain and Schedule B, line 17 is "0" or greater, omit Schedule D, line 15 and enter the amount from Schedule D, line 14 in Schedule D, line 16.

If any amount in Schedule D, line 14 is a gain and Schedule B, line 17 is a loss, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34.

If any amount in Schedule D, line 14 is a loss and Schedule B, line 17 is "0" or less, omit Schedule D, line 15, enter the amount from Schedule D, line 14 in Schedule D, line 16, omit Schedule D, lines 17–21, enter the amount from Schedule D, line 16 in Schedule D, line 22, and enter "0" in Form 1, line 24.

15 Capital Losses Applied Against Interest, Dividends and Capital Gains

If Schedule B, line 17 is a positive amount and any amount in Schedule D, line 14, column A, B, C, D, E or F is a loss, complete the Long-Term Capital Losses Applied Against Interest, Dividends and Short-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, Line 15 on page 34. When completing the worksheet, be sure to enter all losses as a positive amount.

If Schedule B, line 17 is a loss and any amount in Schedule D, line 14, columns A, B, C, D, E or F is a positive amount, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 18 and Schedule D, line 15 on page 34. When completing the worksheet, be sure to enter all losses as a positive amount.

16 Subtotal

If line 14 is greater than "0," subtract line 15 from line 14. If line 14 is less than "0," combine lines 14 and 15. If line 16 is a loss, omit line 17 through 21, enter the amount from line 16 in line 22 and enter "0" on Form 1, line 24. Otherwise, go to line 17.

If any amount in any column in Schedule D, line 16 is "0," enter "0" in lines 17–20 for that column.

17 Allowable Deductions From Your Trade or Business

Generally, taxpayers may not use excess 5.6% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.6% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade of business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return.

Enter in line 17, column A the amount from Schedule C-2, line 14. Enter in line 17, column B the amount from Schedule C-2, line 16. Enter in line 17, column C the amount from Schedule C-2, line 18. Enter in line 17, column D the amount from Schedule C-2, line 20. Enter in line 17, column E the amount from Schedule C-2, line 22. Enter in line 17, column F the amount from Schedule C-2, line 24.

18 Subtotal

Subtract line 17, column A from line 16, column A and enter the result in line 18, column A. Not less than "0." Subtract line 17, column B from line 16, column B and enter the result in line 18, column B. Not less than "0." Subtract line 17, column C from line 16, column C and enter the result in line 18, column C. Not less than "0." Subtract line 17, column D from line 16, column D and enter the result in line 18, column D. Not less than "0." Subtract line 17, column E from line 16, line E and enter the result in line 18, column E. Not less than "0." Subtract line 17, column F from line 16, line F and enter the result in line 18, column F. Not less than "0."

If all amounts in Schedule D, line 18 are "0," omit Schedule D, lines 19–22 and enter "0" in Form 1, line 24.

19 Excess Exemptions

Enter in line 19, column A the amount from line 8 of the Excess Exemption Worksheet beginning on page 17. Enter in line 19, column B the amount from line 11 of the Excess Exemption Worksheet beginning on page 17. Enter in line 19, column C (Schedule D, page 2) the amount from line 14 of the Excess Exemption Worksheet beginning on page 17. Enter in line 19, column D the amount from line 17 of the Excess Exemption Worksheet beginning on page 17. Enter in line 19, column E (Schedule D, page 3) the amount from line 20 of the Excess Exemption Worksheet beginning on page 17. Enter in line 19, column F (Schedule D, page 3) the amount from line 23 of the Excess Exemption Worksheet beginning on page 17.

20 Taxable Long-Term Capital Gains

Subtract line 19, column A from line 18, column A and enter the result in line 20, column A and on Schedule D, page 4, line 20A, column 1. Not less than "0." Subtract line 19, column B from line 18, column B and enter the result in line 20, column B and on Schedule D, page 4, line 20B, column 1. Not less than "0." Subtract line 19, column C (Schedule D, page 2) from line 18, column C and enter the result in line 20, column C and on Schedule D, page 4, line 20C, column 1. Not less than "0." Subtract line 19, column D (Schedule D, page 2) from line 18, column D and enter the result in line 20, column D and on Schedule D, page 4, line 20D, column 1. Not less than "0." Subtract line 19, column E (Schedule D, page 3) from line 18, column E and enter the result in line 20, column E and on Schedule D, page 4, line 20E, column 1. Not less than "0." Subtract line 19, column F (Schedule D, page 3) from line 18, column F and enter the result in line 20, column F and on Schedule D, page 4, line 20F, column 1. Not less than "0."

If all amounts in Schedule D, line 20 are "0," omit Schedule D, lines 21 and 22 and enter "0" in Form 1, line 24.

Multiply the amount in line 20A, column 1 (Schedule D, page 4) by .05 (5%) and enter the result in column 2. Multiply the

amount in line 20B, column 1 (Schedule D, page 4) by .04 (4%) and enter the result in column 2. Multiply the amount in line 20C, column 1 (Schedule D, page 4) by .03 (3%) and enter the result in column 2. Multiply the amount in line 20D, column 1 (Schedule D, page 4) by .02 (2%) and enter the result in column 2. Multiply the amount in line 20E, column 1 (Schedule D, page 4) by .01 (1%) and enter the result in column 2.

21 Total Tax on Long-Term Capital Gains

Add line 20A, column 2, line 20B, column 2, line 20C, column 2, line 20D, column 2 and line 20E, column 2. Enter result here and on Form 1, line 24. Not less than "0."

22 Available Losses for Carryover

Enter in line 22A the amount from line 16, column A, only if it is a loss. Enter in line 22B the amount from line 16, column B, only if it is a loss. Enter in line 22C the amount from line 16, column C, only if it is a loss. Enter in line 22D the amount from line 16, column D, only if it is a loss. Enter in line 22E the amount from line 16, column E, only if it is a loss. Enter in line 22F the amount from line 16, column F, only if it is a loss.

Schedule C

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

Substituting U.S. Schedules C or C-EZ

If you are substituting U.S. Schedule C or Schedule C-EZ for Massachusetts Schedule C and there are no differences between the amounts reported on U.S. Schedule C or Schedule C-EZ and amounts that would be reported on Massachusetts Schedule C, write "No Massachusetts Differences" on the top of U.S. Schedule C or Schedule C-EZ. Also enclose a copy of U.S. Form 4562 (Depreciation and Amortization). If you deduct expenses for the business use of your home, enclose a copy of U.S. Form 8829.

Profit or Loss from Business or Profession

Massachusetts Schedule C is provided to report income and deductions from each business or profession operated as a sole proprietorship. If filing Massachusetts Schedule C, a copy of U.S. Schedule C (or Schedule F for farm income) and U.S. Form 4562 (Depreciation and Amortization) must be enclosed. If you deduct expenses for the business use of your home, enclose a copy of U.S. Form 8829.

