

▶ respond to certain DOR notices that you have shared with the preparer about math errors, offsets and return preparation. The notices will not be sent to the preparer.

You are not authorizing the paid preparer to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before DOR. If you want to expand the paid preparer's authorization, see Form M-2848, Power of Attorney and Declaration of Representative.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2001 tax return. This is April 16, 2002 for most people.

Mailing

If you are expecting a refund or if you have no tax due, use the blue envelope that came with this booklet. If you do not have one, mail Form 1 to:

Massachusetts Department of Revenue
PO Box 7000
Boston, MA 02204-7000

If you have a tax due, use the green envelope that came with this booklet. If you do not have one, mail Form 1 to:

Massachusetts Department of Revenue
PO Box 7003
Boston, MA 02204-7003

Note: Schedule lines without specific instructions are considered to be self-explanatory. Be sure to list on each schedule the name and Social Security number that appears first on Form 1. Do not cut or separate schedules.

Schedule X

Other Income

Be sure to enclose with Form 1.

1 Alimony Received

Enter in Schedule X, line 1 the total amount of all periodic payments of alimony or separate maintenance received under a court judgment or decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 11. Payments specified as child support are not taxable. You must enter in the space provided the payer's Social Security number.

2 Taxable IRA/Keogh and Roth IRA Distributions

Complete the Schedule X, line 2 worksheet on the next page to calculate the taxable portion of any amount you received as an Individual Retirement Account (IRA), Keogh or Roth IRA distribution. Since Massachusetts does not allow a deduction for amounts originally contributed to an IRA or Keogh, the distributions are not taxable until the full amount of your contributions which were previously subject to Massachusetts taxes are recovered.

▶ Contributions made to Keogh accounts prior to 1975 were deductible when made. Therefore, no deduction may be taken from a Keogh distribution for amounts contributed before 1975.

Massachusetts generally adopts the federal conversion rules for partial or complete rollovers from existing IRAs to Roth IRAs. Generally, the rollover amount is treated as a distribution and included in federal gross income to the extent it is attributable to investment growth or previously deducted contributions. In 1998 a special four-tax year averaging rule applied at the election of the taxpayer on their U.S. return, whereby the taxable portion of the 1998 rollover amount was included in gross income evenly over four taxable years beginning in 1998. This election applies for Massachusetts purposes; however, only the portion previously not subject to Massachusetts taxation will be included in Massachusetts gross income evenly over four tax years. When completing the worksheet, taxpayers who elected the special four-tax-year averaging rule should include on line 9 the third installment of the taxable 1998 rollover amount. See TIR 98-8, *Massachusetts 1998 Reducing Income Taxes Act*, for further details.

If you have Roth IRA distributions during the four-year-spread that are treated federally as an accelerated income inclusion (i.e., a greater proportion of the income is included in an earlier tax year), you must also treat the distribution as an accelerated income inclusion for Massachusetts purposes.

Example: *Federally, you have \$800 of gross income from a 1998 Roth IRA conversion that is included evenly (\$200 each tax year) over four tax years. For Massachusetts purposes, you will include \$400 of gross income (\$100 each tax year), because \$400 of the 1998 Roth IRA conversion was attributed to contributions previously subject to Massachusetts taxation. In 1999 you received additional Roth IRA distributions that for federal tax purposes resulted in an accelerated income inclusion. For federal purposes the remaining three tax years will include \$300 in 1999, \$200 in 2000 and \$100 in 2001. For Massachusetts purposes, the remaining tax years will include \$150 in 1999, \$100 in 2000 and \$50 in 2001. In this example, the taxpayer would enter the \$100 taxable amount for tax year 2000 in line 9 of the worksheet on the next page.*

Schedule X, Line 2 Worksheet — Taxable IRA/Keogh Plan and Roth IRA Conversion Distributions

If completing the worksheet to report conventional IRA/Keogh distributions or Roth IRA conversion distributions, complete lines 1 through 5, omit lines 6 through 9 and complete line 10.

If completing the worksheet to report Roth IRA conversion distributions if four-year tax averaging was elected on your 1998 U.S. tax return, omit lines 1 through 5 and complete lines 6 through 10.

Note: If during 2000 you received a distribution from a Roth IRA that was treated as an accelerated income inclusion for federal tax purposes, you must also treat the distribution as an accelerated income inclusion for Massachusetts purposes. See the example in the instructions for further details.

