

2018 Federal and State Tax Provisions for the Foreign Service

The American Foreign Service Association is pleased to release this year's Tax Guide. The annual AFSA Tax Guide is designed as an informational and reference tool. This 2018 guide summarizes many of the tax laws that members of the Foreign Service community will find useful, including changes mandated by the Tax Cuts and Jobs Act of 2017.

Although we try to be accurate, many of the new provisions of the tax code and the implications of Internal Revenue Service regulations have not been fully tested. Therefore, use caution and consult with a tax adviser if you have specific questions or an unusual or complex situation.

For 2018, "all income from whatever source derived" must be reported by U.S. taxpayers worldwide. Adjustments, deductions and credits remain matters of "legislative grace." It is important to know more about those statutes, regulations, forms and instructions, which are almost always more technical than this summary.

Accordingly, AFSA recommends following up with IRS product pages for each form and publication mentioned within this guide. The IRS designed these as extensions

of the PDF forms and instructions, and they include links to prior versions. Always check the applicability and "last reviewed" dates of these resources. Even then, some credits, deductions or other calculations (e.g., depreciation, foreign asset reporting, or a 1031 exchange) should only be done by a professional competent in that area.

We begin with the April 15, 2019, deadline for filing 2018 individual income tax returns (Form 1040 plus applicable schedules, worksheets and other necessary forms). A discussion of extensions and the new, shorter 1040 follows. Next, we provide the marginal tax brackets and rates for 2018 income, standard deduction and personal exemption. We've added a section on the child tax credit to complete the story about the increase of the standard deduction and elimination of the personal exemption.

Readers will also find information about relocation expenses, the foreign earned income exclusion and foreign asset reporting. There have been changes to the law regarding various itemized (and other separately claimed) deductions. The qualified business interest deduction is new to the tax code. Personal residence-related tax benefits have also changed; a more general discussion of "basis" should help readers with any large assets, not only houses. News about gifts, retirement and estate tax planning, as well as a full Circular 230 notice, round out the federal section. That is followed by the state-by-state guide, which includes information on state domicile, income tax rates and retirement incentives.

AFSA Senior Labor Management Adviser James Yorke (YorkeJ@state.gov), who compiles the Tax Guide, would like to thank Sam Schmitt, Esq., of the EFM Law Company, for preparing the section on federal tax provisions; and Christine Elsea-Mandojana, CPA, of Brenner & Elsea-Mandojana, LLC, along with Shannon Smith, Esq., and Hallie Aronson, Esq., of Withers Bergman, for their contributions to the section on foreign accounts and asset reporting.

Filing Deadlines and Extensions

The deadline for filing 2018 individual income tax returns is April 15, 2019. Anyone posted abroad is allowed an automatic two-month extension to file. To use it, write "taxpayer abroad" at the top of your 1040 and attach a statement explaining that you are living outside of the United States, and that your main place of business or post of duty is also outside the United States and Puerto Rico. An additional automatic extension may be obtained by filing Form 4868. There are no late-filing or late-payment penalties for returns filed and taxes paid by the respective extension dates (June 17 and Oct. 15), but the IRS will charge interest on any amount owed from April 15 to the date it receives payment and late payment fees.

The New 1040 Is Much Shorter ... But One of Six New Schedules May Be Required

IRS Form 1040 appears to be much shorter this year. The new form is sufficient for taxpayers who only need to report W-2 income and will only claim the standard deduction. It is so simple that the 1040-A or 1040-EZ from past years has been abolished. However, one of six schedules will be necessary for taxpayers in several circumstances. The new numbered schedules are required for:

(1) Those with other income, such as capital gains or Schedules C or E business income, or for taxpayers who can claim certain deductions like educator expenses, health savings accounts or student loan interest deduction;

(2) Those who owe tax on a child's unearned income or the alternative minimum tax (AMT);

(3) Those who can claim nonrefundable credits such as foreign tax credits, the standard child tax credit or education credits (Form 8863);

(4) Those who owe other taxes such as self-employment, unpaid Social Security and Medicare taxes, or household employment taxes;

(5) Those who can claim certain refundable credits, including overpayments of estimated tax, net premium tax credits and the health coverage tax credit; or

(6) A taxpayer who has a foreign address.

The familiar, lettered schedules may also still be necessary to calculate:

(A) Itemized Deductions. Schedule A has been changed to account for the cap on state and local taxes, home mortgage interest limits and the removal of miscellaneous itemized deductions. There is no longer an overall cap on itemized deductions, but miscellaneous itemized deductions have been eliminated;

(C) Profit or Loss from a Sole Proprietorship;

(D) Capital Gains & Losses; and

2018 Individual Income Tax Rates & Brackets				
Unmarried Filers				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$9,525	\$952.50	\$952.50
12%	\$9,526	\$38,700	\$3,501	\$4,453.50
22%	\$38,701	\$82,500	\$9,636	\$14,089.50
24%	\$82,501	\$157,500	\$18,000	\$32,089.50
32%	\$157,501	\$200,000	\$13,600	\$45,689.50
35%	\$200,001	\$500,000	\$105,000	\$150,689.50
37%	\$500,001	-	37% of Income over \$500k	\$151k + 37% of Income over \$500k
Married Filing Jointly				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$19,050	\$1,905	\$1,905
12%	\$19,051	\$77,400	\$7,002	\$8,907
22%	\$77,401	\$165,000	\$19,272	\$28,179
24%	\$165,001	\$315,000	\$36,000	\$64,179
32%	\$315,001	\$400,000	\$27,200	\$91,379
35%	\$400,001	\$600,000	\$70,000	\$161,379
37%	\$600,001	-	37% of Income over \$600k	\$161k + 37% of Income over \$600k
Head of Household				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$13,600	\$1,360	\$1,360
12%	\$13,601	\$51,800	\$4,584	\$5,944
22%	\$51,801	\$82,500	\$6,754	\$12,698
24%	\$82,501	\$157,500	\$18,000	\$30,698
32%	\$157,501	\$200,000	\$13,600	\$44,298
35%	\$200,001	\$500,000	\$105,000	\$149,298
37%	\$500,001	-	37% of Income over \$500k	\$149k + 37% of Income over \$500k

(E) Supplemental Profit or Loss from Realty, Partnerships or LLCs, S-Corporations, trusts or estates.

Note that the standard deduction, qualified business income deduction (QBI), child tax credit and credit for other dependents are still reported on the 1040. The 1040 instructions and relevant IRS product pages explain more about each of these schedules and worksheets. Taxpayers who use software or pay a preparer should compare their completed returns with the respective blank forms and schedules to check for errors or missed forms.

Standard Deduction

The Tax Cuts and Jobs Act of 2017 raised the standard deduction amounts:

- \$12,000 for individuals filing separately;
- \$24,000 married filing jointly;
- \$18,000 for heads of household.

Small additional amounts are allowed for dependents, the elderly and blind taxpayers.

Personal Exemption

The Tax Cuts and Jobs Act eliminated the personal exemption. Beginning in 2019, the IRS will issue a revised W-4 that will no longer offer withholding exemptions.

Child Tax Credit, Additional Credit and Dependent Credit

Any lost benefits from the reduced personal exemption are partially made up for by the increased child tax credit—now \$2,000 per qualifying child up to age 17. This includes:

- (1) A taxpayer's child, sibling, stepsibling, half-sibling or their descendant;
- (2) With the same principal place of abode for half the tax year;
- (3) Who meets certain age requirements (i.e., minors);
- (4) Does not provide more than half their own support; and
- (5) Does not file a joint return with their spouse.

The \$2,000 credit per qualifying child begins to phase out for those with a modified adjusted gross income of \$200,000 (\$400,000 for married filing jointly). Similarly, a nonrefundable credit of up to \$500 is available for eligible dependents who do not qualify as children. Both are calculated on the IRS Child Tax Credit and Credit for Other Dependents Worksheet. The worksheet, along with a flow chart for determining “Who Qualifies as Your Dependent,” can be found in the 1040 instructions.

Official Relocation Expenses Paid by the State Department under IRC Sec. 912 Remain

In April 2018, Charleston General Financial Services (CGFS) advised AFSA that, based on an unofficial opinion from the IRS, all travel authorized under Section 901 of the Foreign Service Act, which includes Permanent Change of Station (PCS), R&R, emergency visitation travel and medevacs, is exempt from taxation under the terms of IRC Section 912.

Foreign Earned Income Exclusion

The Tax Cuts and Jobs Act of 2017 did not change the laws governing the FEIE. As such, taxpayers living and working overseas may be eligible for this exclusion, but not if they are employees of the U.S. government. In 2018, the first \$103,900 earned overseas as a (non-USG) employee or self-employed person may be exempt from income taxes but not self-employment taxes.

To receive this exclusion the taxpayer must:

(1) Establish a tax home in a foreign country, which is the general area of the taxpayer’s “main place of business, employment or post of duty.” (In other words, where the taxpayer is “permanently or indefinitely engaged to work as an employee or self-employed individual.”) and

(2) Either (a) meet the “bona-fide residence” test, which requires that the taxpayer has been a bona-fide resident of a foreign country for an uninterrupted period that includes an entire tax year, or (b) meet the “physical presence” test, which requires the taxpayer to be present in a foreign country for at least 330 full (midnight-to-midnight) days during any 12-month

CHILD CARE TAX CREDIT WHEN OVERSEAS

To claim the child care tax credit while serving overseas, you must submit IRS Form 2441. Pursuant to the 2441 instructions: “If you are living abroad, your care provider may not have, and may not be required to get, a U.S. taxpayer identification number (e.g., SSN or Employer Identification Number). If so, enter ‘LAFCP’ (Living Abroad Foreign Care Provider) in the space for the care provider’s taxpayer identification number.”

period (the period may be different from the tax year).

AFSA understands that IRS auditors have denied the FEIE for Foreign Service spouses and dependents for failing to meet the bona fide residence or tax home elements of this test.