If your business deductions, excluding the Abandoned Building Renovation Deduction, exceed Schedule C income and any other income taxable at the 5.6% rate, such excess deductions may be subtracted from the other income that is effectively connected with the active conduct of your trade or business and any other income allowed under IRC Section 469(d)(1)(B) to offset losses

from passive activities. To compute the excess trade or business deductions use Massachusetts Schedule C-2. This form is available by visiting www.mass.gov/dor, or you may have one mailed to you by calling (617) 887-MDOR.

Registration Information

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

Employer Identification Number

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

Small Business Energy Exemption

If you are claiming the small business energy exemption from the sales tax on purchases of taxable energy or heating fuel during 2001, you must have five or fewer employees. You must enter the number of your employees in the space provided.

Accounting Method

If you filed a return on the accrual basis last year, your return for this year must be on the same basis. If you filed a return on the cash basis last year and wish to change to the accrual basis this year, you must obtain permission from the Commissioner by filing Massachusetts Form 14 with your return. Form 14 is available from the Massachusetts Department of Revenue.

Material Participation

Indicate if you materially participated in the operation of this business during 2001. If you did not materially participate and have a loss from this business, see line 33 for further instructions.

1a Gross Receipts or Sales

In the boxes provided, enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on Form 1099-MISC, Miscellaneous Income. If the nature of your business is such that you have gross or other income that is interest (other than from Massachusetts banks) and dividend income, exclude this income from lines 1 and 4 on Massachusetts Schedule C and include it in line 32 and in Schedule B, line 3. Examples of interest (other than from Massachusetts banks) and dividend income are interest received on loans, notes receivable or charge accounts that you accept in the ordinary course of business, and dividends on stocks received in payment for goods and services. Capital gains from the sale or exchange of assets used in your business are not reported on Schedule C. Use U.S. Form 4797 and report the amount in Form 1, Schedule B

and/or Schedule D. You must also exclude from Schedule C any income and expenses that pertain to activities for yourself as distinguished from those performed for your customers. Such income must be reported by class of income in Schedules B and D. Personal expenses are not deductible. If you received Form W-2 and the "Statutory employee" box in item 13 of that form was checked, report your income and expenses related to that income on Schedule C. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C and fill in the oval. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons and certain homeworkers. If you had both self-employment income and statutory employee income, do not combine these amounts on a single Schedule C. In this case, you must file two Schedules C.

4 Other Income

If you received bartering income, you must report the fair market value of goods or services received in payment for your goods and services in line 4. Do not include interest income (other than from Massachusetts banks) and dividends here (see line 32).

7 Bad Debts From Sales or Services

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected.

Note: Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

11 Depreciation and Section 179 Deduction

The Section 179 expensing allowance is \$24,000 for property placed in service in tax years after 2000. Massachusetts now adopts the federal provision which requires a recovery period for the depreciation of nonresidential real property of 39 years for qualifying property placed in service on or after May 14, 1993.

17 Pension and Profit-Sharing Plans

Enter your deduction for contributions to a pension, profit-sharing or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, do not include contributions made as an employer on your behalf.

23 Meals and Entertainment

Line 23a. Enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. Business meal expenses are deductible only if they are (a) directly related to or associated with the conduct of your trade or business, (b) not lavish or extravagant and (c) incurred while

you or your employee is present at the meal. Club dues are not allowed as a business deduction.

Line 23b. Generally, you may deduct only 50% of your business meal and entertainment expenses, including meals incurred while traveling away from home on business. However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. Figure how much of the amount on line 23a is subject to the 50% limit. Then, enter 50% of that amount on line 23b. This amount should be subtracted from the amount in line 23a. Enter the result in line 23 of Massachusetts Schedule C.

30 Abandoned Building Renovation Deduction

Massachusetts allows businesses to deduct 10% of the costs incurred in renovating certain buildings located in an Economic Opportunity Area (EOA). The buildings must be designated as abandoned by the Economic Assistance Coordinating Council. The renovation deduction may be taken in addition to any other deduction for which the renovation costs may qualify.

For more information, contact the Massachusetts Office of Business Development, 10 Park Plaza, Suite 3720, Boston, MA 02116, or call (617) 973-8600.

In line 30 enter 10% of the costs of renovating a qualifying abandoned building. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building.

33 If You Have a Loss

Fill in the oval in line 33a if all of your investment is at risk. Enter your loss from line 31 on Form 1, line 6 **unless** you answered "no" to the question on material participation on the front of Schedule C. If you answered "no" to this question, complete and enclose a pro forma copy of U.S. Form 8582 that reflects only income being reported on your Massachusetts return. Enter in Massachusetts Schedule C, line 31 your allowable loss calculated on Form 8582.

Fill in the oval in line 33b if only some of your investment is at risk. To determine the amount of your allowable loss, complete and enclose a pro forma copy of U.S. Form 6198 that reflects only income being reported on your Massachusetts return. Enter the amount calculated on U.S. Form 6198 in line 31 unless you answered "no" to the question on material participation on the front of Schedule C. In this case, your loss is further limited. Use the amounts calculated on your pro forma U.S. Form 6198 to complete a pro forma U.S. Form 8582. Be sure to enclose both forms with your return. If your at-risk amount is "0" or less, enter "0" in line 31.

Senior Circuit Breaker Tax Credit

What Is It?

For tax years beginning on or after January 1, 2001, senior citizens in Massachusetts may be eligible to claim a refundable credit on their state income taxes for the real estate taxes they paid on the Massachusetts residential property they own or rent and which they occupy as their principal residence. The maximum credit allowed is \$385 for the tax year beginning January 1, 2001.

Eligible taxpayers who own their property may claim a credit equal to the amount by which their property tax payments in tax year 2001 (excluding any exemptions and/or abatements), including water and sewer debt charges, exceed 10% of their "total income" for the same current tax year. Taxpayers residing in communities that do not include water and sewer debt service in their property tax assessments may claim, in addition to their property tax payments, 50% of the water and sewer use charges actually paid during the tax year when figuring their credit.

Renters may claim a credit in the amount by which 25% of their annual rental payment is more than 10% of their total income.

For purposes of the tax credit, a taxpayer's "total income" includes taxable income as well as exempt income such as social security, treasury bills and public pensions. For a complete list of what constitutes "total income," see TIR 01-19.

Who Is Eligible for the Credit?

To be eligible for the credit for the 2001 tax year, a taxpayer must be 65 years of age or older before January 1, 2002 (for joint filers, it is sufficient if one taxpayer is 65 years of age or older), must own or rent residential property in Massachusetts and occupy the property as his or her principal residence, and must not be the dependent of another taxpayer. The taxpayer's total income cannot exceed \$41,000 for a single filer who is not the head of a household, \$51,000 for a head of household, or \$61,000 for taxpayers filing jointly. No credit is allowed for a married taxpayer unless a joint return is filed. Moreover, the assessed valuation of the real estate cannot exceed \$412,000.

