

2020 Federal and State Tax Provisions for the Foreign Service

The American Foreign Service Association is pleased to present the 2020 Tax Guide, your first step to self-help for filing 2020 tax returns. This annual guide summarizes many of the tax laws that members of the Foreign Service community will find relevant, including changes mandated by new legislation.

The 2020 COVID-19 pandemic was an unwelcome surprise, but Congress took quick bipartisan action in the form of three new bills to support the U.S. economy and to help American families. Each bill was swiftly signed into law by the president. While we will not go into detail on each bill, we will discuss the resulting tax law changes that apply to the majority of our readers.

Although we try to be accurate, this article reviews complex tax issues affecting many individuals differently. Readers should always follow up with IRS product pages for each form and publication mentioned, which are designed as extensions of the PDF versions and instructions. Always check the applicability and “last reviewed” dates of these resources.

Even then, statutes and case law are the only completely authoritative sources. Many credits, deductions or other calculations (e.g., depreciation, foreign asset reporting or 1031 exchanges) are best done by a professional competent in that area. Consultations with a tax professional for complete answers to specific questions are recommended; readers cannot rely on this article or the IRS website as a justification for their position on a tax return.

In addition to highlights of new 2020 tax legislation affecting individuals, this year’s article will also provide readers with information on tax issues affecting investments in real estate, capital gains, alimony, the Foreign Earned Income Exclusion (FEIE), filings related to foreign assets and income and other important topics relevant for 2020 tax returns. Following the federal section is 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 Christine Elsea Mandojana, CPA, CFP® of CEM Global Tax Planning, LLC, and her team for preparing the section on federal tax provisions. Thanks also to Hallie Aronson, Esq., and Shannon Smith, Esq., of Withers Bergman, LLP, for their contributions, particularly regarding foreign accounts and asset reporting.

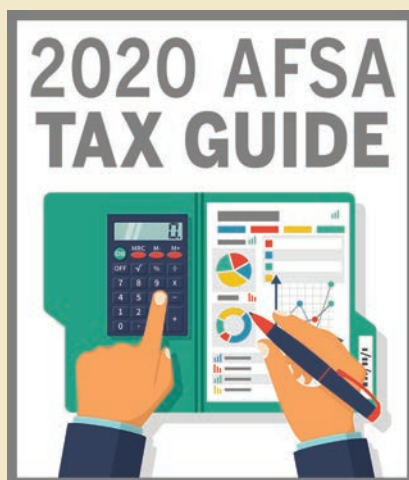
Filing Deadlines and Extensions

The deadline for filing 2020 individual income tax returns is April 15, 2021. U.S. citizens and resident aliens living outside the United States are allowed an automatic two-month

extension for filing and paying federal taxes to June 15, 2021. To qualify for the June 15 automatic extension, a taxpayer must meet the following requirements: (1) on the regular tax return due date, the taxpayer is living outside of, and their main place of business or post is outside of, the United States and Puerto Rico (or the taxpayer is in the military or naval service on duty outside the United States or Puerto Rico); and (2) the taxpayer attaches a statement to the tax return specifying their qualifications for this automatic extension. Taxpayers claiming the extension should also write “taxpayer abroad” at the top of Form 1040. An additional extension to Oct. 15, 2021, may

be obtained by filing Form 4868. Certain taxpayers claiming the FEIE on their federal tax return may qualify to extend their return using Form 2350 (instead of Form 4868) beyond the Oct. 15 deadline. Additionally, an extension to Dec. 15 may be available to certain overseas taxpayers who filed a Form 4868 but are unable to meet the Oct. 15 deadline due to certain qualifying circumstances. We recommend that you consult with a qualified tax professional before availing of these additional extensions. Taxpayers who take advantage of a federal extension must also check their state filing deadlines to avoid inadvertently missing them, because many states do not conform to the same federal extensions or extension deadlines.

Although the IRS should not charge interest or late payment penalties for returns filed under the June 15 automatic deadline, they often do. The taxpayer generally must call the IRS to have the interest or late penalties removed. For returns extended beyond June 15, however, the extension granted to the taxpayer is an extension to file but not to pay. As such, the IRS will charge late payment penalties and interest for payments made after the April 15 deadline. Most states will likewise charge late payment penalties and interest for tax payments made after the state’s initial tax filing deadline.



Form 1040 Has Been Revised for 2020

As has been the case for decades, U.S. taxpayers must report “all income from whatever source derived” on IRS Form 1040, which has been revised again this year. Adjustments, deductions and credits remain matters of “legislative grace,” so it is important to understand those statutes, regulations, forms and instructions when you claim a credit or deduction. The draft 2020 Form 1040 is similar to 2019 with some additions related to the COVID-19 legislation. Note that this article discusses the most recent draft as of the article publication date; the form may change before the final 2020 Form 1040 and accompanying schedules are approved.

Schedule 1: Report additional income and adjustments, such as tax refunds or credits; alimony received for certain divorces (discussed later in this article); unincorporated or single-member LLC business income or loss (see Schedule C); rental real estate, royalties or other pass-through business income (see Schedule E); unemployment compensation; and educator expenses.

Schedule 2: Report additional taxes such as the alternative minimum tax, self-employment tax and household employment taxes.

Schedule 3: Claim nonrefundable credits such as the foreign tax credit, credit for child and dependent care, and education credits.

The lettered schedules, commonly A through E, remain as follows:

(A) Itemized deductions, e.g., medical and dental expenses, deductible taxes and interest paid, gifts to charity, casualty losses from a federally declared disaster, and others. Taxpayers should file Schedule A only if their itemized deductions are higher than the standard deduction for the tax year.

(B) Interest, dividends, and foreign trusts and accounts.

(C) Profit or loss from business (sole proprietors and single-member LLCs).

(D) Capital gains and losses e.g., investment sales and certain capital gains from the sale of certain realty and virtual currency investments.

(E) Supplemental income and loss from rental real estate, royalties, partnerships, S corporations, estates and trusts.

Many other lettered schedules and incentive-specific forms (e.g., Form 8283 Noncash Charitable Contributions, Form 8889 Health Savings Accounts, Form 8938 Specified Foreign Financial Assets) and corresponding worksheets may be necessary. All are available from the IRS, most with corresponding product pages and instructions.

AFSA recommends that members review the IRS Form 1040 information webpage, “About Form 1040, U.S. Individual Income Tax Return”; the Form 1040 Instructions;

Publication 17, “Your Federal Income Tax”; and this year’s IRS Nationwide Income Tax Forums Online.

