UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

Introduction
This guide provides practitioners some of the information they should consider when preparing individual state income tax returns. The laws, regulations and policies of each state should be verified for application to specific cases. This guide is neither authoritative nor all-inclusive and should not be relied upon for a specific taxpayer. Practitioners need to research issues identified in this checklist.

Acknowledgements
The State and Local Tax Practice Guides were developed and updated by the State and Local Taxation Technical Resource Panel (SALT TRP) of the Tax Division of the American Institute of Certified Public Accountants.

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ALABAMA (AL)

1. AL allows an itemized deduction for federal FICA tax and self-employment tax paid during the year.

2. The AL net operating loss (NOL) allows for a two year carryback and a 15 year carryover. An election can be made to forego the carryback period and only carryforward the loss.

3. The Domestic Producers Activities Deduction cannot be claimed by individuals for AL income tax purposes.

4. AL excludes from income certain retirement, unemployment, severance pay, government pensions, welfare benefits and social security benefits.

5. Unlike federal law, AL income tax law does not allow for a foster child to be considered a dependent. There is no maximum age for a qualifying dependent.

6. Unlike federal law, AL income tax law does not provide different tax treatments of transactions concerning capital assets.

7. AL medical expenses are subject to a 4% AGI floor, rather than the federal 7.5% AGI floor.

8. AL part-year residents can deduct only those deductible expenses incurred during the period of residency, and part-year residents of AL are allowed a full personal exemption and credit for dependents.

9. An extension form is no longer required for individual income tax filers and they will receive an automatic six month extension. However, payment of tax must be remitted by the original due date of the return using Form 40V except in those instances where a taxpayer pays by credit card or by electronic bank draft (E-check) or interest and failure to timely pay penalties will be assessed.

10. AL does not allow a deduction for child care expenses, nor does it have a child care tax credit.

11. AL does not conform to the Economic Stimulus Act (ESA) of 2008 for assets placed in service in 2008. This is in contrast to the State’s conformity to the Job Creation and Workers Assistance Act (JCWAA) of 2002 and the Jobs and Growth Tax Relief Reconciliation (JGTRRA) Act of 2003 as it relates to bonus depreciation. AL did allow the 30% and 50% depreciation limits on certain types of assets as outlined in the economic stimulus bill.

12. AL follows the federal limitation on §179 deduction. However, AL does not conform with §179 under ESA 2008.

13. Tax preparers who prepare more than 11 returns during the calendar year are required to E-File all of their current year individual returns.

14. AL allows a deduction for federal income tax, reduced by certain credits, as shown on the federal return, regardless of when it was paid.

15. Taxpayers who owe additional AL tax must complete a Form 40V and include it with their check or money order, for both paper-filed and electronically-filed returns, but need not complete a Form 40V if they pay by credit card or by electronic debit.

16. AL does not follow the federal law for passive activity losses. AL allows passive activity losses to be deducted against all income, passive and/or ordinary income in a tax year.

17. AL requires reporting the entire income amount from Schedule K-1, including out-of-state income on the AL return. A credit is claimed for taxes paid on out-of-state income. However, a composite payment may be made on behalf of a nonresident shareholder.
18. The IRC was changed to allow a 2010 rollover from a traditional IRA to a Roth IRA, with any gain that would result being equally spread over tax years 2011 and 2012. AL income tax law is tied to the same treatment.

19. Unlike federal law, prior to tax year 2014 AL did not allow a credit for adoption expenses. AL allowed a deduction for the adoption expenses as an adjustment to income. Beginning with tax year 2014, AL will allow an adoption credit for a private intrastate adoption or adoption of a qualified foster child. The credit is $1,000 per child adopted through a private intrastate adoption or qualified foster child in the year in which the adoption becomes final. Effective Oct. 1, 2016 in addition to the $1,000 credit minors adopted who have attained their 14th birthday and are adopted from the AL foster care system as administered by the AL Department of Human Resources are eligible for $15,000 in Post–Secondary education assistance at any AL public institution of higher learning, college or university, any public two–year college or any public trade or vocational school.

20. AL excludes from income interest income received from US obligations.

ALASKA (AK)

1. AK does not impose an individual income tax.

ARIZONA (AZ)

1. An AZ resident is subject to tax on all income, regardless of where it is derived from. A nonresident is subject to tax on all income derived from AZ sources. A "resident" includes: (a) an individual in the state for other than a temporary or transitory purpose; or (b) an individual domiciled in the state and who is outside the state for a temporary or transitory purpose. An individual who spends in the aggregate more than nine months of the taxable year within this state is presumed to be resident of AZ.

2. Nonresidents with capital gains or losses on AZ real property must report that gain or loss to AZ. Nonresident partners and S corporation shareholders of pass-through entities doing business in AZ are required to file a nonresident return and report their portion of the AZ sourced income. Composite returns are allowed in certain situations. A nonresident beneficiary of a trust must report any income, distributed or distributable, from the trust generated from sources within AZ.

3. AZ residents may claim a credit for nonresident income taxes paid to another state where the income taxed is derived from sources in another state and the other state does not allow a credit for taxes paid on income subject to tax in AZ and the other state. Nonresidents may claim an AZ credit for taxes paid to AZ where their state of residence does not tax AZ residents on the income derived in another state or the state allows AZ residents a credit for taxes paid on income subject to tax in the other state. The credit provisions are general based on reciprocal agreements between AZ and specific states (see AZ Form 309 for annual updates to the list of state taxes that qualify for resident/nonresident credits).

4. The computation of AZ taxable income begins with federal adjusted gross income and taxpayers must make certain addition and subtraction modifications. Addition modifications include net non-AZ municipal interest, nonqualified withdrawals from §529 plans not included in federal taxable income, certain lottery winnings, expenses used in the computation of a tax credit, and certain withdrawals from medical expense and savings accounts. Subtraction modifications include federal interest income and income from an installment sale properly taxed by another state in a previous taxable year and that is included in AZ gross income in the current taxable year may be subtracted from current year AZ gross income. The deduction for contributions to college savings plans is limited to $2,000 for a single individual or a head of household and $4,000 for a married couple filing a joint return.

5. AZ does not conform to the federal bonus depreciation deduction of increased §179 expense allowance for tax years before 2013. Accordingly, taxpayers must add back the federal depreciation deduction and compute a state specific depreciation deduction. Such nonconformity may necessitate basis adjustments in the year of the property’s disposition.

6. For tax years beginning on or after Jan. 1, 2013, AZ will fully conform to the provisions of §179.
7. Up to $2,500 of pension income from US government retirement plans or AZ state and local government plans where such pension income is taxable for federal purposes are permitted a subtraction. Each spouse is eligible for the $2,500 exclusion. AZ does not tax Social Security benefits, so any portion that was taxable for federal purposes should be taken as a subtraction.

8. Taxpayers must file form AZ 140 by April 15. Taxpayers meeting annual income thresholds must pay estimated taxes. A federal extension extends the return due date for Form 140 or taxpayers may request a separate state extension by filing Form 204.

9. For tax years beginning after 2013, AZ generally conforms to the IRC as amended and in effect on Jan. 1, 2014, including those provisions that became effective during 2013 with the specific adoption of all federal retroactive effective dates.

10. AZ did not, however, adopt the special federal NOL rules for losses incurred during 2008 or 2009. For AZ purposes, an individual must deduct an NOL as if the election under §172(b)(1)(H) had not been made. Therefore, a taxpayer that made the election to extend the NOL carryback period under §172(b)(1)(H) for federal purposes will only be able to claim what the federal NOL carryback and carryforward would have been if the election had not been made and the carryback period was two years (sometimes three) instead of the extended period elected. An AZ subtraction will be allowed for the difference between the actual carryforward on the federal return and the carryforward that would have been allowed as a deduction on the federal return if the election had not been made. This adjustment does not apply to taxpayers that did not make the election under §172(b)(1)(H), including taxpayers that claim a five year carryback under certain farming or disaster relief provisions.

11. AZ does not allow a deduction for any amount deducted pursuant to §164(b)(6) for sales tax paid on the purchase of a qualified motor vehicle.

12. AZ did not adopt the special federal discharge of indebtedness ("DOI") income deferral provisions for the 2009 or 2010 taxable year. For AZ purposes, if you made the federal election to defer the inclusion of DOI income under §108(i), you must make an addition on your AZ income tax return for the amount of DOI that you deferred and excluded from the computation of your 2009 federal adjusted gross income for individuals or federal taxable income for corporations under §108(i). If the 2009 income tax return has already been filed, this adjustment should be made on the “additions” line of the AZ amended return for corporations or individuals (AZ Form 120X for corporations or Form 140X for individuals). For original 2009 AZ income tax returns as well as amended returns for fiduciaries, the adjustment will be made on line B3, "other additions", on Form 141AZ. Partnerships do not make this adjustment at the partnership level because the addition will be made at the partner level. Likewise, S corporation shareholders will make this adjustment at the shareholder level. Even though you must include that DOI income on your 2009 AZ return, AZ will not tax that income again in the future years when you include the income in your federal adjusted gross income for individuals or federal taxable income for corporations.

13. For federal purposes, when a taxpayer made the special election to defer DOI income under §108(i) (see number 12 above), the taxpayer was not allowed to take a deduction with respect to the portion of any DOI that accrued with respect to that DOI income, during the income deferral period. In this case, the taxpayer must deduct the aggregate amount of the DOI deductions disallowed ratably over a five year period, beginning with the period in which the income is includible in federal adjusted gross income for individuals or federal taxable income for corporations.

AZ did not adopt the federal provisions requiring a taxpayer to defer the DOI deduction in cases where the taxpayer federally deferred the DOI income under §108(i). For AZ purposes, you are required to add the amount of deferred DOI to income (see number 10 above). Since AZ is taxing the federally deferred DOI income for 2009 on your 2009 AZ return, you may subtract the amount of DOI that accrued during the taxable year with respect to that DOI income.
If the 2009 income tax return has already been filed, this adjustment would be made on the “subtractions” line of the AZ amended return for corporations or individuals (AZ Form 120X for corporations and 140X for individuals). For original 2009 AZ income tax returns as well as amended returns for fiduciaries, the adjustment will be made on line B8, “other subtractions”, on Form 141AZ. Partnerships do not make this adjustment at the partnership level because the addition will be made at the partner level. Likewise, S corporation shareholders will make this adjustment at the shareholder level. In the future, when the DOI is deducted on the federal return, you will be required to add the amount back on your AZ return, since you will have already received the benefit in AZ.

14. For the 2011 tax year, individual income tax forms now include a line for reporting any use tax that an individual owes from out-of-state purchases that he or she made in 2011. The use tax line was removed from the 2012 tax forms. For 2012 tax year, the AZ DOR instructed individuals to report and remit use tax by sending in a cover letter with the taxpayer’s name, address, taxpayer identification number and a copy of the invoice.

ARKANSAS (AR)

1. Social Security income, VA benefits, Worker’s Compensation, unemployment compensation, and Railroad Retirement benefits are not taxable for AR.

2. For tax years 2014 and prior 30% of net capital gains is excluded from gross income. The remaining 70% is taxable as regular income. For tax years beginning on or after Jan. 1, 2014, the amount of net capital gain in excess of $10,000,000 is exempt from income tax. For tax years beginning Jan. 1, 2015, 50% of net capital gains is excluded from gross income.

3. NOLs may be carried forward five years. NOL carrybacks are not allowed.

4. Interest from AR municipal bonds is tax exempt. All other states’ municipal bond interest is included in AR taxable income.

5. The other state’s tax return must be attached to the AR return when claiming the other state tax credit.

6. Part year and nonresident filers must include a complete copy of their federal return.

7. Taxpayers may be able to itemize deductions for AR purposes, even though they did not itemize on their federal return, due to the smaller AR standard deduction.

8. The MS tax on gambling winnings is not allowed as a credit against the AR income tax, but it is allowed as an itemized deduction. AR electronic gaming winnings are not includable as income on the payee’s regular AR income tax return, and taxes paid or withheld on AR electronic gaming winnings may not be used on an AR income tax return to offset a tax liability, create a refund, or generate any other type of credit or offset.

9. The due date of the AR income tax return corresponds with the due date for the federal income tax return. Emancipation Day is a holiday for which government offices close in the DC area and that sometimes results in a delay to the April 15 federal due date. Interest and penalty on unpaid income tax accrue from the due date. Estimated tax payments are due on the corresponding federal due date.

10. AR adopted §112 and §692 resulting in the exemption of (1) combat zone compensation from AR individual income tax and (2) the income of a member of the armed forces in the year of the person’s death. Also, effective for tax years 2007 through 2013, AR allows the first $9,000 of service pay or allowances for enlisted personnel and officers of the US armed forces, including National Guard and Reservists, to be exempt from personal income tax. For tax years starting on or after Jan. 1, 2014 income tax for service pay or allowances received by active duty members of the armed services are exempt. An active duty member of the armed services means all members of the armed forces, including the National Guard and Reserve units. There is an extension available to veterans for filing a claim for refund of an overpayment resulting from a retroactive determination that part or all of the retirement payments was for a service-connected disability and are not included in gross income.
11. AR has a donation deduction for the AR Organ Donor Awareness Education Program.

12. AR requires pass-through entities that distribute in-state income to a nonresident member to withhold tax at the highest rate unless one of a number of statutory exceptions applies. Withholding is not required if a member’s distributive share of in-state income is less than $1,000 or if the member opts out of withholding by filing Form AR4PT in order to either have the tax paid as part of a composite return filed by the pass-through or by agreeing to file an individual or trust return.

13. AR allows an adjustment to income of up to $5,000 per taxpayer for contributions to the AR Tax-Deferred Tuition Saving Program. Married taxpayers could contribute up to $10,000 ($5,000 each) if filing together on the same return.

14. AR has not adopted §199.

15. AR has adopted the federal income tax treatment for IRAs, deferred compensation and related retirement plans, made pursuant to federal law changes in effect Jan. 2, 2013.


17. AR adopted provisions that allow for the closure of a business that fails to report or remit state withholding taxes or state sales tax for any three months during a 24 consecutive month period.

18. AR has adopted provisions that allow AR to capture a taxpayer’s refund for a debt owed to the IRS.

19. AR adopted §179 deduction as in effect on Jan. 1, 2007, and again as in effect on Jan. 1, 2009. Since the federal §179 rules were changed after Jan. 1, 2007, again with ARRA 2009, and most recently with American Taxpayer Relief Act (ATRA) of 2012, AR limits are different than federal. For tax years beginning before Jan. 1, 2007, the limit is $25,000 with the dollar-for-dollar phase out beginning at $200,000 in eligible purchases. For tax years beginning in 2007, the limit is $112,000 with the phase out beginning at $450,000. For tax years beginning in 2008, the limit is $115,000 with the phase out beginning at $460,000. For tax years beginning in 2009, the limit is $133,000 with the phase out beginning at $530,000. For tax years beginning in 2010, the limit is $134,000 with the phase out starting at $530,000. For tax years beginning in 2011, the limit is $25,000 with the phase out beginning at $200,000.

20. AR does not require the electronic filing of returns. However, e-filing is encouraged and AR provides all taxpayers with online filing services. Some tax returns may be filed using ATAP (AR Taxpayer Access Point).

**CALIFORNIA (CA)**

1. The passage of Proposition 30 in Nov. 2012 increased CA current highest marginal income tax rates though and will remain Dec. 31, 2019. Under the revised law, individual filers with taxable income over $250,000, but not over $300,000 will pay tax at a rate of 10.3% on the excess over $250,000. Taxpayers with taxable income over 300,000, but not over $500,000 will pay tax at a rate of 11.3% on the excess over $300,000. For the portion of taxable income in excess of $500,000, the tax rate is 12.3%. The taxable income amounts are doubled for married taxpayers filing jointly. It should be noted that for incomes over $1 million, the 1.0% mental health surcharge applies.

2. Estimated Tax Payments: For tax years beginning on or after Jan. 1, 2010, individuals and corporations pay estimated taxes as follows:

   1\(^{st}\) installment is equal to 30% of the required annual payment;
   2\(^{nd}\) installment is equal to 40% of the required annual payment;
   3\(^{rd}\) installment is equal to 0% of the required annual payment; and
   4\(^{th}\) installment is equal to 30% of the required annual payment.
In addition, CA Rev & Tax Code 19136.3 was added to the statute to provide that for taxable years beginning on or after Jan. 1, 2009, individual taxpayers with adjusted gross income for the year in excess of $1,000,000 ($500,000 for taxpayers who are married filing separately) will be required to make estimated tax payments equal to 90% of the tax shown on the return for the current year and may not use the tax shown on the return of the preceding taxable year.

3. Personal income taxpayers must make payments electronically if their estimated personal income tax installment payment or extension request payment exceeds $20,000 or if their total annual tax liability exceeds $80,000. A penalty of 1% of the tax owed will be imposed against taxpayers who fail to make an electronic payment unless reasonable cause exists. Electronic payment includes Web Pay on the FTB web site, electronic funds withdrawal, credit card, and pay by phone options.

4. Nonresidents are taxed on CA source income. CA Rev & Tax Code 17041 requires that a nonresident taxpayer compute the tax on CA taxable income as though the nonresident taxpayer were a CA resident. The tax is divided by the CA taxable income computed as though a CA resident and that percentage is the tax rate applied to CA taxable income computed as a nonresident (or applying various sourcing rules) to CA.

5. A part-year resident is taxed on income regardless of source during the period of CA residence.

6. Effective for tax years beginning on or after Jan. 1, 2014, all taxpayers who complete a like-kind exchange of California property for non-California property are required to file Form FTB 3840. The mandatory filing requirement applies to all individuals, estates, trusts, and all business entities regardless of their residency status or commercial domicile.

7. In general, for taxable years beginning on or after Jan. 1, 2010, CA law conforms to the IRC as of Jan. 1, 2009. However, there are continuing differences between CA and federal law. This is the latest conformity legislation.

8. Registered domestic partners are required to file a joint CA return or separate returns using the same rules applicable to spouses. On May 28, 2010, the IRS released Chief Counsel Advice 201021050 which provided that for tax years beginning after Dec. 31, 2006, CA registered domestic partners (RDP) should apply CA community property principles on their federal tax returns. This is a significant simplification for filing these types of returns. Same-sex married individuals that file single for federal purposes must filed married filing jointly or married filing separately for CA. Same-sex married couples must compute their limitations based on the combined federal adjusted gross income (AGI) of each spouse’s individual tax return filed with the IRS. For more information on same-sex married couples, see FTB Pub. 776. For more information on registered domestic partners see FTB Pub. 737. RDPs are not considered married under federal law.

**COLORADO (CO)**

1. Rates
   - CO imposes a tax at a rate of 4.63% of federal taxable income, regardless of filing status.
   - CO also imposes an AMT equal to the amount by which 3.47% of CO AMT income exceeds the normal CO tax.

2. Unique nexus rules
   - Under CO law, a nonresident individual is subject to CO income tax if such an individual derives income from sources within CO.
The CO Department of Revenue has amended a rule regarding residency for personal income tax purposes to clarify that residency is established if an individual is domiciled in Colorado or maintains a permanent place of abode in Colorado and spends more than six months of the year in Colorado in the aggregate. The amended rule also includes a non-exhaustive list of commonly used factors that can be relevant in determining domicile and addresses out-of-state students, persons who treat recreational vehicles as their permanent place of abode, and individuals who periodically move between homes where no single home is treated as their place of domicile at all times. The interplay between domicile and the six-month rule is also more clearly defined by the amended rule. Rule 39-22-103(8)(A), Colorado Department of Revenue, effective Oct. 30, 2014.

3. Tax Base Adjustments

CO imposes tax on the entire taxable income of a resident individual and the non-resident individuals earning income from CO sources. A "resident individual" means a natural person domiciled in the state and a natural person who maintains a permanent place of abode within this state and who spends in the aggregate more than six months of the taxable year within this state. A "non-resident individual" means an individual other than resident individual. Special rules apply to military personnel stationed outside the US for 305 days or more during the tax year. The filing status for the CO return must conform to the federal filing status. A married couple filing jointly for federal purposes must file a joint CO return, even if one is a resident and the other is not.

Effective Jan. 1, 2010, CO taxpayers may subtract certain capital gain income to the extent the gains are included in their federal taxable income and owned for a period of at least five years prior to the date of the sale. Such capital gain income includes gains that are earned

1. on real or tangible property located within CO and acquired after May 8, 1994, if the sale occurred prior to 2010;
2. on the sale of stock or the sale of an ownership interest in a CO company, LLC, or partnership where such stock or ownership interest was acquired after May 8, 1994, if the sale occurred prior to 2010; and
3. on either real or tangible personal property located in CO that was acquired after May 8, 1994, but before 2010, or on tangible personal property located either within or outside CO that was acquired after 2009, if the sale occurred prior to 2010, limited to the first $100,000 of net capital gain for any single tax year.

CO allows taxpayers who claim the federal standard deduction rather than itemizing deductions on their federal return to deduct on their CO return, the portion of their charitable contributions that exceeds $500 that you could have deducted on federal Schedule A under the "Gifts to Charity" section had you itemized your federal deductions.

The computation of CO taxable income begins with federal taxable income after standard deduction and personal exemptions. Taxpayers must adjust federal taxable income via required addition and subtraction modifications to reach CO taxable income. Addition modifications include non-CO municipal interest income, amount withdrawn from medical savings accounts for nonmedical reasons, and a portion of the state income taxes deducted in computing federal taxable income. Subtraction modifications include federal interest income (earned during the taxable year from U.S. government bonds, treasury bills and other obligations of the U.S. and state income tax refunds). In addition, qualified CO taxpayers may deduct certain pension or annuity income that is included in federal taxable income and were subject to federal personal income tax (up to a maximum of $24,000 for taxpayers who are 65 and older; and $20,000 for taxpayers who are 55 and older or those who are second party beneficiaries to such taxpayers. CO conforms to §§167, 168, and 179 (regular and bonus depreciation) as amended by the ARRA 2009. Further, CO conforms to §172 and does not require adjustments to the federal tax base for the federal deduction or carryback/carryforward periods.
• A subtraction of up to $100,000 for any single tax year is allowed for any net capital gains earned on tangible personal property located in or out-of-state that was acquired on or after June 4, 2009 and held for at least five consecutive years. For property acquired before June 4, 2009, a net capital gain subtraction of up to $100,00 is allowed for net capital gains earned on real and tangible personal property located in-state that was acquired on or after May 9, 1994, but before June 4, 2004, and held for at least five consecutive years.

4. Payment and Filing Requirements

• Taxpayers must file Form 104 or Form 104PN by April 15; however, taxpayers are granted a six month automatic extension (without written request) to Oct. 15. Quarterly estimated tax payments are remitted using Form 104EP and are required for those taxpayers who can reasonably expect their individual estimated CO tax liability to exceed $1,000. A declaration must be filed on or before April 15, whereas the estimated tax on the declaration is paid in four equal installments on April 15, June 15, Sept. 15, and Jan. 15. Generally, a taxpayer's estimated payments shall be equal to 25% of the required annual payment; whereas "required annual payment" is defined as the lesser of (a) 70% of the actual CO income tax liability for the taxable year, or (b) 100% of the taxpayer's actual CO tax liability shown in the preceding taxable year. If the individual's federal adjusted gross income for the year was greater than $150,000, then the taxpayer's "required annual payment" would be 110% of the preceding year's net CO tax liability.