No credit is allowed if the taxpayer claims the "married filing separate" status, receives a federal or state rent subsidy, rents from a tax-exempt entity, or is the dependent of another taxpayer.

Is the Tax Credit Considered Income?

Tax credits received by eligible taxpayers are not considered income for the purpose of obtaining eligibility or benefits under other means-tested assistance programs including food, medical, housing, energy and educational assistance programs.

How Does a Taxpayer Claim the Credit?

Taxpayers who are eligible for the tax credit in the 2001 tax year can claim the credit by submitting a completed Schedule CB, Circuit Breaker Credit, with their 2001 state income tax return. Eligible taxpayers who do not normally file a state income tax return

may obtain a refund by filing a return with Schedule CB. As with all claimed tax credits and deductions, the taxpayer must keep all pertinent records, receipts and other documentation supporting his or her claim for the credit.

Name and Address

Enter your name and Social Security number as they appear on Form 1. Also, you must enter the address of your principal residence in Massachusetts for which this credit is being claimed. Do not enter a PO Box number.

1 Living Quarters Status During 2001

Be sure to fill in the appropriate oval. If you were a renter in 2001 and you received any federal and/or state subsidy, or you rent from a tax-exempt entity, you do not qualify for the Circuit Breaker Credit.

2 Assessed Value of Principal Residence as of January 1, 2001

Enter the amount of the assessed value of your principal residence as of January 1, 2001. If you own a multi-family home, mixed-use property, or more than one acre of land, only the assessed value of the principal residence, together with the land that immediately surrounds and is associated with that residence, not to exceed one acre, should be used. If the assessed value is over \$412,000, you do not qualify for the credit. Contact your local city or town's assessors' office if you have any questions in determining the amount of the assessed value of your principal residence as of January 1, 2001.

Income Calculation

Qualifying income for the Circuit Breaker Credit (Schedule CB, lines 3 through 12) is the taxpayer's Massachusetts adjusted gross income (AGI) as defined in MGL Ch. 62, sec. 2 increased by various amounts that may have been excluded or subtracted when originally calculating the taxpayer's AGI, less certain exemptions claimed by the taxpayer. Amounts added back to AGI in computing qualifying income include income from social security, retirement, pension or annuities, cash public assistance, tax-exempt interest and dividends, net capital losses, long-term capital losses, certain capital gains, income from a partnership or trust not otherwise included in the taxpayer's AGI, and gross receipts (for example, the return of capital or gifts) from any other source except the tax credit itself. The exemptions allowed which decrease the total income amount are those allowed for blindness, dependents and taxpayers who are at least age 65 by the end of the tax year.

4 Total Social Security Benefits Received

Enter in line 4 the amount of Social Security benefits received in 2001. Social Security benefits include retirement, disability, dependent, survivorship and Medicare.

5 Pension, Annuities, IRA/Keogh Distributions Not Taxed on Your Massachusetts Tax Return

Enter in line 5 the amount of pension, annuities, IRA/Keogh distributions not taxed on your Massachusetts Form 1. See Form 1, line 4 instructions, Pension and Annuities, for a list of exempt items that must be included in Schedule CB, line 5 as part of total income for the purposes of calculating the Circuit Breaker Credit.

6 Cash Public Assistance

Enter the amount of cash public assistance received during 2001.

12 Qualifying Income

Subtract line 11 from line 7. You do not qualify for the Circuit Breaker Credit if you are filing as "Single" and line 12 is greater than \$41,000; or if you are filing as "Head of household" and line 12 is greater than \$51,000; or if you are filing as "Married filing jointly" and line 12 is greater than \$61,000.

Credit Calculation

If you filled in the "Homeowner" oval in line 1, complete lines 13-20, if you filled in the "Renter" oval in line 1, go to line 21.

13 Real Estate Taxes Paid in Calendar Year 2001 For Your Principal Residence

Enter the amount of real estate taxes paid in calendar year 2001. Be sure to include real estate tax payments made pursuant to the Community Preservation Act, the Cape Cod Open Space Land Acquisition Program and/or paid to a tax-levying district.

Note: Real estate taxes paid in a calendar or taxable year generally reflect taxes assessed for two different fiscal years. If a community collects taxes quarterly, a taxpayer may have made four payments during a calendar year. These payments are billed as due on the following dates: February 1, May 1, August 1, and November 1. If a community collects taxes semi-annually, a taxpayer may have made two payments during the calendar year. The first payment is billed as due on May 1 and the second as due on November 1, or thirty days after it is mailed, if the bill is mailed after October 1. If you own a multi-family home, mixed-use property, or your principal residence has a land area in excess of one acre, contact your local city or town's collector's office if you have any questions in determining the amount of real estate taxes paid in calendar year 2001 for your principal residence.

14 Adjustments to Real Estate Taxes Paid

Enter the amount from line 4 of the Adjustments to Real Estate Taxes Paid Worksheet for Schedule CB, line 14, on page 2 of Schedule CB. Adjustments to real estate taxes paid include:

- ▶ Abatements granted by local assessors or earned through the Senior Work Program*;

- ▶ Exemptions granted by cities or towns to qualifying veterans, surviving spouses, blind persons and the elderly*;

- ▶ Interest charges assessed due to delinquent payments; and

- ▶ Betterments or special assessments levied upon the property.

*Do not exclude this amount if it was already reflected on your tax bill and you did not pay it.

16 Water and Sewer Use Charges Paid in 2001

Taxpayers residing in communities that do not include water and sewer debt charges in the property tax assessments may include 50% of the actual water and sewer use charges paid during the taxable year. If your principal residence is in Arlington, Avon, Easthampton, Hadley, Hatfield, Webster or Winchester, enter "0."

If you own a multi-family home, mixed-use property, or your principal residence has a land area in excess of one acre, see TIR 01-19 for information on how to prorate water and sewer use charges.

18 Income Threshold

Multiply line 12 by 10% (.10). Enter the result in line 18.

19 Subtotal

Subtract line 18 from line 17. If "0" or less, you do not qualify for this credit.

20 Credit

Enter the lesser of line 19 or \$385 here and on Form 1, line 38.

21 Rent Paid for Your Principal Residence in 2001

Enter in line 21a the total amount of rent paid for your principal residence in 2001. Divide that amount by 4 (25%) and enter the result in line 21. In the space provided, be sure to enter your landlord's name and address. If you received any federal and/or state rent subsidy, or you rent from a tax-exempt entity, you do not qualify for the Circuit Breaker Credit.

22 Income Threshold

Multiply line 12 by 10% (.10). Enter the result in line 22.

23 Subtotal

Subtract line 22 from line 21. If "0" or less, you do not qualify for this credit.

24 Credit

Enter the lesser of line 23 or \$385 here and on Form 1, line 38.

2001 Massachusetts Income Tax Table at the 5.6% Rate

Use this table to calculate tax for taxable 5.6% income (line 21) of not more than \$80,000.

