

Allocation of Individual Income Tax to the Virgin Islands

1996

(Rev. December 96)
Department of the Treasury
Internal Revenue Service

▶ **Attach to Form 1040.**

Attachment
Sequence No. **85**

For calendar year 1996, or fiscal year ending _____, 19__

Your first name and initial	Last name	Your social security number
		: : : : : :
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
		: : : : : :
Present home address (number and street)	Apt. no.	City, town or post office, state or territory, and ZIP code

Part I Income From the Virgin Islands

1	Wages, salaries, tips, etc.	1		
2	Taxable interest income	2		
3	Dividend income	3		
4	Taxable refunds, credits, or offsets of local Virgin Islands taxes	4		
5	Alimony received	5		
6	Business income or (loss)	6		
7	Capital gain or (loss)	7		
8	Other gains or (losses)	8		
9	IRA distributions (taxable amount)	9		
10	Pensions and annuities (taxable amount)	10		
11	Rental real estate, royalties, partnerships, S corporations, trusts, etc.	11		
12	Farm income or (loss)	12		
13	Unemployment compensation	13		
14	Social security benefits (taxable amount)	14		
15	Other income. List type and amount. ▶	15		
16	Add lines 1 through 15. This is your total income ▶	16		

Part II Adjustments to Income From the Virgin Islands

17a	Your IRA deduction	17a		
b	Spouse's IRA deduction	17b		
18	Moving expenses	18		
19	One-half of self-employment tax	19		
20	Self-employed health insurance deduction	20		
21	Keogh retirement plan and self-employed SEP deduction	21		
22	Penalty on early withdrawal of savings	22		
23	Add lines 17a through 22. These are your total adjustments ▶	23		
24	Subtract line 23 from line 16. This is your adjusted gross income ▶	24		

Part III Allocation of Tax to the Virgin Islands

25	Enter amount from Form 1040, line 51	25		
26	Enter the total of the amounts from Form 1040, lines 45, 47, and 54; any uncollected employee social security and Medicare or RRTA tax or tax on golden parachute payments included on line 51; and any amount from Form 5329, Parts II, III, or IV, included on line 48	26		
27	Subtract line 26 from line 25	27		
28	Enter amount from Form 1040, line 32	28		
29	Divide line 24 above by line 28. Enter the result as a decimal (carry to 3 places)	29	×	.
30	Multiply line 27 by line 29. This is your tax allocated to the Virgin Islands . Also, include this amount in the total on Form 1040, line 58. On the dotted line next to line 58, enter "Form 8689" and show the amount ▶	30		

Part IV Payments of Income Tax to the Virgin Islands

31	Income tax withheld by the Virgin Islands	31		
32	1996 estimated tax payments and amount applied from 1995 return	32		
33	Amount paid with Form 4868 (extension request)	33		
34	Add lines 31 through 33. These are your total payments ▶	34		
35	If line 34 is more than line 30, subtract line 30 from line 34. This is the amount you OVERPAID to the Virgin Islands ▶	35		
36	Amount of line 35 you want REFUNDED TO YOU ▶	36		
37	Amount of line 35 you want APPLIED TO YOUR 1997 ESTIMATED TAX ▶	37		
38	If line 30 is more than line 34, subtract line 34 from line 30. This is the AMOUNT YOU OWE to the Virgin Islands	38		

Instructions

Section references are to the Internal Revenue Code.

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 33 min.; **Learning about the law or the form**, 18 min.; **Preparing the form**, 59 min.; and **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write or call the IRS. See the Instructions for Form 1040.

Purpose of Form.—If you were a citizen or resident of the United States and you had income from sources in the Virgin Islands or income effectively connected with the conduct of a trade or business in the Virgin Islands, you may owe tax to the Virgin Islands on that income. Your Virgin Islands tax liability is a percentage of your U.S. tax liability. Use **Form 8689** to figure the amount of U.S. tax allocable to the Virgin Islands. **Do not** use this form if you were a bona fide resident of the Virgin Islands on the last day of the tax year.

Credit for U.S. Tax Allocable to the Virgin Islands.—You can take a credit on your U.S. return for the U.S. tax allocable to the Virgin Islands only if you paid the tax to the Virgin Islands. To take the credit, you **must** complete Form 8689 and attach it to your Form 1040. The credit is claimed on Form 1040, line 58.

Where To File.—You must file identical tax returns with the United States and the Virgin Islands. File your original Form 1040 (including Form 8689) with the Internal Revenue Service Center, Philadelphia, PA 19255-0002.

File a copy of your Form 1040 (with copies of all attachments, forms, and schedules, including Form 8689) with the Virgin Islands Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802. They will accept a copy of your U.S. return and process it as an original return.