• Taxpayers must file an amended CO income tax return within 30 days of filing the federal return whenever a final determination differs from the amount originally reported, whether or not an amended federal return is filed.

• E-filing is allowed but not required.

• The Colorado Department of Revenue has adopted a new rule clarifying that taxpayers must file their state personal income tax return in the same manner as their federal income tax return (Rule 39-22-104(1.7) Colorado Department of Revenue, effective May 30, 2014). Partners in a civil union are required to file their Colorado personal income taxes using the same filing status as on their federal tax return effective for tax years beginning on or after Jan. 1, 2013.

5. Credits

• Child Care Expense Credit: In the past, anyone who did not have a federal tax liability did not get this CO income tax credit. For the 2014 tax year, even when the federal tax is zero, Colorado will give taxpayers – with an Adjusted Gross Income of $25,000 or less – a CO income tax credit of 25 percent of their child care expenses up to $500 for one child, or up to $1,000 for two or more children. CO has a separate form, the Child Care Expenses Tax Credit (DR 0347) form that must be filed with the individual income tax return for this credit.

• Child Care Contribution Credit: For the 2014 tax year, on the 104CR schedule taxpayers will be able to utilize 75 percent of what the taxpayer has accrued up to this year and is still in statute (five-year-carryforward from return due date).

• Recently enacted Colorado legislation clarifies that, for tax years beginning after 2013, the amount of enterprise zone credits that may be claimed against corporate or personal income taxes is limited to $750,000 per tax year. H.B. 1163, Laws 2014, effective March 27, 2014.
6. Individual Income Tax Withholding

- Employers must withhold on wages paid for employment services performed in the state even though the employee may be a nonresident and the CO employment may be of short duration, unless special provisions apply (e.g., persons who perform services in connection with any phase of motion picture or television production or television commercials for less than 120 days during any calendar year are specifically exempted from tax). A nonresident is required to file a CO income tax return if he or she is required to file a federal income tax return and has CO source taxable income.

CONNECTICUT (CT)

1. Dividends from mutual funds whose assets comprise more than a 50% direct interest in U.S. Treasury obligations are deducted from CT AGI to the extent they are derived from US Treasury interest. The deduction applies only to the extent of income from US Treasury obligations.

2. CT AGI is reduced by gain and increased by loss from sale of a CT muni bond, including sales of CT muni bond funds.

3. The property tax credit against the personal income tax is available only to residents, not nonresidents. Pursuant to 2011 legislation, the property tax credit is reduced from $500 to $300. The new law also reduces the number of taxpayers eligible for the credit by reducing the maximum credit by 15% (currently 10%) for every $10,000 in CT AGI that exceeds the taxpayer’s threshold. The legislation also adds an earned income tax credit equal to 30% of the federal credit.

4. An AMT applies only if federal AMT is incurred. The tax amount equals the lesser of 19% of adjusted federal tentative minimum tax or 5.5% of adjusted federal AMTI. An AMT credit is allowed in subsequent years in accordance with federal AMT credit recovery provisions.

5. Taxable lump sum distributions not included in federal AGI are added back.

6. Statutory residents (non-domiciliaries with a permanent place of abode in CT, who spend 183 days or more in CT) are entitled to credit for taxes paid to other state(s) on income from intangible personal property that is not used in a CT trade or business, as well as on earned income. This is only allowable if the taxpayer’s state of domicile allows a similar credit for CT income taxes paid by CT domiciliaries who are statutory residents of that state. Note that CT prohibits resident taxpayers from claiming a credit for income taxes paid to another state to the extent the wages at issue are earned in CT under the CT statute.

7. If one spouse is not a CT resident, the resident spouse may file a separate CT return, or both spouses are also allowed to file jointly if joint federal return was filed.

8. In cases where a nonresident individual's CT adjusted gross income is less than such individual's CT adjusted gross income derived from or connected with sources within this state, then (1) such individual's CT adjusted gross income derived from or connected with sources within this state, reduced by the amount of the exemption allowed shall be such individual's CT taxable income derived from or connected with sources within this state (to which amount the tax rate is applied) and (2) such individual's CT adjusted gross income derived from or connected with sources within this state shall be such individual's CT adjusted gross income for the purpose of determining the credit allowed under §12-703 of the General Statutes (which credit is then subtracted from the amount to which the tax rate is applied).

9. CT taxes a maximum of 25% of social security benefits.
10. Pass-through entities are required to comply with annual composite tax payment requirements for certain nonresident owners. A pass-through entity must make a CT income tax payment on behalf of each member who or which is a nonresident non-corporate member or a pass-through entity where the member's share of the pass-through entity's income derived from or connected with CT sources is $1,000 or more. The composite CT income tax payment is the sum of the CT income tax payments required to be made for members who or which are nonresident non-corporate members of pass-through entities. The CT income tax payment required for each member is calculated by multiplying the member's share of the pass-through entity's separately and non-separately computed income, derived from or connected with CT sources, by 5%. The pass-through entity must calculate the CT income tax payment required based only on the member's share of the pass-through entity's income derived from or connected with CT sources and not on the member's share of the pass-through entity's income or losses derived from or connected with non-CT sources.

11. A state personal income tax credit is allowed in the amount of the excess of the adjusted net CT minimum tax imposed for all prior tax years over the amount allowable as the credit for prior tax years, but limited to the amount by which the basic personal income tax exceeds the CT minimum tax.

12. Any individual required to file a CT income tax return is eligible to claim a deduction for contribution to a CT Higher Education Trust (CHET) account during the taxable year, whether or not the individual is a CHET account owner.

13. CT has introduced an Earned Income Tax Credit applicable to individuals, earning a low to moderate income. CT residents need to be working, earning, and also eligible for the federal earned income tax credit in order to qualify for the state credit (see Schedule CT-EITC for more details).

DELAWARE (DE)

1. Individual income tax returns are due on or before April 30 for all taxpayers filing on a calendar year basis. Individuals may file for a five and one-half month extension by submitting Form 1027 with payment if necessary by the original due date of the return. The automatic extension can be filed and paid online at www.revenue.delaware.gov.

2. Itemized deductions for DE purposes are reduced by taxes paid to DE and the amount claimed as a credit for other state income taxes. Those claiming a credit on Line 10 of the DE return for taxes paid to more than one state must complete Schedule I, listing the name of each state and the net tax liability, plus include a copy of the other state return(s).

3. In some cases it is advantageous to file married filing separate returns instead of joint filing if both spouses have DE adjusted gross income in excess of $9,400. If filing separate for federal purposes, must file separate for DE. When filing as married filing separate, if one itemizes deductions, the other must also itemize. Also, itemized deductions for state purposes are calculated using the phase-out rules as if separate federal returns were filed. Additionally, the $25,000 rental real estate allowance under the passive loss limitation rules must be recomputed for state purposes as if separate federal returns were filed.

4. Effective in 2012, DE spouses in a civil union are subject to the same tax statutes and regulations that apply to married filers. For more information see FAQs: Civil Union Tax Rules in DE.

5. Taxpayers that claimed a standard deduction on their federal returns may still be able to elect to itemize deductions on the DE return.

6. Part-year resident individuals may either report and compute the tax as if a full year resident, taking advantage of the credits provided for taxes paid to other states, or report and compute the tax as if a nonresident for the entire year.

7. DE conforms to the federal bonus depreciation and NOL provisions of the federal JCWAA 2002, JGTRRA 2003, and ESA 2008. However, taxpayers who were prevented in previous years from carrying federal NOL to their DE returns (since DE has a $30,000 limit on NOL carrybacks) are permitted to carry these additional losses forward on their DE return in years following the loss. DE conforms to the federal asset expense election under §179.
8. For the 2012 and 2013 tax years, the income tax rate for income in excess of $60,000 will decrease from 6.95 to 6.75%.

9. Effective for qualified veterans hired on or after Jan. 1, 2012, the refundable Veteran’s Opportunity Credit can be awarded to employers hiring qualified veterans.

10. For tax periods beginning after Dec. 31, 2010, nonresident corporations, flow-through entities, and individuals must pay estimated tax on the income and gain recognized from the sale or exchange of DE real estate (see Form 5403).

11. E-filing is allowed for residents, non-residents and part-year residents, but is not required. Similarly, DE accepts online payments for personal income tax (estimated, final, and balances due).

**DISTRICT OF COLUMBIA (DC)**

1. Individual income tax returns are due on April 15. DC no longer mails paper packages to the individual's home; the taxpayer must download form online. An extension of time to file of six months may be filed by April 15 with payment using Form FR-127. If no balance is due, a timely federal extension is accepted.

2. DC imposes a franchise (income) tax on unincorporated businesses. Certain professional and personal services entities are exempt from this tax. Rental real estate is considered an unincorporated business.

3. Individuals that are part of an unincorporated business are allowed to subtract their share of income that was reported and taxed on a DC franchise or fiduciary tax return.

4. Individuals that are part of an unincorporated business must add back their respective share of deductions (i.e. salary expense) taken by the unincorporated business in calculating its franchise tax.

5. The salary expense deduction on DC Form D-30 cannot be in excess of 30% of the unincorporated business's net income not including the salary expense deduction.

6. DC is prohibited from imposing a net personal income tax on nonresident individuals. However, nonresidents in receipt of income subject to DC income tax must file a return per §47-1805.02 of the DC Code.

7. DC does not conform to the federal bonus depreciation provisions of JCWAA 2002, JGTRRA 2003, or ESA 2008. DC also does not conform to the increased §179 expensing of business assets, the NOL provisions of the Acts, or §199.

8. DC’s version of the federal §529 college savings plan allows a $4,000 annual deduction ($8,000 if married filing jointly and both own accounts) for plan contributions. Amounts contributed greater than $4,000 in any one tax year may be carried forward, subject to the annual limit, as a deduction in subsequent tax years, up to five years from the contribution date.

9. The DC Earned Income Tax Credit (EITC) is a special tax break, based on the federal EITC, designed specifically for low- and moderate-income workers. People who qualify for the EITC will pay less in taxes or even get cash back. The DC EITC has been expanded to non-custodial parents. This credit is equal to 40% of the federal credit allowed for tax years beginning after Dec. 31, 2007.

10. Up to $10,000 income exclusion available for disabled persons with a household AGI less than $100,000.

11. The top individual income tax rate is 8.95%.

12. Beginning in 2008, domestic partners may file either a joint return or file separately on the DC Individual Tax return. DC recognizes all marriages legal in the state where the marriage was entered. Married taxpayers must file jointly or as married filing separately.
13. As of Jan. 1, 2006, the cost of any healthcare insurance premium, paid by an employer for a non-employee domestic partner registered with the Vital Records Division of the DC Department of Health, is excluded from the calculation of the employee domestic partner’s DC gross income.

14. Individual returns are allowed to be e-filed, and payment options include: electronic check, credit card, online payment, or check by mail.

15. DC has made revisions to its definition and treatment of Qualified High Technology Companies (QHTC) effective March 5, 2013. Changes include:
   a. Companies must have two or more employees in DC and derive at least 51% of qualified gross revenues in DC.
   b. Sales of certain QHTC assets are no longer excluded from DC gross revenues.
   c. QHTCs that were certified prior to Jan. 1, 2012 shall not be subject to the unincorporated business tax for five years after commencing business in DC.
   d. QHTCs that were certified after Jan. 1, 2012 shall not be subject to the unincorporated business tax for five years after having taxable income.
   e. The total amount of exemptions a QHTC may receive shall not exceed $15 million.

16. DC will begin intercepting income tax refunds for debts owed to the Department of Motor Vehicles in addition to unpaid income taxes, unpaid child support, overpayment of unemployment insurance, and non-tax federal debt from DC vendor payments.

17. DC has ruled that filing an incorrect tax return may trigger the statute of limitations.

18. DC allows a $3,000 subtraction from income for DC and federal government pensions paid to taxpayers age 62 or more.

19. Social Security income is not taxable for DC purposes.

20. DC does not tax state and local municipal bond interest from any state.

21. The 2015 Fiscal Year Budget Act was presented to Congress for a 30 day approval period in July 2014. Without Congressional action to overturn the Act, the following changes become effective for the taxable years beginning after Dec. 31, 2014:
   a. Tax rates for unincorporated businesses are reduced from 9.975% to 9.4%. Incremental reductions in the rate are possible over following years to as low as 8.5% if certain revenue targets are met.
   b. Tax rates for individuals earning $40,000 to $60,000 are reduced to 7%. Incremental reductions in the tax rate for that income bracket are possible over the following years to as low as 6.5% if certain revenue targets are met.
   c. The standard deduction increases to $5,200 for single taxpayers, $6,650 for heads of household, and $8,350 for married taxpayers.
   d. If certain revenue targets are met, an 8.75% tax rate for individuals earning $350,000 to $1 million in tax years beginning after 2015.

**FLORIDA (FL)**

1. FL does not impose an individual income tax, and has repealed the intangibles tax effective Jan. 1, 2007.

**GEORGIA (GA)**

1. Individual income tax returns are due on April 17. GA grants an automatic six month extension if a federal extension is filed. If a federal extension is not filed, the taxpayer may file GA Form IT 303. If payment is due, the taxpayer should submit Form IT 560 with payment on or before April 17.
2. GA generally recognizes elections made by individuals under the IRC. If the husband or wife is a resident and the other is a nonresident with no GA income, they may file separately or jointly claiming total allowable deduction. Legal residents of other states are not required to file GA return if their only activity in GA is performing a service for an employer and the wages associated with these services do not exceed the lesser of 5% of the income received in all places during the year or $5,000.

3. GA taxpayers must attach pages one and two of their federal return to GA Form 500 if AGI is greater than $40,000 or if AGI is less than W-2 earnings. Also, regardless of income, if deductions are itemized on the federal Form 1040, a copy of federal Schedule A must be included with the GA tax return.

4. The tax refunds received from states other than GA may be deducted from taxable income if these amounts were included in Federal AGI.

5. GA taxpayers must add dividend and interest income received from non-GA municipal bonds that were excluded from federal taxable income.

6. GA allows taxpayers age 62 and older, or permanently and totally disabled, to exclude up to $35,000 for tax years beginning on or after Jan. 1, 2008. In 2012, taxpayers age 65 or older may exclude $65,000 of retirement income. This increases to $100,000 for 2013, $150,000 for 2014, and $200,000 for 2015. Effective in 2016, taxation on retirement income is completely eliminated for those ages 65 and older.

7. Social Security income is not taxable for GA purposes.

8. Lottery prizes from the GA Lottery Corp. of $5,000 or more are subject to withholding and taxable to nonresidents as well as residents of GA.

9. Generally, nonresident partners are subject to GA filing requirements. However, income derived by nonresident partners of GA partnerships is not taxable, and the nonresident partners do not have a filing requirement if the partnership derives income exclusively from dealing in securities on its own behalf.

10. GA has not adopted the IRC provisions for computing the additional depreciation deduction provided under the JCWAA 2002, JGTRRA 2003, or ESA 2008. As such, GA will not allow either 30% or 50% bonus depreciation.

11. GA has not adopted the NOL adjustments made by the JCWAA 2002. As such, GA will continue to use the two year NOL carryback provision allowed under the old federal law. Additionally, GA taxpayers cannot use losses incurred while not subject to GA income tax.

12. GA generally conforms to the IRC as of Jan. 1, 2014.

13. GA does not have an AMT.

14. School teachers computing GA personal income taxes may claim the $250 expense deduction allowed by §62(a)(2)(D) to the extent the deduction has not been included in federal adjusted gross income and the expenses have not been included in itemized non-business deductions.

15. GA provides a tax credit for certain qualified equipment that reduces business or domestic energy or water usage. The credit is the lesser of 25% of the cost of the qualified equipment or $2,500.

16. Effective May 20, 2010, GA counties and municipalities may no longer levy or collect income taxes from corporations, individuals or fiduciaries.

17. GA amended its definition of “taxable nonresident” to include individuals who

1) regularly engaged in activity for gain or profit in GA in a prior year,
2) received income from such activity in the form of deferred compensation or stock options, and
3) whose income exceeded the lesser of 5% of the income received in all places during the taxable year or $5,000.
18. Qualified Education Expense Credit – a student scholarship organization (SSO) must obligate for scholarships/tuition grants at least 90% of its annual revenue, and that the audit conducted by a CPA verifies that the proper amount received from donations was obligated. Additionally, the number of days allowed for a taxpayer to make a contribution after receiving preapproval for a donation is 60 days. Credit allowed is actual amount expended or $1,000 for single or head of household or $2,500 for married filing jointly.

19. Effective Nov. 23, 2010, the commissioner may mandate electronic filing for any return preparer that is required to e-file the federal counterpart of such return, report, or other document.

20. Qualified Investor Tax Credit – This provides a 35% credit for amounts invested in certain GA headquartered small businesses. However, the aggregate amount of credit allowed an individual for one or more qualified investments in a single taxable year, whether made directly or by a pass-through-entity and allocated to such individual, shall not exceed $50,000. The credit is available for investments made in tax years 2011 to 2015. The credit is claimed two years later, in tax years 2013 to 2017 respectively. The taxpayer must obtain approval between Sept. 1 and Oct. 31 of the year the credit is claimed as provided in O.C.G.A. Section 48-70.30 before claiming the credit. This became effective Jan. 1, 2011.

21. As of May 13, 2011, with respect to the nonresident withholding, the person or entity identified as the seller on the settlement statement on the sale or transfer of real estate is considered the seller for all purposes regarding Code §48-7-128.

HAWAII (HI)

1. The HI individual income tax, which is imposed at graduated tax rates over several tax brackets, has been substantially revised for high-income taxpayers for the 2009 tax year and thereafter. Historically, the top individual income tax rate was 8.25% for HI taxable income over $96,000 (if filing married (joint) or surviving spouse), over $72,000 (if filing head of household) and over $48,000 (if filing individual and married (separate)). Three new tax rates have been enacted. A 9% marginal tax rate will apply to HI taxable income between $300,001 and $350,000 for married (joint) and surviving spouse filers (between $225,001 and $262,500 for head of household filers, and between $150,001 and $175,000 for individual and married (separate) filers). A 10% marginal tax rate will apply to HI taxable income between $350,001 and $400,000 for married (joint) and surviving spouse filers (between $262,501 and $300,000 for head of household filers, and between $175,001 and $200,000 for individual and married (separate) filers).

Finally, an 11% marginal tax rate will apply to HI taxable income over $400,000 for married (joint) and surviving spouse filers (over $300,000 for head of household filers, and over $200,000 for individual and married (separate) filers). There are modest increases to the standard deduction and allowable personal exemption amounts that do not take effect until 2013 but will be permanent when implemented. Also, for taxable years after 2010 and before 2016, limitations are imposed on the amount of itemized deductions available for high-income taxpayers.

2. Taxes paid to other states or foreign countries (to the extent not taken as a credit on the federal return) can be taken as a deduction as well as a credit (after federal limitation).

3. HI conforms to the IRC as of Jan. 2, 2013 for taxable years after 2013. However, HI decouples from numerous IRC provisions, including: the §199 deduction for US production activities; the §108(i) deferral of cancellation of indebtedness income; §163(e)(5)(F) (suspension of applicable high-yield discount obligation (AHYDO) rules); §163(i)(1) (defining AHYDO) as it applies to debt instruments issued after Jan. 1, 2010; §382(n) (special rule for certain ownership changes under TARP); §1202(a)(3) (increase in exclusion for small business stock gain provision for 2009 and 2010 under ARRA 2009); and §§1374(d)(7)(B), (C) (reduction of built-in gain recognition for S corporations).
4. Employer-funded pension plan distributions are not taxed by HI. For more information on the taxation of pensions, see sections 18-235-7-01 to 18-235-7-03, HI Administrative Rules, Tax Information Release No. 90-4, "Taxability of Benefit Payments from Pension Plan to Participants who Attain Age 70-1/2 as Required by the Internal Revenue Code Section 401(a)(9)(C)", and Tax Information Release No. 96-5, "Taxation of Pensions Under the HI Net Income Tax Law: Deferred Compensation Arrangements; Rollover IRAs; Sub-Accounts of Pension Plans; Social Security and Railroad Retirement Act Benefits; Limitation on Deductions for Contributions to a Nonqualified Plan."

5. Effective July, 2009, HI has enacted legislation that applies penalties for:
   i. understating a taxpayer’s liability by tax return preparers;
   ii. promoting abusive tax shelters;
   iii. making erroneous claims for refund or credit;
   iv. reporting substantial understatements or misstatements of tax; and
   v. extending the statute of limitations when there have been substantial omissions.

Regulations for new tax shelter provisions were released, which includes substantial conformity to the §6694 regulations.

In addition, the HI rules are noteworthy in that the term "substantial authority" is defined in detail. The DOR has authority to list state-specific transactions that are subject to disclosure requirements, but has not done so yet. The penalty for an erroneous claim for refund or credit already imposed by HI statute will not be imposed if there is "reasonable basis" (which includes miscalculations, and positions that have a 25% or greater chance of success).

6. There are no rules authorizing the use of e-filing for individual tax returns, except that for tax returns due after May 31, 2009, the HI Director of Taxation is authorized to require persons required to e-file a federal return to e-file a HI tax return. An exemption from the e-filing requirement is available for good cause.

7. Generally, taxpayers whose HI tax liability exceeds $100,000 in the taxable year are required to e-pay such tax. Further, employees with withholding tax liability over $40,000 annually must remit via e-payment. Notwithstanding such thresholds, for tax returns due after May 31, 2009, and for wages paid on or after Jan. 1, 2010, the HI Director of Taxation is authorized to require persons required to make federal e-payments to make e-payments of HI tax. An exemption from the e-payment requirement is available for good cause.

8. If the taxpayer owns a business or has rental income in HI, verify filing of HI general excise and use tax returns, and transient accommodations tax for transient rentals.

IDAHO (ID)

1. Additions to federal adjusted gross income for purposes of determining ID taxable income include: bonus depreciation, federal NOL deduction, capital loss carryforward incurred outside the state before becoming an ID resident, non-ID exempt interest (net of the costs of carrying those exempt obligations), nonqualified withdrawals from ID college savings account, withdrawals from medical savings account that were not used to pay qualified medical expenses and the above-the-line deduction for educator expenses.

2. Additional deductions for health insurance may be allowed in excess of federal limits. The full amount of premiums paid for long-term care and health insurance may be deducted from ID personal taxable income. Legal and medical expenses associated with the successful adoption of a child may also be allowed as a subtraction from federal adjusted gross income (up to a maximum of $3,000).
3. Subtractions to federal adjusted gross income for purposes of determining ID taxable income include: ID depreciation for assets with federal bonus depreciation, qualified federal and state pension benefits received by certain taxpayers, active duty pay of certain military personnel, the ID NOL, Social Security benefits, benefits paid by the Railroad Retirement Board, a percentage of the cost of alternative energy devices installed in ID residences, amount paid to install additional insulation in qualified ID residences, FMV to technological equipment donated to certain schools or libraries, qualified contributions to ID college savings program accounts and employment-related child and dependent care expenses, up to specific limits.

4. There are credits available for groceries, production equipment using post-consumer or post-industrial waste, contributions to ID educational entities, to ID youth and rehabilitation facilities and maintaining a home for a family member age 65 or older or developmentally disabled.