Line 22 instructions: To find your tax on 5.6% Income (line 22), read down the tax table income column to the line containing the amount you entered in line 21. Then read across to the TAX column and enter this amount in line 22. If your taxable 5.6% income in line 21 is greater than \$80,000, multiply the amount by .056. Enter the result in line 22.

INCOME			INCOME			INCOME			INCOME			INCOME			INCOME		
More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX
\$ 1	-\$ 50	\$ 1	\$ 4,000	-\$ 4,050	\$ 225	\$ 8,000	-\$ 8,050	\$ 449	\$12,000	-\$12,050	\$ 673	\$16,000	-\$16,050	\$ 897	\$20,000	-\$20,050	\$1,121
50	100	4	4,050	4,100	228	8,050	8,100	452	12,050	12,100	676	16,050	16,100	900	20,050	20,100	1,124
100	150	7	4,100	4,150	231	8,100	8,150	455	12,100	12,150	679	16,100	16,150	903	20,100	20,150	1,127
150	200	10	4,150	4,200	234	8,150	8,200	458	12,150	12,200	682	16,150	16,200	906	20,150	20,200	1,130
200	250	13	4,200	4,250	237	8,200	8,250	461	12,200	12,250	685	16,200	16,250	909	20,200	20,250	1,133
250	300	15	4,250	4,300	239	8,250	8,300	463	12,250	12,300	687	16,250	16,300	911	20,250	20,300	1,135
300	350	18	4,300	4,350	242	8,300	8,350	466	12,300	12,350	690	16,300	16,350	914	20,300	20,350	1,138
350	400	21	4,350	4,400	245	8,350	8,400	469	12,350	12,400	693	16,350	16,400	917	20,350	20,400	1,141
400	450	24	4,400	4,450	248	8,400	8,450	472	12,400	12,450	696	16,400	16,450	920	20,400	20,450	1,144
450	500	27	4,450	4,500	251	8,450	8,500	475	12,450	12,500	699	16,450	16,500	923	20,450	20,500	1,147
500	550	29	4,500	4,550	253	8,500	8,550	477	12,500	12,550	701	16,500	16,550	925	20,500	20,550	1,149
550	600	32	4,550	4,600	256	8,550	8,600	480	12,550	12,600	704	16,550	16,600	928	20,550	20,600	1,152
600	650	35	4,600	4,650	259	8,600	8,650	483	12,600	12,650	707	16,600	16,650	931	20,600	20,650	1,155
650	700	38	4,650	4,700	262	8,650	8,700	486	12,650	12,700	710	16,650	16,700	934	20,650	20,700	1,158
700	750	41	4,700	4,750	265	8,700	8,750	489	12,700	12,750	713	16,700	16,750	937	20,700	20,750	1,161
750	800	43	4,750	4,800	267	8,750	8,800	491	12,750	12,800	715	16,750	16,800	939	20,750	20,800	1,163
800	850	46	4,800	4,850	270	8,800	8,850	494	12,800	12,850	718	16,800	16,850	942	20,800	20,850	1,166
850	900	49	4,850	4,900	273	8,850	8,900	497	12,850	12,900	721	16,850	16,900	945	20,850	20,900	1,169
900	950	52	4,900	4,950	276	8,900	8,950	500	12,900	12,950	724	16,900	16,950	948	20,900	20,950	1,172
950	1,000	55	4,950	5,000	279	8,950	9,000	503	12,950	13,000	727	16,950	17,000	951	20,950	21,000	1,175
1,000	1,050	57	5,000	5,050	281	9,000	9,050	505	13,000	13,050	729	17,000	17,050	953	21,000	21,050	1,177
1,050	1,100	60	5,050	5,100	284	9,050	9,100	508	13,050	13,100	732	17,050	17,100	956	21,050	21,100	1,180
1,100	1,150	63	5,100	5,150	287	9,100	9,150	511	13,100	13,150	735	17,100	17,150	959	21,100	21,150	1,183
1,150	1,200	66	5,150	5,200	290	9,150	9,200	514	13,150	13,200	738	17,150	17,200	962	21,150	21,200	1,186
1,200	1,250	69	5,200	5,250	293	9,200	9,250	517	13,200	13,250	741	17,200	17,250	965	21,200	21,250	1,189
1,250	1,300	71	5,250	5,300	295	9,250	9,300	519	13,250	13,300	743	17,250	17,300	967	21,250	21,300	1,191
1,300	1,350	74	5,300	5,350	298	9,300	9,350	522	13,300	13,350	746	17,300	17,350	970	21,300	21,350	1,194
1,350	1,400	77	5,350	5,400	301	9,350	9,400	525	13,350	13,400	749	17,350	17,400	973	21,350	21,400	1,197
1,400	1,450	80	5,400	5,450	304	9,400	9,450	528	13,400	13,450	752	17,400	17,450	976	21,400	21,450	1,200
1,450	1,500	83	5,450	5,500	307	9,450	9,500	531	13,450	13,500	755	17,450	17,500	979	21,450	21,500	1,203