The U.S. Tax Court has explained that the congressional purpose of the FEIE was to offset duplicative costs of maintaining distinct U.S. and foreign households. Increasing ties to the foreign country by personally paying for a foreign household, paying local taxes, waiving diplomatic immunity for matters related to your job, paying for vacation travel back to the United States, becoming a resident of the foreign country and working in the foreign country over the long term are other factors the federal courts have cumulatively recognized as establishing a foreign tax home.

The physical presence test, which requires that 330 full days during a calendar year are spent physically in a foreign country (not just outside the United States, so travel time does not count), has successfully been used by members to meet the second element of the test where bona fide residence cannot be established. If relying on physical presence, you are advised to record all your travel carefully and to keep copies of visas and tickets to substantiate the 330 days if audited.

The U.S. Tax Court took up three FEIE cases in 2018, of which the most relevant to the Foreign Service was *O’Kagu v. IRS*, 151 T.C. No. 6 (Sept. 19, 2018). There, a binding D.C. Circuit Court precedent required the Tax Court to conclude that Sidney O’Kagu was an employee of the U.S. government for tax purposes. As such, he did not qualify for the FEIE, despite his argument that the Office of Management and Budget categorized him as a contractor under 22 USC Sec. 2669(c). All three cases are available via Google Scholar by searching “foreign earned” income.

Important note on claiming FEIE: Taxpayers must add the amount excluded under the FEIE back to AGI to figure what their tax liability would be, then exclude the tax that would have been due on the excludable income alone, to properly calculate their tax liability with an FEIE exclusion. For example: A Foreign Service employee earns \$80,000 and their teacher spouse earns \$30,000. All else being equal, tax liability on \$110,000 gross income is \$16,079; tax on \$30,000 foreign income is \$3,219; and, therefore, net tax liability is \$16,079 minus \$3,219, or \$12,860.

Foreign Accounts & Asset Reporting

When a U.S. person (defined as a citizen, resident or green card holder) has offshore income, assets, accounts and/or entities, their U.S. income tax and reporting obligations can become a minefield of potential penalties. Many additional reporting forms apply to such taxpayers, but only a handful of accountants have the expertise to identify which forms need



to be completed and how to complete them correctly. The penalties for mistakes and missing forms can be astronomical.

U.S. persons are taxed on their worldwide income. Members of the Foreign Service must report a wide variety of offshore assets and transactions pertaining to offshore activities on specific U.S. reporting forms, even if they are stationed abroad. For example, the Foreign Bank and Financial Accounts Report (FBAR), which is filed separately from the tax return, must be filed by U.S. persons with bank accounts and other reportable offshore financial interests (including some life insurance policies and pensions) that have an aggregate value exceeding \$10,000 for any moment during the year. A misstatement on Schedule B can be used against a taxpayer.

Failing to report an account on an FBAR, intentionally or unintentionally, can lead to penalties from \$12,459 per account, per year (for conduct that is deemed non-willful) to the greater of \$124,588 or 50 percent of account balances per account, per year (for conduct that is deemed willful), along with a host of other criminal penalties up to and including jail time. To make matters worse, FBAR penalties can be greater than the value of the asset.

In a similar vein, U.S. persons with ownership or signature authority over a foreign bank account of any value must include this in Part III of Schedule B of Form 1040. This often-overlooked section is critically important and lets the IRS know whether it can expect an FBAR filing for a taxpayer in a given year. Since Form 1040 is signed by the taxpayer under penalty of perjury, a misstatement on this schedule can be used against a taxpayer.

Taxpayers with interests in some foreign financial assets must also file Form 8938 if the total value of such assets exceeds the applicable statutory reporting threshold (i.e., for unmarried persons living in the United States, more than \$50,000 on the last day of the tax year or more than \$75,000 at any time during the tax year). Errors relating to this form may result in a penalty in excess of \$10,000. In addition, the statute of limitations for assessment on a foreign asset reporting form (including, but not limited to, Form 8938) remains open for three years after the date on which the form is ultimately filed.


There are also specific reporting forms for taxpayers who:


- 1) have interests in or engage in transactions with offshore entities, trusts and pensions;
- 2) have investments in foreign mutual funds;
- 3) receive substantial gifts from non-U.S. persons; and
- 4) wish to claim the benefit of a treaty-based return position.

Many of these reporting forms must be filed even if they have no impact on tax liability.

Taxpayers with foreign assets may want to work with a qualified tax professional, experienced in the realm of foreign asset

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Itemized Deductions, Particularly Disallowed Miscellaneous Deductions

Although the overall limit on specific itemized deductions does not apply for 2018, miscellaneous itemized deductions have been eliminated for 2018. Travel expenses for a job, union dues, professional education, tax preparation fees, investment expenses and other expenses for the production of taxable income are among the miscellaneous itemized deductions for individuals that can no longer be deducted (compare 2017 with 2018 Schedule A). For Foreign Service members, unreimbursed employee expenses (which include home leave expenses) will not be deductible on Schedule A in 2018. One silver lining is that W-2 employees probably will not have to complete a Schedule A, while contractors and small businesses operating as sole proprietors, LLCs or S-corporations can deduct many of these same expenses on Schedules C and E.

A New Deduction: QBID

The 2017 tax reform legislation left us with this new deduction, the qualified business income deduction (QBID), deemed important enough to be included on the revised 1040. While it may be very attractive to deduct up to 20 percent of qualified income from a qualified trade or business in addition to 20 percent of qualified real estate investment trust (REIT) income or qualified publicly traded partnership (PTP) income, the devil is in the details.

All caveats for the four separate legal definitions can be found in IRC Sec. 199A, which is long, complex and difficult to understand. Start instead by reading the instructions for 1040 line 9 and the simplified QBID worksheet to determine if you qualify. Tax services and software companies are also publishing more reader-friendly information on this topic with varying degrees of reliability (and terms of service disclaimers). Publication 535 will likely be useful after it is revised for 2018. If after studying these resources you still believe you qualify for the QBID, contact a tax preparer competent in this area.

Itemized Deductions That Are Still Allowed Taxes, Including State & Local Real Property & Income Taxes

There are only four kinds of deductible nonbusiness taxes: (1) State and local real property taxes; (2) State and local personal property taxes; (3) State, local and foreign income, war profits and excess profits taxes; and (4) generation-skipping transfer tax on income distributions. State and local general sales taxes may be deducted in lieu of (not in addition to) income taxes.

Foreign sales tax (Value Added Tax) is not deductible.

In 2018, the aggregate amount of taxes 1, 2 and 3 and sales taxes deducted in lieu of income taxes is capped at \$10,000 for married filing joint or individual returns (\$5,000 per person if married filing separately). Foreign real and personal property taxes may not be deducted. State and local income taxes for 2018 are treated as if they were paid that year, even if they were paid in 2017. Finally, there is no \$10,000 limit for these taxes if they are paid while carrying on a trade or business. AFSA recommends that taxpayers wishing to claim this deduction read IRS tax topic 503 and IRC Section 164.

Medical & Dental Expenses

In 2018, taxpayers can deduct medical expenses to the extent they exceed 7.5 percent of their adjusted gross income (AGI), including health and long-term care insurance, but not health insurance premiums deducted from government salaries. The current law increases this floor to 10 percent of AGI in 2019 (filed April 2020). AFSA recommends that members claiming these deductions read IRS publication 502, tax topic 502 and IRC Section 213.

Charitable Contributions

Up to 60 percent of a taxpayer's income base can be deducted for charitable contributions. Common issues include contributing to a qualified organization, properly documenting contributions of \$250 or more, accounting for benefits received in return for donations and calculating the income base. AFSA recommends Publication 526 and IRC Section 170.

Home Mortgage Interest

The cost of personal borrowing is not usually deductible. However, qualifying mortgage interest on loan balances of up to \$750,000 of for acquisition debt for married filing jointly or individual returns (\$375,000 per person for married filing separately) and up to \$100,000 home equity debt (\$50,000 married filing separately) for loans secured by a primary or secondary residence that are also used to improve that residence may qualify for a deduction. Home equity debt used to fund any purpose other than to purchase or improve the qualifying residence is no longer deductible. AFSA recommends IR 2018-32, Publication 936, and IRC Sections 163(h) and 163(h)(3)(F) for further reading on this and on the deductibility of "points" on a mortgage.

Business Use of Home & U.S. Real Property Held for the Production of Income

Taxpayers may still be entitled to deductions for the business use of part of a home.

When income is earned by renting out the home, for



example, deductions the taxpayer claims for mortgage interest remain deductible beyond the limits discussed above; however, they become an expense for the production of rental income instead of a personal deduction under the mortgage interest expense provisions (Schedule E rather than Schedule A).

This distinction has new significance due to the limits on the cost of mortgage interest for personal use and the cap on state and local taxes. Amounts in excess of these limits may be deductible, as are depreciation, repairs and operating expenses beyond the above limits.

Note that depreciation of business property must be accounted for and claimed in the tax year it occurs. Failure to do so will result in the loss of the deduction during the rental period of the property, but the taxpayer will still have to pay the IRS back for a depreciated basis when they eventually sell.

AFSA recommends consulting a professional in addition to Topic 509, Publication 587, the instructions for Form 8829, and IRC Sections 162, 212 and associated regulations. Professional assistance will also be necessary for a possible IRC Section 1031 Exchange of like-kind, real property located in the United States, which is held for the production of income (not a personal residence).

Selling a Principal Residence

A taxpayer may still exclude up to \$250,000 (\$500,000 if married filing jointly) of long-term capital gain (but not the aforementioned repayment of unclaimed rental depreciation) from the sale of a principal residence. To qualify for the full exclusion amount, the taxpayer: (1) must have owned the home and lived there for at least two of the last five years, beginning on the date first occupied, before the date of the sale (but see Military Families Relief Act, below); (2) cannot have acquired the home in a 1031 exchange within the five years before the date of the sale; and (3) cannot have claimed this exclusion during the two years before the date of the sale.

An exclusion of gain for a fraction of these upper limits may be possible if one or more of the above requirements are not met. Taxpayers who sell their principal residence for a profit of more than \$250,000 (\$500,000 for married filing jointly) will owe capital gains tax on the excess. AFSA recommends Topic 701, Publication 523, IRC Sec. 121 and related regulations.