5. The filing requirement for nonresident and part year residents is more than $2,500 of ID gross income.

6. Taxpayers are required to pay the permanent building fund tax of $10 if required to file an ID income tax return.

7. ID taxpayers may subtract from federal AGI 60% of the capital gain net income from the sale of qualified ID property. This subtraction is limited to the amount of capital gain net income from all property included on the federal return. Ordinary gains do not qualify for subtraction.

8. ID allows the larger of ID itemized deductions or the ID standard deduction. It is not necessary to use same method as on federal return. A taxpayer must itemize in certain situations.

9. ID has separate NOL provisions. Accordingly, the NOL deduction claimed on the federal return must be added back to arrive at ID income. For tax years prior to 2013, the loss generally must be carried back two years, unless the taxpayer elects to forego the carryback by checking a box on the tax return. For tax years beginning on or after Jan. 1, 2013 NOLs can be carried back two years only if an amended return carrying the loss back is filed within one year of the loss year (e.g., for a loss year ended Dec. 31, 2013 the amended returns must be filed by Dec. 31, 2014). The increased carryback provided by 2009 federal law is not allowed for ID purposes. The carryback is limited to $100,000. The loss may be carried forward 20 years.

10. ID did not conform to the 30%/50%/100% federal bonus depreciation found in §168(k).

11. ID does not require quarterly estimated payments for individuals. Penalties can be avoided by paying (by return due date) > 80% of current year or 100% of prior year tax, provided that any balance due is paid at the earlier of the extended due date or the date the return is filed. If the payment needed to meet the threshold percentages by the original due date is $50 or less, such payment is not required to qualify for extension.

12. Electronic payments are allowed, but not required for individuals.

13. E-filing of individual returns is allowed but not required.

ILLINOIS (IL)

1. IL requires quarterly estimated payments for individuals if the amount payable as estimated tax can reasonably be expected to be more than $500. Failure to Pay Estimated Tax Penalties may be avoided by paying (on or before the estimated tax payment due date) the greater of 90% of the current year tax or

   i. 150% of prior year’s tax for payments due between Feb. 1, 2011 and Jan. 31, 2012 (note the percentage was increased because of the tax rate increase effective for taxable years beginning on or after Jan. 1, 2011),

   ii. 100% of the prior year’s tax for payments due prior to Feb. 1, 2011 or after Jan. 31, 2012.

2. For individuals with an annual tax liability over $200,000, payments must be made electronically.

3. Effective Jan. 1, 2012 tax preparers who prepare more than ten IL individual income tax returns must file them electronically. If a client refuses to allow their return to be filed electronically, then they must sign a Form IL-8948 Electronic Filing Opt-Out Declaration.
4. Be careful to correctly compute limitations for the credit for tax paid to other states. For tax years ending on or after Dec. 31, 2009, the limitation was changed to be computed based on income sourced to other states using Illinois sourcing rules. For tax years prior to Dec. 31, 2009, the limitation was computed based on income that was subject to tax by more than one state (see Publication 111 for proper computations) (this credit is taken on Schedule CR of the 1040).

5. IL does not tax most retirement pensions or annuities, which include payments from qualified employee benefit plans, social security, IRAs, Keogh plans, etc. Early distributions from qualified plans and IRAs are also exempt from IL income tax. Rollovers of regular IRAs into Roth IRAs are not taxed. IL does not tax retirement payments to retired partners.

6. A subtraction is only allowed for the amount of military pay received while on active duty in the US Armed Forces or National Guard, or as a cadet at US Military, Air Force, and Coast Guard Academies.

7. With certain exceptions, IL taxes interest received from IL municipal obligations (see Publication 101).

8. The credit for IL property tax is allowed only if the taxpayer's principal residence during the prior year was in IL (see Publication 108).


10. Effective for taxable years ending after Aug. 12, 1999, taxpayers may deduct from federal adjusted gross income all interest and expenses related to producing tax exempt income that are disallowed as federal deductions under §265.

11. IL does not conform to the federal bonus depreciation provisions. However, for 100% bonus depreciation, the add-back and subtraction both occur in the same year because the first year is also the final year that the asset is depreciated for federal purposes. As a result, in the instructions to Form IL 4562, the IL DOR instructs taxpayers not to add back the 100% bonus depreciation.

12. For individuals IL conforms to the federal NOL provisions including the extended five year carryback of the ARRA 2009.

13. Schedule M is used to report Other Additions and Subtractions for Individuals. The form includes an addition line for recapture of deductions for contributions to in-state college savings plans when funds are transferred to an out-of-state plan and a subtraction line for railroad unemployment income. In addition, earnings from out-of-state plans that meet certain disclosure requirements do not have to be added back on Schedule M, Line 5. Other additions to federal adjusted gross income include IL income tax deducted from a business on the federal return and amounts related to bonus depreciation.

14. IL has reciprocal agreements with IA, KY, MI, and WI.

**INDIANA (IN)**

1. Electronic payments are allowed, but not required for individuals.

2. Tax preparers that prepared more than 100 IN individual income tax returns (the 2012 threshold is 50 returns; 10 returns thereafter) in the prior year, must file returns electronically. If a client refuses to allow their return to be filed electronically, then they must sign a form IN-OPT Electronic Filing Opt-Out Declaration.
3. IN is reducing the individual income tax rate. For tax years prior to 2015 the tax rate is 3.4%. For tax years after Dec. 31, 2014 and before Jan. 1, 2017 the tax rate is 3.3%. For tax years after Dec. 31, 2016 the tax rate is 3.23%.

4. Taxpayers must add back to income any deduction claimed on the federal return for:
   - amounts claimed as state income tax on federal Schedules C, E, and/or F,
   - NOL deductions (see point 7),
   - income from Lump Sum Distributions excluded from AGI,
   - domestic production activities deducted under §199,
   - bonus depreciation (see point 8),
   - expenses deducted under § 179 (see point 8),
   - cancelation of indebtedness income (see points 10 and 11),
   - charitable distributions from an IRA deducted under §408(d)(8),
   - qualified tuition and related expenses deducted under §222,
   - certain expenses of school teachers deducted under §62(2)(D),
   - certain employer-provided education expenses deducted under §127,
   - qualified transportation fringe benefits deducted under §132(f)(1)(A) and (B),
   - a portion of the qualified student loan interest expenses deducted under §221, and
   - many additional items are added back for other provisions of the IRC that were not adopted.

5. Individuals may take a deduction for:
   - up to $2,500 of IN real estate tax paid on principal residence,
   - up to $3,000 of rent paid for principal place of residence if rented property was subject to IN property tax,
   - up to $5,000 of military service income, which includes active, reserve or retirement income (if over age 60) (maximum up to $10,000 for both spouses),
   - up to $2,000 of civil service annuity income (if over age 62) per qualified person (maximum up to $4,000 for both spouses),
   - up to $1,000 for qualifying installation of new insulation, weather stripping and storm doors or windows,
   - up to $2,000 of income that is taxed by a non-IN locality (maximum up to $4,000 for both spouses),
   - up to $1,000 per child for unreimbursed education expenditures for private elementary or high school,
   - up to $1,000 for solar powered roof vent or fan is installed on a building owned or leased by an individual, the deduction is 50% of the amount paid for labor and materials for the installation or $1,000,
   - “qualified” IN partnership long-term care policy premiums (for any portion not already deducted as federal self-employed health insurance),
   - up to $7,500 of qualified income earned by a qualified employees who reside in and are employed by an exempt employer in designated enterprise zones, the deduction is half of the earned income reported on the IT 40QEC or $7,500 (maximum of $15,000 for both spouses),
   - up to $5,200 per qualifying individual for disability retirement income.

6. An exemption is provided against certain IN state lottery winnings.

7. IN does not tax social security income or benefits issued by the Railroad Retirement Board.

8. IN requires the add back of a federal NOL and allows a subtraction of an IN NOL. Beginning in 2012, IN does not allow NOL carry backs. IN NOLs may be carried forward for 20 years. However, for losses incurred prior to Jan. 1, 2012, IN NOLs may be carried back two years and carried forward 20 years. Eligible small businesses, as defined for federal purposes, that made a federal election to use a three, four, or five-year carryback instead of two, must use a two-year period for state purposes.

9. IN does not conform to the federal bonus depreciation provisions under §168(k) or the increased expensing election under §179.

10. IN allows a deduction for a portion of unemployment compensation included in federal AGI, note that this deduction is phased out based on federal AGI.
11. Beginning Jan. 1, 2009, IN requires taxpayers to add back to federal adjusted gross income the amount excluded from gross income under §108(a)(1)(e) for the discharge of debt on a qualified principal residence.

12. Beginning in 2009, taxpayers are required to add back an amount equal to the excluded income as a result of the deferral of income arising from business indebtedness discharged in connection with the reacquisition after Dec. 1, 2008, and before Jan. 1, 2011, of an applicable debt instrument, as provided in §108(i). A related subtraction is allowed when the deferred income is later included in federal gross income.

13. The credit for taxes paid to other states includes taxes paid to any foreign countries or US possessions (Form 1116 attachment).

14. IN provides for a number of tax credits for various economic development programs, employment programs, environmental programs, alternative fuel programs, contributions to IN colleges and universities, contributions to §529 plans and IN 21st Century scholars program support fund.

15. IN counties may impose either a county adjusted gross income tax (CAGIT) or a county option income tax (COIT) but not both. A county economic development income tax (CEDIT) may also be imposed in addition to the CAGIT or COIT. Residency is determined upon entering/exiting IN based on Jan. 1 of each tax year.

IOWA (IA)

1. IA computes an IA minimum tax. Most IA preference items are the same as federal preference items. One may be subject to IA minimum tax even if they are not subject to Federal minimum tax (see Form IA 6251).

2. Because IA tax is calculated utilizing the same tax rate table regardless of filing status, it is generally more beneficial for married taxpayers to use “married filing separately on combined return” rather than “married filing jointly” if both spouses have income, as a combined return allows each spouse to utilize the IA progressive rates. Properly allocate income and deductions between spouses on a combined return, in order to calculate the proper deduction for federal taxes paid (utilizing federal taxes withheld and the ratio of each spouse’s income not subject to withholding) and federal tax refunds received (based upon prior year IA net income). IA recognizes same sex-married couples.

3. IA allows a deduction for federal income taxes paid during the year. Taxpayers essentially deduct federal income taxes paid or accrued less any federal income tax refunds received during the tax year.

4. Although IA allows a deduction in computing net income for one half of self-employment tax paid, no self-employment tax is allowed in the IA federal tax deduction. FICA payments in excess of the limit for each person are deductible.

5. IA allows a deduction for 100% of health and dental insurance premiums paid; any premiums deducted in full on the first page of the return, cannot be included in medical expenses deducted as an itemized deduction. This includes Long Term Care premiums if allowed as a federal itemized deduction.

6. Many taxpayers may be able to itemize deductions for IA purposes, even though they do not itemize on the federal return, due to IA’s small standard deduction. This is especially applicable to high-income taxpayers, whose itemized deductions may be limited for federal tax purposes.

7. With respect to the treatment of retirement income, IA allows an exclusion for pension income of $6,000 for individuals, including surviving spouses and other survivors, or $12,000 for married couples filing jointly and married couples filing separately on the combined return form if both spouses qualify. In addition, IA has instituted a phase-out of the taxability of social security benefits, culminating in 2014 when SS benefits will be completely non-taxable. Taxpayers are allowed to take the following subtraction modification of 55% of taxable social security benefits in 2010. The modification increases to 67% in 2011, 77% in 2012, 89% in 2013, and a full exclusion beginning in 2014.
8. IA allows a greater deduction for charitable mileage, an increased eligibility for the student loan interest deduction, increased expense amount for child and dependent care credit, and allows teachers to deduct the first $250 of out of pocket expenses for classroom supplies.

9. IA allows a 100% exclusion for capital gains earned on the sale of certain assets.

10. IA resident shareholders of S corporations that do business within and outside of IA are allowed to calculate taxable income by allocating and apportioning their pro-rata share of income from the S corporation. A rule is amended to clarify what is considered a distribution for purposes of the apportionment of income for resident shareholders of S corporations. For tax years beginning after 2003, any distributions paid from income apportioned outside of IA for tax years in which a resident shareholder elected to apportion income within and without IA are considered distributions for which IA tax has not been previously paid. Distributions treated as a return of capital for federal income tax purposes for tax years beginning prior to 2004 are considered distributions from income previously taxed by IA. If distributions during a year exceed the current income of an S corporation, then excess distributions are considered to be made in the following order:

1) from the immediately preceding year's income of the S corporation,
2) to each preceding year's income of the S corporation in reverse chronological order, and
3) in accordance with the ordering rules of § 1368.

4) With respect to bonus depreciation, IA does not conform to the extension of 50% bonus depreciation to qualifying property acquired after Dec. 31, 2007 and placed in service before Jan. 1, 2013, and does not conform to the 100% bonus depreciation provided for federal purposes for qualified property acquired between Sept. 8, 2010 and Dec. 31, 2011 and placed in service prior to Jan. 1, 2012. IA generally conforms to the §179 asset expense election and increases in the expensing amount, though IA did not conform to the increased expensing amount for the 2009 tax year.

5) A tuition and textbook credit of 25% of the first $1,000 spent for dependents on tax returns is available. In addition, a tax credit for contributions to a school tuition organization is allowed. The tax credit is equal to 65% of the contribution made and is nonrefundable, but may be carried over to the next five years' tax liability. The contribution may not be claimed as an itemized deduction for charitable contributions from IA income tax.

6) An early childhood development tax credit is available for individual income tax equal to 25% of the first $1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. The credit is only available to taxpayers whose net income is less than $45,000. If the taxpayer claims the early childhood development tax credit, the taxpayer cannot claim the IA child and dependent care credit.

7) Federal income tax refunds received during the year are taxable, except for refunds received that are based on the Earned Income Tax Credit, Additional Child Tax Credit, or First-time Homebuyer Credit.

KANSAS (KS)

1. Perhaps the most unique item related to KS began in 2013, when the State eliminated taxation on small business and farm income. Beginning in 2013, KS eliminated individual income tax on business income earned in sole proprietorships and Pass-through entities, as well as royalty, rental and farm income.

2. In 2013, KS began to phase in a limitation of itemized deductions through 2017, when itemized deductions, other than §170 charitable deductions, will be limited to 50% of federal adjusted gross income.

3. Also, in 2013, KS disallowed the use of NOLs of an individual from years prior to 2013 for use in 2013 and later years.

4. A nonresident who receives income from KS sources must file a KS individual income tax return regardless of the amount of KS source income. A resident is a person who spends more than six months of the taxable year in KS.
5. A part-year resident has the option of filing as a resident or a nonresident. Complete the part-year residency dates at the top of the K-40. Use the most beneficial method. If filing as a resident all income is taxed as KS, then a credit can be taken for taxes paid to another state. A nonresident will complete Schedule S, Part B to determine the nonresident allocation percentage to compute nonresident tax.

6. A military person stationed in KS (if not a KS resident) needs to file a nonresident KS return only if the person (or spouse if filing jointly) received income from KS sources.

7. A nonresident reports income from KS sources. This does not include interest, dividends, annuities or gains from the sales or exchange of intangible property, such as bank accounts, stocks or bonds, unless earned by a business, trade, profession or occupation carried on in KS.

8. A part-year resident filing as a nonresident includes
   1) income,
   2) gain,
   3) loss or deduction received while a KS resident whether or not from KS sources,
   4) unemployment compensation derived from sources in KS, and
   5) any income from KS sources while a nonresident of KS.

9. Adjustments and modifications to KS source income on Schedule S, Part B are allowed only as they apply to income related to KS.

10. Interest income received from other states and local municipalities outside of KS is included in taxable income.

11. State taxes measured by net income or imposed in lieu of net income and excluded from federal taxable income are included in KS taxable income. KS allows a credit for taxes paid in another state.

12. KS pension plan payments are exempt from KS income tax.

13. Military Retirement Benefits and Civil Service Retirement Annuities are exempt from KS income tax.

14. For 2008 and thereafter, taxpayers with a federal adjusted gross income of $75,000 or less may subtract Social Security benefits in determining KS adjusted gross income.

15. Some taxpayers in certain areas of KS are subject to the intangible tax. There is a senior citizen exemption available.

16. Determine the applicability of various KS Tax Credits including the following:
   • “Assistive Technology” contribution credit for a family or individual whose household income is less than 300% of the federal poverty level. The credit is 25% of any amount placed in an individual development account to be used to purchase equipment or items that increase, maintain or improve functional capabilities of individuals with disabilities.
   • 50% credit for contributions made to the KS community entrepreneurship fund. The credit is limited to $50,000/year for individuals. The contribution for which the credit is claimed must be added back.

17. A deduction from federal AGI may be claimed of up to $500 (increasing by $100/year up to a maximum of $1,000) for qualified long-term care insurance premiums.

18. Beginning Jan. 1, 2005, the deduction for contributions to college savings plans are increased to $3,000/year for individuals and $6,000 for married couples filing joint returns.

16. Electronic filing is mandated for paid tax preparers that prepare 50 or more resident, nonresident, and part-year resident income tax returns during any calendar year, in which case 90% of returns must be electronically filed.

17. A social security number is now required for claiming credits.
18. Taxpayers who are partners or shareholders of an S Corporation are no longer required to compute a separate KS basis for their partnership interests or basis in S Corporation stock.

KENTUCKY (KY)

1. For tax years beginning on or after Jan. 1, 2010, a personal income tax return filed by a "specified tax return preparer," as defined by federal law, must be electronically filed if the specified tax return preparer is required to electronically file the return for federal income tax purposes. A return processing fee of $10 applies to each return not electronically filed as required.

2. Retirement and pension income is fully excludable for KY income tax purposes up to $41,110.

3. KY requires a taxpayer to make payments of estimated taxes when his/her gross income from sources other than wages upon which KY income tax will be withheld, can be reasonably expected to exceed $5,000 for the taxable year. Also, no estimated tax payments are required if the tax liability can reasonably be expected to be $500 or less.

4. KY has a reciprocity system with IL, IN, MI, OH, VA, WV, and WI that exempts compensation income earned in these states from KY income tax. This exemption does not apply to income other than compensation.

5. KY credit for taxes paid to other states is available to KY full-year and part-year residents but is applicable only to tax paid on income from non-KY sources that are taxed in both KY and another state. When KY law exempts income from KY taxable income but another state does not exempt the income, no credit is available for the income tax paid to the other state that was excluded from KY taxable income.

6. Municipal interest income for sources outside of KY is taxable to KY residents.

7. Interest earned on US obligations is excluded from KY taxable income.

8. A family size tax credit has replaced a low-income credit. The credit is dependent upon family size and corresponding income levels.

9. Long-term care insurance and medical coverage premiums paid with after-tax income are deductible from AGI.

10. KY allows various business credits relating to economic development projects, enterprise zones, Bluegrass Skills Training, hiring of unemployed, recycling and composting.

11. The teachers and other educators’ out-of-pocket expenses for classroom supplies deduction, allowed for federal purposes, are not deductible for KY tax purposes.

12. NOL carryback deductions are not allowed for tax years beginning on or after Jan. 1, 2005.

13. Members of the armed service that are stationed in a presidential designated combat area are not required to file and pay taxes during their period of service. The extension is for 12 months after the service is completed. Any income earned in a combat zone that is exempt for federal tax purposes is also exempt for KY tax purposes.

14. KY allows a child and dependent care tax credit, which is equal to 20% of the credit allowed for federal tax purposes.
15. Individual owners of S corporations, limited liability companies (LLCs), limited partnerships, limited liability partnerships (LLPs), and other limited liability entities that are subject to the KY corporation income tax are not required to make personal income tax estimated payments based on the owner's distributive share of pass-through entities income. Pass-through entities, other than general partnerships, must pay installments of estimated tax if income tax liability for the taxable year is expected to exceed $5,000. Individual taxpayers that own an interest in one of these corporations will receive a share of the tax paid by the entity to use as credit against tax due on the pass-through entity's distributive income. Note, effective for tax years beginning on or after Jan. 1, 2007, pass-through entities are treated the same as for federal purposes; therefore individual estimated payments may be required.

16. Effective for calendar years beginning on or after Jan. 1, 2007, the reciprocity agreement with OH shall not apply with respect to wages which an S corporation pays to a shareholder-employee if the shareholder-employee is a “20% or greater” direct or indirect equity investor in the S corporation. Those wages referenced will be taxable to KY and not eligible to be exempted under the reciprocal agreement.

17. KY does not impose an AMT.

18. For 2009 and prior years, KY follows federal treatment of §199 because the starting point for KY taxable net income is federal taxable income before the net operating loss and special deductions. 2010 KY legislation decouples from the §199 deduction for tax years beginning on or after Jan. 1, 2010, taxpayers must add back the §199 deduction but may then deduct a KY §199 deduction. The KY §199 deduction will be limited to 6% compared to the federal deduction which is currently 9%.

19. Effective Jan. 1, 2011, a 20% income tax credit is available through the Endow KY Program and is available to eligible taxpayers who donate money to permanent endowment funds of qualified community foundations. Limited to $10,000 per donor per taxable year. Taxpayers must apply for the credit. See program requirements for additional information. The New Markets Development Program Credit is a 39% credit available to taxpayers making an endowment gift to a permanent endowment fund of a qualified community foundation or county-specific component fund or affiliate community foundation. Must apply to DOR for certification (see program guidelines for additional information).

20. For tax years beginning on or after Jan. 1, 2012, pass-through entities required to withhold KY income tax or file a composite income tax return must make a declaration and payments of estimated tax if a nonresident owner's estimated tax liability can reasonably be expected to exceed $500. The threshold for a nonresident corporate partner or member is $5,000.

21. Beginning Jan. 1, 2012, tax preparers who file more than 11 individual income tax returns are required to file their clients’ returns electronically.

22. A tax amnesty program of at least 60 days and not more than 120 days will be available to taxpayers during the fiscal year ending June 30, 2013. The program will apply to all tax types, with the exception of property taxes and penalties relating to cigarettes or fuel taxes, related to transactions or tax liabilities for the period of Dec. 1, 2001 to Oct. 1, 2011.

LOUISIANA (LA)

1. LA allows a deduction for federal income taxes in computing LA taxable income.

2. Consider deducting the optional federal income tax deduction, which is increased by the amount of the foreign tax credit, rather than taking the credit on the LA return (which will be limited to $25).

3. If a taxpayer has claimed federal disaster relief credits, a modified federal tax deduction is calculated for the taxpayer’s LA return. This modified FIT deduction is increased for the amount of these credits claimed.
4. Non-resident individuals are allowed to carryback and carryforward their LA NOLs. LA NOLs may be carried and used in the same manner that would be allowed for federal purposes if the non-resident individual’s federal return consisted of only the LA items of income and loss. Louisiana does not have an amended individual form. Form IT-540B is used and marked as “amended” on the top in the designated box.

5. LA conforms to the bonus depreciation and NOL provisions of the federal JCWAA 2002 and JGTRRA 2003.

6. LA does not tax Social Security benefits that may be included on the federal income tax return.

7. LA does not tax retirement benefits received from the LA State Employees Retirement System, the LA State Teachers’ Retirement System, or the Federal Retirement System specifically. There is a list of additional retirement systems whose benefits are not taxed on the LA website under publication R-40058.