2020 Individual Income Tax Rates and Brackets

2020 Individual Income Tax Rates & Brackets				
Married Filing Jointly				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$19,750	\$1,975	\$1,975
12%	\$19,751	\$80,250	\$7,260	\$9,235
22%	\$80,251	\$171,050	\$19,976	\$29,211
24%	\$171,051	\$326,600	\$37,332	\$66,543
32%	\$326,601	\$414,700	\$28,192	\$94,735
35%	\$414,701	\$622,050	\$72,573	\$167,308
37%	\$622,051	-	-	-
Head of Household				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$14,000	\$1,400	\$1,400
12%	\$14,001	\$53,700	\$4,764	\$6,164
22%	\$53,701	\$85,500	\$6,996	\$13,160
24%	\$85,501	\$163,300	\$18,672	\$31,832
32%	\$163,301	\$207,350	\$14,096	\$45,928
35%	\$207,351	\$518,400	\$108,868	\$154,796
37%	\$518,401	-	-	-
Unmarried				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$9,875	\$988	\$988
12%	\$9,876	\$40,125	\$3,630	\$4,618
22%	\$40,126	\$85,525	\$9,988	\$14,606
24%	\$85,526	\$163,300	\$18,666	\$33,272
32%	\$163,301	\$207,350	\$14,096	\$47,368
35%	\$207,351	\$518,400	\$108,868	\$156,235
37%	\$518,401	-	-	-

2021 Form W-4 Withholding Certificate

Taxpayers usually do not think to revise their Form W-4 withholdings until April or until they have paid their final 2020 taxes. Delaying a Form W-4 update may result in taxpayers withholding taxes on their wages based on an old calculation for several months of 2021. Don’t wait. AFSA recommends readers revise their Form W-4 (using the new 2021 form) via their human resources office or through their employer’s online portal (e.g.,

Employee Express for State Department employees) as soon as possible. Promptly doing so will help you avoid overwithholding or playing catch-up due to underwithholding for several months.

For help in calculating withholding, the IRS built a withholding estimator (www.irs.gov/W4App). Please note this estimator may not work well for taxpayers with rental properties, those claiming the FEIE or for those who potentially have other complicated tax issues in their returns. Taxpayers with these complications should complete the worksheets provided with Form W-4 and/or consult a tax professional.

Standard Deduction

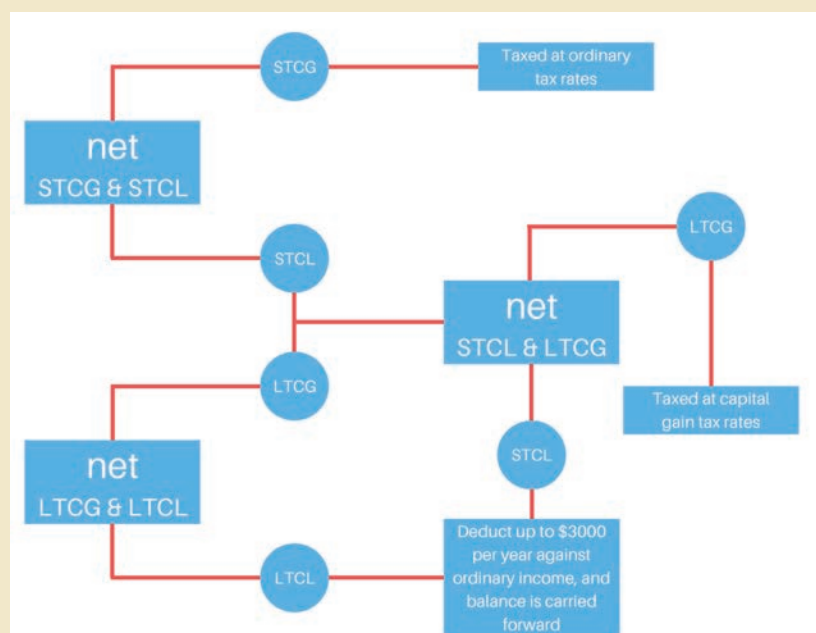
The standard deduction has gone up slightly this year:

- \$24,800 married filing jointly,
- \$18,650 for heads of household, specifically defined by Internal Revenue Code (IRC) Section 2(b), and
- \$12,400 for single taxpayers and married individuals filing separately.

The personal exemption remains \$0 for 2020.

Capital Gains for Sale of Capital Assets Such as Stocks and Similar Securities

Determining the correct tax rate for capital gains requires taxpayers to first categorize their capital gains into short-term (gain from investments held for less than one year) and long-term (gain from investments held for one year or more). Next, taxpayers net their short-term capital gains (STCG) against their short-term capital losses (STCL), and their long-term capital gains (LTCG) against their long-term capital losses (LTCL). The results are taxed per the illustration below:



Any net LTCG that results from this netting process is taxed at the capital gains rates in the table below:

There are exceptions to these rates for certain types of capital gains, such as Section 1202 qualified small business stock, net capital gains from collectibles and Section 1250 unrecaptured gains (explained in the investments in real estate section of this article).

Finally, and closely related, an additional 3.8-percent net investment income tax may apply to some forms of investment income, including some capital gains for taxpayers with modified adjusted gross income (AGI) above:

- \$250,000 for those married filing jointly or qualifying widow with a dependent child,
- \$200,000 head of household or single, and
- \$125,000 for those married filing separately.

2020 Capital Gain Tax Rates & Brackets		
Single		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$74,749
15%	\$74,750	\$434,549
20%	\$434,550+	
Married Filing Jointly or Qualified Widow		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$78,749
15%	\$78,750	\$488,849
20%	\$488,850+	
Head of Household		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$78,749
15%	\$78,750	\$461,699
20%	\$461,700+	
Married Filing Separately		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$78,749
15%	\$78,750	\$244,424
20%	\$244,425+	

Virtual Currency

In recent years, the IRS has placed increased scrutiny on virtual currency transactions. The draft 2020 Form 1040 illustrates this increased scrutiny by requiring taxpayers to confirm whether the taxpayer received, sold, exchanged or otherwise acquired any financial interest in any virtual currency during 2020. Additionally, virtual currency held in accounts outside the United States should be reported as a foreign asset on the FinCen114 (FBAR) and Form 8938 if reporting thresholds are met. In 2019 the IRS released guidance and FAQs related to virtual currency. These FAQs define virtual currency and provide guidance on taxable events related to virtual currency. The FAQs can be found here: <https://bit.ly/virtual-currency-transactions>.

AFSA recommends consulting IRS Notice 2014-21, Revenue Ruling 2019-24 and the FAQs to determine the tax treatment, if any, of a transaction.

Investments in Real Estate

Taxpayers generally invest in real estate in four scenarios:

Scenario 1: To live in as their personal residence.

Scenario 2: For use as a vacation home.

Scenario 3: To live in as their personal residence, but may rent it out at times when not living in it.

Scenario 4: To rent to a third party strictly for investment income purposes with no personal use.

Adjusted Basis

In all four scenarios, it is important to properly calculate the adjusted basis of the property. Please refer to Tax Topic 703; Publication 551; Form 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 the Foreign Service Institute have illustrated how mistakes in tracking basis can result in incorrectly calculated depreciation of rental properties and incorrectly reported gain or loss from the sale of real estate.