If you file a joint return, file it in the jurisdiction required for the spouse who had the **higher** adjusted gross income for the tax year, determined without regard to community property laws.

Additional Information.—**Pub. 570**, Tax Guide for Individuals With Income From U.S. Possessions, has an example of how to complete Form 8689. See **Quick and Easy Access to Tax Help and Forms** in the Instructions for Form 1040.

Part I—Income From the Virgin Islands

Source of Income.—The rules for determining the source of income are discussed in detail in sections 861 through 865. Some general rules are:

- The source of wages, salaries, or tips is generally where the services are performed. If you worked both in and outside the Virgin Islands, include on line 1 only wages, salaries, or tips earned while you were in the Virgin Islands.
- The source of interest income is generally where the payer is located. For example, interest from a certificate of deposit issued by a Virgin Islands bank or a Virgin Islands branch of a U.S. bank is Virgin Islands source income.
- Generally, dividends are sourced where the paying corporation is incorporated.
- Taxable refunds, credits, or offsets of local Virgin Islands income taxes only include nonmirror code income taxes.
- Alimony received from a person who is a bona fide resident of the Virgin Islands is Virgin Islands source income.
- The source of income from the sale of nondepreciable personal property is the country of the seller's residence. There is a special rule, however, for U.S. citizens and resident aliens who sell personal property while maintaining a tax home abroad. Any gain from such sales may be treated as foreign source income only if a tax of at least 10% of the gain is paid to a foreign country. Income from the sale of inventory is generally sourced where the title to the property passes.

The portion of gain from the sale of depreciable personal property used in a trade or business that reflects allowable depreciation deductions and gain (to the extent of amortization deductions) from the sale of intangible property, such as a patent, copyright, trademark, franchise, or similar property, is sourced where the original deductions of the property were sourced. For depreciable personal property, gain in excess of these depreciation deductions is sourced as if the property were inventory. For intangible property, gain in excess of amortization deductions is sourced under the general residence of the seller rule if the payments **are not** contingent on productivity, use, or disposition of the intangible property, and under the place of use rule for royalties if the payments **are** contingent. See section 865 for details.

- See section 863(c) for rules on determining the source of income attributable to transportation services that begin or end in the United States or a U.S. possession. See section 863(d) for rules on income from space or ocean activities.

Part of the following types of income derived from a U.S.-owned foreign corporation that has income from U.S. sources may be required to be treated as U.S. source income.

- Foreign personal holding company income included in gross income.
- Subpart F income included in gross income.
- Interest.
- Dividends.

Part II—Adjustments to Income From the Virgin Islands

Lines 17a and 17b.—Enter the amount of your IRA deduction attributable to compensation or earned income (as defined in section 219(f)(1)) derived from the Virgin Islands. To figure this amount: **(a)** divide the total amount of Virgin Islands compensation or earned income by the total amount of your compensation or earned income, **(b)** multiply the amount of your IRA deduction by the result in **(a)**. Use the same method to figure the amount of your spouse's IRA deduction to enter on line 17b.

Line 19.—Enter the amount of your self-employment tax deduction attributable to self-employment income earned in the Virgin Islands. To figure this amount: **(a)** divide the amount of Virgin Islands source self-employment income used to figure the deduction by the total self-employment income used to figure the deduction, **(b)** multiply the amount of your self-employment tax deduction by the result in **(a)**.

Line 20.—Enter the amount of your self-employed health insurance deduction attributable to self-employment income earned in the Virgin Islands. To figure this amount: **(a)** divide the amount of Virgin Islands source self-employment income used to figure the deduction by the total self-employment income used to figure the deduction, **(b)** multiply the amount of your self-employed health insurance deduction by the result in **(a)**.

Line 21.—Enter the amount of your Keogh retirement plan and self-employed SEP deduction attributable to self-employment income earned in the Virgin Islands. To figure this amount: **(a)** divide the amount of Virgin Islands source self-employment income by the total amount of your self-employment income, **(b)** multiply the total amount of your Keogh retirement plan and self-employed SEP deduction by the result in **(a)**.

Line 22.—Enter the amount of penalties on early withdrawal of savings from accounts in Virgin Islands banks or Virgin Islands branches of U.S. banks. The Form 1099-INT or, if applicable, Form 1099-OID given to you by your bank will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity.

Part IV—Payments of Income Tax to the Virgin Islands

Note: Amounts overpaid to the United States will not be applied to the amount you owe to the Virgin Islands. Similarly, amounts overpaid to the Virgin Islands will not be applied to the amount you owe to the United States.

Penalty for Failure To Furnish Information.

—If you do not furnish the information we require, you may have to pay a penalty of \$100 for each failure, unless you can show your failure was due to reasonable cause and not willful neglect. This penalty is in addition to any criminal penalty provided by law.

