Schedule 1: Add-Backs

Some amounts reported on your federal tax return may require different treatment for Indiana income tax purposes. Listed in this area are those items that may need to be added back on your Indiana tax return. Please review the list carefully. When reporting these add-backs, maintain with your records the corresponding federal tax forms and schedules as the department can require you to provide them at a later date.

Important Information About Possible Year-End Federal Legislation

This publication was finalized before all year-end federal legislative changes were complete. Therefore, some of these add-backs may need to be adjusted. You may wish to periodically check the department's homepage at www.in.gov/dor for updates about any impact of late federal legislation.

Treatment of Previously Discontinued Add-Back.

Several discontinued add-backs were created as a result of timing differences between federal and Indiana allowable expenses. See Certain Discontinued Add-Backs: How and When to Report a Difference on page 15 for information about these add-backs.

Line 1 – Tax Add-Back

If you did not complete Federal Schedules C, C-EZ, E, or F, which include sole proprietorship income, farm income, rental, partnership, S corporation, and trust and estate income (or loss), then do not complete this line.

On those schedules you are allowed to claim a deduction for taxes paid which are:
- based on, or
- measured by income, and
- levied at a state level by any state in the United States.

If you claimed this kind of deduction on any of these schedules, then you must add it back to your Indiana income.

Do not add back property taxes on this line.

Note. Income, losses and/or expenses from other schedules and forms may flow through to federal Schedules C, E and F. For example, partnership income from federal Schedule K-1 (Form 1065) may be included on federal Schedule E, while expenses from federal Form 8829 may be included on federal Schedule C. Make sure to check these schedules and forms for any deduction that needs to be added back.

Line 2 – Net Operating Loss Add-Back

Any net operating loss (NOL) deduction* taken on line 21 of your federal Form 1040 must be added back on this line. Write the amount of the net operating loss as a positive figure. (You will claim an Indiana net operating loss deduction on Schedule 2, under line 11.)

Note. If your federal adjusted gross income this year is a loss, and you have not included a net operating loss as a deduction on line 21 of your 2015 federal Form 1040, then leave this line blank.

Line 3 – Lump Sum Distribution

If you completed federal Form 4972, add any capital gains reported on Part II and any ordinary income reported on Part III of federal Form 4972. Enter the total here as a positive amount.

Line 4 – Domestic Production Activities Add-Back

If you claimed a domestic production activities deduction on your federal Form 1040, line 35, enter that amount here.

Line 5 – Bonus Depreciation Add-Back

You must make an exception for any bonus depreciation deduction used for property placed in service after Sept. 11, 2001. Bonus depreciation is the additional first-year special depreciation deduction allowed under Section 168(k) of the Internal Revenue Code (IRC).

Figure the net income (or loss) that would have been included in federal adjusted gross income had the bonus depreciation method not been used. Then, enter the difference, which may be a positive or negative amount, on line 5.

Example. Mack used the bonus depreciation method for federal income tax purposes. After refiguring the depreciation without using the bonus method, he has to add back $1,500 on his Indiana tax return.

Note. After making an initial adjustment for bonus depreciation you’ll need to refigure the amount of depreciation available for state tax purposes for subsequent years.

Example. Ann made an initial adjustment for bonus depreciation on last year’s Indiana tax return. This year she figures she is entitled to a $150 additional depreciation amount for state tax purposes. She should enter that amount as a negative entry, or -150, on line 5.

For additional information see Commissioner’s Directive #19 at www.in.gov/dor/3617.htm.

Line 6 – Section 179 Expense Add-Back

You may have figured an IRC Section 179 expense using a ceiling of more than $25,000 for federal tax purposes. Indiana allows you to figure IRC Section 179 expense using a ceiling of no more than $25,000. If you figured IRC Section 179 expense using a ceiling amount of more than $25,000, you’ll need to add back the difference between it and $25,000 on line 6.