If completing the worksheet to report conventional IRA/Keogh distributions, Roth IRA conversion distributions occurring in 2000 and Roth IRA conversion distributions if four-year tax averaging was elected on your 1998 U.S. tax return, complete lines 1 through 10.

Roth IRA distributions are taxable in Massachusetts to the extent they are federally taxable. Report taxable 2000 Roth IRA distributions on line 10.

Line 1. Total IRA/Keogh plan distributions, Roth IRA conversion distributions received during 2000.

Line 2. Total contributions previously taxed by Massachusetts

Line 3. Total distributions received in previous years

Line 4. Subtract line 3 from line 2. If line 3 is larger than line 2, enter "0"

Line 5. Taxable IRA/Keogh distributions. Subtract line 4 from line 1 and enter the result here. Not less than "0"

Note: Taxpayers who elected on their 1998 U.S. return four-tax-year averaging for 1998 Roth IRA conversion distributions must complete lines 6–9 to report the third installment for tax year 2000.

Line 6. Total 1998 Roth IRA conversion distributions if four-year tax averaging elected on 1998 U.S. tax return received during 1998

Line 7. Amount of contributions in line 6 that were previously taxed by Massachusetts

Line 8. Subtract line 7 from line 6. Not less than "0"

Line 9. 2000 taxable Roth IRA conversion distributions if four-year tax averaging elected on your 1998 U.S. tax return. Divide line 8 by 4

Line 10. Total taxable IRA/Keogh distributions, 2000 Roth IRA conversion distributions, 2000 taxable Roth IRA distributions and the third installment of four-tax year averaging of 1998 Roth IRA conversion distributions. Add line 5 and line 9 and enter the result here and in line 2 on Schedule X

Note: You must complete separate worksheets if married filing a joint return and both you and your spouse received IRA/Keogh Plan and/or Roth IRA conversion distributions.

3 Massachusetts State Lottery Winnings

Enter in Schedule X, line 3 all winnings from the Massachusetts state lottery. Do not enter less than "0." You may only deduct the price of your winning ticket. Lottery losses are not deductible under Massachusetts law. Lottery losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

4 Other Gambling Winnings

Enter in Schedule X, line 4 all gambling winnings from casinos, raffles, races, beano or other events of chance, wherever held, and winnings from non-Massachusetts lotteries. Do not enter less than "0." You may only deduct the price of the winning ticket. Gambling losses are not deductible under Massachusetts law. Gambling losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

5 Fees and Other 5.85% Income

The following items should be reported on line 5 of Schedule X. Do not enter less than "0." Enclose additional statements if more space is needed.

► All fee income, such as payments for jury duty, election worker payments, director's fees, compensation received as executor or administrator of an estate, and commission income or tips not reported in line 3 of Form 1 are taxable. Also, report all bartering income not reported on Schedule C (the fair market value of goods or services received in payment for your services).

► All prizes and awards won in a quiz program, drawing, beauty contest, etc. are taxable at fair market value. Awards and bonuses received from your employer for performance of services not part of a qualified award plan are also taxable.

► Other Massachusetts 5.85% income reported on U.S. Form 1040, line 21 and not reported elsewhere in Form 1, lines 3 through 8 or Schedule X, lines 1 through 4 must be reported in line 5 of Schedule X.

► Pre-1996 installment sales classified as ordinary income for Massachusetts purposes (from Massachusetts Schedule D, line 9) are taxed as 5.85% income and must be reported on line 5 of Schedule X.

► Embezzled or other income from illegal activities is taxable and should be reported on Schedule X, line 5.

The following items should not be reported on your Massachusetts return:

► Any "net operating loss" reported as a negative amount on U.S. Form 1040, line 21 cannot be entered on Schedule X. A net operating loss from a business or profession cannot be carried forward or backward to offset individual income in any other year under Massachusetts law.

▶ Refunds of U.S. and Massachusetts income taxes are not considered income under Massachusetts law. If you received interest on refunds, report such interest on Massachusetts Schedule B.

6 Total

Add lines 1 through 5 and enter the total in line 6 of Schedule X and in line 9 of Form 1. Do not enter less than “0.” Be sure to enclose Schedule X with your return. Failure to do so will delay the processing of your return.

