

2007 Form 8689, Allocation of Income Tax to the U.S. Virgin Islands

Purpose: This is the first circulated draft of the 2007 Form 8689 for your review and comment. See below for a discussion of the major changes.

TPCC Meeting: None, but may be arranged if requested.

Prior Versions: The 2006 Form 8689 is available at: <http://www.irs.gov/pub/irs-pdf/f8689.pdf>

Other Products: Circulations of draft tax forms, instructions, notices, and publications are posted at: http://taxforms.web.irs.gov/draft_products.html

Comments: Please email, fax, call, or mail any comments by **June 16, 2007**.

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Description of Major Changes for 2007 Form 8689

On Part II, line 17, we replaced the Archer MSA deduction with the deduction for educator expenses, per 2007 WRN for Form 1040.

On Part II, line 27, we replaced the deduction for jury duty pay you gave to your employer with the tuition and fees deduction, per 2007 WRN for Form 1040.

On Part III, line 31, we added a reference to Form 1040, line 71, for the new refundable credit for prior year minimum tax, per P.L. 109-432, section 402.

The Archer MSA deduction and jury duty pay deduction will be write-ins on line 28

Instructions

Under *Part II—Adjusted Gross Income From the U.S. Virgin Islands*, we removed the caution icon and accompanying text, per P.L. 109-432.

We removed the *Line 17* instructions and modified the *Line 25* and *Line 28* instructions as appropriate.

Allocation of Individual Income Tax to the U.S. Virgin Islands

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040.

Name(s) shown on Form 1040

Your social security number

Part I Income From the U.S. Virgin Islands

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

Part II Adjusted Gross Income From the U.S. Virgin Islands

| | | | | | | |
|----|---|--|--|--|--|--|
| 17 | Education expenses | | | | | |
| 18 | Certain business expenses of reservists, performing artists, and fee-basis government officials | | | | | |
| 19 | Health savings account deduction | | | | | |
| 20 | Moving expenses | | | | | |
| 21 | One-half of self-employment tax | | | | | |
| 22 | Self-employed SEP, SIMPLE, and qualified plans | | | | | |
| 23 | Self-employed health insurance deduction | | | | | |
| 24 | Penalty on early withdrawal of savings | | | | | |
| 25 | IRA deduction | | | | | |
| 26 | Student loan interest deduction | | | | | |
| 27 | Tuition and fees deduction | | | | | |
| 28 | Add lines 17 through 27 | | | | | |
| 29 | Subtract line 28 from line 16. This is your adjusted gross income ▶ | | | | | |

Part III Allocation of Tax to the U.S. Virgin Islands

| | | | | | | |
|----|--|--|--|--|---|--|
| 30 | Enter amount from Form 1040, line 63 | | | | | |
| 31 | Enter the total of the amounts from Form 1040, lines 58, 59, 62, 66a, 68, and 71. Include any uncollected social security and Medicare or tier 1 RRTA tax, tax on golden parachute payments, or excise tax on insider stock compensation reported on line 63. Also include any amount from Form 5329, Parts III, IV, V, VI, VII, or VIII reported on line 60 | | | | | |
| 32 | Subtract line 31 from line 30 | | | | | |
| 33 | Enter amount from Form 1040, line 38 | | | | | |
| 34 | Divide line 29 above by line 33. Enter the result as a decimal (rounded to at least 3 places). Do not enter more than 1.000 | | | | × | |
| 35 | Multiply line 32 by line 34. This is your tax allocated to the U.S. Virgin Islands | | | | | |

Part IV Payments of Income Tax to the U.S. Virgin Islands

| | | | | | | |
|----|--|--|--|--|--|--|
| 36 | Income tax withheld by the U.S. Virgin Islands | | | | | |
| 37 | 2007 estimated tax payments and amount applied from 2006 return | | | | | |
| 38 | Amount paid with Form 4868 (extension request) | | | | | |
| 39 | Add lines 36 through 38. These are your total payments ▶ | | | | | |
| 40 | Enter the smaller of line 35 or line 39. Also, include this amount in the total on Form 1040, line 72. On the dotted line next to line 72, enter "Form 8689" and show this amount | | | | | |
| 41 | Overpayment to the U.S. Virgin Islands. If line 39 is more than line 35, subtract line 35 from line 39 | | | | | |
| 42 | Amount of line 41 you want refunded to you ▶ | | | | | |
| 43 | Amount of line 41 you want applied to your 2008 estimated tax ▶ | | | | | |
| 44 | Amount you owe to the U.S. Virgin Islands. Subtract line 39 from line 35. Enter the amount that you are paying here and on Form 1040, line 72. Next to line 72, enter "Form 8689" and the amount paid ▶ | | | | | |

Section references are to the Internal Revenue Code unless otherwise noted.

Instructions

Reminders.