1,500	1,550	85	5,500	5,550	309	9,500	9,550	533	13,500	13,550	757	17,500	17,550	981	21,500	21,550	1,205
1,550	1,600	88	5,550	5,600	312	9,550	9,600	536	13,550	13,600	760	17,550	17,600	984	21,550	21,600	1,208
1,600	1,650	91	5,600	5,650	315	9,600	9,650	539	13,600	13,650	763	17,600	17,650	987	21,600	21,650	1,211
1,650	1,700	94	5,650	5,700	318	9,650	9,700	542	13,650	13,700	766	17,650	17,700	990	21,650	21,700	1,214
1,700	1,750	97	5,700	5,750	321	9,700	9,750	545	13,700	13,750	769	17,700	17,750	993	21,700	21,750	1,217
1,750	1,800	99	5,750	5,800	323	9,750	9,800	547	13,750	13,800	771	17,750	17,800	995	21,750	21,800	1,219
1,800	1,850	102	5,800	5,850	326	9,800	9,850	550	13,800	13,850	774	17,800	17,850	998	21,800	21,850	1,222
1,850	1,900	105	5,850	5,900	329	9,850	9,900	553	13,850	13,900	777	17,850	17,900	1,001	21,850	21,900	1,225
1,900	1,950	108	5,900	5,950	332	9,900	9,950	556	13,900	13,950	780	17,900	17,950	1,004	21,900	21,950	1,228
1,950	2,000	111	5,950	6,000	335	9,950	10,000	559	13,950	14,000	783	17,950	18,000	1,007	21,950	22,000	1,231
2,000	2,050	113	6,000	6,050	337	10,000	10,050	561	14,000	14,050	785	18,000	18,050	1,009	22,000	22,050	1,233
2,050	2,100	116	6,050	6,100	340	10,050	10,100	564	14,050	14,100	788	18,050	18,100	1,012	22,050	22,100	1,236
2,100	2,150	119	6,100	6,150	343	10,100	10,150	567	14,100	14,150	791	18,100	18,150	1,015	22,100	22,150	1,239
2,150	2,200	122	6,150	6,200	346	10,150	10,200	570	14,150	14,200	794	18,150	18,200	1,018	22,150	22,200	1,242
2,200	2,250	125	6,200	6,250	349	10,200	10,250	573	14,200	14,250	797	18,200	18,250	1,021	22,200	22,250	1,245
2,250	2,300	127	6,250	6,300	351	10,250	10,300	575	14,250	14,300	799	18,250	18,300	1,023	22,250	22,300	1,247
2,300	2,350	130	6,300	6,350	354	10,300	10,350	578	14,300	14,350	802	18,300	18,350	1,026	22,300	22,350	1,250
2,350	2,400	133	6,350	6,400	357	10,350	10,400	581	14,350	14,400	805	18,350	18,400	1,029	22,350	22,400	1,253
2,400	2,450	136	6,400	6,450	360	10,400	10,450	584	14,400	14,450	808	18,400	18,450	1,032	22,400	22,450	1,256
2,450	2,500	139	6,450	6,500	363	10,450	10,500	587	14,450	14,500	811	18,450	18,500	1,035	22,450	22,500	1,259
2,500	2,550	141	6,500	6,550	365	10,500	10,550	589	14,500	14,550	813	18,500	18,550	1,037	22,500	22,550	1,261
2,550	2,600	144	6,550	6,600	368	10,550	10,600	592	14,550	14,600	816	18,550	18,600	1,040	22,550	22,600	1,264
2,600	2,650	147	6,600	6,650	371	10,600	10,650	595	14,600	14,650	819	18,600	18,650	1,043	22,600	22,650	1,267
2,650	2,700	150	6,650	6,700	374	10,650	10,700	598	14,650	14,700	822	18,650	18,700	1,046	22,650	22,700	1,270
2,700	2,750	153	6,700	6,750	377	10,700	10,750	601	14,700	14,750	825	18,700	18,750	1,049	22,700	22,750	1,273
2,750	2,800	155	6,750	6,800	379	10,750	10,800	603	14,750	14,800	827	18,750	18,800	1,051	22,750	22,800	1,275
2,800	2,850	158	6,800	6,850	382	10,800	10,850	606	14,800	14,850	830	18,800	18,850	1,054	22,800	22,850	1,278
2,850	2,900	161	6,850	6,900	385	10,850	10,900	609	14,850	14,900	833	18,850	18,900	1,057	22,850	22,900	1,281
2,900	2,950	164	6,900	6,950	388	10,900	10,950	612	14,900	14,950	836	18,900	18,950	1,060	22,900	22,950	1,284
2,950	3,000	167	6,950	7,000	391	10,950	11,000	615	14,950	15,000	839	18,950	19,000	1,063	22,950	23,000	1,287
3,000	3,050	169	7,000	7,050	393	11,000	11,050	617	15,000	15,050	841	19,000	19,050	1,065	23,000	23,050	1,289
3,050	3,100	172	7,050	7,100	396	11,050	11,100	620	15,050	15,100	844	19,050	19,100	1,068	23,050	23,100	1,292
3,100	3,150	175	7,100	7,150	399	11,100	11,150	623	15,1								