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THE FOREIGN SERVICE JOURNAL

Military Families Tax Relief Act of 2003

According to the Military Families Tax Relief Act of 2003, the five-year period described above, beginning on the date you first occupy your residence, may be suspended for members of the Foreign Service for any 10-year period during which the taxpayer has been away from the area on a Foreign Service assignment, up to a maximum of 15 total years.

Failure to meet all of the requirements for this tax benefit (points (1) through (3) in the Selling a Principal Residence section above) does not necessarily disqualify the taxpayer from claiming the exclusion. However, the services of a tax professional will probably be necessary if one of these requirements is not met. In addition to the recommended reading from the previous section, AFSA recommends IRC Sec. 121(d)(9) and 26 CFR Sec. 1.121-5.

Adjustments & Basis in Your Property

Tracking a property's basis begins with its cost (either to purchase or build). Taxpayers most commonly want to track the basis of their home. This calculation encompasses cash paid, money borrowed to purchase, debt forgiven in lieu of cash given and the fair market value of property or services exchanged as part of the transaction. Associated taxes, commissions and mortgage settlement fees also form part of the initial cost basis. When building, some investments in construction, improvements during ownership and improvements over the life of the asset (new rooms and fixed structures like decks, windows, roofs, and siding) must be added to the basis of the home.

Basis might be reduced (adjusted downward) for casualty losses, outstanding debt forgiven or dispositions of the property. The basis of depreciable property (structures, not land) that has been converted for business use (like renting out a home) must be recovered by depreciation and amortization each year. Note the availability of "bonus depreciation" for capital assets used in business, subject to wear and tear, that are acquired from 2018 through the end of 2025. Failing to depreciate still reduces basis at the time of the sale (though the tax benefit of depreciation cannot then be recovered).

Capital outlays and expenses of selling the home will also offset any gain from a sale. That gain includes cash and the fair market value of other property received or debt discharged. The legal and financial effects of various home uses, investments and costs can be less than intuitive, which is one reason AFSA recommends the services of a tax professional.

Foreign Service members should track the basis, adjustments and financial effects of legal acts like gifting, inheritance or business use of major assets (like your home).

Read Tax Topic 703, Publication, 551, 1040 Schedule D with instructions, IRC Sections 1011, 1012 and 1014 through 1017 and associated tax regulations beginning at 26 CFR Sec. 1.1012-1.

Recent iterations of the annual tax seminar offered by Christine Elsea-Mandojana through the Foreign Service Institute have illustrated how mistakes in tracking basis can result in incorrectly reported gain or loss from the sale of a principal residence.

Federal Estate & Gift Taxes

In 2018, the first \$11.2 million of a decedent's aggregate estate was exempt from the federal estate tax. That amount will increase to \$11.4 million for decedents (up to \$22.8 million for the surviving spouse with a portability election on Form 1041) who pass away in 2019. The same amounts would apply to (and are reduced by) lifetime gift-giving over the annual tax-free gift exclusion. The limit on the exclusion for gifts given in 2019 remains \$15,000 (\$30,000 for gifts split by married couples).

Retirement Savings

Finally, in 2019 the limit on contributions to 401(k)s and the Thrift Savings Plan will increase to \$19,000 for individuals. The limit on IRA contributions will increase to \$6,000 per person.

Conclusion

The 2018 tax year is the first to be affected by the Tax Cuts and Jobs Act of 2017 and administrative reforms by the IRS. Some reforms, such as combining the personal exemption with the standard deduction and augmenting the child tax credit will further improve the W-2 beginning in 2019. Other changes, like adding six new schedules to make good on a campaign promise about filing taxes on a post card, are less exciting and may actually make filing taxes more complicated.

The effect of all this appears to be an overall reduced tax bill for most Americans and businesses with income taxed in the United States. This occurs in the context of a 2017 bull market, 2018 bear market, improved consumer confidence and a moderate rebalance in the midterm. AFSA hopes the advice and references here educate members as they determine the extent of their tax liability under the current law and as we await further changes in 2019. ■

2018 STATE TAX PROVISIONS

Liability

Every employer, including the State Department and other foreign affairs agencies, is required to withhold state taxes for the location where the employee either lives or works. Employees serving overseas, however, must maintain a state of domicile in the United States where they may be liable for income tax; the consequent tax liability that employees face will vary greatly from state to state.

Further, the many laws on taxability of Foreign Service pensions and annuities also vary by state. This section briefly covers both those situations; in addition, see the separate box on state tax withholding for State employees. We also encourage you to read the CGFS Knowledge Base article on the Tax Guide page of the AFSA website.

Domicile and Residency

There are many criteria used in determining which state is a citizen's domicile. One of the strongest determinants is prolonged physical presence, a standard that Foreign Service personnel frequently cannot meet due to overseas service. In such

cases, the states will make a determination of the individual's income tax status based on other factors, including where the individual has family ties, has been filing resident tax returns, is registered to vote, has a driver's license, owns property or where the person has bank accounts or other financial holdings.

In the case of Foreign Service employees, the domicile might be the state from which the person joined the Service, where his or her home leave address is or where he or she intends to return upon separation. For purposes of this article, the term "domicile" refers to legal residence; some states also define it as permanent residence. "Residence" refers to physical presence in the state. Foreign Service personnel must continue to pay taxes to the state of domicile (or to the District of Columbia) while residing outside of the state, including during assignments abroad, unless the state of residence does not require it.

Members are encouraged to review the Overseas Briefing Center's Guide to Residence and Domicile, available on AFSA's website at www.afsa.org/domicile.

Domestic Employees in the D.C. Area

Foreign Service members residing in the metropolitan Washington, D.C., area are generally required to pay income tax to the District of Columbia, Maryland or Virginia, in addition to paying tax to the state of their domicile.

Virginia requires tax returns from most temporary residents.

TAX WITHHOLDING WHEN ASSIGNED DOMESTICALLY

The State Department withholds an employee's state taxes according to his or her "regular place of duty" when assigned domestically—for details, see "New Procedures for Withholding and Reporting Employees' State and District of Columbia Income Taxes," Announcement No. 22394 (Nov. 4, 2014; available via the intranet). This reflects some jurisdictions' imposition of income taxes on nonresidents who derive income within their boundaries despite residence or domicile elsewhere.

Members residing or domiciled in a jurisdiction other than the one in which they earn income may need state taxes to be withheld for their residence and domicile jurisdictions. If you reside or are domiciled in a jurisdiction other than that of your regular place of duty, you may secure an exemption from this withholding method by satisfying the requirements detailed by CGFS Knowledgebase (available via the intranet at <http://kb.gfs.state.gov/>) Issue 39479.

Note that the Bureau of the Comptroller and Global

Financial Services does not adjudicate state income tax elections when you are serving overseas, since in those circumstances, it is the employee's responsibility to accurately designate a state for which income taxes will be withheld. However, on the employee's return to a domestic assignment, CGFS will evaluate the employee's state tax withholding election based on his or her new official domestic duty station pursuant to Announcement No. 22394.

Finally, this determination does not mean that you must relinquish your state of domicile if it is different than your official duty station. "Domicile" and "residence" are different from "regular place of duty." As long as you maintain your ties to your home state you will be able to change your withholdings, if you so wish, back to your home state when you go overseas. See the Overseas Briefing Center's guide to Residence and Domicile, available on AFSA's website at www.afsa.org/domicile.

Most states allow a credit, however, so that the taxpayer pays the higher tax rate of the two states, with each state receiving a share.

We recommend that you maintain ties with your state of domicile—by, for instance, continuing to also file tax returns in that state if appropriate—so that when you leave the D.C. area for another overseas assignment, you can demonstrate to the District of Columbia, Virginia or Maryland your affiliation to your home state.

Also, if possible, avoid using the D.C. or Dulles, Va., pouch Zip code as your return address on your federal return because, in some cases, the D.C. and Virginia tax authorities have sought back taxes from those who have used this address.

States That Have No Income Tax

There are currently seven states with no state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. In addition, New Hampshire and Tennessee have no tax on earned income, but do tax profits from the sale of bonds and property.

States That Do Not Tax Nonresident Domiciliaries

There are 10 states that, under certain conditions, do not tax income earned while the taxpayer is outside the state: California, Connecticut, Idaho, Minnesota, Missouri, New Jersey, New York, Oregon, Pennsylvania (but see entry for that state below) and West Virginia.

The requirements for all except California, Idaho and Oregon are that the individual should not have a permanent “place of abode” in the state, should have a permanent “place of abode” outside the state, and should not be physically present for more than 30 days during the tax year. California allows up to 45 days in the state during a tax year.

All 10 states require the filing of nonresident returns for all income earned from in-state sources. Foreign Service employees should also keep in mind that states could challenge the status of overseas government housing in the future.

“State Overviews” below gives brief state-by-state information on tax liability, with addresses provided to get further information or tax forms. Tax rates are provided where possible.

As always, members are advised to double-check with their state’s tax authorities. While AFSA makes every attempt to provide the most up-to-date information, readers with specific questions should consult a tax expert in the state in question. We provide the website address for each state’s tax authority in the state-by-state guide, and an email address or link where available. Some states do not offer email customer service.

We also recommend the Tax Foundation website at www.tax-foundation.org, which provides a great deal of useful information, including a table showing tax rates for all states for 2018.

STATE OVERVIEWS

ALABAMA

Individuals domiciled in Alabama are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Alabama’s individual income tax rates range from 2 percent on taxable income over \$500 for single taxpayers and \$1,000 for married filing jointly, to 5 percent over \$3,000 for single taxpayers and \$6,000 for married filing jointly.

Write: Alabama Department of Revenue, 50 N. Ripley, Montgomery AL 36104.

Phone: (334) 242-1170

Website: <https://revenue.alabama.gov>

Email: Link through the website, “About Us,” then “email us.”

ALASKA

Alaska does not tax individual income or intangible or personal property. It has no state sales and use, franchise or fiduciary tax. However, some municipalities levy sales, property and use taxes.

Write: Tax Division, Alaska Department of Revenue, P.O. Box 110420, Juneau AK 99811-0420.