Scenario 1: Personal Residence Never Rented

While living in the property as a personal residence, a taxpayer may deduct mortgage interest and property taxes as an itemized deduction on Schedule A, subject to limitations. Note that current tax law allows a taxpayer to deduct mortgage interest up to current mortgage limits (\$750,000 unless the mortgage meets the requirements for grandfathered mortgage limit of \$1 million) for up to two properties, a personal residence and a second home personally used by the taxpayer.

Scenario 2: Vacation Home

A vacation home is a second home aside from your personal residence that may be used by you for vacationing and may be rented out at times during the year. If you use the vacation home without renting it out, you may deduct the mortgage interest and property taxes on Schedule A, subject to limits as described in Scenario 1. If you rent out your vacation home for less than 15 days during the year, you are not required to report the rental income on your tax return and you may still deduct the mortgage interest and taxes on Schedule A. If you rent the vacation home out but use it personally for the

greater of 14 days or 10 percent of the number of days rented, it is considered a personal residence and you may not deduct rental expenses greater than rental income. Mortgage interest and real estate taxes allocated to personal use are reported on Schedule A, subject to limitations. Mortgage interest, real estate taxes and other deductible expenses (including depreciation) allocated to rental use are reported on Schedule E using the vacation home rules.

Scenarios 3 and 4: Rental Property

Real estate that you purchase as a personal use home and then convert to rental status (or vice versa) and real estate that you purchase for immediate rental to a third party both have similar requirements for calculating depreciation during the rental period and for capital gain or loss calculations upon sale. During periods when the property is rented, the taxpayer must report the gross rental income received and deductible expenses on Schedule E. Please review the annual Foreign Service Institute Tax Seminar presented each February (available online at <https://bit.ly/fsi-tax-seminar>) for complications to consider when deciding which expenditures are immediately deductible and which expenditures must be capitalized and depreciated during rental use.

Depreciating Real Property Used to Produce Income

During periods when real estate is rented, the IRS requires the taxpayer to depreciate the property over the IRS-defined recovery period. To calculate annual depreciation, a taxpayer must know: (1) the property's adjusted cost basis and fair market value at time of rental conversion (the taxpayer must use the lower of the fair market value or adjusted basis as the depreciable basis); (2) adjustments to basis (tracked throughout the life of the property); (3) the date the property was placed in service as income-producing; and (4) the IRS-mandated depreciation method and convention. The IRS requires a taxpayer to depreciate buildings, certain land improvements and other types of capital assets—all annually. The IRS, however, prohibits a taxpayer from depreciating land, including the land on which a depreciable asset sits. So, land values must be accounted for separately. Property used for personal purposes may not be depreciated and claimed for tax purposes.

Taxpayers who believe they have sufficiently documented their property to begin using it for income-producing purposes should contact a tax professional to properly set up the property for tax reporting purposes, calculate deductible expenses (including depreciation), account for income derived from the property, and file correct tax forms on time each year. Failure to include the proper amount of depreciation on the Schedule E

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can result in an incorrect accounting method, which may require a change in accounting method (Form 3115) or an amended return, depending on the mistake made and/or the number of years depreciation was improperly reported on the Schedule E.

AFSA recommends also reading Tax Topics 703 (basis), 704 (depreciation) and 414 (rental property); the Schedule E and Form 1040 instructions; IRC Sections 167 (depreciation), 1012 (cost basis), 1011 (adjusted basis) and 1016 (adjustments to basis); associated basis and depreciation regulations; and Publications 527 and 946.

Selling a Principal Residence

Taxpayers who sell real estate used as a principal residence at some time during the taxpayer's ownership may qualify to exclude all or a portion of their net taxable capital gain under the provisions of IRC Section 121. A taxpayer who used the property as a principal residence and also rented the property can only exclude (if the qualifications are met) the non-IRC Section 1250 unrecaptured gain (see below) under IRC Section 121. IRC Section 121 allows a taxpayer to exclude up to \$250,000 (\$500,000 if married filing jointly) of long-term capital gain 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 at any time for at least two of the last five years 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. Additionally, capital gain attributed to periods of nonqualified use cannot be excluded under IRC Section 121. AFSA recommends Topic 701, Publication 523, IRC Section 121 and related regulations.

Military Families Tax Relief Act of 2003

According to the Military Families Tax Relief Act of 2003, the five-year period to qualify for the exclusion under IRC Section 121 may be suspended for members of the Foreign Service for up to 10 years during which the taxpayer has been on a qualifying Foreign Service assignment. This act also excludes periods of "qualified official extended duty" from nonqualified use treatment. In addition to the recommended reading from the previous section, AFSA recommends IRC Sec. 121(d)(9) and 26 CFR Section 1.121-5.

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Selling a Property That Was Previously Rented

Taxpayers who sell a property that was used as a rental property at any time during the taxpayer's ownership must reduce the property's adjusted basis by the mandatory depreciation required during the rental period of the property before calculating the final net taxable capital gain from the property sale. The portion of the net capital gain created from the mandatory depreciation (whether or not claimed during the rental period(s)) is taxed as IRC Section 1250 unrecaptured gain and is not eligible for capital gain exclusion under IRC Section 121. The portion of the remaining net capital gain is eligible for exclusion under IRC Section 121 if all requirements are met. Due to the impact of IRC Section 1250 unrecaptured gain rules, taxpayers who sell a property that was previously rented often still have a tax bill due even if they qualify to exclude a portion of their net capital gain under IRC Section 121.

Non-Rental Business Use of Home

Although most Foreign Service families find themselves in government-funded housing overseas much of the time, some may own or rent property in the United States that they both occupy for personal purposes and use to operate a private business on the side. To qualify for a deduction for business-related expenses for a portion of a residence used for a business, a taxpayer must use a portion of their home exclusively and regularly as a principal place of business (and file a Schedule C). A taxpayer who meets that threshold must then either calculate the actual expenses of the home office—e.g., cost of a business phone line and part of state and local property taxes, utilities, mortgage interest and depreciation—or use the IRS' simplified method based on a flat rate for the square footage used for business (up to a maximum of 300 square feet). Also note that expenses incurred for the entire home, such as property taxes, must be prorated based on the percentage of the home used exclusively for the business if you choose the regular (not simplified) calculation. For more information, contact a professional and follow up with IRS Topic 509, Publication 587, the instructions for Form 8829, 1040 Schedule C, and IRC Sections 162, 212 and associated regulations.

Three Separate but Related Child and Dependent Credits

Child Tax Credit

A tax credit of up to \$2,000 (limit of \$1,400 refundable) per year is available for each qualifying child under age 17 for qualified taxpayers. This credit is claimed directly on Form 1040.

Other Dependent Credit

A separate but related Other Dependent Credit of up to \$500 is available, often for those who do not meet the qualifying

child requirement or with other dependent relatives. Calculate both the child tax credit and the other dependent credit on the Child Tax Credit and Credit for Other Dependents Worksheet. The worksheet and a flow chart for determining "Who Qualifies as Your Dependent?" are in the Form 1040 instructions for line 19. AFSA also recommends IRS Publication 5307, Publication 927, the instructions for Schedule 8812 (additional child tax credit) and IRC Section 24 for the Child Tax Credit and Other Dependent Credit.