2001 Massachusetts Income Tax Table at the 5.6% Rate

INCOME			INCOME			INCOME			INCOME			INCOME			INCOME		
More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX
\$24,000	-\$24,050	1,345	\$28,750	-\$28,800	1,611	\$33,500	-\$33,550	1,877	\$38,250	-\$38,300	2,143	\$43,000	-\$43,050	2,409	\$47,750	-\$47,800	2,675
24,050	24,100	1,348	28,800	28,850	1,614	33,550	33,600	1,880	38,300	38,350	2,146	43,050	43,100	2,412	47,800	47,850	2,678
24,100	24,150	1,351	28,850	28,900	1,617	33,600	33,650	1,883	38,350	38,400	2,149	43,100	43,150	2,415	47,850	47,900	2,681
24,150	24,200	1,354	28,900	28,950	1,620	33,650	33,700	1,886	38,400	38,450	2,152	43,150	43,200	2,418	47,900	47,950	2,684
24,200	24,250	1,357	28,950	29,000	1,623	33,700	33,750	1,889	38,450	38,500	2,155	43,200	43,250	2,421	47,950	48,000	2,687
24,250	24,300	1,359	29,000	29,050	1,625	33,750	33,800	1,891	38,500	38,550	2,157	43,250	43,300	2,423	48,000	48,050	2,689
24,300	24,350	1,362	29,050	29,100	1,628	33,800	33,850	1,894	38,550	38,600	2,160	43,300	43,350	2,426	48,050	48,100	2,692
24,350	24,400	1,365	29,100	29,150	1,631	33,850	33,900	1,897	38,600	38,650	2,163	43,350	43,400	2,429	48,100	48,150	2,695
24,400	24,450	1,368	29,150	29,200	1,634	33,900	33,950	1,900	38,650	38,700	2,166	43,400	43,450	2,432	48,150	48,200	2,698
24,450	24,500	1,371	29,200	29,250	1,637	33,950	34,000	1,903	38,700	38,750	2,169	43,450	43,500	2,435	48,200	48,250	2,701
24,500	24,550	1,373	29,250	29,300	1,639	34,000	34,050	1,905	38,750	38,800	2,171	43,500	43,550	2,437	48,250	48,300	2,703
24,550	24,600	1,376	29,300	29,350	1,642	34,050	34,100	1,908	38,800	38,850	2,174	43,550	43,600	2,440	48,300	48,350	2,706
24,600	24,650	1,379	29,350	29,400	1,645	34,100	34,150	1,911	38,850	38,900	2,177	43,600	43,650	2,443	48,350	48,400	2,709
24,650	24,700	1,382	29,400	29,450	1,648	34,150	34,200	1,914	38,900	38,950	2,180	43,650	43,700	2,446	48,400	48,450	2,712
24,700	24,750	1,385	29,450	29,500	1,651	34,200	34,250	1,917	38,950	39,000	2,183	43,700	43,750	2,449	48,450	48,500	2,715
24,750	24,800	1,387	29,500	29,550	1,653	34,250	34,300	1,919	39,000	39,050	2,185	43,750	43,800	2,451	48,500	48,550	2,717
24,800	24,850	1,390	29,550	29,600	1,656	34,300	34,350	1,922	39,050	39,100	2,188	43,800	43,850	2,454	48,550	48,600	2,720
24,850	24,900	1,393	29,600	29,650	1,659	34,350	34,400	1,925	39,100	39,150	2,191	43,850	43,900	2,457	48,600	48,650	2,723
24,900	24,950	1,396	29,650	29,700	1,662	34,400	34,450	1,928	39,150	39,200	2,194	43,900	43,950	2,460	48,650	48,700	2,726
24,950	25,000	1,399	29,700	29,750	1,665	34,450	34,500	1,931	39,200	39,250	2,197	43,950	44,000	2,463	48,700	48,750	2,729
25,000	25,050	1,401	29,750	29,800	1,667	34,500	34,550	1,933	39,250	39,300	2,199	44,000	44,050	2,465	48,750	48,800	2,731
25,050	25,100	1,404	29,800	29,850	1,670	34,550	34,600	1,936	39,300	39,350	2,202	44,050	44,100	2,468	48,800	48,850	2,734
25,100	25,150	1,407	29,850	29,900	1,673	34,600	34,650	1,939	39,350	39,400	2,205	44,100	44,150	2,471	48,850	48,900	2,737
25,150	25,200	1,410	29,900	29,950	1,676	34,650	34,700	1,942	39,400	39,450	2,208	44,150	44,200	2,474	48,900	48,950	2,740
25,200	25,250	1,413	29,950	30,000	1,679	34,700	34,750	1,945	39,450	39,500	2,211	44,200	44,250	2,477	48,950	49,000	2,743
25,250	25,300	1,415	30,000	30,050	1,681	34,750	34,800	1,947	39,500	39,550	2,213	44,250	44,300	2,479	49,000	49,050	2,745
25,300	25,350	1,418	30,050	30,100	1,684	34,800	34,850	1,950	39,550	39,600	2,216	44,300	44,350	2,482	49,050	49,100	2,748
25,350	25,400	1,421	30,100	30,150	1,687	34,850	34,900	1,953	39,600	39,650	2,219	44,350	44,400	2,485	49,100	49,150	2,751
25,400	25,450	1,424	30,150	30,200	1,690	34,900	34,950	1,956	39,650	39,700	2,222	44,400	44,450	2,488	49,150	49,200	2,754
25,450	25,500	1,427	30,200	30,250	1,693	34,950	35,000	1,959	39,700	39,750	2,225	44,450	44,500	2,491	49,200	49,250	2,757
25,500	25,550	1,429	30,250	30,300	1,695	35,000	35,050	1,961	39,750	39,800	2,227	44,500	44,550	2,493	49,250	49,300	2,759
25,550	25,600	1,432	30,300	30,350	1,698	35,050	35,100	1,964	39,800	39,850	2,230	44,550	44,600	2,496	49,300	49,350	2,762
25,600	25,650	1,435	30,350	30,400	1,701	35,100	35,150	1,967	39,850	39,900	2,233	44,600	44,650	2,499	49,350	49,400	2,765
25,650	25,700	1,438	30,400	30,450	1,704	35,150	35,200	1,970	39,900	39,950	2,236	44,650	44,700	2,502	49,400	49,450	2,768
25,700	25,750	1,441	30,450	30,500	1,707	35,200	35,250	1,973	39,950	40,000	2,239	44,700	44,750	2,505	49,450	49,500	2,771
25,750	25,800	1,443	30,500	30,550	1,709	35,250	35,300	1,975	40,000	40,050	2,241	44,750	44,800	2,507	49,500	49,550	2,773
25,800	25,850	1,446	30,550	30,600	1,712	35,300	35,350	1,978	40,050	40,100	2,244	44,800	44,850	2,510	49,550	49,600	2,776
25,850	25,900	1,449	30,600	30,650	1,715	35,350	35,400	1,981	40,100	40,150	2,247	44,850	44,900	2,513	49,600	49,650	2,779
25,900	25,950	1,452	30,650	30,700	1,718	35,400	35,450	1,984	40,150	40,200	2,250	44,900	44,950	2,516	49,650	49,700	2,782
25,950	26,000	1,455	30,700	30,750	1,721	35,450	35,500	1,987	40,200	40,250	2,253	44,950	45,000	2,519	49,700	49,750	2,785
26,000	26,050	1,457	30,750	30,800	1,723	35,500	35,550	1,989	40,250	40,300	2,255	45,000	45,050	2,521	49,750	49,800	2,787
26,050	26,100	1,460	30,800	30,850	1,726	35,550	35,600	1,992	40,300	40,350	2,258	45,050	45,100	2,524	49,800	49,850	2,790
26,100	26,150	1,463	30,850	30,900	1,729	35,600	35,650	1,995	40,350	40,400	2,261	45,100	45,150	2,527	49,850	49,900	2,793
26,150	26,200	1,466	30,900	30,950	1,732	35,650	35,700	1,998	40,400	40,450	2,264	45,150	45,200	2,530	49,900	49,950	2,796
26,200	26,250	1,469	30,950	31,000	1,735	35,700	35,750	2,001	40,450	40,500	2,267	45,200	45,250	2,533	49,950	50,000	2,799
26,250	26,300	1,471	31,000	31,050	1,737	35,750	35,800	2,003	40,500	40,550	2,269	45,250	45,300	2,535	50,000	50,050	2,801
26,300	26,350	1,474	31,050	31,100	1,740	35,800	35,850	2,006	40,550	40,600	2,272	45,300	45,350	2,538	50,050	50,100	2,804
26,350	26,400	1,477	31,100	31,150	1,743	35,850	35,900	2,009	40,600	40,650	2,275	45,350	45,400	2,541	50,100	50,150	2,807
26,400	26,450	1,480	31,150	31,200	1,746	35,900	35,950	2,012	40,650	40,700	2,278	45,400	45,450	2,544	50,150	50,200	2,810
26,450	26,500	1,483	31,200	31,250	1,749	35,950	36,000	2,015	40,700	40,750	2,281	45,450	45,500	2,547	50,200	50,250	2,813
26,500	26,550	1,485	31,250	31,300	1,751	36,000	36,050	2,017	40,750	40,800	2,283	45,500	45,550	2,549	50,250	50,300	2,815
26,550	26,600	1,488	31,300	31,350	1,754	36,050	36,100	2,020	40,800	40,850	2,286	45,550	45,600	2,552	50,300	50,350	2,818
26,600	26,650	1,491	31,350	31,400	1,757	36,100	36,150	2,023	40,850	40,900	2,289	45,600	45,650	2,555	50,350	50,400	2,821
26,650	26,700	1,494	31,400	31,450	1,760	36,150	36,200	2,026	40,900	40,950	2,292	45,650	45,700	2,558	50,400	50,450	2,824
26,700	26,750	1,497	31,450	31,500	1,763												