Schedule Y

Other Deductions

Be sure to enclose with Form 1.

1 Allowable Employee Business Expenses

Generally, reimbursed employee business expenses are not included in your wages or salary and therefore are not allowed as deductions. However, there are unreimbursed and certain reimbursed expenses for which you are allowed a deduction. Complete the following worksheet in order to calculate your Massachusetts employee business expense deduction. The expenses must relate to income reported in lines 3 or 9 on Form 1.

Employees may deduct the following:

- ▶ unreimbursed travel and transportation expenses including lodging and meals away from home incurred by an employee; and
- ▶ all federally deductible unreimbursed employee business expenses, if the employee is a salesperson who solicits business for an employer away from the employer’s place of business.

Unreimbursed expenses are only deductible if all of the following conditions are met:

- ▶ you itemize deductions;
- ▶ you file a joint return in Massachusetts, if you also filed a joint U.S. return; and
- ▶ your unreimbursed business expenses taken together with the other miscellaneous itemized deductions reported on U.S. Form 1040, Schedule A, lines 20, 21 and 22 exceed 2% of your federal adjusted gross income reported on U.S. Form 1040, Schedule A, line 25. See the following worksheet for Schedule Y, line 1.

If you are a qualified performing artist or a fee-basis state or local government official, do not complete the worksheet. Enter on Schedule Y, line 5 your federally deductible business expenses included on U.S. Form 1040, line 32 and fill in the appropriate oval in Schedule Y, line 5. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 32. For example, qualified

performing arts-related expenses should be identified as “QPA” and employee business expenses of fee-basis state or local government officials should be identified as “FBO.” Enclose U.S. Form 2106 or 2106-EZ with your return.

Schedule Y, Line 1 — Massachusetts Employee Business Expense Deduction Worksheet

- A.** Enter the amount from U.S. Form 2106, line 10, or 2106-EZ, line 6 _____
- B.** If you are an employee other than an outside salesperson, add the amount of unreimbursed expenses included in U.S. Form 2106 or 2106-EZ, line 4 to the amount of unreimbursed meals and entertainment expenses included in U.S. Form 2106 or 2106-EZ, line 5, **except** for meals incurred while away from home. Enter the result here. _____
- C.** If you are an individual with a disability, enter the amount of impairment-related expenses included in item A and claimed on line 27 of U.S. Schedule A _____
- D.** Subtract items B and C from item A, and enter the result here. _____
- E.** Enter the amount from U.S. Schedule A, line 26 _____
- F.** Enter the smaller amount of Item D or E here and on Schedule Y, line 1. _____

Be sure to enclose U.S. Form 2106 or 2106-EZ with your return.

2 Penalty on Early Savings Withdrawal

If you were charged a penalty because of early withdrawal of savings, and interest on the savings that such a penalty relates to is reported on this return or on a prior year Massachusetts return, you may deduct the penalty. This deduction is the same as the amount allowable on U.S. Form 1040, line 30. Enter this amount in line 2 of Schedule Y.

3 Alimony Paid

Enter in Schedule Y, line 3 the total amount that you paid to your former spouse during 2000 for alimony or separate maintenance under court decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 31a. Enter the recipient’s Social Security number in the space provided in line 3 of Schedule Y.

4 Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty Included in Form 1, Line 3.

Massachusetts allows an exclusion from income of amounts received by a firefighter or police officer incapacitated in the line of duty, per MGL Ch. 41, sec. 111F, and an exclusion from income of amounts received by qualifying students exempt under a U.S. tax treaty.

Enter any excludible amount of income received while you were a firefighter or police officer incapacitated in the line of duty in line 4 of Schedule Y that was included in Form 1, line 3, and fill in the appropriate oval. Enclose a statement from your employer.

If you were a qualifying student, enter any excludible amount of income received that was exempt under a U.S. tax treaty in line 4 of Schedule Y that was included in Form 1, line 3, and fill in the appropriate oval. Enter the country name, the income code number and the tax treaty article citation in the spaces provided. Enclose U.S. Form 1042-S.

5 Other Qualified Deductions

You may claim **only** the deductions listed below for Schedule Y, line 5. If you are entitled to claim any of the deductions in line 5, fill in the appropriate oval(s) and enter the total amount of deductions claimed in line 5.