Child and Dependent Care Tax Credit

Taxpayers with a qualifying dependent may be separately eligible for a credit for part of their child and dependent care expenses. To claim this credit for foreign care providers who do not have a U.S. taxpayer identification number (either a Social Security number or Employer Identification Number), enter "LAFCP" (Living Abroad Foreign Care Provider) on Form 2441 in the space for the care provider's taxpayer identification number. Taxpayers who utilize an FSAFEDS dependent care account to pay for qualifying childcare expenses must still file Form 2441 to report that they used the funds for qualifying child care. For taxpayers with two or more children who maxed out their FSAFEDS dependent care account contribution of \$5,000, a credit calculated on up to an additional \$1,000 of qualifying childcare expenses is available on Form 2441. Married taxpayers where one or both spouses exclude all their earned income with the FEIE will not qualify for this credit. AFSA recommends IRS Tax Topic 602, Form 2441 and instructions, as well as Form 1040 Schedule 3 and corresponding Form 1040 instructions.

For all three credits related to children and dependents, qualifying child and dependent rules can quickly become complex, especially in the case of divorce or separation.

Moving for a New Job & Retiring from Overseas Deductions Not Available Now

The personal costs incurred to move to a new job (IRC Section 217(j)) and for moving back to the United States after retiring from overseas are no longer deductible following amendments to the 2017 Tax Cuts and Jobs Act. Only active-duty members of the armed forces should use Form 3903 to calculate and deduct their moving expenses from their military moves. Visit the IRS web page "Moving Expenses to and from the United States," read Publication 521, and contact a professional to discuss future planning opportunities on these issues for 2026—the tax year many provisions of the Tax Cuts and Jobs Act sunset.

Official Relocation Under the Foreign Service Act Is Not Taxed (PCS, R&R, Medevac)

All travel authorized under Section 901 of the Foreign Service

Act, which includes permanent change of station (PCS), representational travel, R&R, emergency visitation travel and medevac, is exempt from taxation per IRC Sec. 912. Charleston General Financial Services (CGFS) secured advice from the IRS to this effect, which is consistent with IRS guidance issued in April 2018. None of these reimbursements appears on a W-2 for State Department employees. Non-State Department employees and anyone who doubts they are traveling under the Foreign Service Act should contact a professional to determine what relocation expenses may now be taxable.

Personally Incurred Expenses for Home Leave and R&R

Personal expenses paid by a direct-hire employee while on R&R are not tax deductible. Prior to the 2017 Tax Cuts and Jobs Act, lodging, food and transportation expenses paid by an employee on official home leave were deductible on Schedule A as unreimbursed employee business expenses. The 2017 Tax Cuts and Jobs Act eliminated the tax deduction for unreimbursed employee business expenses, so these expenses cannot be deducted until 2026 (filed April 2027). The Schedule A line 16 “other itemized deductions” section is not appropriate for deducting these expenses.

Representational & Official Residence Expenses

Certain Foreign Service employees receive a nontaxable allowance for representation expenses. If the actual expenses exceed the allowance, the excess expenses are not deductible under current tax law. Further, other Foreign Service employees incurring expenses related to their job may not deduct such expenses.

Alimony for Divorces, Settlements and Modifications

Alimony paid pursuant to agreements and orders entered into before Jan. 1, 2019, is deductible by the payor and taxed as income to the payee. Alimony payments paid pursuant to divorce or separation instruments entered into or modified after Dec. 31, 2018, are not deductible by the payor or taxed as income to the payee. Any modifications after Dec. 31, 2018, must explicitly state that the repeal of the alimony and maintenance rules will apply to the modification, otherwise the pre-2019 rules apply. Taxpayers should read Form 1040 Schedule 1, the Form 1040 Instructions and Tax Topic 452. Note the Tax Cuts and Jobs Act of 2017 generally repealed IRC Section 71 and 26 CFR 1.71-1 for agreements entered into after Dec. 31, 2018.

Foreign Earned Income Exclusion (FEIE)

Taxpayers living and working overseas may be eligible for the FEIE. In 2020 the first \$107,600 earned overseas as a non-

U.S. government employee or self-employed person may be excluded from federal income taxes but not from self-employment taxes.

To qualify for this exclusion, the taxpayer must:

- (1) Establish a tax home in a foreign country;
- (2) Either (a) meet the “bona fide residence” test, or (b) meet the “physical presence” test; and
- (3) File a Form 1040 tax return with Form 2555 for the year the FEIE is claimed.

Tax Home

The tax home is the general area of the taxpayer’s “main place of business, employment or post of duty” (i.e., where the taxpayer is “permanently or indefinitely engaged to work as an employee or self-employed individual”).

The U.S. Tax Court has explained that the congressional purpose of the FEIE is 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 long-term are other factors the federal courts have cumulatively recognized as establishing a foreign tax home.

Bona Fide Residence Test

The bona fide residence test is a facts and circumstances test aimed at assessing whether the taxpayer intends to make a home outside the United States for an indefinite period. This test requires that the taxpayer be a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year. The taxpayer may leave the foreign country for brief or temporary trips back to the United States (for periods not greater than six months in a calendar year) or elsewhere during the bona fide resident period but must have a clear intention of returning to the foreign country.

Physical Presence Test

The physical presence test requires that a taxpayer be present in a foreign country for at least 330 full (midnight-to-midnight) days during any 12 consecutive months (the 12-month period may be different from the tax year). Taxpayers who qualify for the physical presence test using a 12-month period other than a full calendar year are required to prorate the maximum exclusion allowed for that tax year. Travel days to and from the United States generally do not count toward the total for days inside the foreign country (they are considered U.S. days).

Other FEIE Considerations

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 the FEIE tests. Members of the Foreign Service community have successfully used the physical presence test when bona fide residence cannot be established. Those who rely on physical presence should contemporaneously document travel days and retain copies of visas and tickets to substantiate their calculation.

As a response to the travel restrictions imposed due to COVID-19, the IRS issued Revenue Procedure 2020-27, which provides a temporary waiver of the time requirements under either the bona fide residence or the physical presence tests. The waiver applies to any taxpayer who reasonably expected to meet the time requirements but failed to do so due to COVID-19. Readers should review the Revenue Procedure in detail noting the specific date requirements and consult a qualified tax professional before claiming the time waiver on their 2020 tax return.

Taxpayers should note that the FEIE excludes the income from the bottom tax brackets, thus leaving remaining ordinary income on the return to be taxed at the higher tax brackets applicable to the return. Consequently, for certain married taxpayers, filing separately may result in a combined lower tax liability than filing jointly. We recommend that taxpayers consult with a qualified tax professional to ascertain the most advantageous filing status for each tax year.

