

December 17, 2004

Individual Income Tax-Computation of 2004 Alternative Minimum Tax to Determine Nebraska Minimum Tax for the 2004 Nebraska Return. ALTERNATIVE MINIMUM TAX--INDIVIDUALS, FEDERAL FORM 6251, AND THE ALTERNATIVE MINIMUM TAX WORKSHEET, FEDERAL FORM 1040A, ARE TO BE RECALCULATED FOR NEBRASKA INDIVIDUAL INCOME TAX PURPOSES TO DETERMINE THE NEBRASKA MINIMUM TAX.

Advice has been requested as to whether the alternative minimum tax computed for a taxpayer's 2004 U.S. Individual Income Tax Return, Federal Forms 1040 or 1040A, must be recalculated in order to compute the Nebraska income tax.

Nebraska law imposes a tax on the federal alternative minimum tax recomputed to take into account the adjustments required by the Nebraska Revenue Act of 1967, as amended. Section 77-2715 of the Nebraska Revised Statutes provides that the additional taxes shall be recomputed by substituting Nebraska taxable income for federal taxable income and adjusting the Nebraska alternative minimum tax calculations for any items which are reflected differently in the determination of federal taxable income for Nebraska purposes. This applies to any federal schedules or other forms, the results of which are used in calculating the federal alternative minimum tax.

Among the adjustments provided by section 77-2716 of the Nebraska Revised Statutes are the exclusion from federal adjusted gross income of interest or dividends from U.S. obligations as set forth in Individual Income Tax Reg-22-002.05A and the inclusion of interest or dividends from non-Nebraska source state or local obligations. Section 77-2716 also provides for the exclusion from Nebraska taxable income of any non-Nebraska income from an S-corporation or LLC. Therefore, any associated preference item derived from the S-corporation or LLC included in the alternative minimum tax calculations should be excluded to the same extent in the Nebraska computation.

The specific line entries and the required adjustments in recomputing the minimum tax for the 2004 Nebraska Individual Income Tax Return, Form 1040N, are provided below. **Recalculate all total or computational lines to reflect adjustments made pursuant to this ruling.** All other entries must be the same as for the federal minimum tax computation.

2004 Federal Form 6251:

Line 1. If you itemized deductions, enter the amount from line 14, Nebraska Form 1040N and go to line 2, Form 6251. Otherwise, enter line 5, plus line 12 minus line 13 from Nebraska Form 1040N, and skip to line 7, Form 6251.

Line 3. Enter line 9 from Federal Schedule A, minus line 8, Form 1040N.

Line 6. Enter the limitation amount on the disallowed itemized deductions, if any, from line 11 of the Nebraska Itemized Deduction Worksheet on page 12 of the Form 1040N instructions.

Line 7. Enter zero.

Line 10. Enter any Nebraska net operating loss deduction included on line 52, Schedule I, Form 1040N.

Line 11. Enter only the tax-exempt interest from Nebraska private activity bonds issued after August 7, 1986.

Line 17. **Do not** make any adjustment for state purposes for any special bonus depreciation reflected in any federal calculations.

Line 27. Enter the alternative tax net operating loss deduction as adjusted for Nebraska purposes.

Line 31. If Part III of Form 6251 was used to make the line 31 entry, exclude any capital gains in the calculation that were excluded on Line 50 of Nebraska Schedule I.

Line 32. Enter zero.

Line 34. Compute the regular federal income tax before credits on the Nebraska Tax Table Income, line 14, Form 1040N. The same federal tax method used to complete line 43, Federal Form 1040, is to be used. Enter the computed amount without subtracting any foreign tax credit.

2004 Federal Form 1040A, Alternative Minimum Tax Worksheet:

Line 1. Add the amount from line 22, Form 1040A, the amount from line 12, Form 1040N. Subtract the amount entered on line 13, Form 1040N. Enter the result on line 1.

Line 21. If Lines 8 through 20 were used to make the line 21 entry, exclude any capital gains in the calculation that were excluded on Line 50 of Nebraska Schedule I.

Line 22. Compute the regular federal income tax before credits on the Nebraska Tax Table Income, line 14, Form 1040N. The same federal tax method used to complete line 28, Federal Form 1040A, is to be used.

Line 35 of the recomputed Federal Form 6251 or line 23 of the recomputed Federal Form 1040A, Alternative Minimum Tax Worksheet, is to be entered on line 1 of the Nebraska Minimum or Other Tax Worksheet found on page 8 of the instructions for Form 1040N. The worksheet is to be completed to determine the amount to enter on line 16 of the Form 1040N, or, for taxpayers filing Nebraska Schedule III, the amount to enter on line 68 of the Nebraska Schedule III.

A copy of the recomputed Federal Form 6251 or Federal Form 1040A Worksheet must be attached to the Nebraska Individual Income Tax Return, Form 1040N, when filed.

The alternative minimum tax is to be recomputed for all taxable years beginning after December 31, 1978. Other rulings involving recomputation of Federal Form 6251 or the Federal Form 1040A, Alternative Minimum Tax Worksheet, are shown for the preceding three years:

Tax Year	Revenue Ruling Reference
2003	22-03-1
2002	22-02-2
2001	22-01-1

APPROVED:



Mary Jane Egr
State Tax Commissioner

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