8. LA does not tax up to $6,000 of annual retirement income of taxpayers age 65 or older that is not already specifically exempt from LA taxation.

9. An individual on whom a final and non-appealable assessment or judgment has been imposed for LA personal income tax in excess of $1,000, exclusive of penalty, interest, costs, and other charges, will have his or her driver's license suspended, and the renewal of the driver's license will be denied.

10. LA families are now eligible to receive a child care credit break, even if they have not claimed the applicable federal personal income tax credit. For taxpayers whose federal AGI is $25,000 or less, a refundable credit is available. For taxpayers whose federal AGI is greater than $25,000, a nonrefundable credit may be available.

11. LA Revised Statute 47:6104 provides a School Readiness Credit in addition to the credit for child care expenses for qualified dependents under the age of six who attended a child care facility that is participating in the Quality Star Rating program. In order to receive this credit, a claim for a child care credit must also be taken. This credit is refundable for taxpayers whose federal AGI is $25,000 and under. A reduced non-refundable credit is available for those taxpayers whose federal AGI is greater than $25,000.

12. In Dec. 2006 the LA Legislature enacted Revised Statute 47:6025, which authorized a refundable income tax credit for the LA Citizens Property Insurance Corporation (Citizens) assessments that resulted from Hurricanes Katrina and Rita.


14. For tax years beginning in 2008 only, LA Revised Statute 47:297.7 allows an additional refundable credit of 7% of the property insurance premiums for taxpayers who paid an insurance premium for a homeowner’s insurance policy less the amount of the LA Citizens Property Insurance assessment.

15. Tax preparers who prepare more than 100 LA individual income tax returns during a calendar year must electronically file 30% of the authorized returns due in 2008 and 2009, 60% of the authorized returns due in 2010 and 2011, and 90% of the authorized returns due in 2012 and subsequent years.

16. Beginning with the 2007 tax year, LA allows a deduction for excess federal itemized personal deductions (i.e. the excess of federal itemized deductions over the federal standard deduction) in computing LA Taxable Income. The deduction was phased in over a threeway period. The allowable deduction is 57.5% of the excess federal itemized personal deductions for the 2007 tax year (65% for 2008 and 100% for 2009).

17. Following the U.S. Supreme Court’s recent ruling in DOR of KY vs. Davis, LA DOR will continue to tax interest income from bonds of other states while exempting interest on bonds issued by LA. Also, the LA DOR will not issue refunds to those taxpayers who filed claims for refunds of LA tax paid on interest income on bonds of other states.
18. LA allows an income tax deduction for school tuition and fees paid on or after Jan. 1, 2009 to be deducted on the 2009 income tax return. The deduction is for the tuition and fees paid by a resident taxpayer for a non-public elementary or secondary school or to any public elementary or secondary laboratory school which is operated by a public college or university. The deduction is equal to the lesser of 50% of the actual amount of tuition and fees paid by the taxpayer per dependent or $5,000 per dependent. Tuition includes the purchase of school uniforms required by the schools for general day-to-day use, textbooks, and school supplies. The Board of Elementary and Secondary Education defines an elementary school to include kindergarten, but not pre-kindergarten. A deduction for expenses paid for children who attend pre-kindergarten is not allowed. Extracurricular fees are not eligible for the deductions. Examples of extracurricular fees include athletic fees, band fees, fees for field trips, and pre/after school care even if the fees are related to an academic pursuit (see Revenue Information Bulletin No. 09-019).

19. There is a deduction for net capital gains by resident and non-resident individuals limited to gains recognized and treated for federal income tax purposes as arising from the sale or exchange of an equity interest in or substantially all the assets of a non-publicly traded corporation, partnership, limited liability company, or other business organization commercially domiciled in LA effective for gains recognized on or after Jan. 1, 2010.

20. Beginning with returns due on or after May 15, 2013, individuals needing additional time to file their income tax returns must electronically request an extension of time to file on or before the return due date. Individual income tax returns for calendar year 2012 were due May 15, 2013.

21. Effective for the 2011 tax year, all reports and returns filed by a professional athletic team or professional athlete must be filed electronically with the DOR. Failure to comply with the electronic filing requirement will result in an assessment of a $1,000 penalty per failure.

**MAINE (ME)**

1. Effective for tax years beginning in 2014, the ME personal income tax rate schedule will be replaced, so that there is no ME tax liability on the first $5,200 of taxable income if filing as a single individual or married filing separately ($7,850 and $10,450 for heads of households and married filing jointly, respectively). The new rate brackets will be set at 6.5% and 7.95% (the higher rate applied to ME taxable income of more than $20,900, $31,350 and $41,850 for single filers, heads of households and married filing separately, and married filing jointly, respectively). The AMT has been repealed for tax years beginning after 2011.

2. ME has a variety of credits against tax, including a child and dependent care credit (25% of the federal credit amount), a credit for income tax paid to other jurisdictions, and a new markets capital investment credit (effective for tax years after 2011).

3. ME taxpayers must report the amount of use tax owed. If an exact amount is not known the taxpayer must estimate their use tax liability as 0.08% of ME adjusted gross income. Underreporting of use tax may subject the taxpayer to an assessment for the additional use tax plus interest and penalties.

4. ME provides a capital investment credit equal to 10% of the federal bonus depreciation on property placed in service in ME during the 2011 and 2012 tax years, and 9% of the federal bonus amount for assets placed in-service during 2013. An add back is required for ME with respect to any bonus depreciation taken for federal purposes which the ME Capital Investment Credit is taken. Maine decouples from bonus depreciation for 2014 and beyond.

5. ME does not permit the §199 deduction relating to domestic production activities income and requires an add back for the deferral allowed under §108(i).

6. Generally, individuals who are domiciled in ME are considered residents for ME income tax purposes. However, certain individuals spending significant time outside ME will not be treated as resident individuals even though they are domiciled in ME. Individuals qualifying under either the general or foreign safe harbor rule may file as a part-year residents or nonresidents of ME for the eligible tax period. Important definitions, rounding rules, and several explanatory examples, with calculations, are contained in the ME Revenue Services Guidance to Residency Status.
7. The NOLs disallowed in 2009, 2010, and 2011 can be recaptured beginning in 2012. ME taxable income cannot be reduced below zero, the taxable year must be within the allowable federal period for carryover of the NOL, plus the years in which the restriction was in place, and the amount cannot have been previously used as a modification.

8. For tax years beginning in 2013, ME will limit itemized deductions to $27,500. This amount will be adjusted annually for inflation. For tax years beginning Jan. 1, 2014, this limitation will not apply to medical and dental expenses included in an individual’s Federal itemized deductions on Schedule A. For tax years beginning in 2016, an individual may claim up to an additional $18,000 in charitable contributions in excess of the $27,500 limitation. For tax years after 2016, an individual may be able to claim the total amount of charitable contributions that are included on their Federal Schedule A.

9. For tax years beginning on or after Jan. 1, 2014, the seed capital credit program reduces the credit amount to 50% of the cash invested (previously 60%). Also, the amount of additional seed credit issued are limited to $675,000, $4,000,000, and $5,000,000 for calendar years 2014, 2015, and beginning after 2015. There are additional revisions to the seed capital credit that can be read at [here](#).

MARYLAND (MD)

1. Legally married same-sex couples generally must file their federal income tax returns using either the married filing jointly or married filing separately filing status. MD is a conformity state and generally follows the federal filing status. All legally married couples who file MD income tax returns must select their MD filing status under the same rules.

2. MD has a two-tier income tax; a state portion and a local county portion. Under the state’s interpretation of the law, MD residents were allowed a credit for taxes paid to other states only against the state component of the income tax. The MD Court of Appeals (the state’s highest court) ruled that failure to provide a credit against county tax for taxes paid to other states violated the U.S. Constitution. MD has appealed this decision to the US Supreme Court. Consider filing protective claim(s) for refund for open years.

3. MD has permanently decoupled from federal changes to §168(k). In addition, in computing MD income tax, the aggregate costs that a taxpayer may elect to treat as §179 expense may not exceed $25,000, subject to the phase-out threshold of $200,000. MD does conform to §199. MD does not conform to the five year federal NOL carryback provisions.

4. Note that some MD tax credits require pre-approval and/or application to be submitted to various MD agencies before the credits can be claimed on Form 502.

5. MD has reciprocal agreements with residents of DC, PA, VA, and WV. Residents of these reciprocal states are not required to file a MD tax return if their only MD income is from wages.

6. An exclusion for pensions of up to $27,800 for 2013 (per taxpayer, if MFJ) for eligible taxpayers 65 or older or totally disabled for “employee retirement system” income listed on the federal return (does not include IRA, simplified employee plan (SEP), Keogh Plan, or other ineligible deferred compensation plan).

7. Social Security income is not taxable.

8. Up to $5,000 subtraction for military retirement income with no age requirement.

9. Up to $6,000 in expenses allowed to parents adopting special needs child or $5,000 for child without special needs.

10. Personal exemptions are phased out at high income levels. The exemption amount of $3,200 begins to be phased out if the taxpayer’s federal adjusted gross income is more than $100,000 ($150,000 for joint taxpayers). The $3,200 exemption is phased out entirely when income exceeds $150,000 ($200,000 for joint taxpayers).
11. The definitions of "member" and "pass-through entity" provide that a business trust or, a statutory trust that is
not taxed as a corporation is required to pay the MD income tax imposed under Section 10-102.1(a) on behalf
of any nonresident beneficiary if the business trust has any nonresident taxable income for the taxable year.

12. If taxes are owed and filed electronically by the April 15 deadline, the electronic payment by direct debit or
credit card may be paid by April 30. Direct debit payments are available if filing electronically.

13. Electronic filing: Any paid tax professionals who prepared 100 or more qualified state income tax returns in the
prior year are required to file all original individual income tax returns electronically in the current year. There is
a limited exception if a taxpayer specifically requests a preparer to file by paper or when a preparer has
received a valid written waiver from the Comptroller. MD does not require individuals to file or pay
electronically. Returns claiming certain credits must be filed electronically.

MASSACHUSETTS (MA)

1. MA taxes long-term capital gains at the Part B income rate (5.3%). §1231 property is included as a MA capital
asset and is taxed as a long-term capital gain at the Part B income rate.

2. Capital gains generated by a trade or business activity, as well as interest and dividend income connected to a
trade or business activity can be offset by excess trade or business ordinary losses (Part B income). Use
Schedule C-2, Excess Deductions Against Trade or Business Income.

3. MA does not follow the NOL carry-forward or carry-back of NOLs of §172. Carry-forward of suspended passive
activity losses is allowed and computed using the federal rules as if the MA passive activities were the
taxpayer's only passive activities. The MA suspended passive activity losses can be greater or lesser for a
nonresident than the federal amount.

4. For tax years beginning on or after Jan. 1, 2009, the filing status for business entities in MA must conform to
their filing status for federal tax purposes. Under federal “check-the-box” regulations, entities that are not
required to be treated as corporations are allowed to elect their filing status (Treas. Reg. §301.7701-3). An
unincorporated entity with two or more members (such as partners or other owners) may elect to file as a
.corporation or a partnership. An unincorporated entity that has a single member may elect to file as a
.corporation, or to be disregarded as an entity separate from its owner, thus being treated as a branch or
division of its owner. For MA purposes, these federal rules will apply to partnerships, LLCs, corporate trusts,
and other unincorporated associations. MA entity-level tax on large S corporations remains in effect. Federal S
corporations organized as corporate trusts or partnerships must file MA returns as S corporations in the same
manner as if they were organized as corporations. Qualified subchapter S subsidiaries (QSubs) will be
disregarded for all MA corporate tax purposes and will not file separate returns, including any return with
respect to the non-income measure. The parent S corporation will be the sole entity responsible for filing. The
parent S corporation will include the income and take into account the activities of all QSubs for purposes of
calculating excise due under M.G.L. c. 63. §§32D and 39.

5. MA has decoupled from the federal bonus depreciation rules under § 168(k). MA does allow §179 expense.

6. MA decoupled from the federal production activity deduction allowed under §199.

7. For purposes of the corporate excise and the personal income tax, MA decoupled from the deferral of
cancellation of debt income on repurchase of debt under §108(i).

8. For purposes of the corporate excise and the personal income tax, MA decouples from the ARRA modifications
of the AHYDO rules pursuant to the amendments included in §1232 of the ARRA 2009 to §163(a)(5)(F)
suspending the rules for high-yield OID obligations and to §163(i)(1) regarding the application of a higher rate.

9. MA generally follows the provisions of the Code as of Jan. 1, 2005, with certain exceptions. MA does not adopt
§85(c) added by the ARRA 2009 whereby up to $2,400 of unemployment compensation benefits received in
2009 are excluded from the gross income of the recipient.
10. MA decouples from (i) the federal relief from limitations on the use of losses after a change of ownership under IRS Notice 2008-83 for periods prior to its effective repeal by ARRA 2009, and (ii) the provisions of §382(n) as added by ARRA 2009. Thus, for purposes of chapter 62 and chapter 63, these sections of the Act restore §382’s limitation (as it existed before the special treatment for banks in IRS Notice 2008-83) on the use of built-in losses following the change in ownership of a bank or other corporation. For MA corporate and personal income tax purposes, §382(n) inserted by the ARRA 2009 has no force or effect in any taxable year. Also, for MA corporate and personal income tax purposes in any taxable year, §382 must be applied without regard to the treatment of a change in ownership of a bank or other corporation provided in IRS Notice 2008-83 or in any federal statutory or administrative codification, supplement or implementation of such Notice.

11. A credit against personal income tax is allowed for 20% of the qualified rehabilitation expenditures made by a taxpayer with respect to a qualified historic structure.

12. Taxpayers who elect federal installment sale treatment automatically follow MA installment sale treatment if the MA gain for the entire transaction is less than $1 million. In the case of flow-through entities, the $1 million threshold applies to the gain recognized by individual shareholders, beneficiaries, etc., taxable under chapter 62. If the gain is $1 million or more, a separate MA installment sale election is required and the taxpayer must post security with the Commissioner.

13. There is a septic credit (up to $6,000), renewable energy efficiency credit and the circuit breaker credit for residents (65 or over who qualify based on income and real estate assessed value thresholds). The circuit breaker credit is calculated based on the amount paid for real estate taxes or rent on their residence.

14. Beginning in 2007, there was a health insurance coverage requirement for all MA residents 18 and over. For 2008, if an individual is deemed able to afford health insurance and is not covered by health insurance, penalties are assessed through the personal income tax return up to 50% of the minimum monthly insurance premium for which an individual would have qualified through the Commonwealth Health Insurance Connector Authority. The penalty is set annually.

15. The Military Spouses Residency Relief Act (P.L. 111-97 or “MSRRA”) was enacted on Nov. 11, 2009. Effective for taxable years that begin on or after Jan. 1, 2009, the MSRRA amends the Service Members Civil Relief Act to provide rules for the determination of the residence or domicile for state tax purposes of a spouse of a service member.

16. The capital gain rate was cut to 3% for investments in certain start-up businesses incorporated on or after Jan. 1, 2011, provided such investments are made within five years of the date of incorporation.

17. Generally effective Jan. 1, 2010, the DOR has the authority to audit pass-through entity return items at the partnership, S corporation, or other pass-through entity level, rather than at the owner level. The statute allows an individual partner, shareholder or member to opt out of the unified audit process. In addition, the statute clarifies how a partner's distributive share of income and other tax items are determined if the partnership agreement does not have substantial economic effect or does not provide for the determination of distributive share.

18. In MA, C corporations with (1) over $100,000 in either gross receipts or sales or (2) that previously met an electronic filing threshold (and S corporations with gross income over $100,000) are required to file and pay electronically. In addition, businesses with tax liability of at least $5,000 for wage withholding, room occupancy, and sales & use taxes combined, or that previously met an electronic filing threshold must file and pay business trustee taxes electronically.

19. MA amended the statute of limitations rules by lengthening the three-year part of the “3-2-1” statute of limitations period for filing an application for abatement. The change allows a taxpayer to file an abatement within three years after the return is filed, where the return is filed timely on extension and an application for abatement may be filed within three years after the return is filed, even if the return is filed late. In addition, the amendment puts limits on the amount of a refund in certain situations.
20. Effective for tax years beginning on or after Jan. 1, 2012, the 5.3% tax rate on most classes of taxable income is decreased to 5.25%. The tax rate on short-term gains from the sale or exchange of capital assets and on long-term gains from the sale or exchange of collectibles (after a 50% deduction) remains at 12%.

MICHIGAN (MI)

1. Additions to federal AGI for purposes of determining MI taxable income include: income from other state obligations, losses from a non-MI business or property located in another state, self-employment (SE) tax deduction for determination of AGI, losses on US government obligations and federal NOLs. Part-year/non-residents need to apportion add back based on ratio of MI SE income to total SE income. If a taxpayer’s business is taxed by both MI and another state any loss must be apportioned.

2. Subtractions from federal AGI for purposes of determining MI taxable income include: income from US obligations, certain retirement income (see note 6); military pay; MI NOL; and business income earned entirely in other states including net rents from real property located in another state. Part-year/non-resident taxpayers will need to pro-rate adjustment. Beginning with the 2010 tax year taxpayers may subtract charitable contributions made to the Advance Tuition Payment Fund which was created under the MI Education Trust Act.

3. Part year residents are required to pay MI income tax on wages earned while a MI resident. Bonus pay, deferred income and severance pay that was accrued while the person was a resident is subject to MI tax regardless of what state the individual is in when received. Deferred compensation, pensions, dividends and interest are allocated to the state of residency when received.

4. The taxpayer must own or rent and occupy the property on which he claims a homestead property tax credit. Beginning Jan. 1, 2012, homesteads with a taxable value of more than $135,000 do not qualify for this credit. A credit may be claimed only for one, primary property. Income not subject to tax such as social security and disability income is included in household income when computing the allowable homestead property tax credit. A part-year resident may claim the credit provided MI was the state of residency for at least six months during the year.

5. Effective Jan. 1, 2012, the deduction for certain retirement benefits is limited based on date of birth.

6. Capital gains attributable to holding periods prior to Oct. 1, 1967 (the effective date of the MI Income Tax) may be deducted from AGI. The difference in capital gains is reported on MI-1040-D.

7. Taxpayers age 65 or older may subtract part of their interest, dividends and capital gains included in AGI. Effective Jan. 1, 2012, this deduction is not available to those born after 1945.

8. MI has reciprocal agreements with IL, IN, KY, MN, WI, and OH for income taxes imposed by those states on salaries, wages and other employee compensation.

9. A credit against MI income tax is allowed on income from non-MI sources that is subject to MI tax. The credit is allowed for tax imposed by another US state, DC, or a Canadian province. This does not apply to federal tax. For tax years prior to 2012, a partial credit against tax is allowed for city income taxes. A subtraction from income is used to offset rental or business income from another state or part-year resident wages.

10. For tax years before 2012, MI allowed a college tuition credit up to $375 per student. Taxpayers with adjusted gross income of $200,000 or more could not claim the credit. This credit is repealed for tax years after 2011.

11. An exemption was added in 2008 for qualified disabled veterans. This exemption ($300 for 2011 and later years) may also be claimed on the Home Heating Credit.

12. For 2009 through 2011 tax years, taxpayers eligible for the federal earned income credit may claim a MI earned income credit of 20% of the federal amount. The credit decreases to 6% for tax years after 2011.

13. Two individual credits for 2009, 2010, and 2011 include a refundable credit for certain home improvements and appliances and a nonrefundable energy cost recovery surcharge credit. Effective Jan. 1, 2012, these credits are repealed.

14. Tax preparers who prepare more than ten MI individual income tax returns must file them electronically.

15. Electronic payment of individual income tax is not required.
MINNESOTA (MN)

1. For tax years beginning on or after Jan. 1, 2013 MN has four income tax brackets, and the highest marginal rate is 9.85%.

2. MN has an AMT. For tax years beginning on or after Jan. 1, 2013 the AMT rate is 6.75%.

3. The MN return starts with federal taxable income and adds back the deduction taken for state income or state sales/use tax and deductions related to income not taxed by MN. Other additions include: the capital gains portion of lump sum distributions, phase out of itemized deductions and personal exemptions for high income taxpayers.

4. Taxpayers who take a standard deduction for federal tax purposes may deduct 50% of their total charitable contributions that exceed $500. Effective for tax years starting after Dec. 31, 2007 the same amount may be subtracted from AMT income also.

5. MN has reciprocity agreements with MI, ND (the agreement with WI ended Jan. 1, 2010, but the 2011 budget bill instructed the Commissioner to initiate reciprocity negotiations). Certain types of income do not qualify for reciprocity including: MN gambling winnings, S corporation income (other than wages) from MN sources and capital gains from the sale of MN property. MN and WI residents who work across the border must file returns in both states for 2010 if they meet minimum filing requirements.

6. MN adopts the IRC as amended through April 14, 2011. However, MN has decoupled from several provisions of the IRC including §179 expenses, bonus depreciation, and §199 deductions and §108(i) (see points below for more details).

7. MN did not conform to federal law which increased §179 expensing and provided bonus depreciation. MN §179 expensing follows the IRC that was in effect for 2003 ($25,000 expense limitation and $200,000 investment limitation). Taxpayers must add back to taxable income 80% of the additional expensing and bonus depreciation amount in the first tax year. The amount added back can then be taken in equal parts over the next five years.

8. For tax years prior to 2011, MN did not adopt the provisions of §108(i). Therefore, in tax years prior to 2011 any discharge of indebtedness income that was deferred for federal purposes was added back for MN purposes. In future years, when the deferred income is recognized on the federal return, MN will allow a subtraction.

9. MN did not adopt the five year NOL carryback provision of the WHBAA 2009; the state does conform to the ARRA 2009.

10. MN has not adopted §199, provided under AJCA 2004 which allows a deduction for a percentage of net income from manufacturing activities in the US. This deduction needs to be added back to income in MN.

11. Subtractions from federal taxable income for purposes of computing MN taxable income include: certain military personnel income, the amount of national service educational awards received for qualified service and (effective for tax years ending after Dec. 31, 2008).

12. MN allows various credits, including a child/dependent care credit, working family credit, marriage credit, AMT credit, and a K-12 education credit and subtraction. New credits for 2010 include an “angel” tax credit for small business investment, expansion of the research credit and a refundable historic structure rehabilitation credit.

13. A credit is allowed for MN resident individuals for income taxes paid to other states including DC, and Canadian provinces or territories.

14. Effective for premiums paid in 2009 through 2011, qualified individuals are allowed a nonrefundable credit against their individual income tax of 20% of certain health premiums paid from an employer §125 plan. The credit is available for the first 12 months of coverage.

15. Tax preparers who prepare more than ten MN Income Tax returns must file them electronically. Taxpayers who refuse to have their return filed electronically can opt out by checking a box on the return.
16. Electronic payments are allowed but not required for Individual Income Tax.

MISSISSIPPI (MS)

1. MS does not have a federal conformity law and the MS personal income tax is not based upon federal law. Married individuals may file joint, separate or combined returns. When filing a joint or combined return, MS allows married individuals to split the authorized exemption and standard deduction between them in any manner they choose.

2. MS exempts certain retirement income (early distributions do not qualify for the exemption) and social security income.