Foreign Accounts and Asset Reporting

When a U.S. person (defined as a citizen, resident or Green Card holder) has offshore income, assets, accounts, pensions, trust and/or entities, 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 and tax attorneys have the expertise to identify which forms need to be completed and to do so correctly. The penalties for failing to file or making mistakes on such forms can be draconian.

U.S. persons are taxed on their worldwide income. Members of the Foreign Service must report a wide variety of offshore assets and activities on specific U.S. reporting forms, even if such activities occur abroad. For example, U.S. persons with ownership or signature authority over a foreign bank account of any value must denote this interest in Part III of Schedule B of Form 1040. This often-overlooked section is not only part of the signed 1040 (under penalty of perjury), but it also lets the IRS know whether to expect a Foreign Bank and Financial Accounts Report (FBAR) from that taxpayer. A misstatement on Schedule B can be used by the IRS against the taxpayer when assessing reporting penalties.

The separately filed FBAR (via the BSA e-filing system) is essential. Penalties associated with failing to file or filing an erroneous FBAR are enormous. This form is required from taxpayers with non-U.S. bank accounts and other offshore assets (including some life insurance policies and pensions) that have an aggregate value of more than \$10,000 at any time during the year. Failing to report a financial asset on an FBAR can lead to penalties ranging from \$12,921 per account, per year (for an accidental, nonwillful error) up to the greater of \$129,210 or 50 percent of each account balance, per account, per year (for a more serious offense, such as one coupled with a misstatement on Schedule B or where an investment account was reported but a pension account missed). Willful failures and errors can result in additional penalties and even jail time. These and other penalties for failing to file foreign asset reporting forms can be greater than the value of the assets for which they are filed.

Taxpayers with interests in certain foreign financial assets must also file Form 8938 if the total value of such assets exceeds the applicable statutory reporting threshold (e.g., 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 penalties in excess of \$10,000 per year. In addition, the statute of limitations for assessment on a foreign asset reporting form remains open for three years after the date on which the form is ultimately filed, not from when it was due.

Additional tax forms must be filed by 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.

Qualified Business Income Deduction (QBID)

In an attempt to equalize the taxes paid by sole proprietorships and pass-through entities with those paid by C corporations, the TCJA created a deduction for up to 20 percent of qualified business income (QBI), qualified real estate investment trusts (REIT) income, and publicly traded partnership income. Calculate the QBID on Form 8995, for which the associated instructions are essential.

Pass-through entities such as S Corporations, LLCs and sole proprietorships can claim this deduction, but pay attention to pass-through requirements (e.g., via K-1s) and do not double dip by taking the deduction at the entity level as well as the individual level through the K-1. Business income earned outside the United States is not QBI—the income must be earned in a U.S. trade or business. Although “trade or business” is not

specifically defined in the Internal Revenue Code, tax courts have taken a facts and circumstances approach in deciding whether an activity is a trade or business. If a taxpayer is renting out their personal residence while overseas, it is generally not a trade or business for QBID purposes unless the taxpayer's main source of income and/or main employment activity is from renting and managing rental real estate. Some trusts and estates may be eligible for the QBID, however, income earned as an employee of a C Corporation does not qualify. The Code specifies that certain trades and businesses, such as law firms, accounting firms and consulting businesses, do not qualify for the QBID unless the taxpayer's taxable income is under certain thresholds (\$326,600 for MFJ and \$163,300 for all other returns). Other complicated limits and requirements may apply.

Federal Estate and Gift Taxes

In 2020, the first \$11.58 million of a decedent's aggregate estate (up to \$23.16 million for a surviving spouse with a portability election on Form 1041) was exempt from the federal estate tax. The same amounts apply to (and are reduced by) lifetime gift-giving over the annual gift exclusion, which is \$15,000 per donee (\$30,000 for gifts split by married couples on Form 709). Other limits apply to gifts to non-U.S. citizens or gifts between spouses where both spouses are not U.S. citizens.

Those who contribute to 529 Education Savings Plans should note that such a contribution is considered a completed gift and is applied to that taxpayer's annual gift exclusion for the donee. Taxpayers interested in front-loading a 529 plan to maximize their tax-free earnings can select a five-year contribution option allowing them to contribute in one tax year up to the annual gift tax exclusion (\$15,000 for 2020) for five years (\$75,000 maximum for 2020). Taxpayers choosing this five-year option must file a Form 709 Gift Tax Return and select the five-year election.

Retirement Savings in TSP, 401(k)s and IRAs

Individuals may contribute up to \$19,500 to 401(k) plans, the Thrift Savings Plan and 403(b) plans in 2020. Taxpayers age 50 and older may make additional catch-up contributions of \$6,500 to their qualified employer workplace retirement plan. The 2020 Traditional IRA and Roth contribution limits (in total) are \$6,000 for those under age 50 and \$7,000 for those age 50 and over. The 2020 tax year deadline for contributing to a Roth IRA or Traditional IRA is April 15, 2021. The IRS charges a penalty for ROTH or IRA contributions over the allowed limits. Over-contributions for the tax year being filed, however, may be removed without penalty by the filing due date (with extensions) of the tax return. Contributions to a 401(k), TSP or 403(b) plan may be made only via payroll deductions, the last of which is possible during the last pay period paid by Decem-

ber 31, 2020. Married filing jointly self-employed spouses working outside the United States who elect the FEIE can make a spousal Roth or Traditional IRA contribution as permitted by income thresholds. Taxpayers with modified AGI above the permitted threshold for a Roth contribution may want to consider a back-door Roth contribution strategy.

Itemized Deductions Still Allowed via Schedule A

Although the 2017 Tax Cuts and Jobs Act removed the overall cap for itemized deductions, it suspended miscellaneous itemized deductions, to the extent they exceed 2 percent of AGI, through 2025. Schedule A and the instructions are the best guide for what remains deductible for itemizers. The following three sections provide 2020 updates on a few often-used itemized deductions.

1) Medical and Dental: Deduct for Expenses Over 7.5 Percent of AGI

The 2020 deduction for unreimbursed medical and dental expenses is possible only to the extent qualifying expenses exceed 7.5 percent of a taxpayer's AGI. This 7.5 percent threshold is set to expire after 2020, but Congress could extend it again for 2021. AFSA recommends that members claiming these deductions read IRS Publication 502, Tax Topic 502 and IRC Section 213.

2) Taxes, Including State and Local Property

The TCJA limits itemized deductions for state and local property taxes to \$10,000 (\$5,000 for married filing separately). For more on these provisions, refer to IRS Notice 2019-12, Treasury Decision 98-64, 26 CFR Section 1-170A-1(h)(3), Tax Topic 503 and IRC Sections 164, 170(c).