▶ **Student Loan Interest Deduction:** Enter the amount from U.S. Form 1040, line 24 or 1040A, line 17 (not to exceed \$2,000 for tax year 2000) and fill in the appropriate oval in line 5 of Schedule Y.

▶ **Medical Savings Account (MSA) Deduction:** Enter the amount from U.S. Form 1040, line 25, enclose U.S. Form 8853 and fill in the appropriate oval in line 5 of Schedule Y.

▶ **Moving Expenses:** Enter the amount from U.S. Form 1040, line 26, enclose U.S. Form 3903 and fill in the appropriate oval in line 5 of Schedule Y.

▶ **Self-Employed Health Insurance Deduction:** Due to differences between the Internal Revenue Code as amended and in effect as of January 1, 1998 and the current year, **only 50%** of the qualified insurance payments are deductible for Massachusetts purposes for the 2000 tax year. As a result, you must complete a pro forma version of the U.S. Self-Employed Health Insurance Deduction Worksheet (U.S. Form 1040 instructions) using .50 (50%) in line 2 of the worksheet. If you used the worksheet in IRS Pub. 535, you must complete a pro forma version using .50 (50%) in line 4 of the worksheet. Enter the result here and fill in the appropriate oval in line 5 of Schedule Y.

▶ **Certain Qualified Deductions from U.S. Form 1040:** **Do not include** any amounts reported on U.S. Form 1040, lines 23 through 31a that are included in Form 1040, line 32 total. Enter **only** amounts included in U.S. Form 1040, line 32 as an adjustment, **except** amounts contributed to sec. 501(c)(18) pension plan and contributions by certain chaplains to sec. 403(b) plans. For Massachusetts purposes, contributions to sec. 501(c)(18) pension plans and contributions by certain chaplains to sec. 403(b) plans are not deductible. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 32. Identify qualified performing arts-related expenses as "QPA"; jury duty pay given to your employer as "Jury Pay"; reforestation amortization as "RFST"; repayment of supplemental unemployment benefits under the Trade Act of 1974 as "Sub-Pay TRA"; the deduction for clean-fuel vehicles as "Clean-Fuel"; employee business expenses of fee-basis state or local government officials as "FBO";

and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 5 from the rental of personal property engaged in for profit as "PPR." Fill in the appropriate oval in line 5 of Schedule Y.

6 Deductible Qualified Contributory Pension Income from Another State or Political Subdivision Included in Form 1, Line 4

Massachusetts allows a deduction for pension income received from another state or one of its political subdivisions which does not tax such income from Massachusetts or its political subdivisions. For guidelines to determine which state's pensions are exempt in Massachusetts, see TIR 95-9. Enter any deductible amount of such income in line 6 of Schedule Y that was included in Form 1, line 4. Enter the name of the state or political subdivision in the space provided in line 6.

7 College Tuition Deduction

A deduction is allowed for tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college leading to an undergraduate or associate's degree, diploma or certificate. Tuition payments for students pursuing graduate degrees at such a college or university are not eligible for the college tuition deduction. The deduction is equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceeds 25% of Massachusetts adjusted gross income. Qualified tuition expenses include only those expenses designated as tuition or mandatory fees required for the enrollment or attendance of the taxpayer or any dependent of the taxpayer at an eligible educational institution. No deduction is allowed for any amount paid for room and board, books, supplies, equipment, personal living expenses, meals, lodging, travel or research, athletic fees, insurance expenses or other expenses unrelated to an individual's academic course of instruction. Complete the Massachusetts AGI Worksheet on page 19 and the Schedule Y, line 7 worksheet below to see if you may qualify for this deduction. See TIR 97-13 for more information.

Schedule Y, Line 7 Worksheet — College Tuition Deduction

- Line 1.** Enter total tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college in 2000 _____
- Line 2.** Enter amount of scholarships, grants or financial aid received in 2000 for amounts shown in line 1 _____
- Line 3.** Subtract line 2 from line 1. If "0" or less, you do not qualify for this deduction _____
- Line 4.** Enter amount from line 7 of Massachusetts AGI Worksheet (page 19) _____
- Line 5.** Multiply line 4 by .25. _____
- Line 6.** If line 3 is smaller than line 5, you are not eligible for this deduction. Enter "0." If line 3 is larger than line 5, subtract line 5 from line 3 and enter the result here and in line 7 on Schedule Y _____

8 Total Other Deductions

Add lines 1 through 7 and enter the total in line 8 of Schedule Y and on line 15 of Form 1. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return.