Line 7 – Other Add-Backs

Each of the following add-backs has been assigned a 3-digit code number. When reporting the add-back, write its name, the associated 3-digit number and the amount.
Schedule 1: Add-Backs continued

Certain Trade or Business Deductions Based on Employment of Unauthorized Alien 132
Add the amount of any trade or business deductions allowed under the Internal Revenue Code for wages, reimbursements, or other payments made for services provided in Indiana by an individual for services as an employee, if the individual was, during the period of service, prohibited from being hired as an employee under 8 U.S.C. 1324a.

Important. This add-back requirement does not apply to payments made for services provided to a business that was enrolled and participated in the E-Verify program (as defined in IC 22-5-1.7-3) during the time the taxpayer conducted business in Indiana in the taxable year.

Enter code 132 on Schedule 1 under line 7 if reporting this add-back.

Deferral of Business Indebtedness Discharge and Reacquisition Add-Back 107
Add an amount equal to any income not included as a result of the deferral of income arising from business indebtedness discharged in connection with the reacquisition of a debt instrument (as provided in Section 108(i) of the IRC). Subtract the amount added to income in a previous year to offset the amount included in federal gross income as a result of the deferral of income arising from business indebtedness discharged in connection with the reacquisition after Dec. 31, 2008, and before Jan. 1, 2011, of an applicable debt instrument.

Enter code 107 on Schedule 1 under line 7 if reporting this add-back.

Discharge of Debt of a Principal Residence Add-Back 117
You may have to add back some or all of the amount of debt not reported on your federal tax return due to the discharge of indebtedness of your principal residence (mortgage forgiveness).*

The amount of discharge of indebtedness of your principal residence to be added back can be found on:
- federal Form 1099-C (or its equivalent), Box 2, and/or
- federal Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment). If Part 1 Line 1e is checked on Form 982, then the amount on Part 1 Line 2 from the discharge of qualified principal residence indebtedness must be added back if you were an Indiana resident on the date the debt was discharged (1099C, Box 1).

Note. No add back is required if the discharge of indebtedness of your principal residence was included in a bankruptcy.

Maintain with your records both federal Form 1099C and Form 982 as the department can require you to provide this information at a later date.

Enter code 117 on Schedule 1 under line 7 if reporting this add-back.

*Important. This publication was finalized before all year-end federal legislative changes were complete. While the exclusion for the discharge of debt of a principal residence was scheduled to end (sunset), it may have been extended for federal income tax purposes. If this exclusion was not extended for 2015 federal income tax purposes, then do not add this amount back. You may wish to periodically check the department's homepage at www.in.gov/dor/ for updates about any impact of late federal legislation.

OOS Municipal Obligation Interest Add-Back 137
Interest earned from a direct obligation of a state or political subdivision other than Indiana (out of state, or OOS) is taxable by Indiana if the obligation is acquired after Dec. 31, 2011. Interest earned from obligations held or acquired before Jan. 1, 2012, is not subject to Indiana income tax and should not be reported as an add back.

Note. Interest earned from obligations of Puerto Rico, Guam, Virgin Islands, American Samoa, or Northern Mariana is not included in federal gross income and is exempt under federal law. There is no add-back for interest earned on these obligations.

For more information about this add-back, see Income Tax Information Bulletin #19 at www.in.gov/dor/3650.htm.

Enter code 137 on Schedule 1 under line 7 if reporting this add-back.

Other (Current Year Conformity) Add-Back 120
Before this publication was finalized Indiana had not conformed to any changes to the Internal Revenue Code (IRC) that may have become law after Jan. 1, 2015. Therefore, the IRC used to figure Indiana income may not be the same as the IRC used to figure federal income.

This add-back is specific to these annual current year conformity issues. If uncertainty exists as to whether or not Indiana will adopt some or all of the federal legislation passed during 2015 that acts to modify federal AGI, you may add-back those items as an “other” add-back. In the event those items are adopted, an amended return should be filed to recoup the add-back(s).

All entries marked as “other” must be reported as a positive amount on the original tax return. Negative entries will not be allowed.

This add-back is only for current year conformity issues. Conformity issues for preceding tax years must be addressed on the add-back line specific to the item in question. For instance, an add-back for the qualified disaster assistance property was first added-back on the 2009 Schedule 1, line 12. The adjustment going forward should be reported on the 2015 Schedule 1, line 7, using the 3-digit code 110.