- For tax years ending after January 31, 2006 (or beginning with tax year 2006 if a calendar year taxpayer), changes have been made to the rules for determining if you are a bona fide resident of the U.S. Virgin Islands (USVI). See chapter 1 of Pub. 570, Tax Guide for Individuals With Income From U.S. Possessions, for more information.
- If, in tax year 2001 or later, you became or ceased to be a bona fide resident of a U.S. possession, you may be required to file Form 8898, Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession. The penalty for failure to provide the required information is \$1,000. For details, see the Instructions for Form 8898.

Purpose of form. Use Form 8689 to figure the amount of U.S. tax allocable to the USVI.

Who must file. If you were a U.S. citizen or resident alien (other than a bona fide resident of the USVI) and had income from sources in the USVI or income effectively connected with the conduct of a trade or business in the USVI, you may owe tax to the USVI. Your USVI tax liability is a percentage of your U.S. tax liability.



*Do not use this form if you were a bona fide resident of the USVI during the **entire** tax year.*

Joint returns. If you file jointly and only one spouse is a bona fide resident of the USVI for the entire tax year, the resident status for both spouses and subsequent tax treatment is determined by the spouse with the higher adjusted gross income (AGI) (disregarding community property laws). File Form 8689 only if the spouse with the higher AGI is not a bona fide resident of the USVI for the entire tax year.

Where to file. You must file identical tax returns with the United States and the USVI. File your original Form 1040 (including Form 8689) with the Internal Revenue Service Center, Austin, TX 73301-0215.

File a copy of your Form 1040 (with 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.

Additional information. Pub. 570 has more information and an example of how to complete Form 8689. To get Pub. 570, see *Quick and Easy Access to Tax Help and Forms* in the instructions for Form 1040.

Part I—Income From the U.S. Virgin Islands

Source of income. The rules for determining the source of income are explained in sections 861 through 865, section 937, in Temporary Regulations section 1.937-2T, and in Pub. 570. 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 USVI, include on line 1 only wages, salaries, or tips earned while you were in the USVI.
- The source of interest income is generally where the payer is located. For example, interest from a certificate of deposit issued by a USVI bank or a USVI branch of a U.S. bank is USVI source income.
- Generally, dividends are sourced where the paying corporation is created or organized.
- Taxable refunds, credits, or offsets of local USVI income taxes only include nonmirror code income taxes.
- Alimony received from a person who is a bona fide resident of the USVI is USVI source income.
- Except as provided in regulations, income earned after December 31, 2004, that is from sources within the United States or effectively connected with the conduct of a trade or business in the United States is not income from the USVI.

Personal property. The source of income from the sale of nondepreciable personal property is generally the seller's tax home. Income from the sale of inventory is generally sourced where the title to the property passes. See section 865 for details.



Special rules may apply to bona fide residents of U.S. possessions who have gain from dispositions of certain investment property within the 10-year period beginning when they became a bona fide resident. For details, see chapter 2 of Pub. 570, Temporary Regulations section 1.937-2T(f)(1), and Example 2 of section 1.937-2T(k).

Part II—Adjusted Gross Income From the U.S. Virgin Islands

Lines 21 through 23. If you had USVI source self-employment income, figure the amount to enter on each line by (1) dividing your USVI source self-employment income by your total (worldwide) self-employment income, and (2) multiplying the total amount of each deduction that applies to you by the result in (1).

Line 24. Enter the amount of penalty on early withdrawals from savings accounts in USVI banks or USVI branches of U.S. banks. The Form 1099-INT or Form 1099-OID you received will show the amount of any penalty you were charged.

Line 25. Enter the total of your and your spouse's IRA deductions attributable to USVI compensation or earned income. Figure the amount to report on line 25 by (1) dividing your USVI compensation or earned income by your total (worldwide) compensation or earned income, and (2) multiplying the amount of your IRA deduction by the result in (1). Figure the amount of your spouse's IRA deduction the same way.

Line 28. Include in the total on line 28 the amount of any other deductions included on Form 1040, line 36, that are attributable to your USVI income. On the dotted line next to line 28, enter the amount of each deduction attributable to your USVI income and identify it as you did on Form 1040, line 36. If you or your spouse had an Archer MSA deduction on Form 1040, line 36, figure the amount to report on line 28 the same way you would an IRA deduction (see *Line 25* above).

Part IV—Payments of Income Tax to the U.S. Virgin Islands

Amounts overpaid to the United States generally will not be applied to the amount you owe to the USVI. Similarly, amounts overpaid to the USVI will not be applied to the amount you owe to the United States.

Credit for U.S. tax paid to the USVI. You can take a credit on your U.S. return for the U.S. tax allocated to the USVI only if you actually paid the tax to the USVI. To take the credit, you must complete Form 8689 and attach it to your Form 1040. Add line 40 and line 44 of Form 8689 and include the amount in the total on Form 1040, line 72. Next to line 72, enter "Form 8689" and the amount paid.

Penalty for Failure To Furnish Information

If you fail to provide the required information, you may have to pay a \$1,000 penalty for each failure unless you can show the failure was due to reasonable cause and not willful neglect. This penalty is in addition to any criminal penalty provided by law.

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 average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for your income tax return.