Phone: (907) 465-2320

Website: www.tax.state.ak.us

ARIZONA

Individuals domiciled in Arizona are considered residents and are taxed on any income that is included in the Federal Adjusted Gross Income, regardless of their physical presence in the state. Arizona’s tax rate ranges in five brackets from a minimum of 2.59 percent to a maximum of 4.54 percent of taxable income over \$310,317 married filing jointly or \$155,159 for single filers.

Write: Arizona Department of Revenue, Customer Care, P.O. Box 29086, Phoenix AZ 85038-9086.

Phone: (602) 255-3381

Website: www.azdor.gov

Email: taxpayerassistance@azdor.gov

ARKANSAS

Individuals domiciled in Arkansas are considered residents and are taxed on their entire income, regardless of their physical presence in the state. The Arkansas tax rate ranges in six brackets from a minimum of 2.4 percent to a maximum of 6.9 percent of net taxable income over \$82,600.

Write: Department of Finance and Administration, Income Tax Section, P.O. Box 3628, Little Rock AR 72203-3628.

Phone: (501) 682-1100

Website: www.arkansas.gov/dfa

Email: Use Contact Form on “Contact Us” page of the website.

CALIFORNIA

Foreign Service employees domiciled in California must establish non-residency to avoid liability for California taxes (see Franchise Tax Board Publication 1031). However, a “safe harbor” provision allows anyone who is domiciled in state but is out of the state on an employment-related contract for at least 546 consecutive days to be considered a nonresident. This applies to most FS employees and their spouses, but members domiciled in California are advised to study FTB Publication 1031 for exceptions and exemptions. The California tax rate for 2018 ranges in eight brackets from 1 percent of taxable income under \$8,544 for singles and \$17,088 for joint filers, to a maximum of 12.3 percent on taxable income over \$572,980 for singles and \$1,145,960 for joint filers. Nonresident domiciliaries are advised to file on Form 540NR.

Write: Personal Income Taxes, Franchise Tax Board, P.O. Box 942840, Sacramento CA 94240-0040.

Phone: (800) 852-5711 (inside the U.S.); (916) 845-6500 (outside the U.S.)

Website: www.ftb.ca.gov

Email: Link through the website’s “Contact Us” tab.

COLORADO

Individuals domiciled in Colorado are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Colorado’s tax rate is a flat 4.63 percent of federal taxable income, plus or minus allowable modifications.

Write: Department of Revenue, Taxpayer Service Division, P.O. Box 17087, Denver CO 80217-0087.

Phone: (303) 238-7378

Website: www.colorado.gov/revenue

Email: Link through the website’s “Contact Us” tab on the “Taxation” page.

CONNECTICUT

Connecticut domiciliaries may qualify for nonresident tax treatment under either of two exceptions as follows: Group A—the domiciliary 1) did not maintain a permanent place of abode inside Connecticut for the entire tax year; and 2) maintains a permanent place of abode outside the state for the entire tax year; and 3) spends not more than 30 days in the aggregate in the state during the tax year.

Group B—the domiciliary 1) in any period of 548 consecutive days, is present in a foreign country for at least 450 days;

and 2) during the 548-day period, is not present in Connecticut for more than 90 days; and 3) does not maintain a permanent place of abode in the state at which the domiciliary’s spouse or minor children are present for more than 90 days.

Connecticut’s tax rate for married filing jointly rises from 3 percent on the first \$20,000 in six steps to 6.9 percent of the excess over \$500,000, and 6.99 percent over \$1,000,000. For singles it is 3 percent on the first \$10,000, rising in six steps to 6.9 percent of the excess over \$250,000 and 6.99 percent over \$500,000.

Write: Department of Revenue Services, 450 Columbus Blvd, Suite 1, Hartford CT 06103.

Phone: (860) 297-5962

Website: www.ct.gov/drs

Email: Contact through the “Contact us” page on the website.

DELAWARE

Individuals domiciled in Delaware are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Delaware’s graduated tax rate rises in six steps from 2.2 percent of taxable income under \$5,000 to 6.6 percent of taxable income over \$60,000.

Write: Division of Revenue, Taxpayers Assistance Section, State Office Building, 820 N. French St., Wilmington DE 19801.

Phone (302) 577-8200

Website: www.revenue.delaware.gov

Email: personaltax@state.de.us

DISTRICT OF COLUMBIA

Individuals domiciled in the District of Columbia are considered residents and are subject to tax on their entire income, regardless of their physical presence there. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the District for 183 days or more. The District’s tax rate is 4 percent if income is less than \$10,000; \$400 plus 6 percent of excess over \$10,000 if between \$10,000 and \$40,000; \$2,200 plus 6.5 percent of excess over \$40,000; \$3,500 plus 8.5 percent of the excess over \$60,000; \$28,150 plus 8.75 percent of any excess above \$350,000; and 8.95 percent over \$1,000,000.

Write: Office of Tax and Revenue, Customer Service Center, 1101 4th St. SW, Suite 270 West, Washington DC 20024.

Phone: (202) 727-4829

Website: www.otr.cfo.dc.gov

Email: taxhelp@dc.gov

FLORIDA

Florida does not impose personal income, inheritance, gift or intangible personal property taxes. Property tax (homestead) exemptions are only available if you own and permanently reside on the property. Sales and use tax is 6 percent. There are additional county sales taxes which could make the combined rate as high as 9.5 percent.

Write: Taxpayer Services, Florida Department of Revenue, 5050 W. Tennessee St., Bldg. L, Tallahassee FL 32399-0100.

Phone: (850) 488-6800

Website: floridarevenue.com/taxes

Email: Link through the website, go to "Taxes," then "Tax Information," then "Questions?"

GEORGIA

Individuals domiciled in Georgia are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Georgia has a graduated tax rate rising in six steps to a maximum of 6 percent of taxable income over \$10,000 and above for joint married filers and \$7,000 for single filers.

Write: Georgia Department of Revenue, Taxpayer Services Division, 1800 Century Blvd. NE, Atlanta GA 30345-3205.

Phone: (877) 423-6711, Option #2; or contact through Georgia Tax Center (login required).

Website: <http://dor.georgia.gov/taxes>

HAWAII

Individuals domiciled in Hawaii are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. For tax year 2018, Hawaii's tax rate rises in 12 steps from 1.4 percent on taxable income below \$2,400 for single filers and \$4,800 for joint filers, to a maximum of 11.00 percent for taxable income above \$200,000 for single filers and \$400,000 for joint filers.

Write: Oahu District Office, Taxpayer Services Branch, P.O. Box 259, Honolulu HI 96809-0259.

Phone: (800) 222-3229 or (808) 587-4242

Website: <http://tax.hawaii.gov>

Email: Taxpayer.Services@hawaii.gov

IDAHO

Individuals domiciled in Idaho for an entire tax year are considered residents and are subject to tax on their entire income. However, you are considered a nonresident if: 1) you are an Idaho resident who lived outside of Idaho for at least 445 days in a 15-month period; and 2) after satisfying the 15-month period, you spent fewer than 60 days in Idaho during the year; and 3) you did not have a personal residence in Idaho for yourself or your family during any part of the

calendar year; and 4) you did not claim Idaho as your federal tax home for deducting away-from-home expenses on your federal return; and 5) you were not employed on the staff of a U.S. senator; and 6) you did not hold an elective or appointive office of the U.S. government other than the armed forces or a career appointment in the U.S. Foreign Service (see Idaho Code Sections 63-3013 and 63-3030). In 2018 Idaho's tax rate rises in six steps from a minimum of 1.125 percent to a maximum of 6.925 percent on the amount of Idaho taxable income over \$11,2793 for singles and \$22,558 for married filers. A nonresident must file an Idaho income tax return if his or her gross income from Idaho sources is \$2,500 or more.

Write: Idaho State Tax Commission, P.O. Box 36, Boise ID 83722-0410.

Phone: (800) 972-7660 or (208) 334-7660

Website: www.tax.idaho.gov

Email: taxrep@tax.idaho.gov

ILLINOIS

Individuals domiciled in Illinois are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Effective for income received after June 30, 2017, Illinois Public Act 100-0022 increased the Illinois income tax rate for individuals from a flat rate of 3.75 percent to a flat rate of 4.95 percent of net income.

Write: Illinois Department of Revenue, P.O. Box 19014, Springfield IL 62794-9014.

Phone: (800) 732-8866 or (217) 782-3336

Website: www.revenue.state.il.us

Email: Link through the website, "Contact Us," then "Taxpayer Answer Center."

INDIANA

Individuals domiciled in Indiana are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Indiana's tax rate is a flat 3.23 percent of Federal Adjusted Gross Income. Several counties also charge a county income tax.

Write: Indiana Department of Revenue, Individual Income Tax, P.O. Box 40, Indianapolis IN 46206-0040.

Phone: (317) 232-2240

Website: www.in.gov/dor

Email: Link through the website's "Contact Us" tab.

IOWA

Individuals domiciled in Iowa are considered residents and are subject to tax on their entire income to the extent that income is taxable on the person's federal income tax returns. Iowa's 2018 tax rate rises in eight steps from 0.36 percent to a maximum 8.98 percent of taxable income over \$71,910, for

both single and joint filers.

Write: Taxpayer Services, Iowa Department of Revenue,
P.O. Box 10457, Des Moines IA 50306-0457.
Phone: (800) 367-3388 or (515) 281-3114
Website: <https://tax.iowa.gov>
Email: Use email form on "Contact Us" page of the website.

KANSAS

Individuals domiciled in Kansas are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. In 2018 the tax rate is 3.1 percent on Kansas taxable income under \$15,000 for single filers and under \$30,000 for joint filers, rising to 5.7 percent on income over \$30,000 for single filers and \$60,000 for joint filers.

Write: Kansas Taxpayer Assistance Center, Scott State Office Building, 120 SE 10th Street, Topeka, KS 66612-1103.
Phone: (785) 368-8222
Website: www.ksrevenue.org
Email: kdor_tac@ks.gov

KENTUCKY

Individuals domiciled in Kentucky are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Kentucky's tax rate ranges from 2 percent on the first \$3,000 of taxable income rising in five steps to 6 percent on all taxable income over \$75,000 for both single and joint filers.