3) Charitable Contributions

The Coronavirus Aid, Relief and Economic Security (CARES) Act increased the charitable contribution deduction to 100 percent (from 60 percent) of a taxpayer's income base for 2020. Contributions must be made to a qualified organization (e.g., a Section 501(c)(3) nonprofit organized in the U.S.). Taxpayers are required to retain documentary evidence (e.g., canceled check or written communication from the charity) for all cash contributions. Additionally, an official tax receipt is required for any single cash contribution of \$250 or more to a qualifying tax-exempt organization. Non-cash contributions require a receipt regardless of the value of the non-cash contribution. For non-cash contributions of \$250 or more, the charity must provide a receipt along with an additional acknowledgment stating whether any goods or services were given in return for the donation. For non-cash contributions totaling in excess of \$500, the taxpayer must complete Form 8283 (Non-cash Charitable Contributions) and attach it to their Form 1040. Contributions over \$5,000 require a written appraisal.

For more information, AFSA recommends Tax Topic 506, Publication 526, Publication 1771, the Schedule A and Form 1040 instructions and IRC Section 170.

Under the CARES Act, taxpayers who do not itemize may take an above-the-line deduction to reduce taxable income for up to a \$300 cash donation made in 2020 to a qualified charitable organization, except for donations to a donor-advised fund or to a 509(a)(3) charity. Taxpayers should refer to the CARES Act or their tax adviser for the specific requirements.

Health Care Savings Account (HSA) and Flexible Savings Account (FSA)

In 2020, Foreign Service employees covered by a self-only high-deductible insurance plan may contribute up to \$3,550 to an HSA. Individuals with family high-deductible insurance coverage may contribute up to \$7,100 for 2020.

Distinct from an HSA, an FSA is a tax-advantaged account allowing an employee to contribute pre-tax wages to pay for qualifying medical expenses. The maximum pre-tax salary contribution to an FSA for 2020 is \$2,750. Withdrawals used to pay qualifying medical expenses are not taxed, and limited unused amounts can be rolled over from year to year with a proper election.

The CARES Act expanded the definition of qualifying medical expenses to include feminine hygiene products and over-the-counter medications purchased after Dec. 31, 2019. This expanded definition allows taxpayers to withdraw funds from HSAs or FSAs (such as the FSAFEDS for health care) to pay for these expenses. AFSA recommends Publication 969, the Form 8889 instructions and the FSA Feds website.

Summary of COVID-19 Specific Law Changes

The various pieces of legislation passed by Congress in response to COVID-19 are extensive and voluminous. Below is a short summary of tax legislation most likely to have an impact on members of the Foreign Service.

(1) Economic impact payment: Taxpayers who are U.S. citizens or resident aliens (and who have a valid Social Security number) are entitled to a refundable income tax credit of \$1,200 (\$2,400 for married couples filing a joint return). A \$500 credit is also allowed for each qualifying child of the taxpayer. The credit is phased out based on AGI and eliminated for taxpayers with AGI exceeding \$75,000 (\$150,000 for joint returns). Many eligible taxpayers have already received this impact payment. Their eligibility for the payment was based on their 2019 tax return or, if not yet filed, their 2018 tax return. It is important to note that actual eligibility will be recalculated on the 2020 tax return. If a taxpayer qualifies for a higher payment (e.g., because 2020

taxable income was lower than prior year taxable income), they will receive the additional credit on their 2020 return. If, based on 2020 income, the taxpayer was not eligible for part or all of a previously received stimulus payment, the taxpayer will not be required to return the payment.

(2) Retirement fund distributions: The 10-percent early withdrawal penalty for early qualified retirement plan withdrawals such as those from the TSP, a 401(k) or other similar plan is waived for COVID-19 related distributions up to \$100,000 made in 2020. The legislation provides for repayment of the COVID-19 distribution or allows taxpayers to pay the tax on the withdrawal ratably over three years. Readers should refer to the CARES Act or consult a tax professional as the tax treatment of repayments depends on the type of retirement fund and the nature of the repayment.

(3) Payroll tax deferrals: An August 2020 presidential memorandum directed the U.S. Treasury to allow employers to defer withholding, deposit and payment of certain payroll taxes. According to IRS Notice 2020-65, employers have the option to defer the withholding of the employee's share of payroll taxes on wages paid during the period between Sept. 1, 2020, and Dec. 31, 2020. The deferral is only for those employees meeting the wage threshold of net wage income less than \$4,000 for a biweekly pay period (or an equivalent amount if paid on a different pay period). The net wage threshold determination is made separately for each pay period and only applies for the pay period the net wages are less than \$4,000. Any employer opting to use this deferral will be required to withhold the deferred payroll taxes on a ratable basis from the employee's wages paid between Jan. 1, 2021, and April 30, 2021.

Conclusion

Minor changes were made to Form 1040 and the numbered schedules for 2020. The legislation resulting from COVID-19 offers a few tax incentives that must be addressed on the 2020 Form 1040; but for the most part, few significant tax law changes will affect 2020 returns. While AFSA encourages its members to continue their tax education by reading the Internal Revenue Code, IRS regulations and referenced IRS publications, there is no substitute for professional help for specific questions, particularly for complex international income and assets issues. Though not comprehensive, we hope this guide provides a useful summary of the significant tax laws and updates that may have an impact on your 2020 tax returns. Best wishes as you prepare your 2020 returns, and here's to a less eventful 2021! ■

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 the employee faces 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 separate box on state tax withholding for State employees, and we 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.

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 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 employees 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 and Maryland require tax returns from most temporary residents as well. 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, Maryland or Virginia your affiliation to your home state.

Also, if possible, avoid using the D.C. or Dulles, Virginia,

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 announcement 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. Upon the employee's return to a domestic assignment, however, 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 from 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 withholding back, if you wish, 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. ■

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 nine states that, under certain conditions, do not tax income earned while the taxpayer is outside the state: California, Connecticut, Idaho, Missouri, New Jersey, New York, Oregon, Pennsylvania (but see entry for Pennsylvania 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.

The “State Overviews” section, below, gives brief state-by-state information on tax liability, with addresses provided for 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.taxfoundation.org, which provides a great deal of useful information, including a table showing tax rates for all states for 2020 at <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>.

COVID-19 and State Tax Obligations for the Employee

The employee and employer need to track all the employee’s working locations in order to make sure they comply with all state tax obligations. When taxpayers live in one state but work in another, they may have tax liability in both states. Certain tax credits are available to minimize taxation of the

same income in two different states. Occasionally, neighboring states have reciprocity agreements that dramatically simplify income tax filing obligations for taxpayers. U.S. government employees who telework in a state temporarily due to COVID-19 will most likely trigger additional state tax reporting unless the employee’s specific fact pattern does not require the employee to pay taxes in the state or the state enacted legislation to address COVID-19 specific teleworking or temporary stays in the state.

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, Option #1

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 \$318,000 married filing jointly or \$159,000 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 2.0 percent to a maximum of 6.6 percent of net taxable income over \$79,300.