3. National Guard and US Reserve pay for active or inactive duty training is excluded up to $15,000 per taxpayer ($5,000 through 2005). Other military and combat pay may be excludible.

4. Sales of stock of MS domestic corporations, sale of interest in MS LLCs, LLPs, and limited partnerships is exempt if held for more than one year. However, prior to non-recognition of the gain, to the extent depreciation and amortization of property and assets was taken, gain must be reported.

5. Federal itemized deductions are followed except that there is an add back of state tax deduction (including sales tax deducted in lieu of state income tax). Losses incurred at MS gaming establishments are not deductible.

6. MS has not yet provided guidance regarding ESA 2008.

7. MS does not conform to the federal NOL provisions. Carry back and carryover periods NOLs are back two years and forward 20 years.

8. Gaming winnings from MS casinos reportable to the IRS are not to be included as a part of income on an individual's MS income tax return. Additionally, losses incurred at MS casinos are not to be included as an itemized deduction when computing MS taxable income. This is because all reportable winnings are subject to a nonrefundable 3% tax. The 3% tax will be withheld at the casino level, and is considered a state income tax paid to MS. The document provided by the casino is considered the return and therefore is proof that the tax was paid to MS. However, gaming winnings from MS casinos, which are not reportable to the IRS, are reportable as MS taxable income to the extent such amounts exceed losses from MS casinos.

9. A taxpayer, regardless of the accounting method used, may not elect installment sales treatment in order to defer the recognition of income. However, MS law does provide for a deferral of the tax payment provided the sale or other disposition of property is eligible for installment sales treatment for federal tax purposes and is in fact deferred for federal income tax purposes. If a taxpayer has not elected out of the installment method for federal tax purposes, the taxpayer will be considered to have made an election to defer the tax payment for state tax purposes. The taxpayer may elect out of the tax deferral by attaching a statement of such to the return in the period of the sale, recognizing all gain of any sales for the period, any paying all taxes, interest, penalties, and assessments for the period in question.

10. An income tax credit is available for certain long term care insurance premiums paid.

MISSOURI (MO)

1. MO avoids the marriage penalty by permitting spouses to apportion income. It is to your advantage to allocate as much income as possible to the spouse who did not have income from the state, in the case of a nonresident return, or to the spouse with the lower income, in the case of a resident return. Investment income from jointly owned property is divided equally. However, income from a business venture would be allocated only if both persons were subject to self-employment taxes, or in the case of a loss, if both persons' names were registered for the business.
2. An eligible small business taxpayer that elects under the provisions of the ARRA 2009 and HRCA 2010 to carryback a NOL more than two years on its federal income tax return is not allowed the NOL deduction on the MO carryback returns greater than two years. Disallowed NOLs are allowed to be carried forward 20 years.

3. In calculating your MO itemized deductions, MO allows the deduction of Social Security and Medicare withholdings, Railroad Retirement tax, and self-employment tax (less the federal deduction of half the self-employment tax). A taxpayer cannot itemize on the MO return unless they itemized on the federal return. Because of this sizable deduction, it sometimes makes sense to itemize on the federal return even though they would normally claim the standard deduction.

4. Taxpayers who paid premiums for qualified long term care insurance and were not reimbursed for those expenses may be eligible for a deduction on their MO income tax return.

5. Nonresidents may reduce their MO source income by an allocable portion of federal adjustments, such as IRA and Keogh contributions and alimony paid.

6. Taxpayers amending MO returns should use the regular MO-1040 form for the year being amended. There is no MO-1040X form. Be sure to check “amended return” and the reason for filing. The second page of the form allows you to report amounts paid with the return or on prior amended returns.

7. A subtraction modification of up to $8,000 ($16,000 for joint filers) is permitted for contributions to a 529 plan.

8. Certain senior citizens and 100% disabled persons meeting income requirements may be entitled to a refundable credit for their real estate property tax paid.

9. Effective for taxable years beginning on or after Jan. 1, 2007, resident individuals who are 62 years of age or older are allowed an income tax deduction to be phased in over six years for social security benefits and social security disability benefits to the extent these benefits are included in federal adjusted gross income. The deduction is phased in as follows: for tax year 2007, a taxpayer can deduct 20% of these benefits; for tax year 2008, 35%; for tax year 2009, 50%; for tax year 2010, 65%; for tax year 2011, 80%; and for tax year 2012 and after, 100%. The deduction is reduced if taxpayers exceed the ceiling amounts for their filing status and is further limited with regards to non-private retirement benefits.

10. Effective Aug. 28, 2007, a taxpayer is allowed to deduct from his or her federal adjusted gross income 100% of the amount of unreimbursed qualified health insurance premiums to the extent the amount paid for such premiums is included in federal taxable income. “Qualified health insurance premium” means the amount paid during the tax year by a taxpayer for any insurance policy primarily providing health care coverage for the taxpayer, the taxpayer's spouse or the taxpayer's dependents. The taxpayer must provide proof of the amount of qualified health insurance premium paid.

11. Effective Aug. 28, 2007, a self-employed taxpayer who is otherwise ineligible for the federal income health insurance tax deduction under §162 is entitled to a nontransferable refundable credit against income tax in an amount equal to the portion of the taxpayer's federal tax liability incurred due to the inclusion of such payments in federal adjusted gross income.

12. Effective for all taxable years beginning on or after Jan. 1, 2007, individual taxpayers are entitled to a nonrefundable tax credit for donations in excess of $100 to the MO healthcare access fund. The credit is equal to 50% of the total donation made but not exceeding $25,000 per taxpayer claiming the credit. Any credit in excess of the taxpayer's state tax liability for the tax year may be carried forward to any of the taxpayer's next four taxable years. The credit cannot be transferred, sold or assigned. The credit provision automatically expires six years after Aug, 28, 2007, unless reauthorized for another six years.

13. MO law allows for a deduction for public pensions, private pensions, and social security payments if certain income limitations are met.
14. An exemption is allowed for out-of-state businesses who respond to a declared state disaster or emergency and any of its out-of-state employees where they are not subject for MO income tax or withholding requirements, filing, and remittance requirements. If the out-of-state businesses remain in the state of MO after the conclusion of the disaster period, the exemption would no longer apply.

MONTANA (MT)

1. Tax Rates: MT taxes individuals under a progressive tax rate system with income taxed according to a graduated rate structure with rates ranging from 1% to 6.9% of taxable income. MT does not have an AMT. MT taxes residents on worldwide income, as the starting point in computing a taxpayer's MT taxable income is federal adjusted gross income. Each taxpayer is then allowed an exemption plus an exemption for each dependent.

2. Credit for taxes paid to another state or foreign country: Full-year MT residents may claim a credit for income taxes paid to another state or foreign country. However, beginning in 2006 MT’s credit against individual income tax for income taxes paid to foreign states or countries is not allowed on taxes imposed by a foreign country to the extent that a credit for the taxes imposed by the foreign country was claimed for federal income tax purposes. The foreign taxes can still be claimed as an itemized deduction on the MT tax return if they are claimed as an itemized deduction and not a credit on the federal return.

3. Conformity: MT uses federal adjusted gross income as the starting point for calculating personal income tax and uses other federal definitions unless stated to the contrary. MT conforms to the IRC as currently amended.
   a. MT allows an itemized deduction for 100% of the health insurance premiums and long-term care insurance premiums paid by the taxpayers. The premiums deductible include those paid for the taxpayer, the taxpayer's dependents, and the taxpayer's parents and grandparents. The premiums are allowed without application of the percentage limitation on medical expenses.
   b. MT allows an itemized deduction for federal income taxes paid (excluding self-employment tax) in arriving at taxable income. For taxpayers who itemize instead of taking the standard deduction, the federal income tax deduction is limited to $5,000 per taxpayer (using the filing status of single, married filing separately or head of household) and to $10,000 if filing jointly with a spouse.
   c. In arriving at MT AGI, taxpayers are allowed a deduction for deposits made into a Medical Care Savings Account, Family Education Savings Account sponsored by MT and a First Time Home Buyers Account. In each case, the maximum deduction allowed per taxpayer is $3,000 per year ($6,000 if filing jointly or both spouses qualify). Ineligible withdrawals from these accounts are subject to MT income taxes and penalties. Earnings on these accounts are not taxable by MT.
   d. Elderly taxpayers (65 or older) may exclude up to $800 per taxpayer of otherwise taxable interest income. Joint filers may exclude up to $1,600, even if only one spouse is over 65.
   e. Qualified MT taxpayers may deduct up to $3,830 of retirement income in 2012.
   f. Individual taxpayers are allowed a credit for a percentage of the present value of a planned gift made during the tax year to a qualified MT endowment or for their proportionate share of a gift made by a pass-through entity. The credit may not exceed the tax liability, is non-refundable and may not be carried over. The value of the gift used in calculating the credit may not be claimed as an itemized contribution deduction on the MT return. For gifts by individuals, a credit of 40% of the present value of the gift, up to a maximum of $10,000 per taxpayer is allowed for gifts made after July 1, 2003 and before Dec. 31, 2013. Credits from pass-through entities are included in the $10,000 limit.
   g. Beginning in 2007, a 2% capital gains tax credit is allowed to taxpayers reporting a net long-term capital gain.
   h. MT conforms to the federal bonus depreciation provisions and the enhanced federal deduction limits of §179.
i. MT does not tax interest on US, TVA, PR bonds, or on MT bonds. MT does tax the interest on municipal bonds issued by other states. Also, MT does not tax any tier I or tier II railroad retirement, reservation income earned by enrolled tribal members, tip income or unemployment benefits.

4. Computation of Tax for Nonresident: Nonresidents and part-year residents determine taxable income as if they are residents. To arrive at MT taxes, the tax on the total taxable income is prorated by the ratio that the MT income bears to the total income.

5. Filing Status: MT is not tied to the federal filing status. If both spouses have income it is usually advantageous to use the filing status “Married filing separate on the same form.” If the MT return is prepared as married filing separately and the federal return is prepared as married filing joint, there may be differences in taxable income for certain items due to filing separately. Starting in 2007, no adjustments due to the filing status are required for passive activity losses, capital losses, IRA contributions, and the student loan interest deduction. Exemptions are allowed for the taxpayer, spouse, and dependents even if the dependent files and claims his/her self.

6. Filing Requirements: Taxpayers are required to file their tax return on the 15th day of the 4th month. Taxpayers are not required to submit a separate MT extension form. Taxpayers are granted an automatic extension of time to file their income tax return if, on or before the due date of the return they have applied with the IRS for a six month extension for their federal return, have paid through estimated payments and withholding, 90% of their current year’s MT liability or 100% of the previous year’s liability, and have checked the extension notification box on the return. Electronic filing is allowed but is not required.

7. The amount of income of a person who is not a qualifying child of the taxpayer may earn and be claimed as a dependent is increased from the current ceiling of $800 to the personal exemption amount. The personal exemption amount is adjusted for inflation and is $2,240 in 2012.

8. MT has a unique credit for low income taxpayers who are 62 and older and MT residents for nine full months. The maximum credit is $1,000 and is based on property tax billed or rents.

9. MT individuals have over 30 tax credits available to them, including those mentioned above, such as the Adoption Credit, Alternative Energy Installations Credit, Alternative Fuel Vehicle Conversion Credit, College Contributions Credit, Health Insurance for Uninsured Montanans Credit, Historic Property Conservation Credit, Rural Area Physicians Credit (for practices established before Jan. 1, 2008), Temporary Emergency Lodging Program Credit, and many others.

10. MT is requesting information on specific forms filed with the federal return. The federal forms 8824, 8865 and 8886 are the targets for 2011.

11. MT requires all applicable federal schedules to be attached including, in some cases, Form 1040.

12. MT has a separate NOL computation from Federal NOLs. The MT NOL can be carried back three years and forward seven years. The taxpayer may elect out of the carryback. Electing out of the federal carryback does not affect MT unless the taxpayer also elects out of the carryback on MT NOL form.

13. When a Federal tax credit of the type that requires the reduction (elsewhere on the federal return) of a related expense -- such as the Work Opportunity or the §45B FICA Tip Credit -- is taken on the Federal return, the taxpayer may only increase that expense (back to the pre-credit level) on the MT return when specifically allowed by MT statute.
NEBRASKA (NE)

1. Prior to 2014, if the taxpayer is subject to federal alternative minimum tax, federal tax on lump sum distributions, or has paid federal tax on early distributions, the taxpayer may also be subject to NE minimum tax on these items. However, a credit for prior year minimum tax may be permitted.

2. The tax on premature and lump-sum distributions from qualified retirement plans is retained.

3. Beginning in 2014, the AMT in NE has been eliminated for individuals, estates, and trusts.

4. NE residents can elect to claim a one-time AGI deduction for capital gains on the sale of stock of a qualified corporation acquired while that corporation employed the taxpayer or as a result of the taxpayer’s employment.

5. NE allows for the deduction of interest income from US government obligations. Several quasi-governmental organizations issue bonds and interest income from such bonds is also deductible in NE. Additionally, US government interest income derived from regulated investment companies (mutual funds) is deductible in NE. However, any interest income received from state and local obligations, other than those issued by NE or its political subdivisions, or regulated investment companies that is attributable to state and local bonds, other than NE, must be reported as an addition for NE purposes.

6. NE allows for the exclusion of all non-NE S corporation and LLC income or loss not derived from NE sources. However, income or loss from partnerships, LLPs, and other entities cannot be deducted.

7. If the taxpayer has a refund from a prior year NE return shown as income on the federal return, the amount can be deducted on the NE return. If the taxpayer has no other adjustments increasing or decreasing its federal AGI, it can deduct this amount on Line 13 of the Form 1040N (and check the box next to it), resulting in not having to attach Schedule 1 to their return.

8. If the client has a business, consider if NE Advantage Rural Development Act (originally known as the Employment Expansion and Investment Incentive Act under LB 270, as amended), NE Advantage Act (LB 312, formerly known as the Employment and Investment Growth Act under LB 775), Quality Jobs Act, or Community Development Assistance Act credits have been earned and, if so, Form 3800N should be filed in order to use the credits allowed.

9. Railroad Tier 1 and Tier 2 benefits that are subject to federal taxation are allowed as a deduction decreasing federal AGI on the NE return.

10. NE personal exemption credits are subject to an income phase out for higher income taxpayers. The credits are reduced by $5, but not below zero, for every $5,000 increment of federal adjusted gross income (AGI) which exceeds a threshold. The threshold amounts will be adjusted for inflation by the method provided in §151.

11. If a credit for the elderly or disabled is claimed on the federal return, a nonrefundable NE credit in the same amount is allowed for resident or part-year resident returns.

12. NE conforms to current Federal bonus depreciation and §179 asset expensing provisions.

13. NE does conform to the federal NOL provisions of JCWAA 2002, provided that certain adjustments to federal AGI must be made to compute the NE NOL on a separate basis.

14. Electronic filing is mandated for tax returns due on or after Jan. 1, 2010, for tax preparers that file 100 or more resident, nonresident, and part-year resident returns in the prior calendar year.

15. Effective Sept. 1, 2011, NE has enacted an angel investment tax credit. Qualified investors or funds may be eligible for a refundable tax credit up to $300,000 ($350,000 MFJ). The credit will be equal to 35% of the qualified investment in a qualified small business (40% if the business is in a distressed area). This credit is currently available until 2017.
16. Effective for tax years beginning on or after Jan. 1, 2012, the research credit carryforward has been extended from four to 20 years following the year the credit is first claimed.

17. Effective July 12, 2012, NE taxpayers who make a nonqualified withdrawal from a NE 529 plan will be subject to recapture of previous NE state income tax deductions. Nonqualified withdrawals include: (1) distribution from an account to the extent it is not used to pay the qualified higher education expenses of the beneficiary; or (2) a qualified rollover permitted by §529 where the funds are transferred to a qualified tuition program sponsored by another state or entity.

18. In 2014, changes were made to the Nebraska College savings plan as follows:

   a. Increase Contribution Limitations – The maximum contribution amounts to eligible NE college savings plan accounts which may be excluded from NE income tax were increased from $2,500 to $5,000 for a married, filing separately return, and from $5,000 to $10,000 for all other returns.
   b. Contributions by Custodians – Contributions by a custodian of a minor’s custodial account, who is also a parent or guardian of the minor, are eligible for the contribution deduction.
   c. Qualified Rollovers from Another State – A qualified rollover from another state’s plan, including any interest and earnings, can qualify for the contribution deduction.
   d. Successor in Interest – If an account owner dies or becomes legally incapacitated without naming a successor account owner, the account beneficiary becomes the account owner.

19. Beginning in 2014, Individual participants in an employee stock ownership plan trust under §401(a), including an employee stock ownership plan (ESOP), are considered separate shareholders for purposes of the income tax exclusion set forth in Neb Rev Stat Sec 77-2715.09.

NEVADA (NV)

1. NV does not impose an individual income tax.

NEW HAMPSHIRE (NH)

1. Although no traditional income tax is imposed in NH, there is a tax on gross interest and dividends that exceed $2,400 ($4,800 for joint returns).

2. The tax on interest and dividends historically has been imposed on each individual, and on each partnership, LLC, association, trust, (provided however, that entities with transferable shares were excluded, and such entities’ owners were instead subject to the tax), and on fiduciaries. Certain specified entities are exempted and certain types of interest and dividends are not taxable. For tax periods beginning on or after Jan. 1, 2009, partnerships and LLCs are no longer subject to this tax, but distributions made to their owners are considered dividends. However, for taxable periods ending on or after Dec. 31, 2010, legislation repealed the imposition of the interest and dividends tax on distributions from LLCs, partnerships and associations with non-transferable shares, and restored the prior treatment of imposing interest and dividends tax on LLCs, partnerships and associations with non-transferable shares.

3. Individuals are permitted additional $1,200 cumulative exemptions for being over age 65, blind or disabled.

4. Where a NH resident is a member of a partnership or LLC having no usual place of business in NH, the resident partner or member is taxed on any part of the partnership or LLC income received by the resident partner or member which represents interest and dividends that would be taxable if received directly.

5. Subject to certain limitations, corporate dividends, joint stock company dividends, and distributions from partnerships, LLCs, associations, or trusts (having transferable shares), are taxable.

6. Individuals conducting business in NH, who meet the filing requirements, must file a Proprietorship Business Profits Tax Return.
7. Single member LLCs that share the EIN of another entity (or individual) must file form DP200 to receive a separate Department Identification Number that is required in order to process the single member LLC's tax related documents.

NEW JERSEY (NJ)

1. The NJ personal income tax is the Gross Income Tax (GIT). NJ has a graduated gross income tax rate for the highest-income taxpayers. For tax years beginning prior to 2009, for taxpayers with taxable income above $150,000 ($75,000 for single taxpayers, and married taxpayers filing separately), the portion of income exceeding $150,000 (or $75,000 as the case may be) is taxed at a rate of 6.37%. For taxpayers with taxable income above $500,000, the portion of income exceeding $500,000 is taxed at a rate of 8.97%. For tax years beginning after 2008 (applicable to all taxpayer filing classifications), an 8% tax rate applies to the portion of income over $400,000 but not over $500,000, a 10.25% tax rate applies to taxable income above $500,000 but not over $1 million, and a 10.75% tax rate for taxable income above $1 million. Further, for tax years beginning after 2008, NJ lottery winnings are included in gross income if the prize is greater than $10,000.

2. Generally, the GIT does not permit offset of losses from one category or basket against income from any other category or basket, nor does it allow carrybacks or carryovers of losses. However, small business owners that generate income from different types of business entities will be allowed to offset gains from one type of business with losses from another type of business for purposes of the gross income tax. For tax years beginning on or after Jan. 1, 2012, the law provides specific business related categories from which a taxpayer may net gains and losses that are derived from one or more of categories, including:

   1) net profits from business;
   2) net gains or net income derived from or in the form of rents, royalties, patents, and copyrights;
   3) distributive shares of partnership income; and
   4) net pro rata shares of S corporation income.

3. For tax years beginning on or after Jan. 1, 2009, high-income taxpayers that are not 65 years old, blind, or disabled, will be limited in the amount that it can deduct for property taxes paid. All taxpayers historically have been able to deduct up to $10,000 for property taxes paid. The new limitation will reduce the maximum deduction available to $5,000 for taxpayers with gross income over $150,000 but not over $250,000, and no deduction is available for taxpayers with gross income over $250,000.

4. While NJ generally conforms to current federal legislation, NJ decouples the state's gross income tax from federal bonus depreciation provisions under §168(k) and from federal provisions that increase the maximum aggregate costs that a business may deduct as an expense under § 179. NJ has also decoupled from § 108(i), relating to the deferral of cancellation of debt income with respect to debt re-acquisitions. Finally, NJ has partially decoupled from the § 199 deduction relating to domestic production activities. NJ does not allow deductions applicable to or pertaining to production property grown or extracted; films, electricity, natural gas, potable water, computer software or sound recordings produced by the taxpayer; construction activities; and engineering or architectural services.

5. With regard to a principal residence owned or rented in NJ, a taxpayer is allowed a property tax deduction or credit. The taxpayer claims whichever produces the greater benefit.

6. Distributions paid by a mutual fund are not subject to the NJ GIT to the extent that they are attributable to interest earned on federal obligations. A portion of the distribution from a "NJ Qualified Investment Fund" may be exempt from GIT. By Feb. 15, shareholders should be notified by the NJ Qualified Investment Fund of the portion of their distribution that may be excluded from NJ income.

7. The GIT requires the inclusion of a pro-rata share of non-NJ S corporation income allocated outside of NJ on a resident return. When a resident is a shareholder in an out-of-state/multi-state S corporation whose income is taxed at the corporate level in other states, no resident credit is permitted for such corporate taxes. To optimize NJ credits available to taxes paid to other jurisdictions, consider making an S election in other states where a profitable S corporation does business.
8. Under the GIT, there are particular areas of complexity and controversy involving income from partnerships and sole proprietorships. An adjustment to federal basis for unutilized prior year losses upon the disposition of a partnership interest is available. Other areas of controversy have included the deductibility of unreimbursed expense of partners and the netting of different line items on a federal Schedule K-1.

9. Keogh plan payments made by a partnership are not deductible for GIT purposes in determining a partner's distributive share of partnership income. In contrast, §401(k) contributions are deductible.

10. Composite nonresident GIT returns may be filed by multiple nonresident members of partnerships, LLCs or shareholders in an S corporation deriving income from NJ sources.

11. Certain entities classified as partnerships for federal income tax purposes with NJ source income and more than two partners are required to make a payment of a filing fee of $150 for each owner, up to a maximum of $250,000. In some cases, the fee may be apportioned for non-resident partners. The payment is due on or before the 15th day of the 4th month succeeding the close of the privilege period.

12. Pursuant to regulation, for 2011 and subsequent tax years, tax preparers reasonably expecting to prepare 11 or more NJ resident personal income returns (including for trusts and estates) are required to e-file such returns. Taxpayers can opt out of e-filing, but tax preparers subject to this provision cannot opt out. NJ allows, but does not require, e-payment of the gross income tax liability.