2001 Massachusetts Income Tax Table at the 5.6% Rate

INCOME			INCOME			INCOME			INCOME			INCOME			INCOME		
More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX
\$52,500	-\$52,500	\$2,941	\$57,250	-\$57,300	\$3,207	\$62,000	-\$62,050	\$3,473	\$66,750	-\$66,800	\$3,739	\$71,500	-\$71,550	\$4,005	\$76,250	-\$76,300	\$4,271
52,500	52,600	2,944	57,300	57,350	3,210	62,050	62,100	3,476	66,800	66,850	3,742	71,550	71,600	4,008	76,300	76,350	4,274
52,600	52,650	2,947	57,350	57,400	3,213	62,100	62,150	3,479	66,850	66,900	3,745	71,600	71,650	4,011	76,350	76,400	4,277
52,650	52,700	2,950	57,400	57,450	3,216	62,150	62,200	3,482	66,900	66,950	3,748	71,650	71,700	4,014	76,400	76,450	4,280
52,700	52,750	2,953	57,450	57,500	3,219	62,200	62,250	3,485	66,950	67,000	3,751	71,700	71,750	4,017	76,450	76,500	4,283
52,750	52,800	2,955	57,500	57,550	3,221	62,250	62,300	3,487	67,000	67,050	3,753	71,750	71,800	4,019	76,500	76,550	4,285
52,800	52,850	2,958	57,550	57,600	3,224	62,300	62,350	3,490	67,050	67,100	3,756	71,800	71,850	4,022	76,550	76,600	4,288
52,850	52,900	2,961	57,600	57,650	3,227	62,350	62,400	3,493	67,100	67,150	3,759	71,850	71,900	4,025	76,600	76,650	4,291
52,900	52,950	2,964	57,650	57,700	3,230	62,400	62,450	3,496	67,150	67,200	3,762	71,900	71,950	4,028	76,650	76,700	4,294
52,950	53,000	2,967	57,700	57,750	3,233	62,450	62,500	3,499	67,200	67,250	3,765	71,950	72,000	4,031	76,700	76,750	4,297
53,000	53,050	2,969	57,750	57,800	3,235	62,500	62,550	3,501	67,250	67,300	3,767	72,000	72,050	4,033	76,750	76,800	4,299
53,050	53,100	2,972	57,800	57,850	3,238	62,550	62,600	3,504	67,300	67,350	3,770	72,050	72,100	4,036	76,800	76,850	4,302
53,100	53,150	2,975	57,850	57,900	3,241	62,600	62,650	3,507	67,350	67,400	3,773	72,100	72,150	4,039	76,850	76,900	4,305
53,150	53,200	2,978	57,900	57,950	3,244	62,650	62,700	3,510	67,400	67,450	3,776	72,150	72,200	4,042	76,900	76,950	4,308
53,200	53,250	2,981	57,950	58,000	3,247	62,700	62,750	3,513	67,450	67,500	3,779	72,200	72,250	4,045	76,950	77,000	4,311
53,250	53,300	2,983	58,000	58,050	3,249	62,750	62,800	3,515	67,500	67,550	3,781	72,250	72,300	4,047	77,000	77,050	4,313
53,300	53,350	2,986	58,050	58,100	3,252	62,800	62,850	3,518	67,550	67,600	3,784	72,300	72,350	4,050	77,050	77,100	4,316
53,350	53,400	2,989	58,100	58,150	3,255	62,850	62,900	3,521	67,600	67,650	3,787	72,350	72,400	4,053	77,100	77,150	4,319
53,400	53,450	2,992	58,150	58,200	3,258	62,900	62,950	3,524	67,650	67,700	3,790	72,400	72,450	4,056	77,150	77,200	4,322
53,450	53,500	2,995	58,200	58,250	3,261	62,950	63,000	3,527	67,700	67,750	3,793	72,450	72,500	4,059	77,200	77,250	4,325
53,500	53,550	2,997	58,250	58,300	3,263	63,000	63,050	3,529	67,750	67,800	3,795	72,500	72,550	4,061	77,250	77,300	4,327
53,550	53,600	3,000	58,300	58,350	3,266	63,050	63,100	3,532	67,800	67,850	3,798	72,550	72,600	4,064	77,300	77,350	4,330
53,600	53,650	3,003	58,350	58,400	3,269	63,100	63,150	3,535	67,850	67,900	3,801	72,600	72,650	4,067	77,350	77,400	4,333
53,650	53,700	3,006	58,400	58,450	3,272	63,150	63,200	3,538	67,900	67,950	3,804	72,650	72,700	4,070	77,400	77,450	4,336
53,700	53,750	3,009	58,450	58,500	3,275	63,200	63,250	3,541	67,950	68,000	3,807	72,700	72,750	4,073	77,450	77,500	4,339
53,750	53,800	3,011	58,500	58,550	3,277	63,250	63,300	3,543	68,000	68,050	3,809	72,750	72,800	4,075	77,500	77,550	4,341
53,800	53,850	3,014	58,550	58,600	3,280	63,300	63,350	3,546	68,050	68,100	3,812	72,800	72,850	4,078	77,550	77,600	4,344
53,850	53,900	3,017	58,600	58,650	3,283	63,350	63,400	3,549	68,100	68,150	3,815	72,850	72,900	4,081	77,600	77,650	4,347
53,900	53,950	3,020	58,650	58,700	3,286	63,400	63,450	3,552	68,150	68,200	3,818	72,900	72,950	4,084	77,650	77,700	4,350
53,950	54,000	3,023	58,700	58,750	3,289	63,450	63,500	3,555	68,200	68,250	3,821	72,950	73,000	4,087	77,700	77,750	4,353
54,000	54,050	3,025	58,750	58,800	3,291	63,500	63,550	3,557	68,250	68,300	3,823	73,000	73,050	4,089	77,750	77,800	4,355
54,050	54,100	3,028	58,800	58,850	3,294	63,550	63,600	3,560	68,300	68,350	3,826	73,050	73,100	4,092	77,800	77,850	4,358
54,100	54,150	3,031	58,850	58,900	3,297	63,600	63,650	3,563	68,350	68,400	3,829	73,100	73,150	4,095	77,850	77,900	4,361
54,150	54,200	3,034	58,900	58,950	3,300	63,650	63,700	3,566	68,400	68,450	3,832	73,150	73,200	4,098	77,900	77,950	4,364
54,200	54,250	3,037	58,950	59,000	3,303	63,700	63,750	3,569	68,450	68,500	3,835	73,200	73,250	4,101	77,950	78,000	4,367
54,250	54,300	3,039	59,000	59,050	3,305	63,750	63,800	3,571	68,500	68,550	3,837	73,250	73,300	4,103	78,000	78,050	4,369
54,300	54,350	3,042	59,050	59,100	3,308	63,800	63,850	3,574	68,550	68,600	3,840	73,300	73,350	4,106	78,050	78,100	4,372
54,350	54,400	3,045	59,100	59,150	3,311	63,850	63,900	3,577	68,600	68,650	3,843	73,350	73,400	4,109	78,100	78,150	4,375
54,400	54,450	3,048	59,150	59,200	3,314	63,900	63,950	3,580	68,650	68,700	3,846	73,400	73,450	4,112	78,150	78,200	4,378
54,450	54,500	3,051	59,200	59,250	3,317	63,950	64,000	3,583	68,700	68,750	3,849	73,450	73,500	4,115	78,200	78,250	4,381
54,500	54,550	3,053	59,250	59,300	3,319	64,000	64,050	3,585	68,750	68,800	3,851	73,500	73,550	4,117	78,250	78,300	4,383
54,550	54,600	3,056	59,300	59,350	3,322	64,050	64,100	3,588	68,800	68,850	3,854	73,550	73,600	4,120	78,300	78,350	4,386
54,600	54,650	3,059	59,350	59,400	3,325	64,100	64,150	3,591	68,850	68,900	3,857	73,600	73,650	4,123	78,350	78,400	4,389
54,650	54,700	3,062	59,400	59,450	3,328	64,150	64,200	3,594	68,900	68,950	3,860	73,650	73,700	4,126	78,400	78,450	4,392
54,700	54,750	3,065	59,450	59,500	3,331	64,200	64,250	3,597	68,950	69,000	3,863	73,700	73,750	4,129	78,450	78,500	4,395
54,750	54,800	3,067	59,500	59,550	3,333	64,250	64,300	3,599	69,000	69,050	3,865	73,750	73,800	4,131	78,500	78,550	4,397
54,800	54,850	3,070	59,550	59,600	3,336	64,300	64,350	3,602	69,050	69,100	3,868	73,800	73,850	4,134	78,550	78,600	4,400
54,850	54,900	3,073	59,600	59,650	3,339	64,350	64,400	3,605	69,100	69,150	3,871	73,850	73,900	4,137	78,600	78,650	4,403
54,900	54,950	3,076	59,650	59,700	3,342	64,400	64,450	3,608	69,150	69,200	3,874	73,900	73,950	4,140	78,650	78,700	4,406
54,950	55,000	3,079	59,700	59,750	3,345	64,450	64,500	3,611	69,200	69,250	3,877	73,950	74,000	4,143	78,700	78,750	4,409
55,000	55,050	3,081	59,750	59,800	3,347	64,500	64,550	3,613	69,250	69,300	3,879	74,000	74,050	4,145	78,750	78,800	4,411
55,050	55,100	3,084	59,800	59,850	3,350	64,550	64,600	3,616	69,300	69,350	3,882	74,050	74,100	4,148	78,800	78,850	4,414
55,100	55,150	3,087	59,850	59,900	3,353	64,600	64,650										

