

# Allocation of Individual Income Tax to the Virgin Islands

2003

Department of the Treasury  
Internal Revenue Service

▶ Attach to Form 1040.

Attachment  
Sequence No. **85**

Name(s) shown on Form 1040

Your social security number

## Part I Income From the Virgin Islands

1	Wages, salaries, tips, etc. . . . .	1	
2	Taxable interest . . . . .	2	
3	Ordinary dividends . . . . .	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 <b>total income</b> . . . . . ▶	16	

## Part II Adjusted Gross Income From the Virgin Islands

17	Educator expenses . . . . .	17			
18	IRA deduction . . . . .	18			
19	Student loan interest deduction . . . . .	19			
20	Tuition and fees deduction . . . . .	20			
21	Moving expenses . . . . .	21			
22	One-half of self-employment tax . . . . .	22			
23	Self-employed health insurance deduction . . . . .	23			
24	Self-employed SEP, SIMPLE, and qualified plans . . . . .	24			
25	Penalty on early withdrawal of savings . . . . .	25			
26	Add lines 17 through 25 . . . . .	26			
27	Subtract line 26 from line 16. This is your <b>adjusted gross income</b> . . . . . ▶	27			

## Part III Allocation of Tax to the Virgin Islands

28	Enter amount from Form 1040, line 60 . . . . .	28	
29	Enter the total of the amounts from Form 1040, lines 55, 56, 63, and 65; any uncollected social security and Medicare or tier 1 RRTA tax or tax on golden parachute payments included on line 60; and any amount from Form 5329, Parts III, IV, V, VI, or VII, included on line 57 . . . . .	29	
30	Subtract line 29 from line 28 . . . . .	30	
31	Enter amount from Form 1040, line 35 . . . . .	31	
32	Divide line 27 above by line 31. Enter the result as a decimal (rounded to at least 3 places) . . . . .	32	× .
33	Multiply line 30 by line 32. This is your <b>tax allocated to the Virgin Islands</b> . . . . .	33	

## Part IV Payments of Income Tax to the Virgin Islands

34	Income tax withheld by the Virgin Islands . . . . .	34			
35	2003 estimated tax payments and amount applied from 2002 return . . . . .	35			
36	Amount paid with Form 4868 (extension request) . . . . .	36			
37	Add lines 34 through 36. These are your <b>total payments</b> . . . . . ▶	37			
38	Enter the smaller of line 33 or line 37. Also, include this amount in the total on Form 1040, line 68. On the dotted line next to line 68, enter "Form 8689" and show this amount. . . . .	38			
39	If line 37 is more than line 33, subtract line 33 from line 37. This is the amount you <b>overpaid</b> to the Virgin Islands . . . . .	39			
40	Amount of line 39 you want <b>refunded to you</b> . . . . . ▶	40			
41	Amount of line 39 you want <b>applied to your 2004 estimated tax</b> . . . . . ▶	41			
42	If line 33 is more than line 37, subtract line 37 from line 33. This is the <b>amount you owe</b> to the Virgin Islands. Include the amount on this line that you are paying with your return in the total on Form 1040, line 68. On the dotted line next to line 68, enter "Form 8689" and the amount paid. . . . . ▶	42			

## Instructions

Section references are to the Internal Revenue Code.

**Purpose of form.** If you were a citizen or resident of the United States and 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. 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 allocated to the Virgin Islands.** You can take a credit on your U.S. return for the U.S. tax allocated 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 68.

**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 19255-0215.

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.

**Note:** If you file jointly and only one spouse qualifies as a bona fide resident of the Virgin Islands, the resident status for both spouses and subsequent tax treatment is determined by the spouse with the higher adjusted gross income (disregarding community property laws). File your original return in the jurisdiction (the Philadelphia Service Center or the Virgin Islands) of the spouse who had the higher adjusted gross income for the tax year.

**Additional information.** Pub. 570, Tax Guide for Individuals With Income From U.S. Possessions, has 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 Virgin Islands

**Source of income.** The rules for determining the source of income are explained 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.
- 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.

**Personal property.** 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.

**U.S.-owned foreign corporations.** 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—Adjusted Gross Income From the Virgin Islands

**Line 18.** Enter the total of your and your spouse's IRA deductions attributable to Virgin Islands compensation or earned income. To figure this amount:

1. Divide your Virgin Islands compensation or earned income by the total amount of your compensation or earned income, **then**
  2. Multiply the amount of your IRA deduction by the result in 1.
- Figure the amount of your spouse's IRA deduction the same way.

**Lines 22 through 24.** Follow these steps to figure the amount of each deduction to enter on these lines.

1. Divide the Virgin Islands-source self-employment income by your total self-employment income, **then**
2. Multiply the amount of each deduction that applies to you by the result in 1.
3. Enter the amount(s) from 2 on the appropriate line(s).

**Line 25.** Enter the amount of penalties on early withdrawals from savings accounts in Virgin Islands banks or Virgin Islands 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 26.** Include in the total on line 26 the amount of any other deductions included on Form 1040, line 33, that are attributable to your Virgin Islands income. On the dotted line next to line 26, enter the amount of the deduction attributable to your Virgin Islands income and identify it as you did on Form 1040, line 33. If you or your spouse had an Archer MSA deduction on Form 1040, line 33, figure the amount to report on line 26 the same way you would an IRA deduction (see line 18 above).

### Part IV—Payments of Income Tax to the Virgin Islands

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 fail to provide the required information, you may have to pay a \$100 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 time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

**Recordkeeping**, 2 hr., 43 min.; **Learning about the law or the form**, 18 min.; **Preparing the form**, 1 hr., 4 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. See the Instructions for Form 1040.