Schedule Z

Other Credits

Be sure to enclose with Form 1.

1 Part 1 Credits

► **Lead Paint:** If you incurred expenses for covering or removing lead paint on residential premises in Massachusetts, you may claim a credit for expenses up to \$1,500 for each residential unit. A seven-year carryover of any unused credits is allowed. Strict regulations govern who can remove or cover the lead paint. The basic rules are explained on Massachusetts Schedule LP, Credit for Removing or Covering Lead Paint on Residential Premises. If you qualify for the credit, complete and enclose Schedule LP and fill in the appropriate oval in Part 1.

► **Economic Opportunity Area Credit:** Massachusetts allows a credit equal to 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA). To qualify for this credit, the property must be used exclusively in a certified project in an EOA. A certified project is a project that has been approved by the Economic Assistance Coordinating Council (EACC). If you qualify for the credit, complete and enclose Schedule EOA and fill in the appropriate oval in Part 1.

► **Full Employment Credit:** Every employer who participates in the Full Employment Program and continues to employ a participant for at least one full month after any Full Employment Program subsidy for that participant has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant, with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance (DTA). A five-year carryover of any unused credit is allowed. If you qualify for this credit, complete and enclose Massachusetts Schedule FEC, Full Employment Credit, and fill in the appropriate oval in Part 1.

► **Septic Credit:** An owner of residential property located in Massachusetts who occupies the property as his or her principal residence is allowed a credit of a maximum of \$1,500 per taxable year for expenses incurred to comply with the sewer system requirements of Title V as promulgated by the Department of Environmental Protection or to connect to a municipal sewer system pursuant to a federal court order, consent decree or similar mandate. The amount of the credit is 40% of the cost, up to \$15,000, for design and construction expenses for repair

or replacement of a failed cesspool or septic system. The maximum aggregate amount of the credit is \$6,000. A five-year carryover of any unused credit is allowed. See TIRs 97-12, 98-8 and 99-5 for more information. If you qualify for this credit, complete and enclose Massachusetts Schedule SC, Septic Credit, and fill in the appropriate oval in Part 1.

► **Brownfields Credit:** Effective for tax years beginning on or after January 1, 1999, taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area. In general, the credit is 25% or 50% of certain environmental response and removal costs incurred between August 1, 1998, and January 1, 2007, provided that the taxpayer commences and diligently pursues an environmental response action before August 5, 2003. The credit that may be taken in any taxable year is limited to 50% of the taxpayer's tax liability. A five-year carryforward of unused credit is allowed, provided the taxpayer continues to maintain the remedies required by law. For more information, see TIRs 99-13 and 00-9.

Enter the total amount of all credits claimed in Part 1 in Schedule Z, line 1 and complete lines 2 and 3.

2 Part 2 Credits for Residents and Part-Year Residents Only

► **Income Tax Paid to Another State:** If any of the income reported on this return is subject to taxation in another state or jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete the Schedule Z, line 2 worksheet on the next page, enclose a copy of your return filed with another state or jurisdiction and fill in the appropriate oval in Part 2. Do not include taxes paid to the U.S. government. (This credit does not apply to city or local taxes.) You are allowed to claim a credit for taxes paid to the following jurisdictions: (a) other states in the U.S.; (b) any territory or dependency of the U.S. (including Puerto Rico, the Virgin Islands, Guam, the District of Columbia); or (c) the Dominion of Canada or any of its provinces (less any U.S. credit amount allowable from U.S. Form 1116).

The total credit which you calculate on this worksheet is the smaller of the amount of taxes due to other jurisdictions (net of certain adjustments) or the portion of your Massachusetts tax due on your gross income that is taxed in such other jurisdictions.

Credit is not given for a property tax due to another jurisdiction on account of capital stock or property. This does not refer to a tax on gain or income from the sale of capital stock or property, as included on Schedule B or D. Credit is also not given for any interest and penalties paid on a tax due to another jurisdiction.