Write: Kentucky Department of Revenue, 501 High Street, Frankfort KY 40601.
Phone: (502) 564-4581
Website: www.revenue.ky.gov
Email: Link through the website's "Contact Us" tab.

LOUISIANA

Individuals domiciled in Louisiana are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Louisiana's tax rate is 2 percent for the first \$12,500 for single filers or \$25,000 for joint filers, 4 percent over \$12,500 for singles and over \$25,000 for joint filers, and 6 percent for over \$50,000 for single filers or \$100,000 for joint filers.

Write: Taxpayer Services Division, Individual Income Tax Section, Louisiana Department of Revenue, P.O. Box 201, Baton Rouge LA 70821-0201.
Phone: (225) 219-0102
Website: www.revenue.louisiana.gov
Email: Link through the website's "Contact LDR Online tab" on the "Contact Us" page.

MAINE

Individuals domiciled in Maine are considered residents and are subject to tax on their entire income. Since Jan. 1, 2007, however, there have been "safe harbor" provisions. Under the General Safe Harbor provision, Maine domiciliaries are treated as nonresidents if they satisfy all three of the following conditions: 1) they did not maintain a permanent place of abode in Maine for the entire taxable year; 2) they maintained a permanent place of abode outside Maine for the entire taxable year; and 3) they spent no more than 30 days in the aggregate in Maine during the taxable year. Under the Foreign Safe Harbor provision, Maine domiciliaries are also treated as nonresidents if they are present in a foreign country for 450 days in a 548-day period and do not spend more than 90 days in Maine during that period. Maine's tax rate in 2018 is 5.8 percent on Maine taxable income below \$21,450 for singles and \$42,900 for joint filers, 6.75 percent up to \$50,750 for singles and \$101,550 for married filing jointly, and 7.15 percent over those amounts.

Write: Maine Revenue Services, Income Tax Assistance, P.O. Box 9107, Augusta ME 04332-9107.
Phone: (207) 626-8475
Website: www.maine.gov/revenue
Email: income.tax@maine.gov

MARYLAND

Individuals domiciled in Maryland are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the state for an aggregated total of 183 days or more. Maryland's tax rate is \$90 plus 4.75 percent of taxable income over \$3,000 up to \$100,000 if filing singly and \$150,000 if filing jointly. It then rises in four steps to \$12,760 plus 5.75 percent of the excess of taxable income over \$250,000 for singles or \$15,072 plus 5.75 percent of the excess over \$300,000 for married filers. In addition, Baltimore City and the 23 Maryland counties impose a local income tax, which is a percentage of the Maryland taxable income, using Line 31 of Form 502 or Line 9 of Form 503. The local factor varies from 1.75 percent in Worcester County (and for nonresidents) to 3.2 percent in Baltimore City, and in Montgomery, Prince George's, Queen Anne's, Wicomico and Howard counties (see website for details for all counties).

Write: Comptroller of Maryland, Revenue Administration Center, Taxpayer Service Section, 110 Carroll Street, Annapolis MD 21411-0001.
Phone: (800) 638-2937 or (410) 260-7980
Website: www.marylandtaxes.com
Email: taxhelp@comp.state.md.us

MASSACHUSETTS

Individuals domiciled in Massachusetts are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Salaries and most interest and dividend income are taxed at a flat rate of 5.10 percent for 2018. Some income (e.g., short-term capital gains) remains taxed at 12 percent.

Write: Massachusetts Department of Revenue, Taxpayer Services Division, P.O. Box 7010, Boston MA 02204.

Phone: (617) 887-6367

Website: <http://www.mass.gov/dor>

Email: Link through the website's "Contact Us" tab.

MICHIGAN

Individuals domiciled in Michigan are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Michigan's tax is 4.25 percent. Some Michigan cities impose an additional 1- or 2-percent income tax. Detroit imposes an additional 2.4 percent income tax.

Write: Michigan Department of Treasury, Lansing MI 48922.

Phone: (517) 636-4486

Website: www.michigan.gov/treasury

Email: treasIndTax@michigan.gov

MINNESOTA

Individuals domiciled in Minnesota are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Minnesota's tax rate in 2018 is 5.35 percent on taxable income up to \$25,890 for singles or \$37,850 for married joint filers, rising in three steps to a maximum of 9.85 percent on taxable income over \$160,020 for single filers or \$266,700 for married filing jointly.

Write: Minnesota Department of Revenue, 600 North Robert St., St. Paul MN 55146-5510.

Phone: (800) 652-9094 or (651) 296-3781

Website: www.taxes.state.mn.us

Email: Use button under "Contact Us."

MISSISSIPPI

Individuals domiciled in Mississippi are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Mississippi's tax rate is 3 percent on the first \$5,000 of taxable income (first \$1,000 exempt), 4 percent on the next \$5,000 and 5 percent on taxable income over \$10,000 for all taxpayers, whether filing singly or jointly.

Write: Department of Revenue, P.O. Box 1033, Jackson MS 39215-1033.

Phone: (601) 923-7700

Website: www.dor.ms.gov

Email: Link through the website's "Contact Us" tab.

MISSOURI

An individual domiciled in Missouri is considered a nonresident and is not liable for tax on Missouri income if the individual has no permanent residence in Missouri, has a permanent residence elsewhere and is not physically present in the state for more than 30 days during the tax year. Missouri calculates tax on a graduated scale up to \$9,072 of taxable income. Any taxable income over \$9,072 is taxed at a rate of \$315 plus 6 percent of the excess over \$9,072.

Write: Individual Income Tax, P.O. Box 2200, Jefferson City MO 65105-2200.

Phone: (573) 751-3505

Website: <https://dor.mo.gov/contact>

Email: income@dor.mo.gov

MONTANA

Individuals domiciled in Montana are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Montana's tax rate for 2018 rises in six steps from 1 percent of taxable income under \$3,000 to a maximum of 6.9 percent of taxable income over \$17,900. See the website for various deductions and exemptions.

Write: Montana Department of Revenue, P.O. Box 5805, Helena MT 59604-5805.

Phone: (866) 859-2254 or (406) 444-6900

Website: <https://mtrevenue.gov>

Email: Link through the website's "Contact Us" tab.

NEBRASKA

Individuals domiciled in Nebraska are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. For 2017 the individual income tax rates range in four steps from a minimum of 2.46 percent to a maximum of 6.84 percent of the excess over \$30,420 for singles and \$60,480 for joint filers. If AGI is over \$261,500 for single filers or \$313,800 for joint filers an additional tax of between 0.438 and 0.183 percent is imposed.

Write: Department of Revenue, 301 Centennial Mall South, P.O. Box 94818, Lincoln NE 68509-4818.

Phone: (402) 471-5729

Website: www.revenue.state.ne.us

Email: Link through the website's "Contact Us" tab.

NEVADA

Nevada does not tax personal income. Sales and use tax varies from 6.85 percent to 8.1 percent depending on local jurisdiction. Additional ad valorem personal and real property taxes are also levied.

Write: Nevada Department of Taxation, 1550 College Pkwy,

Suite 115, Carson City NV 89706.

Phone: (866) 962-3707 or (775) 684-2000

Website: www.tax.state.nv.us

NEW HAMPSHIRE

The state imposes no personal income tax on earned income and no general sales tax. The state does levy, among other taxes, a 5 percent tax on interest and dividend income of more than \$2,400 annually for single filers and \$4,800 annually for joint filers, and an 8.5 percent tax on business profits, including sale of rental property. There is no inheritance tax. Applicable taxes apply to part-year residents.

Write: Taxpayer Services Division, P.O. Box 637, Concord NH 03302-0637.

Phone: (603) 230-5000

Website: www.revenue.nh.gov

NEW JERSEY

A New Jersey domiciliary is considered a nonresident for New Jersey tax purposes if the individual has no permanent residence in New Jersey, has a permanent residence elsewhere and is not physically in the state for more than 30 days during the tax year. Filing a return is not required (unless the nonresident has New Jersey-source income), but it is recommended in order to preserve domicile status. Filing is required on Form 1040-NR for revenue derived from in-state sources. Tax liability is calculated as a variable lump sum plus a percentage from a minimum of 1.4 percent of taxable gross income up to \$20,000, in three steps to 6.37 percent between \$75,000 and \$500,000, and a maximum of 8.97 percent on taxable gross income over \$500,000 for both single and joint filers.

Write: New Jersey Division of Taxation, Technical Services Branch, P.O. Box 281, Trenton NJ 08695-0281.

Phone: (609) 292-6400

Website: www.state.nj.us/treasury/taxation

Email: Link through the website's "Contact Us" tab.

NEW MEXICO

Individuals domiciled in New Mexico are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. The basis for New Mexico's calculation is the Federal Adjusted Gross Income figure. Rates rise in four steps from a minimum of 1.7 percent to a maximum of 4.9 percent on New Mexico taxable income over \$16,000 for single filers and \$24,000 for married filing jointly.

Write: New Mexico Taxation and Revenue Department, 1100 South St. Francis Drive, Santa Fe NM 87504.

Phone: (505) 827-0700

Website: www.tax.newmexico.gov

Email: Link through the website's "Email Us" tab.

NEW YORK

There is no tax liability for out-of-state income if you have no permanent residence in New York, have a permanent residence elsewhere and are not present in the state more than 30 days during the tax year or you were in a foreign country for at least 450 days during any period of 548 consecutive days; and you, your spouse and minor children spent 90 days or less in New York State during this 548-day period. Filing a return is not required, but it is recommended to preserve domicile status. The tax rate for 2018 rises in six steps from a minimum of 4.5 percent to 6.33 percent of taxable income over \$21,400 for single filers and \$43,000 for married filing jointly; 6.57 percent on taxable income over \$80,650 for single filers and \$161,550 for joint filers; 6.85 percent on taxable income over \$215,400 for single filers or \$323,200 for joint filers; and 8.82 percent over \$1,077,550 for single filers and over \$2,155,350 for joint filers. In New York City the maximum rate is 3.876 percent over \$90,000 for joint filers and over \$50,000 for single filers. Filing is required on Form IT-203 for revenue derived from New York sources.