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: individual.income@dfa.arkansas.gov

CALIFORNIA

Foreign Service employees domiciled in California must establish nonresidency 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 2020 ranges in eight brackets from 1 percent of taxable income under \$8,809 for singles and \$17,618 for joint filers, to a maximum of 12.3 percent on taxable income over \$590,742 for singles and \$1,181,484 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: Tax.Colorado.gov

Email: DOR_TaxpayerService@state.co.us

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: DOR_PublicService@delaware.gov

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 entire portion of any tax year in which they are physically present in the district for 183 days or more. (See 2019 D-40 tax instruction booklet.) The district's tax rate is 4 percent if income is less than \$10,000; 6 percent between \$10,000 and \$40,000; 6.5 percent between \$40,000 and \$60,000; 8.5 percent between \$60,000 and \$350,000; 8.75 percent between \$350,000 and \$1,000,000; 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 that 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: Use "Ask a Tax Question" on the Contact page of the website.

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's tax rate rises in six steps to a maximum of 5.75 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 (log-in 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. Hawaii's tax rate is 1.4 percent on taxable income below \$2,400 for single filers and \$4,800 for joint filers, rising in 12 steps 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 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). 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 \$11,554 for singles and \$23,108 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

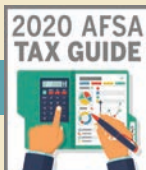
Individuals domiciled in Illinois are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Illinois charges a flat rate income tax rate for individuals of 4.95 percent of net income.

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: REV.TA-IIT@illinois.gov

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 7207, Indianapolis IN 46207-7207.
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 2020 tax rate rises in eight steps from 0.33 percent to a maximum 8.53 percent of taxable income over \$74,970, for both single and joint filers.

Write: Taxpayer Services, Iowa Department of Revenue,
P.O. Box 10457, Des Moines IA 50306-0457.
Phone: 515-281-3114 or 800-367-3388
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. Kansas' 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 is a flat 5 percent.

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.

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Email: mcgfin@verizon.net

Phone: (855)307-3893

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 2020 is 5.8 percent on Maine taxable income below \$22,000 for singles and \$44,450 for joint filers, 6.75 percent up to \$52,600 for singles and \$105,200 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 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 5.75 percent of taxable income over \$250,000 for singles and 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 2.25 percent in Worcester County (and for nonresidents) to 3.2 percent in Baltimore City and County, and in Caroline, Dorchester, Howard, Kent, Montgomery, Prince George's, Queen Anne's, Somerset, Washington and Wicomico (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@marylandtaxes.gov

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 5.0 percent for 2020. 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 is 5.35 percent on taxable income up to \$26,960 for singles or \$39,410 for married joint filers, rising in three steps to a maximum of 9.85 percent on taxable income over \$164,400 for single filers or \$273,470 for married filing jointly.

Write: Minnesota Department of Revenue, 600 North Robert St., St. Paul MN 55101.

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

Website: www.revenue.state.mn.us

Email: individual.incometax@state.mn.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 \$8,424 of taxable income. Any taxable income over \$8,424 is taxed at a rate of 5.4 percent.

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 2020 rises in six steps from 1 percent of taxable income under \$3,100 to a maximum of 6.9 percent of taxable income over \$18,400. 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 2020 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 \$31,750 for singles and \$63,500 for joint filers.

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: (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. For the 2020 and 2021 tax years, a 7.7-percent tax is levied 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 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. There is also a top rate of 10.75 percent for income over \$5,000,000.

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 fewer 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 2020 rises in six steps from a minimum of 4.5 percent to 6.21 percent of taxable income over \$21,400 for single filers and \$43,000 for married filing jointly; 6.49 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 5.25 percent for 2019. 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. Tax rates range in four steps from 1.1 percent on North Dakota taxable income up to \$39,450 for singles and \$65,900 for joint filers, to a maximum of 2.90 percent on taxable income over \$433,200 for single 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 tax rate starts at a minimum of 2.85 percent on taxable income up to \$21,750, rising in four steps to a maximum of 4.8 percent on taxable income over \$217,400 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

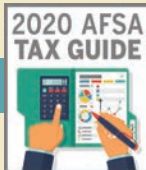
Individuals domiciled in Oklahoma are considered residents and are subject to tax on their entire income regardless of their physical presence in the state. Oklahoma's tax rate rises in five steps to a maximum of 5 percent on taxable income over \$7,200 for single filers and \$12,200 for married filing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

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

Phone: (405) 521-3160

Website: ok.gov/tax

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. Oregon's tax rate rises from 5 percent on taxable income over \$3,550 for single filers and \$7,100 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@oregon.gov

PENNSYLVANIA

Pennsylvania's tax rate is a flat 3.07 percent. Although 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, AFSA has learned that some FSOs have successfully argued that they qualify as non-residents in Pennsylvania. AFSA recommends that readers who believe they qualify to file as non-residents in Pennsylvania consult a qualified tax adviser to assist with filing their returns. 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.

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Website: www.mytaxcpa.net

Phone: (787) 622-0123, Option #8
 Website: www.hacienda.gobierno.pr
 Email: info@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 Rhode Island tax rate is 3.75 percent of taxable income up to \$65,250 for all filers, 4.75 percent for income over \$62,550 and 5.99 percent of taxable income over \$148,350 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.ri.gov
 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 tax rates rise in six steps to a maximum of 7 percent of South Carolina taxable income over \$15,400 for all filers.

Write: South Carolina Tax Commission, P.O. Box 125, Columbia SC 29214.
 Phone: (844) 898-8542, Option #1, or (803) 898-5000
 Website: www.sctax.org
 Email: iitax@dor.sctax.gov, or through the website's Contact Us tab.

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: 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 2020, Tennessee imposes a 1-percent tax on most dividends and interest income of more than \$1,250 (single filers) or \$2,500 (joint filers) in the tax year. Tennessee will be completely free of income taxes in 2021 when the Hall Tax on bond and note interest and stock dividends is repealed altogether.

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 at (888) 334-4112
 Website: www.comptroller.texas.gov
 Email: Use email options on the Contact Us page of the website.

UTAH

Utah has a flat tax of 4.95 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, or (801) 297-2200.
 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 2019 tax rate ranges from 3.35 percent on taxable income under \$39,600 for singles and \$66,150 for joint filers, to a maximum of 8.75 percent on taxable income over \$200,200 for singles and \$243,750 for joint filers.

Write: Vermont Department of Taxes, Taxpayer Services Division, 133 State St., Montpelier VT 05602.
 Phone: (802) 828-2865
 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 the 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 Tax, 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. The state tax rate is 7 percent, and local additions can increase that to as much as 20.5 percent in some areas.

Write: Washington State Department of Revenue, Taxpayer Services, P.O. Box 47478, Olympia WA 98504-7478.

Phone: 360-705-6705

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 tax rate rises in four steps from 4 percent on income up to \$11,970 for single filers or \$15,960 for joint filers, to a maximum of 7.65 percent on income over \$263,480 for single filers or \$351,310 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: Link through the website's Contact Us tab, or email DORIncome@wisconsin.gov

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, 122 West 25th St., Suite E301, Herschler Building East, Cheyenne WY 82002-0110.