13. A partnership with NJ operations must withhold and remit a tax payment on behalf of certain non-resident corporate and non-corporate partners on or before the 15th day of the 4th month after the close of the partnership's year end. A partner in a partnership with NJ operations should review his or her NJK-1 to determine whether GIT was paid by a partnership on his or her behalf and claim credit for such payments on the partner's NJ 1040NR. The withholding tax is computed on the percentage of entire net income attributable to nonresident corporate and non-corporate partners. Entire net income for withholding tax purposes means distributive share of partnership income for federal purposes plus tax exempt interest income as shown on the federal K-1. The tax rate on entire net income attributable to nonresident non-corporate partners is 6.37%. In computing the withholding tax, a partnership may not claim a credit for estimated tax payments made by its respective partners. To calculate and remit the withholding tax, a partnership must use the corporate allocation rules (including throw out and double weighted sales factor) despite the fact that partners may not necessarily be corporations. There are exceptions from the withholding requirements for qualified investment partnerships, partnerships listed on a US national stock exchange, and certain other partnerships. There are also exceptions from withholding for partners that participate in a composite income tax return filed by the partnership and corporate partners that maintain a regular place of business in NJ.

NEW MEXICO (NM)

1. Rates
   - For tax years beginning on or after Jan. 1, 2013, an eligible taxpayer can claim the credit for taxes paid to another state up to the amount of NM tax that the taxpayer would be liable for if the income was allocated to NM, instead of the credit being capped at a 5.5% rate.

2. Unique nexus rules
   - NM imposes a personal income tax on the net income of resident individuals and non-resident individuals doing business in NM or deriving any income from any property or employment in the state. A resident is defined as an individual domiciled in the state, or an individual physically present in the state for a total of 185 days or more during the tax year, regardless of your domicile. This includes students, persons living in vacation homes and persons temporarily assigned to work in NM. There is no NM equivalent to the federal AMT on tax preference items.
• Non-residents, including foreign nationals and persons who reside in states that do not have income taxes must file a NM return when they have a federal filing requirement and have income from any NM source whatsoever. Employers are not required to withhold personal income taxes on wages paid to nonresidents for services performed in the state where such nonresidents are in the states 15 days or less.

3. Allocation and Apportionment

• The Partnership and S corporation income is apportioned at the entity level, and NM carries the apportionment percentages through to the individual shareholders. NM permits the filing of composite returns on behalf of non-resident partners.

4. Tax Base Adjustments

• The computation of NM taxable income begins with federal adjusted gross income. Taxpayers must make required addition and subtraction modifications to compute NM taxable income. Addition modifications include, but are not limited to, municipal interest income, refunded contributions closing a §529 account, and NOLs. Subtraction modifications include, but are not limited to, NM municipal interest income, interest income from U.S. securities, capital gain deduction (greater of $1,000 or 50% of capital gain income beginning in tax year 2007), certain contributions to §529 accounts, and certain unreimbursed medical expenses. NM allows NOLs to be carried forward only five years, so an adjustment may be required at the state level where NOLs were claimed in computing federal taxable income. NM conforms to §168(k), §179 and §199.

• NM does not conform to §172 (NOL deduction) and does not adopt the federal NOL carryforward deduction. NM allows NOLs to be carried forward up to five years, and does not allow NOLs to be carried back. The federal NOL deduction is added back to federal adjusted gross income for NM reporting purposes. NM does, however, allow an alternative NOL deduction, recomputed to account for the state differences. The subtraction adjustment is computed using Schedule PIT-ADJ.

5. Payment and filing requirements

• Taxpayers must file form PIT-1 by April 15; however, taxpayers filing and paying electronically have until April 30. NM recognizes and accepts a Federal automatic extension of time to file. NM grants a six-month automatic extension if the federal extension is filed by the original due date of the return. Automatic federal extension need not be attached. Additional extension for good cause may be requested on Form RPD-41096 and the secretary may allow up to a 12-month. Payment voucher PIT-EXT is used to make an extension payment towards a personal income tax liability. 100% of the NM tax liability must be paid by the original due date of the return to avoid interest (penalties are waived during the extension period).

• NM requires pass-through entities to file a NM Income and Information Return for Pass-Through Entities (Form PTE) and withhold and pay NM income tax for its nonresident owners. Nonresident owners may elect to file and pay NM income tax on their share of the entity's NM income by completing the NM Non-resident Owner Income Tax Agreement (Form PTE-TA).

• Changes to a federal return must be reported in 90 days of final adjustment or refund.

• E-filing is allowed but not required, unless the tax preparer prepares over 25 personal income tax returns in a year.
• NM requires its largest taxpayers to remit their tax payments in special ways. A taxpayer with state personal income tax withholding, gross receipts, compensating, or oil, gas, or fuel tax payments during the preceding calendar year that averaged $25,000 or more per month must use one of the specified payment methods noted below. (Note that a taxpayer using the Combined Reporting System (CRS), or the Oil and Gas Reporting Identification (OGRID) System, must combine the various taxes paid to determine if the average tax liability was $25,000 or more per month during the previous calendar year.) A taxpayer required to use a special payment method must make the requisite payment using one of the following means:
  o electronically;
  o with US currency;
  o with a check drawn on and payable at any NM financial institution, provided that the check is received by the Department's Santa Fe office at least one banking day prior to the due date; or
  o with a check drawn on and payable at any domestic non-NM financial institution, provided that the check is received by the Department's Santa Fe office at least two banking days prior to the due date.

• Note that a taxpayer may use one of the special payment methods above if the tax liability was less than $25,000 per month, but that this is not required for such a taxpayer.

6. Credits

• Angel Investment Tax Credit is available for making a qualifying investment in a high-technology or manufacturing business (see form RPD-41320, Angel Investment Credit Claim Form).

• Rural Health Care Practitioner Tax Credit is available for providing health care services in a rural health care underserved area (see form RPD-41326, Rural Health Care Practitioner Tax Credit Claim Form).

7. Individual Income Tax Withholding

• Taxpayers who are already withholding income under the NM Withholding Tax Act are deemed to have made estimated income tax payments. Quarterly estimated tax payments may be required for those taxpayers who can reasonably expect their individual estimated NM tax liability to exceed $500 and must equal 90% of the current year liability or 100% of prior year liability, if the taxpayer was a NM taxpayer for 12 months. First year residents are not required to make estimated tax payments. NM requires every employer that withholds a portion of an employee's wages for payment of federal income tax to withhold New Mexico income tax. However, if the employee is a nonresident working in NM for 15 days or fewer during the calendar year, the employer is not required to withhold. A self-employed individual should not report any withholding tax on the wages received. Rather, that taxpayer should make estimated tax payments using Form PIT-ES. For tax years beginning on or after 2011, a pass-through entity must make quarterly withholding tax payments on net income distributed to every non-resident owner.
NEW YORK STATE AND CITY (NYS) (NYC)

1. New York State ("NYS") and New York City ("NYC") (collectively, "NYS/C") have several different tax rate brackets that have fluctuated in recent years. For tax years beginning between 2009 and 2011, NYS had a 6.85%, 7.85% and 8.97% tax rate bracket. The 6.85% tax rate applied to joint filers with $40,000 or more in taxable income. The 7.85% tax rate was applicable to joint filers with taxable income between $300,000 and $500,000 (the 6.85% and 7.85% tax rate brackets started at lower levels for single and head of household filers). The top tax rate was 8.97% of taxable income in excess of $500,000, applicable to all filing status classifications. NYS is unique in that its personal income tax utilizes supplemental taxes which recapture the benefits of lower tax brackets at certain income levels. Historically, for taxpayers within the 6.85% tax bracket, the recapture of tax rates in lower tax brackets began when NY AGI was more than $100,000 and was complete once NY AGI reached $150,000. This rule remained in effect for the 2009-2011 tax years. In addition, for those taxpayers within the 7.85% tax bracket, the recapture of the 6.85% tax bracket began when NY AGI was more than $300,000 and was complete once NY AGI reached $350,000. Likewise, for those taxpayers within the 8.95% tax bracket, the recapture of the 7.85% tax bracket began when NY AGI was more than $500,000 and was complete once NY AGI reached $550,000.

2. For the 2012-2017 tax years, the 6.85% personal income tax rate is reduced to 6.45% for joint filers earning between $40,000 and $150,000 and 6.65% for joint filers earning between $150,000 and $300,000. The 7.85% and 8.97% personal income tax rate is reduced to 6.85% for joint filers earning between $300,000 and $2 million; and the 8.97% personal income tax rate is reduced to 8.82% for joint filers earning more than $2 million (the 6.45%, 6.65%, 6.85%, and 8.82% tax rate brackets start at lower levels for single and head of household filers). Supplemental taxes that recapture the benefit of lower tax brackets at higher incomes have been recalibrated for the 2012-2017 tax years but remain in effect.

3. Prior to the 2010 Budget Act, the top NYC personal income tax rate for married taxpayers filing a joint return and surviving spouses was 3.2% and began for all taxable income over $90,000 for joint filers, over $60,000 for heads of households and $50,000 for all other taxpayers. Effective for taxable years beginning on or after Jan. 1, 2010, all whose taxable income exceeds $500,000 is taxed at the rate of 3.4%.

4. The filing status used for federal purposes must be used for NYS/C purposes. If either the husband or wife is a resident and the other is a nonresident of NYS/C, they must file separate NYS/C personal income tax returns on separate Forms IT-201 or IT-203 regardless of whether they file a joint or separate federal income tax return. Both spouses may elect to file a joint NYS/C resident personal income tax return in which their joint NY taxable income is determined as if both were residents only if they meet the following criteria: (a) they file a joint federal income tax return for the same taxable year, and (b) each spouse maintained his or her status as a resident or nonresident during the entire taxable year. In the case of nonresidents filing a "married filing jointly" return, a nonresident spouse that has no NYS/C source income cannot be required to sign the joint return and cannot be held liable for any tax, interest or penalties that may be due.

5. An individual who is domiciled in NYS/C must file a NYS/C return unless: (a) the individual maintains no permanent place of abode in NYS/C and has a permanent place of abode outside NYS/C, and spends no more than 30 days in NYS/C; or (b) the individual is present in a foreign country for at least 450 out of 548 consecutive days, the individual is not present in NYS/C and does not have a permanent place of abode in NYS/C for more than 90 days out of the 548 day period. For tax years prior to Jan. 1, 2009, the taxpayer's spouse and minor children may not spend more than 90 days in a permanent place of abode maintained by the taxpayer. Effective for tax years beginning on Jan. 1, 2009, the term "presence" in NYS/C is amended when determining a taxpayer's NYS/C residency status under the 548-day rule. This provision classifies as a NYS/C resident a NYS/C domiciliary who is out of the country for 450 of any 548 days, but whose spouse and minor children are in NYS/C for more than 90 days, regardless of whether the spouse and children spend any time in NYS/C at the taxpayer's permanent place of abode.

6. Non-domiciliaries of NYS/C must file a NYS/C resident return (Form IT-201) if they maintain a permanent place of abode for substantially all the taxable year (exceeding an 11-month period) in NYS/C and are present in NYS/C for more than 183 days during the taxable year.
7. A NYC Unincorporated Business Tax (UBT) Return is required to be filed by any entity which carries on a business in NYC and has unincorporated business gross income of more than $25,000 (more than $75,000 for unincorporated businesses other than partnerships) or unincorporated business taxable income of more than $15,000 (more than $35,000 for unincorporated businesses other than partnerships). A NYC personal income tax credit is available to owners of businesses subject to the UBT, in an amount of 100% of their UBT payments for owners with incomes of up to $42,000. The credit decreases on a sliding scale to a minimum credit of 23% for owners with incomes of $142,000 or more.

8. The Metropolitan Commuter Transportation Mobility Tax (MCTMT) is imposed on most employers and self-employed individuals (including partners of partnerships) working in the Metropolitan Commuter Transportation District (MCTD). This new tax is 0.34% of total payroll expense within the MCTD for employers, and 0.34% of net earnings from self-employment allocated to the MCTD for self-employed individuals. Employers pay the tax on a quarterly basis, while individuals make quarterly estimates and calendar year taxpayers file a return by April 30 of the following year. Effective April 1, 2012, certain small businesses have been excepted from the MCTMT.

9. NYS/C allow a deduction for the first $20,000 of qualifying pension and annuity income received by resident taxpayers over age 59½. Based on a Tax Appeals Tribunal (TAT) decision in Matter of Blue, the pension exclusion does not apply to retirement benefits to resident partners that are paid directly from the partnership. In addition, NYS/C generally does not tax annuity payments received by nonresidents. Pension payments which do not qualify as annuities and are attributable to services performed in NYS/C, will be allocable to NYS/C (if not in violation of federal law which restricts nonresident taxation of certain pensions).

10. High-income taxpayers are subject to significant restrictions in the amount of itemized deductions they can take. For taxable years beginning in 2009 and thereafter, taxpayers with NY AGI over $1 million may only take an itemized deduction equal to 50% of federal itemized deductions for charitable contributions. For taxable years beginning between 2010 and 2015, taxpayers with NY AGI between $1 million and $10 million continue to be subject to this restriction, while taxpayers with NY AGI over $10 million are only allowed to take an itemized deduction equal to 25% of federal itemized deductions for charitable contributions. Finally, all taxpayers who take a state sales tax deduction in lieu of state income taxes are required to reduce their Federal itemized deductions by the amount of such state sales tax included in their Federal itemized deductions.

11. Individuals changing their status from resident to nonresident or non-resident to resident must accrue special items of income, such as gains from installment sales, or else post a bond or other security for the amount of tax that would be due.

12. As NYS/C conform to the current IRC, specific legislative action is required to decouple from recent federal enactments, NYS/C historically has decoupled from federal provisions in several areas. NYS/C do not conform to the federal accelerated depreciation provisions under §168(k), but do conform to qualified Resurgence Zone property and qualified NY Liberty Zone property. NYS/C conforms to the §179 asset expense provisions except for sport utility vehicles. Without guidance to the contrary, NYS/C presumably conforms to other recent federal changes, including §108(i). NYS/C conforms to §179 rules on leasehold improvements enacted in Sept. 2010.
13. If the shareholders of an S corporation have made an election under §338(h)(10), then any gain recognized on the deemed asset sale for Federal income tax purposes will be treated as NYS source income. If the S corporation does business within and outside NYS, than any such gain shall be allocated by using the allocation factor of the year that the shareholder made the §338(h)(10) election. This provision is effective beginning on Aug. 4, 2010 and will apply to all years and shall apply to all tax years for which the statute of limitations for seeking a refund or assessing additional tax is open. However, when a nonresident shareholder exchanges his or her S corporation stock as part of the deemed liquidation, any gain or loss recognized shall be treated as the disposition of an intangible asset and will not increase or offset any gain recognized on the deemed asset sale as a result of the §338(h)(10) election. If an S corporation, for which an election under §338(h)(10) is in effect, terminates its taxable status in NYS, then any income or gain recognized on the receipt of payments from an installment sale contract entered into when the S corporation was subject to tax in NYS will be subject to tax in NYS. If the S corporation does business within and outside NYS than any such gain shall be allocated by using the allocation factor of the year that the S corporation sold its assets. This provision is effective for all taxable years beginning on or after Jan. 1, 2010.

14. Nonresident individuals may allocate their wages based on the ratio of the number of days worked in NYS to the amount of total days worked everywhere. Days worked out of state at a home office only count as non-NY days if the taxpayer’s home office is a bona fide office of the taxpayer’s employer. Special rules apply to stock options and other deferred compensation received by nonresidents. The NY source income of nonresidents include income received by nonresidents related to a business, trade, profession or occupation previously carried on in this state, whether or not as an employee, including but not limited to, covenants not to compete and termination agreements. Any such income conducted partly within and outside NYS is prorated.

15. Certain flow-through entities are required to make estimated tax payments on behalf of their nonresident owners. Owners should determine whether they may claim a credit for taxes paid on their behalf by a flow-through entity.

16. Effective for tax returns and other tax documents required to be filed electronically by tax return preparers on or after Dec. 31, 2010, taxpayers will no longer be able to elect to opt-out of electronic filing. However, preparers may still opt out of electronic filing for reasonable cause. The 2010 Budget Act retains the $50 penalty for failure to electronically file each required personal income tax return or Article 9-A corporate tax document. This elimination of the taxpayer’s election to opt out of having to file electronically also applies to NYC corporate and UBT returns. Further, taxpayers required to deduct and withhold $35,000 or more of NYS/NYC personal income tax, NYC income tax surcharge, or City of Yonkers income tax must make e-payments of tax.

17. The e-filing requirements for tax return preparers are complex. If a tax return preparer prepared more than 100 original tax documents during a calendar year beginning in 2007 or thereafter, and then prepared one or more authorized tax documents using tax software in the succeeding year, e-filing for such documents is required. Also, as of Jan. 1, 2012, tax preparers preparing authorized tax documents for more than 10 different taxpayers are required to e-file beginning in the next calendar year if one or more personal income tax documents are filed. From 2012 to 2016, there is a requirement to e-file for individuals using tax software to prepare returns. Taxpayers cannot opt out of e-filing, though preparers may still opt out of e-filing for reasonable cause.

18. NYS requires disclosure of information relating to tax shelters. For NY purposes, tax shelters include, but are not limited to, transactions identified by the IRS as listed transactions. The legislation requires taxpayers to disclose their participation in Federal reportable transactions and NY reportable transactions, as identified by the NY State Commissioner of Taxation and Finance. Taxpayers will use Form DTF-686 Tax Shelter Reportable Transactions - Attachment to NY State Return to disclosure reportable transactions to NY State, and attach such form to required Federal disclosure forms. As part of the tax shelter legislation, NY enacted an enhanced penalty regime. The new penalties impact taxpayers, tax advisors and promoters of abusive tax shelters. Protective disclosure procedures can potentially be utilized in cases where the taxpayer is uncertain as to whether the NY tax shelter rules apply.
1. Effective for tax years beginning on or after Jan. 1, 2014 NC has eliminated all personal exemptions and many deductions and credits. Some remaining deductions include: social security income, interest on certain NC bond obligations (interest earned on obligation of states is included in NC taxable income), Bailey retirement benefits, and state tax refunds.

2. Effective 2014, NC adopted a flat individual income tax rate of 5.8%. Effective 2015, the rate will be 5.75%. The three-tiered tax rates were repealed.

3. Effective 2014, the standard deduction amounts are increased to $15,000 for married filing jointly, $12,000 for head of household, and $7,500 for single or married filing separate. Itemized deductions are limited to amounts claimed for charitable contributions and mortgage interest and property taxes paid. The deduction for mortgage interest and property taxes paid is capped at $20,000 while the limitation for charitable contributions is the same as under the IRC.

4. Eliminated, effective 2014, the business income tax deduction equal to business income received during the taxable year, limited to $50,000 ($100,000 if married filing jointly).

5. Eliminated, effective 2014, the $4,00 deduction for most government retirement income and $2,00 deduction for private retirement income.

6. Eliminated, effective 2014, the deduction for severance wages.

7. Effective 2014, the child tax credit was increased to $125 for taxpayers with AGI less than $40,000 married filing jointly, $32,000 head of household, or $20,000 single or married filing separately. The credit remains $100 for taxpayers with AGI above the thresholds but not exceeding $100,000 married filing jointly, $80,000 head of household, or $50,000 single or married filing separately.

8. As of 2006, married nonresidents have the option to file jointly. Previously, nonresidents had to file separately unless both spouses had income in NC. Separate filing is still an option. However, once the individual files a joint return, they cannot choose to file as married filing separately for that tax year after the due date of the return.

9. NC does not accept the federal extension. A NC extension, Form D-410 must be filed.

10. Nonresident partners and shareholders of S corporations may claim a credit for tax withheld as an “Other Tax Payment” on the return. They must include the information furnished by the partnership or S corporation with the return to verify the amount paid.

11. NC does not conform to IRC provisions related to bonus depreciation or §179 expenses. The 2014 tax reforms consolidates NC’s treatment into a standalone statute; N.C.G.S. §105-153.6.

12. NC generally conforms to federal NOL provisions allowing individuals a two year carry-back and a 20 year carryforward. NC has also adopted conformity rules to apply the IRC as of May 1, 2010 for 2008 and 2009 NOLs with respect to the 3, 4, and 5 year carryback provisions utilized by eligible small businesses (ESB), but distinguishes between those NOLs attributable to an ESB, in whole, in part, or not at all. The portion of a 2008 and 2009 NOL that is not attributable to an ESB must be added back to federal taxable income and carried forward to 2011, 2012, and 2013 (see Update on State Tax Treatment of 5-Year Carryback of 2008 and 2009 Net Operating Losses, N.C. Dept. of Rev., 08/27/2010).

13. Effective Nov. 1, 2011, taxpayers utilizing the Voluntary Disclosure Program will only be required to file past due returns and pay taxes due for a back period of three years for taxes filed annually or 36 months for all others. This requirement does not apply if the taxpayer collected, but failed to remit the tax.
**NORTH DAKOTA (ND)**

1. Unique nexus rules

- ND imposes personal income tax on resident individuals, fiduciaries for resident individuals, estates, or trusts who must file a federal income tax return, and all individuals who receive income derived from ND sources. A “resident” is a natural person who
  1) is domiciled in ND;
  2) maintains a permanent residence in ND; and
  3) spends in the aggregate more than seven months of the income year in ND.

An individual who moves to ND with the intent of establishing residency is required to file a personal income tax return as a part-year resident. There is no ND equivalent to the federal AMT on tax preference items.

- Starting with the 2013 tax year, compensation received by an individual for services performed in ND is excluded from ND source income and therefore not subject to ND income tax if all of the following conditions apply:
  - The individual is not a legal resident of ND for the tax year.
  - The individual has no other income from sources in ND for the tax year in which the compensation is received.
  - The individual is present in ND to perform employment duties for fewer than 21 days during the tax year.
  - The individual’s state of legal residence either (1) does not impose an income tax or (2) provides a substantially similar exclusion.

“Compensation” means wages as defined for federal income tax withholding purposes. In counting the number of the days present in ND, presence in ND for any part of a day constitutes presence for that day unless the presence is solely for purposes of transit through ND. The following individuals are not eligible for this new exemption:
  - Professional athlete
  - Member of a professional athletic team
  - Professional entertainer
  - Person of prominence performing services on a per event basis
  - Person performing construction services that improve real property

2. Tax Base Adjustments

- ND generally conforms to the IRC as currently amended. In general, ND taxable income starts with federal taxable income. Certain addition and subtraction modifications are made to federal taxable income to reach ND income. The addition and subtraction modifications differ based on the return filed.

- ND conforms to §§167, 168, and 179 (regular and bonus depreciation) as amended by the ATRA 2012. Further, ND conforms to §172 and does not require adjustments to the federal tax base for the federal deduction or carryback/carryforward periods.

- In the case of joint filers where either spouse is a non-resident of ND for part or all of the tax year, tax is calculated on ND source income using Form ND-1NR.

- ND maintains income tax reciprocity with MN and MT. If certain conditions are met, a resident of ND does not have to pay income tax to MN or MT on compensation received for work performed in MN or MT. Conversely, if certain conditions are met, a resident of MN or MT does not have to pay ND income tax on compensation received for work performed in ND, as ND had entered into an income tax and withholding tax reciprocal agreement with those two other taxing jurisdictions.
3. Payment and filing requirements

- ND has two individual income tax forms (Form ND-1 and Form ND-EZ, a simplified version of ND-1 with no credits or deductions and that can only be filed by a resident). Quarterly estimated tax payments are remitted using Form 400-ES and are required for those taxpayers who can reasonably expect their individual estimated ND tax liability to exceed $500. Individuals, estates, and trusts subject to estimated taxes must remit estimated state income tax payments in four equal installments on April 15, June 15, Sept. 15, and Jan. 15. The payment amount required, when added to the taxpayer's withholding must be the lesser of (1) 90% of the taxpayer's net tax liability for the current taxable year, or (2) 100% of the net tax liability for the immediately preceding taxable year.