Foreign Service employees assigned to USUN for a normal tour of duty are considered to be resident in New York state for tax purposes. See TSB-M-09(2)I of Jan. 16, 2009 at http://www.tax.ny.gov/pdf/memos/income/m09_2i.pdf

Write: New York State Department of Taxation and Finance, Personal Income Tax Information, W.A. Harriman Campus, Albany NY 12227.

Phone: (518) 457-5181

Website: www.tax.ny.gov

Email: Link through the website's "Answer Center" tab.

NORTH CAROLINA

Individuals domiciled in North Carolina are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. North Carolina's flat tax rate is 5.499 percent for 2018. (For 2019 it will be 5.25 percent.) Residents must also report and pay a "use tax" on purchases made outside the state for use in North Carolina.

Write: North Carolina Department of Revenue, P.O. Box 25000, Raleigh NC 27640-0640.

Phone: (877) 252-3052 or (919) 707-0880

Website: www.dornc.com

NORTH DAKOTA

Individuals domiciled in North Dakota and serving outside the state are considered residents and are subject to tax on their entire income. For the 2018 tax year, the tax rate ranges in four steps from 1.1 percent on North Dakota taxable income up to \$38,700 for singles and \$64,650 for joint filers to a

maximum of 2.90 percent on taxable income over \$424,950 for singles and joint filers.

Write: Office of State Tax Commissioner, State Capitol, 600 E. Boulevard Ave., Dept. 127, Bismarck ND 58505-0599.

Phone: (701) 328-1247.

Website: www.nd.gov/tax

Email: individualtax@nd.gov

OHIO

Individuals domiciled in Ohio are considered residents and their income is subject to tax, using the Federal Adjusted Gross Income figure as a starting base. Ohio's 2018 tax rate starts at a minimum of 1.98 percent on taxable income over \$10,650, rising in six steps to a maximum of 4.997 percent on taxable income over \$213,350 for single and joint filers. Ohio also charges a school district income tax of between 0.5 and 2 percent, depending on jurisdiction.

Write: Ohio Department of Taxation, Taxpayer Services Center, P.O. Box 530, Columbus OH 43216-0530.

Phone: (800) 282-1780 or (614) 387-0224

Website: www.tax.ohio.gov

Email: Link through the website's "Contact Us" tab.

OKLAHOMA

Individuals domiciled in Oklahoma are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Oklahoma's tax rate for 2018 rises in eight stages to a maximum of 5 percent on taxable income over \$7,200 for single filers and \$12,200 for married filing jointly.

Write: Oklahoma Tax Commission, Income Tax, P.O. Box 26800, Oklahoma City OK 73126-0800.

Phone: (405) 521-3160

Website: www.tax.ok.gov

Email: otcmaster@tax.ok.gov

OREGON

Individuals domiciled in Oregon are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. For 2017, Oregon's tax rate rises from 5 percent on taxable income over \$3,450 for single filers and \$6,900 for married filing jointly, in three steps to 9.9 percent on taxable income over \$125,000 for single filers and \$250,000 for joint filers. Oregon has no sales tax.

Write: Oregon Department of Revenue, 955 Center St. NE, Salem OR 97301-2555.

Phone: (800) 356-4222 or (503) 378-4988

Website: www.oregon.gov/DOR

Email: questions.dor@state.or.us

PENNSYLVANIA

Pennsylvania's tax rate is a flat 3.07 percent. Pennsylvania tax authorities have ruled that Pennsylvania residents in the U.S. Foreign Service are not on active duty for state tax purposes, and thus their income is taxable compensation. For non-Foreign Service state residents, there is no tax liability for out-of-state income if the individual has no permanent residence in the state, has a permanent residence elsewhere and spends no more than 30 days in the state during the tax year. However, Pennsylvania does not consider government quarters overseas to be a "permanent residence elsewhere." Filing a return is not required, but it is recommended to preserve domicile status. File Form PA-40 for all income derived from Pennsylvania sources.

Write: Commonwealth of Pennsylvania, Department of Revenue, Taxpayer Services Department, Harrisburg PA 17128-1061.

Phone: (717) 787-8201

Website: www.revenue.pa.gov

Email: Link through the website's "Contact Us" tab.

PUERTO RICO

Individuals who are domiciled in Puerto Rico are considered residents and are subject to tax on their entire income, regardless of their physical presence in the Commonwealth. Normally, they may claim a credit with certain limitations for income taxes paid to the United States on any income from sources outside Puerto Rico. Taxes range from 7 percent of taxable income up to \$25,000 to 33 percent of the taxable income over \$61,500 for all taxpayers.

Write: Departamento de Hacienda, P.O. Box 9024140, San Juan PR 00902-4140.

Phone: (787) 622-0123, Option 8

Website: www.hacienda.gobierno.pr

Email: infoserv@hacienda.gobierno.pr

RHODE ISLAND

Individuals domiciled in Rhode Island are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. The 2018 Rhode Island tax rate is 3.75 percent of taxable income up to \$62,550 for all filers, 4.75 percent for income over \$62,550 and 5.99 percent of taxable income over \$149,150 for all filers. Also, a 2010 change treats capital gains as ordinary taxable income. Refer to the tax division's website for current information and handy filing hints, as well as for forms and regulations.

Write: Rhode Island Division of Taxation, Taxpayer Assistance Section, One Capitol Hill, Providence RI 02908-5801.

Phone (401) 574-8829, Option 3

Website: www.tax.state.ri.us

Email: Tax.Assist@tax.ri.gov

SOUTH CAROLINA

Individuals domiciled in South Carolina are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. South Carolina's 2018 tax rates rise in six steps from 3 percent on the first \$5,940 of South Carolina taxable income to a maximum of 7 percent of taxable income over \$14,860 for all filers.

Write: South Carolina Tax Commission, P.O. Box 125, Columbia SC 29214.

Phone: (844) 898-8542 Option 3, or (803) 898-5000

Website: www.sctax.org

Email: iitax@dor.sctax.gov or through the "Contact Us" tab on the website.

SOUTH DAKOTA

There is no state income tax and no state inheritance tax. State sales and use tax is 4.5 percent; municipalities may add up to an additional 2.75 percent.

Write: South Dakota Department of Revenue, 445 East Capitol Ave., Pierre SD 57501-3185.

Phone: (605) 773-3311.

Website: <http://dor.sd.gov>

Email: Link through the website's "Contact Us" tab.

TENNESSEE

Salaries and wages are not subject to state income tax, but for 2018 Tennessee imposes a 3 percent tax on most dividends and interest income of more than \$1,250 (single filers) or \$2,500 (joint filers) in the tax year. This is planned to be reduced by 1 percent per year until elimination on Jan. 1, 2021.

Write: Tennessee Department of Revenue (Attention: Taxpayer Services), 500 Deaderick St., Nashville TN 37242.

Phone: (615) 253-0600

Website: www.tn.gov/revenue

Email: TN.Revenue@tn.gov

TEXAS

There is no state personal income tax. State sales tax is 6.25 percent, with local additions adding up to 2 percent.

Write: Texas Comptroller, P.O. Box 13528, Capitol Station, Austin TX 78711-3528.

Phone: Customer Service Liaison (888) 334-4112

Website: www.comptroller.texas.gov

Email: Use email options on "Contact Us" page of the website.

UTAH

Utah has a flat tax of 5 percent on all income. Individuals domiciled in Utah are considered residents and are subject to Utah state tax. Utah requires that all Federal Adjusted Gross

Income reported on the federal return be reported on the state return regardless of the taxpayer's physical presence in the state. Some taxpayers will be able to claim either a taxpayer tax credit or a retirement tax credit, or both (see website for explanation).

Write: Utah State Tax Commission, Taxpayer Services Division, 210 North 1950 West, Salt Lake City UT 84134.

Phone: (800) 662-4335, Option 0, or (801) 297-2200, Option 0

Website: www.tax.utah.gov

Email: Link through the website's "Contact Us" tab.

VERMONT

Individuals domiciled in Vermont are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. The 2018 tax rate ranges from 3.35 percent on taxable income under \$38,700 for singles and \$64,600 for joint filers to a maximum of 8.75 percent on taxable income over \$195,450 for singles and \$237,950 for joint filers.

Write: Vermont Department of Taxes, Taxpayer Services Division, 133 State St., Montpelier VT 05633-1401.

Phone: (802) 828-2505

Website: www.tax.vermont.gov

Email: tax.individualincome@vermont.gov or through the website's "Contact Us" tab.

VIRGINIA

Individuals domiciled in Virginia are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Individuals domiciled elsewhere are also considered residents for tax purposes for the portion of any calendar year in which they are physically present in the state for 183 days or more. These individuals should file using Form 760. In addition, Virginia requires nonresidents to file Form 763 if their Virginia Adjusted Gross Income (which includes any federal salary paid during time they are residing in Virginia) exceeds \$11,950 for single filers and married filing separately, or \$23,900 for married filing jointly.

Individual tax rates are: 2 percent if taxable income is less than \$3,000; \$60 plus 3 percent of excess over \$3,000 if taxable income is between \$3,000 and \$5,000; \$120 plus 5 percent of excess over \$5,000 if taxable income is between \$5,000 and \$17,000; and \$720 plus 5.75 percent if taxable income is over \$17,000. In addition, using Form R-1H, Virginia allows employers of household help to elect to pay state unemployment tax annually instead of quarterly.

Write: Virginia Department of Taxation, Office of Customer Services, P.O. Box 1115, Richmond VA 23218-1115.

Phone: (804) 367-8031

Website: www.tax.virginia.gov

Email: Link through the website's "Contact Us" tab.

WASHINGTON

There is no state income tax and no tax on intangibles such as bank accounts, stocks and bonds. Residents may deduct Washington sales tax on their federal tax returns if they itemize deductions. State tax rate is 6.5 percent; local additions can increase that to 10.4 percent in some areas.

Write: Washington State Department of Revenue, Taxpayer Services, P.O. Box 47478, Olympia WA 98504-7478.
Phone: (800) 647-7706
Website: www.dor.wa.gov
Email: Link through the website's "Contact Us" tab.

