

August 4, 2008. You have no qualified dividends from ABC Mutual Fund because you held the ABC Mutual Fund stock for less than 61 days.



Be sure you use the *Qualified Dividends and Capital Gain Tax Worksheet* or the *Schedule D Tax Worksheet*, whichever applies, to figure your tax. Your tax may be less if you use the worksheet that applies. See the instructions for line 44 that begin on page 33 for details.

If you received a refund, credit, or offset of state or local income taxes in 2008, you may receive a Form 1099-G. If you chose to apply part or all of the refund to your 2008 estimated state or local income tax, the amount applied is treated as received in 2008. If the refund was for a tax you paid in 2007 and you deducted state and local income taxes on line 5 of your 2007 Schedule A, use the worksheet below to see if any of your refund is taxable.

Exception. See *Itemized Deduction Recoveries* in Pub. 525 instead of using the worksheet below if any of the following applies.

1. You received a refund in 2008 that is for a tax year other than 2007.
2. You received a refund other than an income tax refund, such as a general sales tax or real property tax refund, in 2008 of an amount deducted or credit claimed in an earlier year.
3. The amount on your 2007 Form 1040, line 42, was more than the amount on your 2007 Form 1040, line 41.
4. Your 2007 state and local income tax refund is more than your 2007 state and local income tax deduction minus the

amount you could have deducted as your 2007 state and local general sales taxes.

5. You made your last payment of 2007 estimated state or local income tax in 2008.
6. You owed alternative minimum tax in 2007.
7. You could not use the full amount of credits you were entitled to in 2007 because the total credits were more than the amount shown on your 2007 Form 1040, line 46.
8. You could be claimed as a dependent by someone else in 2007.
9. You had to use the *Itemized Deductions Worksheet* in the 2007 Instructions for Schedules A&B because your 2007 adjusted gross income was over \$156,400 (\$78,200 if married filing separately) and both of the following apply.
 - a. You could not deduct all of the amount on the 2007 *Itemized Deductions Worksheet*, line 1.
 - b. The amount on line 8 of that 2007 worksheet would be more than the amount on line 4 of that worksheet if the amount on line 4 were reduced by 80% of the refund you received in 2008.

Line 10 Taxable Refunds, Credits, or Offsets of State and Local Income Taxes



None of your refund is taxable if, in the year you paid the tax, you either (a) did not itemize deductions, or (b) elected to deduct state and local general sales taxes instead of state and local income taxes.

State and Local Income Tax Refund Worksheet—Line 10

Keep for Your Records



Before you begin: ✓ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 525 to figure if any of your refund is taxable.

1. Enter the income tax refund from **Form(s) 1099-G** (or similar statement). But **do not** enter more than the amount of your state and local income taxes shown on your 2007 Schedule A, line 5 **1.**
2. Enter your total allowable itemized deductions from your 2007 Schedule A, line 29 **2.**

Note. If the filing status on your 2007 Form 1040 was married filing separately and your spouse itemized deductions in 2007, skip lines 3, 4, and 5, and enter the amount from line 2 on line 6.

3. Enter the amount shown below for the filing status claimed on your **2007** Form 1040.
 - Single or married filing separately— \$5,350
 - Married filing jointly or qualifying widow(er)— \$10,700
 - Head of household— \$7,850
 } . . . **3.**

4. Did you fill in line 39a on your 2007 Form 1040?
 - No.** Enter -0-.
 - Yes.** Multiply the number in the box on line 39a of your 2007 Form 1040 by \$1,050 (\$1,300 if your 2007 filing status was single or head of household).
 } **4.**

5. Add lines 3 and 4 **5.**

6. Is the amount on line 5 less than the amount on line 2?
 - No.** None of your refund is taxable.
 - Yes.** Subtract line 5 from line 2 **6.**

7. **Taxable part of your refund.** Enter the **smaller** of line 1 or line 6 here and on Form 1040, line 10 . . **7.**