- A valid federal extension will extend the due date of the ND return. A copy of the federal extension form must be attached to the ND return when filed. Taxpayers that don't extend the federal return may request a separate ND extension by timely filing Form 101.

- If a taxpayer's federal taxable income or federal income tax liability for any taxable year is changed or amended by the IRS, the taxpayer must report the changes or corrections within 90 days after the date of the final IRS determination by filing an amended ND return or other information, as required by the Tax Commissioner.

- E-filing is allowed but not required.

4. Credits

- A number of small business credits are available when using Form ND-1.

5. Pass-Through Entity Withholding

- Starting with tax years beginning on or after Jan. 1, 2006, a pass-through entity must withhold ND income tax from the year-end distributive share of its individual members who are not residents of ND. There is, however, an exemption from withholding for non-resident individuals that elect to be included in the state's composite return, as ND permits the filing of a composite return on behalf of non-resident owners of a pass through entity. ND provides an additional exemption from withholding, if a member's pro rata or distributive share of income attributable to state sources is less than $1,000 for the tax year.

**OHIO (OH)**

1. OH uses the same tax rate tables for all filing status classifications. Depending on the amount of income taxable by each spouse in OH, using the married filing separately filing option may present an opportunity to save state taxes.

2. Pursuant to 2013 budget legislation, individual income tax rates are subject to an across-the-board decline. Beginning with tax year 2013, individual income tax rates will be reduced by 8.5 percent, in 2014 the rates will be reduced by 9%, and in 2015 the rates will be reduced by 10% from 2012 levels. The legislation also suspends for three years the inflation adjustments used to index income tax brackets and the personal/dependent exemption. The legislation repeals the $20 per person tax credit for all taxpayers with Ohio taxable income greater than $30,000, the low-income tax credit on the first $10,000 of earned income, and the gambling losses deduction. In place of the $20 per person tax credit, the legislation provides for a non-refundable earned income tax credit equal to five percent of the federal earned income tax credit.
3. OH decouples from federal law with respect to bonus depreciation. Taxpayers are required to add back 5/6 of the bonus depreciation deducted on federal income tax returns. The amount added back may be depreciated ratably over a five year period. An additional provision has been added to disallow the expanded §179 deduction, 5/6 of which must be added back to income and deducted over the subsequent five years; similar to the bonus depreciation adjustment. However, for tax years beginning in 2012 and thereafter, if a business owner increases income tax withholding by 10% or more than the immediately preceding taxable year, OH allows a reduced add back of 2/3 of the bonus depreciation and 2/3 of the qualifying §179 expense when calculating the taxpayer’s OH taxable income. The taxpayer is then entitled to deduct 1/2 of the amount added back for each of the succeeding two years. Also, for tax years beginning in 2012 and thereafter, if the increase in income taxes withheld by the business owner is greater than the sum of the bonus depreciation and qualifying §179 expense, then no add back is required when calculating OH taxable income. In addition, special rules apply to bonus depreciation or a qualifying §179 deduction resulting in federal NOLs.

4. For purposes of the nonresident tax credit, the methodology in calculating income earned within OH is based on a single-weighted sales factor.

5. Prior to Sept. 6, 2012, a tax return preparer that prepares more than 75 original tax returns during any calendar year that begins on or after Jan. 1, 2008, is required on Jan. 1, 2010 to electronically file all original returns prepared by the preparer, only if during the prior year (before reaching the 75-return threshold) the tax return preparer prepared no more than 25 original tax returns. On or after Sept. 6, 2012, a tax return preparer that prepares more than 75 original tax returns during any calendar year ending before Jan. 1, 2013, or prepares more than 11 original tax returns during any calendar year beginning on or after Jan. 1, 2013 must electronically file all original returns prepared by the preparer. This provision does not apply to a tax return preparer in a calendar year ending before Jan. 1, 2013 if during a prior calendar year the tax return preparer prepared no more than 25 original tax returns. Also, this provision does not apply to a tax return preparer in a calendar year beginning on or after Jan. 1, 2013 if during the prior calendar year, the tax return preparer prepared no more than 10 original tax returns.

6. OH has reciprocity agreements with IN, KY, WV, MI, and PA for income related to wages, salaries, tips or commission (except for income related to the ownership of at least 20% of a pass-through entity with nexus in OH).

7. To qualify for a credit for the tax paid to another jurisdiction, the tax must have been paid in other state in the year the credit is being taken and income included in the AGI. In addition, the tax paid in the other jurisdiction must be a state income tax (net worth franchise taxes are not considered as creditable taxes).

8. OH allows a child care credit for taxpayers with AGI less than $40,000 to deduct 25% of the federal child care credit. If AGI is less than $20,000, then 100% of the federal child care credit may be claimed.

9. Nonresidents owning an interest in an S corporation or a partnership/LLC should confirm whether any withholding tax has been paid under the pass-through entity tax provisions to avoid a potential erroneous double tax payment.

OKLAHOMA (OK)

1. Social Security benefits are exempt from OK income tax to the extent such benefits are included in federal adjusted gross income. After 2005, up to $10,000 of various retirement pensions and annuity payments may be exempt from OK tax.

2. OK residents are not subject to tax on “out-of-state income” that is income from real or tangible personal property or business income from another state. However, OK residents are required to add-back to federal adjusted gross income out-of-state losses from property or business to arrive at OK adjusted gross income.

3. For tax years prior to Jan. 1, 2014, OK allowed an exclusion for interest income from OK financial institutions or credit unions and federal financial institutions or credit unions located in OK. The exclusion is equal to $100 and $200 for single and joint files, respectively.
4. OK allows a deduction for nonrecurring adoption expenses up to $20,000 annually for tax years 2003 and thereafter.

5. Certain exclusions and credits against personal income tax are available for OK agricultural production.

6. The underpayment penalty is computed if at least 70% of the current year’s tax or 100% of the prior year’s tax is not paid timely. This penalty is not applicable if the total OK tax liability for the year is less than $1,000 or the taxpayer was an OK resident and did not have state tax liability for the preceding tax year.

7. OK allows a 22% oil and gas depletion allowance that is also applicable to lease bonuses.

8. OK allows certain state specific business incentives in the form of tax credits and/or accelerated deductions.

9. Although the starting point for computing OK taxable income is federal adjusted gross income (“AGI”), the federal itemized deductions are adopted for OK personal income tax purposes.

10. Prior to Jan. 1, 2014, OK allowed a deduction for political contributions of up to $100 and $200 annually for single and joint filers, respectively.

11. Interest or dividends earned on non-OK state or local obligations must be added back to the extent the interest is exempt from federal income tax. OK municipal bond interest may be deducted when allowed by state statute authorizing their issuance.

12. Interest on local governmental obligations issued after June 6, 2000 for purposes other than to provide financing for projects for nonprofit corporations is exempt from OK income taxation. For these purposes, local governmental obligations include bonds or notes issued by, or on behalf of, or for the benefit of OK educational institutions, cities, towns, or counties or by public trusts of which any of the foregoing is a beneficiary.

13. Interest on governmental obligations issued by the OK Department of Transportation for purposes of highway construction and maintenance is exempt from income taxation.

14. OK generally follows federal law with respect to depreciation, since federal AGI is the starting point for determining OK taxable income. However, for income tax returns filed by fiduciaries after Dec. 31, 2007, the federal taxable income must be increased by 80% of the amount of bonus depreciation received under the ESA 2008 for assets placed in service after Dec. 31, 2007 and before Jan. 1, 2010. Further, fiduciaries must add back to federal taxable income 80% of the amount of any “bonus” depreciation received under the JCWAA 2002 for assets placed in service after Sept. 10, 2001 and prior to Sept. 11, 2004. The amount of bonus depreciation described above is subtracted in later taxable years. 25% of the total amount added back is subtracted in the taxable year following the year of addition, and 25% is subtracted in each of the three succeeding taxable years. Individuals are not subject to the add-back requirements.

15. For tax year 2009, OK requires an add-back to state taxable income for any amount in excess of $175,000 that was deducted for federal income tax purposes as a small business expense under §179 (the federal limitation is $250,000) as provided in the ARRA 2009.

16. The OK personal income tax return provides for the computation of use tax for items purchased for use in OK for which no OK sales tax was collected by the retailer.

17. OK allows a deduction from federal taxable income for qualified wages equal to the federal Indian employment credit pursuant to §45A. Such deduction is only permitted for tax years on which the federal credit is allowed. These rules also apply to credits from pass-through entities.

18. Individual taxpayers can deduct certain capital gains from federal AGI in order to determine OK taxable income.

19. Certain OK income tax credits are available to qualified individual taxpayers (see Form 511CR for further information.

20. A resident taxpayer who received wages or compensation for personal services performed in another state is allowed a credit for taxes paid to the other state. Schedule E must be completed and a copy of the other state’s return must be furnished. Neither residents nor nonresidents can take a credit for taxes paid to another state on partnership income.
21. An exemption from taxable income is allowed for an amount equal to 100% of the amount of any scholarship or stipend received from participation in the OK Police Corps Program.

22. For taxable years beginning on and after Jan. 1, 2005, each taxpayer is allowed a deduction for contributions to accounts established under the OK College Savings Plan Act. The maximum annual deduction equals the amount of contributions to such accounts, plus any contributions to accounts by the taxpayer for prior taxable years after 2004, but in no event may the deduction for each taxable year exceed $10,000 for an individual taxpayer or $20,000 for taxpayers filing a joint return. For tax years 2007 and after, deductions for contributions made to accounts established under the OK College Savings Plan will be limited as follows:

- For a taxpayer who qualified for the five year carryforward election and who takes a rollover or non-qualified withdrawal during that period, the tax deduction otherwise available will be reduced by the amount equal to the rollover or non-qualified withdrawal; and
- For a taxpayer who elects to take a rollover or non-qualified withdrawal within the same tax year in which a contribution was made to the taxpayer's account, the tax deduction otherwise available will be reduced by the amount of the contribution that is equal to the rollover or non-qualified withdrawal.

23. Combat zone pay and dislocation allowances are excludible from federal and OK taxable income. There is also an exemption for income of Prisoners Of War ("POW") and Missing in Action ("MIA"). Military pay of nonresidents stationed in OK is not taxed. In addition, military pay of OK residents is excludable from OK taxable income, subject to the following limitations:

- Before July 1, 2010, taxpayers can deduct the first $1,500 received by them from the US as salary or compensation in any form other than retirement benefits, as a member or component of the Armed Forces.
- On or after July 1, 2010 and ending before Jan. 1, 2015, taxpayers can deduct 100% of the income received by them from the US as salary or compensation in any form other than retirement benefits, as a member or component of the Armed Forces.
- For the taxable year beginning on Jan. 1, 2015, and every year thereafter, if the State Board of Equalization makes a determination that revenue collections exceed revenue deductions, the 100% deduction may be claimed; and if revenue collections do not exceed revenue reductions, a deduction of the first $1,500 of salary or compensation will be allowed.

24. A resident individual may deduct up to $10,000 from OK adjusted gross income if the individual, or the dependent of the individual, while living, donates one or more human organs of the individual to another human being for human organ transplantation. This deduction may be claimed in the taxable year in which the human organ transplantation occurs. Further, an individual may claim this deduction only once, and the deduction may be claimed only for unreimbursed expenses that are incurred by the individual and related to the organ donation of the individual.

25. For tax years beginning after Dec. 31, 2009, OK provides an exemption of $5,000 for the death benefit paid to the designated beneficiary of an EMT whose death is a result of their official duties performed in the line of duty.

26. Effective retroactively to Jan. 1, 2008, individual taxpayers must add-back otherwise deductible rents and interest expenses paid to a captive real estate investment trust. In addition, effective Jan. 1, 2010, OK does not allow the dividends-paid deduction taken for federal income tax purposes by a captive real estate investment trust.

27. Individual taxpayers are allowed an extra exemption, as they were allowed for federal income tax purposes, for providing housing to a displaced individual from a Midwestern disaster area.

28. For the 2008 tax year, the OK net operating loss carry-back is limited to two years (for federal income tax purposes the carry-back period is five years for certain taxpayers). For tax years after 2008, OK follows §172 rules (as they also did for tax years prior to 2008).
29. Effective Jan. 1, 2010, any payment made by the US Department of Defense as a result of the death of a member of the Armed Forces of the US who has been killed in action in a US Department of Defense designated combat zone is exempt from OK income tax during the taxable year in which the individual is declared deceased by the Armed Forces. Any income earned by the spouse of such person is also exempt from OK personal income tax.

30. Applicable to tax years beginning after 2009, OK corporate and personal income taxes are decoupled from the federal provision regarding the recognition of income from the discharge of indebtedness. Taxpayers are required to add back an amount equal to the amount of deferred income not included in taxable income under §108, as amended by ARRA 2009. Taxpayers are allowed a corresponding subtraction from OK taxable income equal to the amount of deferred income included in federal taxable income pursuant to §108, as amended by ARRA 2009.

31. Senate Joint Resolution 61 imposes a new Business Activity Tax ("BAT") on net revenue but ties the BAT liability for 2010, 2011 and 2012 to the taxpayer's 2009 franchise tax liability. There is a moratorium on the franchise tax during this period of BAT imposition. BAT applies to all entities doing business in OK regardless of form. The BAT includes an economic nexus provision. Taxpayers that are doing business in OK under economic nexus are only subject to a $25 minimum tax but must file an information return. The BAT consists of a $25 annual tax on every person doing business in OK and a tax equal to 1% of net revenue derived from business activity that is allocated or apportioned to OK. The BAT is scheduled to expire for tax years beginning after Dec. 31, 2012. The BAT return is due annually. Farmers filing Schedule F and sole proprietors filing either federal Schedule C or C-EZ must file BAT returns as a part of and at the same time as their OK individual returns are filed. For all other BAT filers, the return for tax year 2012 is due July 1, 2013. The BAT expires for tax years beginning after 2012.

32. Effective July 1, 2011, the transfer or allocation of any corporate or personal income tax credit must be reported to the OK Tax Commission and the transfer or allocation of any insurance gross premiums tax credit must be reported to the OK Insurance Department. The entity transferring or allocating the credit must report such transfer or allocation on or before the 20th day of the second month after the tax year in which an act occurs that allows the tax credit to eventually be claimed. If a taxpayer claims a credit on any tax return that was not previously reported to the Tax Commission or the Insurance Department, the respective agency shall disallow the credit. The reporting requirement does not apply to the Sales Tax Relief Credit, Low Income Property Tax Relief credit, Earned Income Tax Credit, Child Care/Child Tax Credit, Credit for Taxes Paid to Another State, Credit for Property Taxes Paid on Tornado Damaged Residential Property.

33. There is a moratorium on a number of personal income, corporate income and gross premiums tax credits. No credit may be claimed for credits generated on or after July 1, 2010 and before July 1, 2012. Credits established before July 1, 2010 are eligible to be claimed under normal carryover provisions if applicable.

34. Taxpayers who choose not to have their refund deposited directly into their bank account will receive a debit card. Taxpayers filing a joint return will each receive a card in their name. Each card will have access to the full amount of refund. http://www.tax.ok.gov/faq/faqDEBITCARD001.html.

35. For tax years beginning after Dec. 31, 2013 and before Jan. 1, 2018, OK allows a personal income tax deduction for foster care expenses up to $5,000 regardless of filing status. Prior to June 2, 2014, OK capped the deduction at $2,500 for a single person and $5,000 for married individuals filing a joint return.

OREGON (OR)

1. Registered domestic partners that entered into a registered domestic partnership have the same rights as married people. They may elect to file as registered domestic partners filing separately or registered domestic partners filing jointly. To correctly determine the OR tax liability, the registered domestic partners must complete a federal income tax return “as if” they were married filing jointly or married filing separately.

2. OR allows a deduction up to $6,000 for active duty pay earned within the state.
3. Taxpayers can itemize deductions on their OR return even if they did not have enough deductions to itemize on the federal return.

4. The Special OR Medical Deduction is no longer available. The deduction has been replaced by a new subtraction for medical and dental expenses that is limited to $1800 for taxpayers 62 and older.

5. Review the provisions regarding the deferral of reinvested gain and determine what gains are subject to deferral, when the deferred gain should be recognized, and what constitute qualified investments for the deferral.

6. For the 2013 tax year, OR adopted the current federal tax law as of Jan. 3, 2013, with two exceptions. OR does not conform to the §199 qualified production activities deduction and OR does not allow §139A subsidies for prescription drug programs.

7. For taxpayers who are required to report listed or reportable transactions to the IRS on Form 8886 or participated in certain economic activities with a REIT or RIC as described in §314.307, OR has a mandatory reporting requirement for participation such transactions.

8. OR will add back to taxable income a portion of the federal tax refund received for an amended return if allowed a federal deduction for a portion of the tax paid in prior years.

9. OR will allow a deduction of up to $2,225 ($4,455 for MFJ) for contributions to a 529 OR College Savings Network account. A deduction for a contribution over the limit may be carried forward four years.

10. OR will not allow a taxpayer to amend his OR personal income tax filing status from married filing jointly to married filing separately after the filing deadline.

11. OR has a refundable earned income tax credit (EIC) equivalent to 6% of the federal EITC.

12. The 2013 federal tax subtraction limit was $6,250. A phase-out for high income earners began at $250,000 married filing jointly ($125,000 single/married filing separately).

13. OR does not require mandatory electronic payment or filing.

14. Individuals who claim sales taxes in lieu of income taxes as a deduction on their federal income taxes are required to add back the sales tax deduction in computing OR taxable income.

**PENNSYLVANIA (PA)**

Note: Please note that this document does not consider local taxation within PA, such as that for the city of Philadelphia.

1. PA groups total positive income into eight income classes. Gains in one class of income cannot be offset with losses in another class of income. Spouses may not reduce each other's income between income classes or within the income class. For the taxable interest income, dividend income, and net gambling and lottery winnings classes, expenses are not deductible (taxpayers may deduct gambling and lottery losses other than for PA State Lottery, but may not deduct the expenses in connection with gambling and lottery activities per PA-40 schedule T). PA law allows deductions only for PA allowable costs and expenses directly incurred in earning or receiving income.

2. PA law does not provide any advantage for filing a joint return. On a joint return, compute the gains/losses of each spouse separately because the gains of one spouse cannot be offset with the losses from the other spouse.
3. Losses cannot be carried back or forward from year to year.

4. Employee contributions to retirement plans, investments in annuities, mutual funds, and money market funds, are not excluded or deducted from income.

5. Rules on the sale of a personal residence differ slightly from federal rules. While net gains derived from the sale, exchange or other disposition of a taxpayer’s principal residence are excluded from PA taxable income certain criteria must be met to qualify.

6. The deductibility of employee educational expenses differs from the federal guidelines in that the taxpayer may not deduct educational expenses incurred to maintain or improve the taxpayer’s skills.

7. For the moving expense deduction, the taxpayer may only deduct if expenses are incurred to retain employment or to report to a new location after obtaining employment. A taxpayer moving for their own convenience may not deduct moving expenses.

8. Taxpayers may deduct allowable meals and entertainment expenses at 100%, however, meals expenses not incurred in overnight travel status and federal per-diem meal rates are not allowed. Qualifying business gifts are 100% deductible and not subject to federal percentage limitations.

9. Determine if a deduction for unreimbursed direct business expenses are incurred by employees, partners, or S corporation shareholders. If so, such unreimbursed expense must be itemized on a separate statement.

10. A taxpayer cannot receive any type of loss (negative amount) as a beneficiary of an estate or trust for PA purposes. Only positive amounts (i.e., gains, income) should be reported on PA Schedule J.

11. Determine if income items from any out-of-state partnership or S corporations were reported in the correct income classes on the return. In the absence of a PA Schedule K-1, the tax preparer must determine the appropriate classes of income.

12. PA does not tax personal employee use of employer owned or leased property. PA does not tax personal employee use of employer provide services, whether at no cost or reduced cost. PA taxes reimbursements for personal expenses such as dependent care and commuting.

13. PA does not conform to federal bonus depreciation and the §179 deduction is limited to $25,000 with a phased out for purchases in excess of $200,000.

14. PA requires preparers who file more than 50 returns per year to file tax returns electronically. However, there is no requirement for individuals to electronically file to pay electronically. The Department offers three ways to file a tax return electronically: (1) over the telephone with Tele File; (2) over the Internet with padirectfile; and (3) through tax preparers or computer software with Fed/State e-file.

15. Form PA-40 has a line (25) for declaring use tax owed.

RHODE ISLAND (RI)

1. Effective Jan. 1, 2011, RI no longer allows individuals to deduct itemized deductions and must now use the RI standard deduction based on their filing status.

2. Nonresident partners should be aware that certain provisions of partnership agreements that decrease RI income or increase RI deductions will be disregarded.

3. In computing their RI income tax liability, prior to Jan. 1, 2011, an individual could use the alternative flat tax rate. This tax was eliminated for tax years beginning on or after Jan. 1, 2011.

4. An LLC taxed federally as a partnership/S corporation/disregarded entity is subject to a fee in an amount equal to the corporate minimum tax ($500). LLCs treated as partnerships or S corporations must withhold tax for individual nonresident members at the highest rate.

6. RI does not allow NOL carrybacks, but allows carryforwards up to 20 years, limited to the federal NOL.

7. RI §179 expense is capped at $25,000 until Dec. 31, 2013. RI conforms to §179 effective Jan. 1, 2014.

8. RI allows a modification decreasing federal adjusted gross income for contributions to RI tuition savings programs. The maximum modification shall not exceed $500 or $1,000 if a joint return. The excess is a carryover.

9. Effective July 1, 2009, RI does not conform to §108(i), allowing a deferral of income attributable to the discharge of indebtedness. Any amount deferred must be reported as a modification increasing federal income in the year it is incurred. When claimed as income on a future federal tax return, it may be reported as a modification decreasing federal income for RI tax purposes to the extent it was added back.


11. RI allows a film credit equal to 25% of the RI certified production costs provided the primary locations are within RI, and the total production budget is a minimum of $100,000 (300,000 prior to July 1, 2012). To the extent the motion picture production company does not claim the credit against its tax liability, the company or owner of the credit may transfer or sell the credit under specified conditions. The film credit is eligible to reduce corporate or personal income tax.

**SOUTH CAROLINA (SC)**

1. Individual income tax returns are due on or before April 15. If the individual will receive a refund of individual income taxes, South Carolina will accept the federal six month extension. If the taxpayer does not have a federal extension, or expects to have an individual income tax liability, they must file SC4868 on or before April 15 with payment if necessary to receive a six month extension to file.

2. The SC Credit for Child and Dependent Care expense is 7% of the federal expense for a full year resident. Taxpayers married filing separately cannot claim this credit. The maximum amount for one child is $210; two or more is $420.