WEST VIRGINIA

There is no tax liability for out-of-state income if the individual has no permanent residence in West Virginia, has a permanent residence elsewhere and spends no more than 30 days of the tax year in West Virginia. However, nonresident domiciliaries are required to file a return on Form IT-140 for all income derived from West Virginia sources. Tax rates rise in four steps from 4 percent of taxable income over \$10,000 for joint and single filers, to 6.5 percent of taxable income for joint and single filers over \$60,000.

Write: Department of Tax and Revenue, The Revenue Center, 1001 Lee St. E., Charleston WV 25337-3784.
Phone: (800) 982-8297 or (304) 558-3333
Website: www.wvtax.gov
Email: TaxHelp@WV.Gov

WISCONSIN

Individuals domiciled in Wisconsin are considered residents and are subject to tax on their entire income, regardless of where the income is earned. Wisconsin's 2018 tax rate rises in four steps from 4 percent on income up to \$11,450 for single filers or \$15,270 for joint filers to a maximum of 7.65 percent on income over \$252,150 for single filers or \$336,200 for joint filers.

Write: Wisconsin Department of Revenue, Customer Service Bureau, P.O. Box 8949, Madison WI 53708-8949.
Phone: (608) 266-2486
Website: www.revenue.wi.gov
Email: Through the "Contact Us" link on the website.

WYOMING

There is no state income tax and no tax on intangibles such as bank accounts, stocks or bonds. State sales tax is 4 percent. Local jurisdictions may add another 2 percent sales tax and 4 percent for lodging.

Write: Wyoming Department of Revenue, Herschler Building, 122 West 25th St., Cheyenne WY 82002-0110.
Phone: (307) 777-5200
Website: <http://revenue.wyo.gov/>
Email: dor@wyo.gov

2018 STATE PENSION AND ANNUITY TAX

The laws regarding the taxation of Foreign Service annuities vary greatly from state to state. In addition to those states that have no income tax or no tax on personal income, there are several states that do not tax income derived from pensions and annuities. For example, Idaho taxes Foreign Service annuities while exempting certain categories of Civil Service employees. Several websites provide more information on individual state taxes for retirees, but the Retirement Living Information Center at www.retirementliving.com/taxes-by-state is one of the more comprehensive and is recommended for further information.

ALABAMA

Social Security and U.S. government pensions are not taxable. The combined state, county and city general sales and use tax rates range from 7 percent to as much as 8.65 percent. See also www.revenue.alabama.gov/taxpayerassist/retire.pdf.

ALASKA

No personal income tax. Most municipalities levy sales and/or use taxes of between 2 and 7 percent and/or a property tax. If over 65, you may be able to claim an exemption.

ARIZONA

Up to \$2,500 of U.S. government pension income may be excluded for each taxpayer. There is also a \$2,100 exemption for each taxpayer age 65 or over. Social Security is excluded from taxable income. Arizona state sales and use tax is 5.6 percent, with additions depending on the county and/or city.

ARKANSAS

The first \$6,000 of income from any retirement plan or IRA is exempt (to a maximum of \$6,000 overall). Social Security is excluded from taxable income. There is no estate or inheritance tax. State sales and use tax is 6.5 percent; city and county taxes may add another 5.5 percent.

CALIFORNIA

Pensions and annuities are fully taxable. Social Security is excluded from taxable income. The sales and use tax rate varies from 7.25 percent (the statewide rate) to 11 percent in some areas. CA Pub 71 lists all rates statewide.

COLORADO

Up to \$24,000 of pension or Social Security income can be excluded if the individual is age 65 or over. Up to \$20,000 is exempt if age 55 to 64. State sales tax is 2.9 percent; local additions can increase it to as much as 11.2 percent.

CONNECTICUT

Pensions and annuities are fully taxable for residents. Social Security is exempt if Federal Adjusted Gross Income is less than \$50,000 for singles or \$60,000 for joint filers. Statewide sales tax is 6.35 percent. No local additions.

DELAWARE

Government pension exclusions per person: \$2,000 is exempt under age 60; \$12,500 if age 60 or over. There is an additional standard deduction of \$2,500 if age 65 or over if you do not itemize. Social Security is excluded from taxable income. Delaware does not impose a sales tax.

DISTRICT OF COLUMBIA

Pensions and annuities are fully taxed for residents. Social Security is excluded from taxable income. Sales and use tax is 5.75 percent, with higher rates for some commodities (liquor, meals, etc.).

FLORIDA

There is no personal income, inheritance, gift tax or tax on intangible property. The state sales and use tax is 6 percent. There are additional county sales taxes, which could make the combined rate as high as 9.5 percent.

GEORGIA

Up to \$35,000 of retirement income may be excludable for those aged 62 or older or totally disabled. Up to \$65,000 of retirement income may be excludable for taxpayers who are 65 or older. Social Security is excluded from taxable income. Sales tax is 4 percent statewide, with additions of up to 3 percent depending on jurisdiction.

HAWAII

Pension and annuity distributions from a government pension plan are not taxed in Hawaii. Social Security is excluded from taxable income. Hawaii charges a general excise tax of 4 percent instead of sales tax.

IDAHO

If the individual is age 65 or older, or age 62 and disabled, Civil Service Retirement System and Foreign Service Retirement and Disability System pensions qualify for a deduction in 2018 of a maximum of \$32,244 for a single return and up to \$48,366 for a joint return. Federal Employees Retirement System and Foreign Service Pension System pensions do not qualify for this deduction. The deduction is reduced dollar for dollar by Social Security benefits. Social Security itself is not taxed. Idaho state sales tax is 6 percent; some local jurisdictions add as much as another 3 percent.

ILLINOIS

Illinois does not tax U.S. government pensions, TSP distributions or Social Security. State sales tax is 6.25 percent. Local additions can raise sales tax to 11 percent in some jurisdictions.

INDIANA

If the individual is over age 62, the Adjusted Gross Income may be reduced by the first \$2,000 of any pension, reduced dollar for dollar by Social Security benefits. There is also a \$1,000 exemption if over 65, or \$1,500 if Federal Adjusted Gross Income is less than \$40,000. There is no pension exclusion for survivor annuitants of federal annuities. Social Security is excluded from taxable income. Sales tax and use tax is 7 percent.

IOWA

Generally taxable. A married couple with an income for the year of less than \$32,000 may file for an exemption, if at least one spouse or the head of household is 65 years or older on Dec. 31, and single persons who are 65 years or older on Dec. 31 may file for an exemption if their income is \$25,000 or less. Social Security is excluded from taxable income. Statewide sales tax is 6 percent; local taxes can add up to another 7 percent.

KANSAS

U.S. government pensions are not taxed. There is an extra deduction of \$850 if over 65. Social Security is exempt if Federal Adjusted Gross Income is under \$75,000. State sales tax is 6.5 percent, with additions of between 1 and 4 percent depending on jurisdiction.

KENTUCKY

Government pension income is exempt if retired before Jan. 1, 1998. If retired after Dec. 31, 1997, pension/annuity income up to \$41,110 remains excludable for 2018. Social Security is excluded from taxable income. Sales and use tax is 6 percent statewide, with no local sales or use taxes.

LOUISIANA

Federal retirement benefits are exempt from state income tax. There is an exemption of \$6,000 of other annual retirement income received by any person age 65 or over. Married filing jointly may exclude \$12,000. Social Security is excluded from taxable income. State sales tax is 5 percent with local additions up to a possible total of 10.75 percent. Use tax is 8 percent regardless of the purchaser's location.

MAINE

Recipients of a government-sponsored pension or annuity who are filing singly may deduct up to \$10,000 (\$20,000 for married filing jointly) on income that is included in their Federal Adjusted Gross Income, reduced by all Social Security and railroad benefits. For those aged 65 and over, there is an additional standard deduction of \$1,600 (filing singly) or \$2,600 (married filing jointly). General sales tax is now 5.5 percent; 8 percent on meals and liquor.

MARYLAND

Those over 65 or permanently disabled, or who have a spouse who is permanently disabled, may under certain conditions be eligible for Maryland's maximum pension exclusion of \$30,600 in tax year 2018. Also, all individuals 65 years or older are entitled to an extra \$1,000 personal exemption in addition to the regular \$3,200 personal exemption available to all taxpayers. Social Security is excluded from taxable income. See the worksheet and instructions in the Maryland Resident Tax Booklet. General sales tax is 6 percent; 9 percent on liquor.

MASSACHUSETTS

Federal pensions and Social Security are excluded from Massachusetts gross income. Each taxpayer over age 65 is allowed an additional \$700 exemption on other income. Sales tax is 6.25 percent.

MICHIGAN

Federal and state/local government pensions may be partially exempt, based on the year you were born and the source of the pension.

(a) If born before 1946, private pension or IRA benefits included in AGI are partially exempt; public pensions are exempt.

(b) If born after Jan. 1, 1946 and before Dec. 31, 1952, the exemption for public and private pensions is limited to \$20,000 for singles and \$40,000 for married filers.

(c) If born after 1952, not eligible for any exemption until reaching age 67.

Social Security is excluded from taxable income. Full details at: <https://www.michigan.gov/taxes/0,4676,7-238-459647--,00.html>.

Michigan's state sales tax rate is 6 percent. There are no city, local or county sales taxes.

MINNESOTA

Social Security income is taxed by Minnesota to the same extent it is on your federal return. If your only income is Social Security, you are not required to file an income tax return. All federal pensions are taxable, but single taxpayers who are over 65 or disabled may exclude some income if Federal Adjusted Gross Income is under \$33,700 and nontaxable Social Security is under \$9,600. For a couple who are both over 65, the limits are \$42,000 for Adjusted Gross

Income and \$12,000 for nontaxable Social Security. Statewide sales and use tax is 6.875 percent; a few cities and counties also add a sales tax, which can be as high as 8.375 percent.

MISSISSIPPI

Social Security, qualified retirement income from federal, state and private retirement systems, and income from IRAs are exempt from Mississippi tax. There is an additional exemption of \$1,500 on other income if over 65. Statewide sales tax is 7 percent.