If the state legislature does not conform to federal code changes enacted after January 1, 2015, you may have to amend your return at a later date to reflect any differences between Indiana and federal law. You may wish to periodically check the department's homepage at www.in.gov/dor/ for updates.

Enter code 120 on Schedule 1 under line 7 if reporting this add-back.
Qualified Disaster Assistance Property Add-Back  110
If you claimed the special allowance for qualified disaster assistance property under Section 168(n) of the IRC, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the special allowance not been claimed for the property.

Enter code 110 on Schedule 1 under line 7 if reporting this add-back.

Qualified Film or Television Production Add-Back  112
If you made an election under Section 181 of the IRC to expense costs for a qualified film or television production tax purposes, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the election not been made for that year.

Enter code 112 on Schedule 1 under line 7 if reporting this add-back.

Qualified Preferred Stock Add-Back  113
You may have had a loss from the sale or exchange of preferred stock in:
• The Federal National Mortgage Association, established under the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.), or
• The Federal Home Loan Mortgage Corporation, established under the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1451 et seq.).

If you treated this as an ordinary loss under Section 301 of the Emergency Economic Stabilization Act of 2008 in the current taxable year or in an earlier taxable year, add an amount equal to the amount of adjusted gross income that would have been computed had the loss not been treated as an ordinary loss.

Enter code 113 on Schedule 1 under line 7 if reporting this add-back.

Qualified Refinery Property Add-Back  111
If you made an election under Section 179C of the IRC to expense costs for qualified refinery property, add the amount necessary to make your adjusted gross income (AGI) equal to the amount of AGI that would have been computed had the election not been made for that year.

Enter code 111 on Schedule 1 under line 7 if reporting this add-back.

Required add-backs for the following modifications have been eliminated, effective Jan. 1, 2013:
• Motorsports Entertainment Complex, Code 130
• Qualified Advance Mining Safety Equipment, Code 126

Enter the associated 3-digit code on Schedule 1 under line 7 if reporting a final catch-up modification.

Example. Grant has qualified restaurant equipment. For federal tax purposes he used the accelerated 15-year recovery period for an asset placed in service since 2009. Since 2009 Grant had been adding back the depreciation expense taken for federal purposes that exceeded the amount allowable for Indiana purposes. The accumulated depreciation on such an asset through 2012 was, therefore, different for federal and state purposes. This difference will remain until the asset is fully depreciated or until the time of its disposition.

A simple illustration:

<table>
<thead>
<tr>
<th>Asset acquired Jan. 2009 $120,000 purchase price</th>
<th>Federal Depreciation</th>
<th>Add-Back</th>
<th>Indiana Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 (2009)</td>
<td>8,000</td>
<td>4,924</td>
<td>3,076</td>
</tr>
<tr>
<td>Year 2 (2010)</td>
<td>8,000</td>
<td>4,924</td>
<td>3,076</td>
</tr>
<tr>
<td>Year 3 (2011)</td>
<td>8,000</td>
<td>4,924</td>
<td>3,076</td>
</tr>
<tr>
<td>Year 4 (2012)</td>
<td>8,000</td>
<td>4,924</td>
<td>3,076</td>
</tr>
<tr>
<td>Year 5 (2013)</td>
<td>8,000</td>
<td>40,000</td>
<td>0</td>
</tr>
<tr>
<td>Year 6 – 15</td>
<td>80,000</td>
<td>0</td>
<td>80,000</td>
</tr>
<tr>
<td>Year 16 – 38</td>
<td>120,000</td>
<td>0</td>
<td>100,304</td>
</tr>
<tr>
<td>Year 39 (or year of disposition) Add-back</td>
<td></td>
<td>-19,696</td>
<td>19,696</td>
</tr>
</tbody>
</table>

Tax year 2012 is the last year Grant reported an add-back until the end of the recovery period. Had this asset been sold before being fully depreciated, the catch-up modification would be reflected in the year of the sale. If this property is held through 2048 (the 39th year of depreciation), Grant will report a negative $19,696 catch-up add-back on his 2048 state tax return.

Enter the associated 3-digit code on Schedule 1 under line 7 if reporting a final catch-up modification.