3. Spouses who have both earned income taxed to SC can claim the Two Wage Earner Credit when filing jointly.

4. SC has a deduction for individuals for “qualified retirement income” from their own plan. Individuals under 65 are eligible for a $3,000 deduction. Individuals over 65 are eligible for a $10,000 deduction. Social Security income, railroad retirement income, and disability retirement income due to permanent and total disability do not qualify, because these amounts are not taxed by SC. A surviving spouse receiving qualified retirement income attributable to the deceased spouse may deduct up to $3,000 or $10,000 of the qualified retirement income, based on the age the deceased spouse would have been had he or she lived. To claim the deduction, a surviving spouse must receive the decedent’s qualified retirement income as a surviving spouse. The surviving spouse retirement deduction is in addition to the individual retirement deduction.

5. Social Security benefits and railroad retirement income are not taxable, nor is income due to total and permanent disability.

6. SC has a deduction for resident taxpayers beginning in the year they reach age 65, up to a maximum of $15,000. The deduction is reduced to the extent a taxpayer or their spouse has claimed a deduction for qualified retirement income. The age 65 and over deduction is not reduced by any surviving spouse retirement deduction claimed.

7. SC allows a capital gain deduction equal to 44% of net capital gain recognized during the taxable year (excess of net long term capital gain over net short term capital loss).
8. Contributions to the SC Tuition Prepayment Program are 100% deductible. Contributions made between Jan. 1 to April 15 of the following year are allowable as a deduction in current year.

9. SC does not allow losses incurred from investments or rental property located outside of SC.

10. SC requires expenses deducted on the federal return that are not related to income taxed by SC to be added back in determining SC taxable income.

11. An NOL deduction is calculated the same as for federal tax purposes, except that all items of income and deductions used in arriving at the NOL are adjusted for SC purposes. Carrybacks are not allowed for SC purposes, and a federal election to carryback an NOL deduction will not affect the computation of the deduction for SC income tax purposes.

12. The 100% Safe Harbor Rule is modified to 110% of prior year tax for individuals with an adjusted gross income of more than $150,000 as shown on the return for the preceding year. For purposes of the Safe Harbor Rule, total SC taxable income from all pass-through businesses for which a taxpayer performs personal services is computed by including all types of income items and deductions from the pass-through business, but disregards capital gains and losses.

13. SC allows an individual, estate or trust to choose to have qualifying active trade or business income from a pass-through entity taxed at a rate different from the graduated tax rate for individual income. The flat rate is 5% for tax years after 2008.

14. A partner of a partnership or shareholder of an S corporation that participates in a composite return will not receive the benefit of any federal deductions, and will owe tax at a rate of 7% on any income that does not qualify as active trade or business income unless the partner or shareholder completes an I-338 composite return affidavit stating that they have no other income taxable to SC.

15. Beginning Jan. 1, 2009, businesses must add back amounts paid for services performed by an unauthorized alien if the amount is $600 or more a year.

16. For employees beginning apprenticeships after 2007, a taxpayer who employs a qualifying apprentice may claim an income tax credit of $1,000 for each apprentice employed at least seven full months of the tax year.

17. The SC Department of Insurance has promulgated a regulation pertaining to the credit available against personal income tax for the cost of retrofitting a legal residence to make it more resistant to loss due to hurricane, rising floodwater, or other catastrophic windstorm event. The credit is applicable to costs incurred in taxable years beginning on or after Dec. 31, 2006. The costs do not include ordinary repair or replacement of existing items or items purchased with grant funds from SC Hurricane Damage Mitigation Program unless they are included in income. The amount of credit for any taxable year must not exceed the lesser of 25% of the cost incurred or $1,000.

18. SC generally adopts the IRC through Dec. 31, 2013, but has decoupled from certain provisions including §59A - environmental tax, §909 - suspension of taxes and credits until related income taken into account, §108(i) - the deferral of COD income, §199 - the deduction for domestic production activities, 30% and 50% bonus depreciation, and §163(e)(5)(F) relating to OID on high yield discount obligations.

19. SC calculates penalties and interest on the later of the return postmark or payment date.

20. E-filing is mandated for tax preparers who prepare 100 or more resident, nonresident, and part-year resident returns for a tax period for the same tax year. This appears to mean that if you anticipate filing 100 or more state returns for the year, you must do so with the very first one. Mandated preparers who fail to comply with the e-file mandate will be subject to a penalty of $50 per failure to comply.
21. All certified public school teachers, certified special school classroom teachers, certified media specialists, and certified guidance counselors who are employed by a school district or a charter school as of Nov. 30, 2011 may receive reimbursement of up to $275 each school year to offset expenses incurred by them for teaching supplies and materials. This reimbursement is exempt from personal income tax.

**SOUTH DAKOTA (SD)**

1. SD does not impose an individual income tax. Certain senior and disabled SD residents are eligible for sales tax or property tax refunds from the State.

**TENNESSEE (TN)**

1. TN has an individual interest and dividends tax. The tax applies to persons that are domiciled in TN or that are residents for at least six months of the year. A person moving into or out of TN during the year and whose taxable interest and dividend income exceeds the personal exemption(s) set forth below is required to file a return and pay the tax (the tax does not apply to military personnel and full-time students who are legally domiciled outside of TN). Dividends (including capital gain distributions and distributions designated as nontaxable under federal law) are taxable, but dividends from mutual funds that invest in US Treasury instruments (not obligations such as GNMA) are not taxed in TN. S corporation distributions and distributions from publicly traded partnerships are taxable as dividends. There is a personal exemption of $1,250 ($2,500 if married filing jointly) against total taxable interest and dividend income. Interest from any bank or credit union is not taxable. Interest on demand notes and certain debt instruments maturing in six months or less is not taxed.

2. Taxpayers should be aware that the interest and dividends tax applies to partnerships, associations and trusts that are domiciled in TN, although these entities are entitled to apply any tax paid against their TN excise tax liability.

3. Effective May 2004, all assets of and distributions from college savings plans (both TN and non-TN plans) are exempt from TN state and local taxation. Under prior law, income earned on non-TN 529 college savings plans was not exempt.


5. Earnings or distributions received on or after July 1, 2006 for medical purposes from health savings accounts are exempt (2006 Pub. Ch. 873).

6. Tax returns can be filed electronically at [http://www.state.tn.us/revenue/tntaxes/indinc.shtml](http://www.state.tn.us/revenue/tntaxes/indinc.shtml). A return is not required to be filed if no tax is owed.

7. TN does not require estimated or quarterly payments for individual income tax.

**TEXAS (TX)**

1. TX does not impose an individual income tax.

**UTAH (UT)**

1. Tax Rates: For taxable years beginning after 2007 UT imposes a 5% flat tax on individuals. UT does not have AMT.

2. Taxation of Residents/Nonresidents: UT taxes residents on their worldwide income and allows a credit for taxes paid to other states.

3. Conformity: UT uses federal adjusted gross income as the starting point for calculating personal income tax. UT conforms to the IRC as currently amended.
4. UT has a credit for special needs adoption expenses.

5. Retirement income for residents is taxable in UT, but taxpayers may be eligible for a tax credit of up to $450.

6. UT conforms to the first year expense election (allowed under §179) and to the additional first year bonus depreciation allowed for qualifying property. UT allows an NOL to be carried back two years and forward 20 years (same rules as apply for federal purposes).

7. Interest earned on non-UT government municipal bonds acquired after Jan. 1, 2003 will be taxable, unless other state (or political subdivision) does not tax municipal bonds issued by UT. Although interest earned on UT municipal bonds is generally taxable income from certain state bonds may be exempt. Interest earned on U. S. bonds is exempt.

8. Effective for tax years starting on or after Jan. 1, 2008, taxpayers who take the standard deduction on their federal return may claim a nonrefundable credit against income tax equal to 6% of the amount of their federal standard deduction claimed for that taxable year. A taxpayer who itemizes deductions on their federal return may claim a nonrefundable credit against income tax equal to 6% of the difference between their itemized federal deductions claimed for that taxable year and the amount of state and local taxes claimed as an itemized federal deduction for that taxable year. These credits are reduced by 1.3¢ for each dollar by which a taxpayer's UT taxable income exceeds certain thresholds.

9. Filing Requirements – UT returns are due on the 15th day of the 4th month. UT allows an automatic 6 month extension of time to file. Payment of 90% of the current year or 100% of prior year is due on the unextended due date of the return. Electronic payments are allowed but are not required.

VERMONT (VT)

1. Certain VT residents may qualify for a rebate of a portion of their property taxes. In such circumstances, a prebate can be obtained. A taxpayer that received a prebate of their rebate amount, which owes or is owed an adjustment includes such on their individual income tax return. Beginning in 2007, property tax bills will be reduced by a taxpayer’s prebate, this taxpayers will not receive prebate checks in 2007.

2. For a domiciliary of another state deemed to be a resident of VT, income from intangibles not employed in a business, trade, or profession, is sourced to the taxpayer’s state of domicile. VT will give the taxpayer a credit for tax paid on that income to the other state (but only if that state provides a similar credit).


4. The nonrefundable credit for a contribution by a taxpayer in a tax year to a VT higher education investment plan account increased from 5% to 10% of the amount contributed, up to a maximum of $2,500 of contribution per beneficiary.

5. The capital gain exclusion for tax year 2011 is the amount of the capital gain, but not to exceed $5,000 or 40% of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, whichever is less. Capital gains on certain assets are eligible for exclusion at 40% of the capital gain on those assets or 40% of taxable income, whichever is less.

6. A credit up to $2,000 is available for eligible start-up expenses for a business owned at least 50% by a recently deployed veteran. This credit is only available for a business that has started after the passage of this act but on or before Dec. 31, 2012, is located in VT, and shows a net profit of at least $3,000 for the year the credit is taken. This credit may be taken in the tax year following the date that the startup business was created and may be carried forward one year.
**VIRGINIA (VA)**

1. The credit for taxes paid to other states by resident individuals is limited to
   1) earned or business income,
   2) the gain on the sale of a principal residence,
   3) the gain from the sale of any capital asset not used in a trade or business, and
   4) corporate income tax paid to another state (one that does not recognize the federal S corporation election), by an individual shareholder of an S corporation (must attach a statement from the S corporation).

   No credit is available for franchise, license, excise, unincorporated business or occupational taxes.

2. VA residents must claim credit for taxes paid to VA on nonresident returns filed in AZ, DC, CA, or OR. VA has a special border state computation for residents required to file in KY, MD, NC, or WV.

3. To the extent excluded from federal adjusted gross income, individuals must add interest (less related expenses to the extent not deducted in determining federal income) on obligations of any state other than VA, or of a political subdivision of any such other state unless created by compact or agreement to which VA is a party, and interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the US, which the laws of the US exempt from federal income tax but not from state income taxes.

4. Nonresidents of DC, KY, MD, PA, or WV that commute on a daily basis to a VA place of employment are not required to a file a VA income tax return provided the state of residence has an income tax similar to VA's, the state of residence affords similar treatment to VA residents, and the only income earned from VA is salary and wages. In MD, PA, and WV, there is also a requirement that individuals must spend 183 days or less in VA.

5. Self-employed individuals working out of their homes may be subject to local Business, Professional and Occupational License taxes (BPOL).

6. Individuals may claim a deduction equal to 20%, not to exceed $500 each year, of the retail sales and use tax on appliances Available to individuals who purchase appliances that meet or exceed the applicable star efficiency requirements developed by the Dept. of Energy. Can deduct up to $1,000 if filing a joint return.

7. There is a subtraction for death benefits payments received from an annuity contract if the payment is made pursuant to an annuity contract and paid in a lump sum. The subtraction is only allowed for the portion of the payment that is included in federal AGI.

8. If an individual itemizes deductions for federal purposes, he or she must itemize deductions for VA purposes.

9. VA allows a salary deduction for the first $15,000 of salary from income for federal and state employees with a total annual salary from all sources of $15,000 or less.

10. Individuals may claim a subtraction for unemployment compensation benefits received during the year to the extent taxable pursuant to §85 and included in federal AGI.

11. 2013 legislation brought VA's fixed date of federal conformity to Jan. 2, 2013. However, VA decouples from §199 deductions for tax years after 2009, most bonus depreciation and five year NOL carry-back of JCWAA 2002. For tax years beginning on or after Jan. 1, 2010, VA's deduction for §199 is limited to 2/3 of the federal amount. In addition, VA decoupled from §108(i). For 2009, taxpayers may elect to take §108(i) amounts into income over three years, beginning with 1/3 in 2009.

12. There is an individual tax credit for certain long-term care insurance contracts entered into after Jan. 1, 2006. The credit is 15% of premiums paid during the year. Unused credits may be carried forward for five years.
13. VA allows a deduction for prepaid tuition contracts. VA individual income taxpayers may subtract up to $4,000 of the amount paid for a prepaid tuition contract with the VA College Savings Plan from federal adjusted gross income in taxable years beginning on or after Jan. 1, 2009. Anything over $4,000 per contract may be carried forward.

14. The number of qualified jobs needed to qualify for the Major Business Facility Job Tax Credit is 50 and qualified jobs required in an enterprise zone is 25. In addition, the act allows the taxpayer to claim the credit through Dec. 31, 2014.

15. 2012 legislation repealed the definition of “impoverished people” and added “low-income person” for purposes of the Neighborhood Assistance Act Tax Credits to include individuals with family annual income not in excess of 300% from 200% of the current federal poverty guidelines.

16. 2009 legislation allows individual and corporate taxpayers to recognize income from certain dispositions of real property under the installment method for VA tax purposes, even though they were required to report the entire gain as income in the year of the disposition for federal income tax purposes. The qualifying dispositions of real property will be those in which the real property is held by the taxpayer for sale to customers in the ordinary course of the taxpayer’s trade or business. The legislation requires the election for the installment method to be made on or before the due date of the taxpayer’s tax return for the taxable year in which the disposition occurred. The act also requires the Tax Department to establish guidelines that outline the restrictions or conditions associated with qualifying dispositions. The disposition is required to be in accordance with such restrictions or conditions in order for the taxpayer to elect the installment method. Effective: Taxable years beginning on and after Jan. 1, 2009.

17. 2010 legislation reduced the amount of Land Preservation Credits that may be claimed on income tax returns from $100,000 per taxpayer to $50,000 per taxpayer effective for credits claimed for taxable years beginning on and after Jan. 1, 2010, but before Jan. 1, 2012. The credit amount available for 2012 is $100,000. Land Preservation Tax Credit - (SB233) reduces the amount of credit that can be claimed by each taxpayer to $50,000 for taxable year 2011. Any taxpayer affected by the credit reduction would be allowed an additional three taxable years in which to claim the credit. Please note, for tax years 2009 & 2010 any taxpayer affected by the credit reduction will be allowed an additional two taxable years in which to claim the credit.

18. For tax years beginning on or after 2011, the Livable Homes Credit is amended to allow a licensed contractor to take a credit against corporate or personal income taxes for a portion of the total cost incurred in constructing new residences or retrofitting existing residences to improve accessibility or provide universal visibility. The maximum credit shall not exceed $5,000 or 50% of total amount expended for the construction or retrofit of a residence. The carry over period has also been expanded from five to seven years. This credit can only be claimed by individuals.

19. Consumer use tax may be paid as part of the income tax return.

20. Electronic filing is mandated for tax preparers that file 100 or more resident, nonresident, and part-year resident returns during a previous tax year that began on or after Jan. 1, 2010 and for tax preparers that filed 50 or more resident, nonresident, and part-year resident income tax returns thereafter.

21. Effective for taxable years beginning on or after Jan. 1, 2011, any income taxed as a long-term capital gain for federal income tax purposes, or any income taxed as investment services partnership income (otherwise known as investment partnership carried interest income) for federal tax purposes is allowed as a subtraction on the Virginia return. This subtraction is allowed if the income is attributable to an investment in a “qualified business” as defined in Va. Code §58.1-339.4 or in any other technology business approved by the Secretary of Technology and the business has its principal office or facility in the Commonwealth and less than $3 million in annual revenues for the fiscal year preceding the investment. The investment must be made between the dates of April 1, 2010, and June 30, 2015.
22. There are numerous voluntary contributions to social welfare funds and school and library foundations.

23. Refund checks will not be issued. If taxpayers do not choose direct deposit of refunds they will be issued a debit card.

WASHINGTON (WA)

1. WA does not impose an individual income tax.

WEST VIRGINIA (WV)

1. A resident is an individual who spends more than 30 days in WV with the intent of WV becoming his/her permanent residence; or someone who maintains a physical presence in WV for more than 183 days of the taxable year, even though the individual may also be considered a resident of another state.

2. Consider certain credits that may be available to WV non-corporate taxpayers such as: Military Incentive Credit, Qualified Rehabilitated Buildings Investment Credit, Economic Opportunity Credit, Environmental Agricultural Equipment Credit, High-Tech 2000 Research and Parks Credit, Homestead Property Tax Credit, Credit for income taxes paid to other states, Low-Income Family Tax Credit, Neighborhood Investment Program Credit, Nonfamily Adoptions Credit, Nonresident Credit, Research and Development Credit, Residential Solar Energy Tax Credit, Manufacturing Inventory Property Tax Credit, Commercial Patent Incentives Tax Credit, and the Alternative Fuels Credit.

3. State law conforms with federal statutes for changes made after Jan. 1, 2013 but before Jan, 1, 2014. Changes to the IRC do not automatically become part of WV income tax law but must be adopted by the state legislature.

4. Interest or dividend income on state and local bonds other than bonds from WV sources is not exempt from state tax. Accordingly, such interest must be added back in computing WV taxable income.

5. Interest or dividends received on US or WV obligations includable in federal adjusted gross income are exempt from state tax (decrease FAGI).

6. WV adopts the federal tax treatment of social security benefits. Accordingly, such benefits are partially taxable for WV personal income tax purposes.

7. WV adopts the federal tax treatment of unemployment and disability benefits. Accordingly, such benefits are generally fully taxable for WV personal income tax purposes.

8. Up to $2,000 in benefits received from certain WV, federal or military retirement systems may be exempt from state tax.

9. Benefits received from any WV state or local police or firemen’s retirement system or the department of public safety death, disability and retirement fund are excluded from WV taxable income.

10. The first $20,000 of military retirement income can be subtracted from federal adjusted gross income.

11. The amount of active duty military pay received while a member of the national guard or armed forces reserves called to active duty pursuant to an Presidential Executive Order for duty in “operation enduring freedom” or for domestic security duty that is included in federal adjusted gross income may be excluded from WV taxable income.

12. Refunds of state and local income taxes received and reported as income to the IRS may be exempt from state tax.
13. There are deductions available for senior citizens (age 65 or older), individuals with disabilities, and surviving spouses.

14. Contributions to a WV Smart 529 College savings plan can be subtracted from federal adjusted gross income. However, amounts withdrawn from a college savings plan that are not used for qualifying purposes are added to WV taxable income.

15. Contributions to a WV medical savings account of up to $2,000 annually can be subtracted from federal taxable income. However, amounts withdrawn from medical savings accounts not used for payment of qualifying medical expenses are added to WV taxable income.

16. Lump sum distributions excluded from federal adjusted gross income due to a §402 election must be added to WV taxable income.

17. Premiums paid for qualified long-term care insurance premiums can be subtracted to the extent they are not subtracted in the calculation of federal adjusted gross income.

18. Tolls paid electronically through use of the WV Parkways, Economic Development and Tourism Authority PAC card account for noncommercial commuter passes for travel on toll roads in WV are allowed as a subtraction from federal adjusted gross income to the extent the tolls exceed $25 up to a maximum of $1,200 annually (the subtraction does not include the transponder deposit or amounts reimbursed by an employer or otherwise, and any amount subtracted in the calculation of federal adjusted gross income).

19. A low income earned income exclusion is available for single or married taxpayers with federal adjusted gross income of $10,000 or less, or for married filing separate taxpayers with federal adjusted gross income of $5,000 or less.

20. WV generally conforms to §172 and adopts three year carry-back and 20 year NOL carry-forward period. However, WV NOLs that may be carried back to a previous year are limited to $300,000 annually. WV follows the extended NOL carry-back period allowed by the ARRA 2009.


22. WV requires pass-through entities, including S corporations, trusts, estates, partnerships and LLCs taxed as partnerships to withhold WV income tax on the distributive share of taxable income of their nonresident members, beneficiaries or partners at a rate of 6.5%. An exemption from withholding is provided for members, beneficiaries or partners who have executed and filed Form WV/NRW-4 with the pass-through entity.

23. WV does not conform to the provisions of §199 relating to the domestic manufacturing activities deduction.

24. For tax years beginning after 2011, individual income tax forms now include Schedule UT, WV Purchaser’s Use Tax Schedule for reporting any use tax on the purchase of tangible personal property that he or she made where sales tax has not been paid.

25. For tax years beginning Jan. 1, 2011, WV allows a subtraction of $1,000 for individual filers and $2,000 for taxpayers who are married filing jointly for qualifying contributions to a qualified trust maintained for the benefit of a child with autism.
WISCONSIN (WI)

1. Same-sex marriage is legal and recognized in WI. A lawfully married same-sex couple must file their WI individual income tax returns as married filing jointly, married filing separately or, if qualified, as head of household.

2. An unemployed taxpayer and a taxpayer whose employer did not contribute toward the cost of the taxpayer's medical care insurance may deduct up to 100% of the amount paid for medical care insurance. If the taxpayer's employer paid a portion of the cost of the insurance, the taxpayer may deduct 45% of the amount the taxpayer paid for the medical care insurance.

3. Social security benefits are not taxable in WI.

4. Unemployment compensation may be partially exempt if certain income thresholds are met.

5. Any interest or dividends passed through from an S corporation on a WI 5K-1 must be included on a nonresident return (even though there is a general exception to not include any interest/dividends in WI income).

6. WI does not allow bonus depreciation, conform to §199, nor follow the enhanced §179 deductions. The amount that may be expensed under §179 in WI is limited to $25,000 with a phase-out threshold of $200,000.

7. For 2013, the maximum subtraction for tuition and fees paid is $6,943 per student.

8. Retirement Income Exclusion - Persons 65 years of age or over with federal adjusted gross income less than $15,000 ($30,000 if married) may be able to subtract up to $5,000 of retirement benefits.

9. Except for gain on farm assets, the capital gain exclusion is 30% of net long-term capital gain.

10. Under the federal Military Spouses Residency Relief Act, income from services performed in WI by a nonresident spouse of a service member is not taxable to WI if the spouse is in WI solely to be with the service member serving in WI under military orders.

11. WI requires electronic filing of individual income tax returns by tax practitioners who filed at least 50 returns in the prior taxable year. WI may waive the requirement of electronic filing for tax practitioners who would experience undue hardship in complying with the requirement. Form EFT-102 is used to make the request. In addition, the electronic filing requirement does not apply to the individual income tax return of a taxpayer who indicates on the return that the taxpayer does not want the return filed by electronic means.

12. WI has a reciprocity agreement with IL, IN, KY, and MI. As a result of these agreements, (1) WI generally will not tax the personal service income (e.g., salaries, wages, commissions, and fees earned by an employee) of individuals who are domiciled in IL, IN, KY, or MI who are employed in WI, and (2) IL, IN, KY and MI generally will not tax the personal service income of individuals who are domiciled in WI and who are employed in these states (subject to certain exceptions). WI does not currently have a reciprocity agreement with MN.

WYOMING

1. WY does not impose an individual income tax.