You must complete separate worksheets if you had 5.85% and interest income (other than interest from Massachusetts

banks), dividends or capital gain income taxed by another jurisdiction. If you use this worksheet to calculate a credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, substitute interest income (other than interest from Massachusetts banks), dividends or capital gain income for 5.85% income in line 1. You must also substitute Schedule B, line 11 (interest and dividend income and taxable 12% capital gains) or Schedule D, line 12, columns A, B, C, D and E (gross long-term capital gains and losses), but not less than "0," for Form 1, line 10 in line 2 of the worksheet, and the total of Form 1, line 19b multiplied by .0585 (tax on interest and dividend income) and Form 1, line 21 (12% tax) or line 22 (tax on long-term capital gains) for Form 1, line 19a in line 4 of the worksheet.

Note: When using this worksheet to calculate credit for interest income (other than interest from Mass. banks), dividends or capital gain income, enter in line 1 such income taxed in another jurisdiction calculated as if it was earned in Massachusetts.

Schedule Z, Line 2 Worksheet — Income Tax Paid to Another Jurisdiction

Note: If you have income other than from Form 1, line 10 taxed by other jurisdictions, see instructions.

Line 1. Enter the total 5.85% income included in Form 1, line 10 on which you paid taxes to another jurisdiction. _____

Line 2. Enter the total of Form 1, line 10 and the total Massachusetts bank interest or the interest exemption amount, whichever is smaller, from Form 1, line 5a or line 5b. _____

Line 3. Divide line 1 by line 2. _____

Line 4. Multiply Form 1, line 19a by .0585. _____

Line 5. Enter any Limited Income Credit from Form 1, line 25. _____

Line 6. Subtract line 5 from line 4. _____

Line 7. Multiply line 6 by line 3. _____

Line 8. Enter the total tax paid to other jurisdictions on income also reported on this return unless the tax was paid to Canada. If the tax was paid to Canada, the amount reported in this line must be reduced by the amount claimed as a foreign tax credit on U.S. Form 1040, line 43. Credit is only allowable for amount of tax paid. _____

Line 9. Enter the smaller of lines 7 or 8 here and on Schedule Z, line 2. _____

Be sure to enclose copies of other state's returns with Form 1.

► **Energy:** If you had expenditures for certain renewable energy source items, such as equipment which uses or transmits solar or wind energy to heat, cool, or provide hot water for your principal residence in Massachusetts, you may qualify for a credit. Massachusetts does not allow a credit for expenditures on items such as: insulation, storm or thermal windows or doors, caulking, weather-stripping, heat pumps (air and water), wood burning stoves or furnaces, and costs for energy conservation. If

you qualify for the credit, complete and enclose Massachusetts Schedule EC, Residential Energy Credit, and fill in the appropriate oval in Part 2.

Enter the total amount of the credits claimed in Part 2 in Schedule Z, line 2. Then, add line 1 and line 2 and enter the result in Schedule Z, line 3 and in Form 1, line 26.

Schedule E, Part I

Note: If showing a loss, be sure to mark over the "X" in the box to the left.

Rental, Royalty and REMIC Income or Loss

1a Rental and Royalty Income or Loss

Enter total rental and royalty income or loss included in U.S. Form 1040, Schedule E, Part I, line 26 and U.S. Schedule E, Part V, line 39.

1b Real Estate Mortgage Investment Conduit (REMIC) Income or Loss

Enter total Real Estate Mortgage Investment Conduit (REMIC) residual income or loss from U.S. Schedule E, Part IV, line 38.

2 Massachusetts Differences

Enter and explain any differences between total rental, royalty and REMIC income on the U.S. return and the same type of income on your Massachusetts return. Possible differences include trust provisions, deductible royalties from approved U.S. energy conservation patents and passive losses as described below. Explain the differences in the space provided or enclose an additional sheet if necessary.

Trust Provisions

Enter any rental, royalty or REMIC income or loss shown on your U.S. return that is taxed on a Massachusetts Fiduciary Return, Form 2.

Deductible Royalties from U.S. Energy Conservation Patents

Enter any income you received from certain U.S. patents that are approved by the Massachusetts Division of Energy Resources as being useful for energy conservation or for alternative energy development. Request approval from the Division of Energy Resources, Attention: General Counsel, 70 Franklin Street, 7th Floor, Boston, MA 02110, or call (617) 727-4732. Enclose evidence of such approval with your tax return. If such approved patent income is other than royalty income, use the applicable schedule and explain.

Passive Losses

As a result of differences in U.S. and Massachusetts rules in 1987, the calculations you made for passive losses on your