MISSOURI

Up to 65 percent of public pension income may be deducted if Missouri Adjusted Gross Income is less than \$100,000 when married filing jointly or \$85,000 for single filers, up to a limit of \$36,442 for each spouse. The maximum private pension deduction is \$6,000. You may also deduct 100 percent of Social Security income if over age 62 and Federal Adjusted Gross Income is less than the limits above. Sales tax is 4.225 percent; local sales and use tax additions may raise the total to 10.1 percent.

MONTANA

There is a \$4,110 pension income exclusion if Federal Adjusted Gross Income is less than \$34,260. Those over 65 can exempt an additional \$800 of interest income for single taxpayers and \$1,600 for married joint filers. For taxpayers with an AGI income under \$25,000 (single filers) or \$32,000 (joint filers), all Social Security retirement income is deductible. For taxpayers above those limits but below \$34,000 (single filers) or \$44,000 (joint filers), half of Social Security retirement income is deductible. Above those second-level limits, 15 percent is deductible. Montana has no general sales tax, but tax is levied on the sale of various commodities.

NEBRASKA

U.S. government pensions and annuities are fully taxable. Social Security is taxable. State sales tax is 5.5 percent, with local additions of up to 2 percent.

NEVADA

No personal income tax. Sales and use tax varies from 6.85 to 8.1 percent, depending on local jurisdiction.

NEW HAMPSHIRE

No personal income tax and no inheritance tax. There is a 5 percent tax on interest/dividend income over \$2,400 for singles (\$4,800 married filing jointly). A \$1,200 exemption is available for those 65 or over. No general sales tax.

NEW JERSEY

Pensions and annuities from civilian government service are subject to state income tax, with exemptions for those aged 62 or older or totally and permanently disabled. However, see this link for the distinction between the “Three-Year Method” and the “General Rule Method” for contributory pension plans: <http://www.state.nj.us/treasury/taxation/njit6.shtml>. For 2018, qualifying singles and heads of households may be able to exclude up to \$45,000 of retirement income; those married filing jointly up to \$60,000; those married filing separately up to \$30,000 each. These exclusions are eliminated for New Jersey gross incomes over \$100,000. Residents over 65 may be eligible for an additional \$1,000 personal exemption. Social Security is excluded from taxable income. State sales tax is 6.675 percent.

NEW MEXICO

All pensions and annuities are taxed as part of Federal Adjusted Gross Income. Taxpayers 65 and older may exempt up to \$8,000 (single) or \$16,000 (joint) from any income source if their income is under \$28,500 (individual filers) or \$51,000 (married filing jointly). The exemption is reduced as income increases, disappearing altogether at \$51,000. New Mexico has a gross receipts tax, instead of a sales tax, of 5.125 percent; county and city taxes may add another 3.9375 percent.

NEW YORK

Social Security, U.S. government pensions and annuities are not taxed. For those over age 59½, up to \$20,000 of other annuity income (e.g., Thrift Savings Plan) may be excluded. See N.Y. Tax Publication 36 at <https://www.tax.ny.gov/pdf/publications/income/pub36.pdf> for details. Sales tax is 4 percent statewide. Other local taxes may add up to an additional 5 percent.

NORTH CAROLINA

Pursuant to the “Bailey” decision (see <http://dornc.com/taxes/individual/benefits.html>), government retirement benefits received by federal retirees who had five years of creditable service in a federal retirement system on Aug. 12, 1989, are exempt from North Carolina income tax. Those who do not have five years of creditable service on Aug. 12, 1989, must pay North Carolina tax on their federal annuities. In tax year 2014 and later, the \$4,000 deduction is no longer available. For those over 65, an extra \$750 (single) or \$1,200 (couple) may be deducted. Social Security is excluded from taxable income. State sales tax is 4.75 percent; local taxes may increase this by up to 3 percent.

NORTH DAKOTA

All pensions and annuities are fully taxed. Social Security is excluded from taxable income. General sales tax is 5 percent; 7 percent on liquor. Local jurisdictions impose up to 3 percent more.

OHIO

Retirement income is taxed. Taxpayers 65 and over may take a \$50 credit per return. In addition, Ohio gives a tax credit based on the amount of the retirement income included in Ohio Adjusted Gross Income, reaching a maximum of \$200 for any retirement income over \$8,000. Social Security is excluded from taxable income. State sales tax is 5.75 percent. Counties and regional transit authorities may add to this, but the total may not exceed 8.75 percent.

OKLAHOMA

Individuals receiving FERS/FSPS or private pensions may exempt up to \$10,000, but not to exceed the amount included in the Federal Adjusted Gross Income. Since 2011, 100 percent of a federal pension paid in lieu of Social Security (i.e., CSRS and FSRDS—“old system”—including the CSRS/FSRDS portion of an annuity paid under both systems) is exempt. Social Security included in FAGI is exempt. State sales tax is 4.5 percent. Local and other additions may bring the total up to 9.5 percent.

OREGON

Generally, all retirement income is subject to Oregon tax when received by an Oregon resident. However, federal retirees who retired on or before Oct. 1, 1991, may exempt their entire federal pension; those who worked both before and after Oct. 1, 1991, must prorate their exemption using the instructions in the tax booklet. If you are over age 62, a tax credit of up to 9 percent of taxable pension income is available to recipients of pension income, including most private pension income, whose household income was less than \$22,500 (single) and \$45,000 (joint), and who received less than \$7,500 (single)/\$15,000 (joint) in Social Security benefits. The credit is the lesser of the tax liability, or 9 percent of taxable pension income. Social Security is excluded from taxable income. Oregon has no sales tax.

PENNSYLVANIA

Government pensions and Social Security are not subject to personal income tax. Pennsylvania sales tax is 6 percent. Other taxing entities may add up to 2 percent.

PUERTO RICO

The first \$11,000 of income received from a federal pension can be excluded for individuals under 60. For those over 60, the exclusion is \$15,000. If the individual receives more than one federal pension, the exclusion applies to each pension or annuity separately. Social Security is excluded from taxable income.

RHODE ISLAND

U.S. government pensions and annuities are fully taxable. However, effective the 2017 tax year, taxpayers eligible for Social Security may take a \$15,000 exemption on their retirement income. This applies to single taxpayers with FAGIs of up to \$80,000 and to joint taxpayers up to \$100,000 that are otherwise qualified. Social Security is taxed to the extent it is federally taxed. Sales tax is 7 percent; meals and beverages, 8 percent.

SOUTH CAROLINA

Individuals under age 65 can claim a \$3,000 deduction on qualified retirement income; those age 65 or over may claim a \$15,000 deduction on qualified retirement income (\$30,000 if both spouses are over 65) but must reduce this figure by any other retirement deduction claimed. Social Security is excluded from taxable income. Sales tax is 6 percent plus up to 3 percent in some counties. Residents age 85 and over pay 5 percent.

SOUTH DAKOTA

No personal income tax or inheritance tax. State sales and use tax is 4.5 percent; municipalities may add up to an additional 2.75 percent. Residents who are age 66 and older and have a yearly income of under \$10,250 (single) or in a household where the total income was under \$13,250 are eligible for a sales tax or a property tax refund.

TENNESSEE

Social Security, pension income and income from IRAs and TSP are not subject to personal income tax. In 2018, most interest and dividend income is taxed at 3 percent if over \$1,250 (single filers) or \$2,500 (married filing jointly). However, for tax year 2015 and subsequently, those over 65 with total income from all sources of less than \$37,000 for a single filer and \$68,000 for joint filers are completely exempt from all taxes on income. State sales tax is 5 percent on food; 7 percent on other goods, with between 1.5 and 2.75 percent added, depending on jurisdiction.

TEXAS

No personal income tax or inheritance tax. State sales tax is 6.25 percent. Local options can raise the rate to 8.25 percent.

UTAH

Utah has a flat tax rate of 5 percent of all income. For taxpayers over 65 there is a retirement tax credit of \$450 for single filers and \$900 for

joint filers. This is reduced by 2.5 percent of income exceeding \$25,000 for single filers and \$32,000 for joint filers. See the state website for details. State sales tax ranges from 5.95 percent to 8.60 percent, depending on local jurisdiction.

VERMONT

U.S. government pensions and annuities are fully taxable. Social Security is taxed to the extent it is federally taxed. State general sales tax is 6 percent; local option taxes may raise the total to 7 percent (higher on some commodities).

VIRGINIA

Individuals over age 65 can take a \$12,000 deduction. The maximum \$12,000 deduction is reduced by one dollar for each dollar by which Adjusted Gross Income exceeds \$50,000 (for single) and \$75,000 (for married) taxpayers. All taxpayers over 65 receive an additional personal exemption of \$800. Social Security is excluded from taxable income. The estate tax was repealed for all deaths after July 1, 2007. The general sales tax rate is 5.3 percent (4.3 percent state tax and 1 percent local tax, with an extra 0.7 percent in Northern Virginia).

WASHINGTON

No personal income tax. Retirement income is not taxed. State sales tax is 6.5 percent; rates are updated quarterly. Local taxes may increase the total to 10.4 percent.

WEST VIRGINIA

\$2,000 of any civil or state pension is exempt. Social Security income is taxable only to the extent that the income is includable in Federal Adjusted Gross Income. Taxpayers 65 and older or surviving spouses of any age may exclude the first \$8,000 (individual filers) or \$16,000 (married filing jointly) of any retirement income. Out-of-state government pensions qualify for this exemption. State sales tax is 6 percent, with additions of between 0.5 and 1 percent in some jurisdictions.

WISCONSIN

Pensions and annuities are fully taxable. Social Security is excluded from taxable income. Those age 65 or over may take two personal deductions totaling \$950. Benefits received from a federal retirement system account established before Dec. 31, 1963, are not taxable. Those over 65 and with a FAGI of less than \$15,000 (single filers) or \$30,000 (joint filers) may exclude \$5,000 of income from federal retirement systems or IRAs. Those over 65 may take an additional personal deduction of \$250. State sales tax is 5 percent; most counties charge an extra 1.5 percent.

WYOMING

No personal income tax. State sales tax is 4 percent. Local taxes may add up to 2 percent on sales and 4 percent on lodging. ■