Phone: (307) 777-5200

Website: <http://revenue.wyo.gov>

Email: dor@wyo.gov ■

2020 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. Idaho taxes Foreign Service annuities while exempting certain categories of Civil Service employees. Several websites provide more detail on individual state taxes for retirees, but one of the more comprehensive is the **Retirement Living Information Center** at www.retirementliving.com/taxes-by-state, which is recommended for further information.

ALABAMA

Social Security and U.S. government pensions are not taxable. The Alabama state sales tax is 4 percent. Depending on the municipality, combined local and state sales tax is as high as 11 percent.

ALASKA

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

ARIZONA

U.S. government pensions are fully taxed, but up to \$2,500 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.

COLORADO

Up to \$24,000 of pension or Social Security income can be excluded if an 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 \$75,000 for singles or \$100,000 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. If over age 65 and you do not itemize, there is an additional standard deduction of \$2,500. 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 6 percent, with higher rates for some commodities (liquor, meals, etc.).

FLORIDA

There is no personal income, inheritance, gift tax or tax on intangible property. All property is taxable at 100 percent of its just valuation—many exemptions are available. 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 age 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. If the employee contributed to the plan, such as a 401(k) with employer matching, only employer contributions are exempt. 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. Refer to Form 38 R for details. Federal employees' Retirement System or 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

Social Security is excluded from taxable income. All other retirement income is taxed at the flat 3.23-percent Indiana income tax rate. 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 exemption, if at least one spouse or the head of household is 65 years or older on Dec. 31; 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 option taxes can add up to another 2 percent.

KANSAS

U.S. government pensions are not taxed. There is an extra deduction of \$850 if over age 65. Other pensions are fully taxed along with income from a 401(k) or IRA. 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 \$31,110 remains excludable depending on date of retirement. 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 4.5 percent with local additions up to a possible total of 9.45 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 age 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 \$31,100 in tax year 2020. 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 1946 and before 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 eli-

gible for any exemption until reaching age 67.

Social Security is excluded from taxable income. Full details at: <https://bit.ly/michigan-retirement-guide>.

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 would not be 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 age 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 \$36,976 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

Montana taxes all pension and retirement income received while residing in Montana. 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; local taxes can drive that rate as high as 8 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. There is 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. Several services (prepared food, hotel rooms, etc.) are taxed at 9 percent.

NEW JERSEY

Pensions and annuities from civilian government service are subject to state income tax, with exemptions for those age 62 or older, or totally and permanently disabled. See this link, however, 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 2020, qualifying singles and heads of households may be able to exclude up to \$75,000 of retirement income; those married filing jointly up to \$100,000; those married filing separately up to \$50,000 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 6.625 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. State tax rate is 5.125 percent. Local taxes combined with state sales tax can be as high as just over 9 percent.

NEW YORK

Social Security, U.S. government pensions and annuities are not taxed. For those over age 59 and a half, 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 4.875 percent.

NORTH CAROLINA

Pursuant to the "Bailey" decision (see <http://dorn.com/taxes/individual/benefits.html>), government retirement benefits received by federal retirees who had five

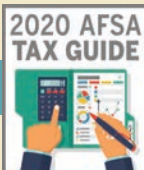
years of creditable service in a federal retirement system on Aug. 12, 1989, are exempt from North Carolina income tax. Those who do not have five years of creditable service on Aug. 12, 1989, must pay North Carolina tax on their federal annuities. For those over 65, an extra \$750 (single) or \$1,200 (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 2.75 percent.

NORTH DAKOTA

All pensions and annuities are taxed. Taxpayers can exclude \$5,000 of pension income from Civil Service, and some other qualified, plans. Social Security is excluded from taxable income. General sales tax is 5 percent; local jurisdictions impose up to 3.5 percent more.

OHIO

Retirement income is taxed. Taxpayers age 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 must 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. A hundred 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. County and local tax rates vary for a total sales tax of up to 11 percent. The average Oklahoma sales tax is around 9 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 tax-

able 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

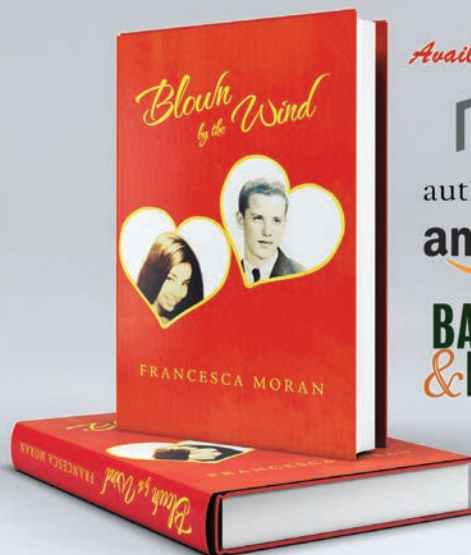
U.S. government pensions and annuities are fully taxable. Social Security is taxed to the extent it is federally taxed. Seniors with a Federal Adjusted Gross Income over \$104,450 pay tax on Social Security benefits. Higher-income seniors are not eligible for the Rhode Island income tax exemption on private, government or military retirement plan payouts. Out-of-state government pensions are fully taxed. Sales tax is 7 percent; meals and beverages are 8 percent.

SOUTH CAROLINA

Individuals under age 65 can claim a \$3,000 deduction on qualified retirement

Blown by the Wind

THIS TALE OF TWO FAMILIES, DATING BACK TO 1620, EVENTUALLY LEADS TO AN UNUSUAL LOVE STORY IN THE PRESENT-DAY SPANNING SEVERAL CONTINENTS. THE MAIN CHARACTER IS A FORMER FOREIGN SERVICE OFFICER, DAVID MORAN, WHOSE LIFE WAS TAKEN AWAY BY DEMENTIA.



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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 age 66 and older and have an annual income under \$12,670 (single) or total household income under \$17,200 are eligible for a sales tax refund.

TENNESSEE

Social Security, pension income and income from IRAs and TSP are not subject to personal income tax. In 2020 most interest and dividend income is taxed at 1 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 4.95 percent of all income. For taxpayers over 65, there is a retirement tax credit of \$450 for single filers and \$900 for joint filers. Qualifying modified adjusted gross income levels are under \$43,000 for single residents and less than \$50,000 for joint filers. Married taxpayers who file separate returns are eligible with a modified AGI under \$34,000. 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 benefits are taxed for single filer income greater than \$45,000 annually or over \$60,000 for joint filers. Out-of-state government pensions and other retirement income are taxed at rates from 3.35 percent to 8.75 percent. 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 7 percent; rates are updated quarterly. Local taxes may increase the total to as much as 20.5 percent.

WEST VIRGINIA

\$2,000 of any civil or state pension is exempt. West Virginia taxes Social Security benefits to the extent they are taxed at the federal level. However, this tax is being phased out over three years. In 2020, 35 percent of Social Security benefits will be exempt. In 2021 the exemption will rise to 65 percent, then the tax will be eliminated by 2022. 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; local taxes may raise this rate up to 5.6 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. ■