Department of Revenue Resources

DOR Locations in Massachusetts

19 Staniford Street
Boston 02114
(617) 887-MDOR

218 South Main Street
Fall River 02721
(508) 678-2844

1019 Iyanough Road
Hyannis 02601
(508) 771-2414

333 East Street
Pittsfield 01201
(413) 499-2206

436 Dwight Street
Springfield 01103
(413) 784-1000

40 Southbridge Street
Worcester 01608
(508) 792-7300

DOR Locations throughout the Country

1355 Peachtree Street NE
Suite 1280
Atlanta, GA 30309
(404) 874-2922

101 South First Street, 4th floor
Burbank, CA 91502
(818) 840-9059

150 North Michigan Avenue
Suite 2035
Chicago, IL 60601
(312) 899-9040

2603 Augusta Drive, Suite 1075
Houston, TX 77057
(713) 784-7225

1440 Broadway, Suite 2272
New York, NY 10018
(212) 768-2750

355 Fifth Avenue, Suite 1400
Pittsburgh, PA 15222
(412) 281-2776

What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call or visit any of the Department of Revenue offices listed on this page Monday through Friday, between 8:45 a.m. and 5:00 p.m. Representatives at Massachusetts office locations can assist you, if you are eligible, in WebFiling your tax return.

DOR's website at www.mass.gov/dor is also a valuable resource for tax information 24 hours a day. Thousands of taxpayers use DOR's website to e-mail and receive prompt answers to their general tax inquiries. Interactive applications that allow taxpayers to check the status of their refunds and review their quarterly estimated tax payment histories are available through our website or by calling our main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. TaxTalk, the DOR's automated system of recorded tax help, is available during non-business hours by calling our main information lines. TaxTalk topics are also available online.

In addition, DOR issues a number of useful publications on various state tax issues. These publications include: tax-specific guides written in question and answer format such as the *Guide to Filing Your 2001 Massachusetts Income Taxes*; a quarterly newsletter, the *Taxpayer Advisory Bulletin*, with updates on legislative, legal and Departmental decisions; and public written statements, such as Regulations, Technical Information Releases (TIRs), Directives and Letter Rulings.

Where to get forms and publications



During the income tax filing season, you can pick up Massachusetts personal income tax forms in many convenient locations, including post offices, libraries, and major city or town halls; any DOR office listed on this page; or IRS district offices across the state.



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



Many Massachusetts tax forms and publications are also available via the DOR website. The address for the Department's website is www.mass.gov/dor.



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

For general tax information

Please call (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089 for assistance.

Extended telephone service hours

If you have personal income tax questions or need assistance completing your return, extended telephone service is available at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. From January 14 through April 16, 2002, these extended hours will be: Monday through Thursday, 5-7 p.m.; Saturday, 9 a.m.-1 p.m.; and Sunday, 10 a.m.-2 p.m.

For help in one of the following specific areas

- ▶ Certificates of Good Standing (617) 887-6550
- ▶ Teletype (TTY) (617) 887-6140
- ▶ Vision-impaired taxpayers can contact any DOR office listed on this page to receive assistance.
- ▶ Upon request, this publication is available in an alternative format. Please send your request to: Office of Affirmative Action, PO Box 9488, Boston, MA 02205-9488 or call (617) 626-3410.
- ▶ Installment sales (617) 887-6950
- ▶ Small Business Workshop (617) 887-6400

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 9480, Boston, MA 02205-9480.

Massachusetts

Department of

Revenue

PO Box 7011

Boston, MA 02204

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Dear Taxpayer,

State tax law changes effective for the 2001 tax year provide important new tax benefits for Massachusetts taxpayers. A new Senior Circuit Breaker Tax Credit provides property tax relief for moderate- and low-income senior citizens. In addition, taxpayers may now claim a state Charitable Contributions Deduction even if they do not itemize for federal income tax purposes. Finally, the personal income tax rate has been lowered and several existing credits and deductions have been expanded. For further information about these changes, please refer to the section entitled "Major 2001 Tax Changes" on page 5 in this booklet.

If you have not already made the switch from paper to electronic filing (E-Filing), I urge you to do so this year. More than 926,000 state personal income tax returns were E-Filed with the Massachusetts Department of Revenue (DOR) last year.

The Department of Revenue offers four ways to E-File your tax return, including by touch-tone telephone using Telefile; by preparing and filing your return, at no cost, via DOR's website, www.mass.gov/dor; by using the services provided by a DOR-approved tax professional; and by using a DOR-approved commercial tax preparation website or software product. Each method is easy to use and convenient, provides instant confirmation that your tax return was received by DOR, and allows you to deposit your refund check directly into your bank account. And, you will receive your refund, on average, within four business days!

For more information about DOR's E-File programs, please visit our website, www.mass.gov/dor, or call our Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at (800) 392-6089.

Sincerely,



Bernard F. Crowley, Jr.
Acting Commissioner