

2023 Federal and State Tax Provisions for the Foreign Service

The American Foreign Service Association is pleased to present the 2023 Tax Guide, your first step to self-help for filing 2023 tax returns. This annual guide summarizes many of the tax laws members of the Foreign Service community will find relevant, including expiration of recent legislation and information on tax issues affecting investments in real estate, capital gains, alimony, virtual currency/digital assets, the Foreign Earned Income Exclusion (FEIE), filings related to foreign assets and income, and other important topics for 2023 tax returns.

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, 1031 exchanges) are best done by a competent professional. Consultation with a tax professional for complete answers to specific questions is recommended; readers cannot rely on this article or the IRS website as a justification for their position on a tax return.

Congress passed the Infrastructure Investment and Jobs Act on Nov. 15, 2021, the Inflation Reduction Act (IRA) in 2022, and the Consolidated Appropriations Act in 2023 (CAA 2023). These bills contained limited tax legislation affecting individuals. The Infrastructure Investment and Jobs Act updated some legislation related to virtual currency/digital assets, as explained in the section on this topic below. The IRA extended certain energy tax credits and added new credits related to energy-efficient vehicles. The CAA 2023 included the SECURE 2.0 Act, which provides provisions that ensure more Americans can save for retirement and increase the amount they can save for retirement.

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 assists with compiling 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

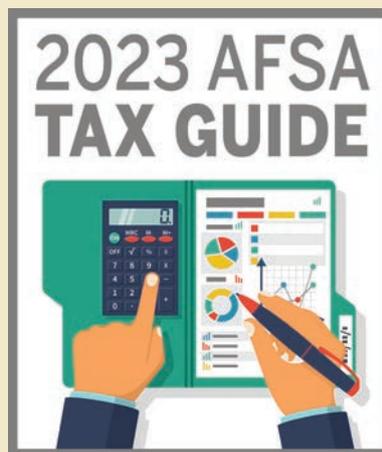
The deadline for filing 2023 individual income tax returns is April 15, 2024. U.S. citizens and resident aliens living outside the United States are allowed an automatic two-month

extension for filing and paying federal taxes to June 17, 2024. To qualify for the June 17 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, 2024, may be obtained by filing Form 4868. Certain taxpayers claiming the Foreign Earned Income Exclusion (FEIE) on their federal tax return may qualify to extend their return beyond the Oct. 15 deadline using Form 2350 (instead of Form 4868). An extension to Dec. 16, 2024, 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 yourself 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 17 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 17, however, the extension granted to the taxpayer is an extension to file but not an extension 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 2023

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. Note that this article discusses the most recent draft as of Oct. 30, 2023; the form may change before the final 2023 Form 1040 and accompanying schedules are approved. 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.

Form 1040: There are no significant changes to the 2023 draft Form 1040.

Schedule 1: Report additional income and adjustments, such as tax refunds or credits; alimony received for certain divorces (discussed on page 54); 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; FEIE income; student loan interest deduction; one-half deduction for self-employment taxes; and educator expenses.

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

Schedule 3: Claim 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). 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 accounts and trusts.

(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.

2023 Individual Income Tax Rates and Brackets

2023 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	\$22,000	\$2,200	\$2,200
12%	\$22,001	\$89,450	\$8,094	\$10,294
22%	\$89,451	\$190,750	\$22,286	\$32,580
24%	\$190,751	\$364,200	\$41,628	\$74,208
32%	\$364,201	\$462,500	\$31,456	\$105,664
35%	\$462,501	\$693,750	\$80,938	\$186,602
37%	\$693,751	-	-	-
Head of Household				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$15,700	\$1,570	\$1,570
12%	\$15,701	\$59,850	\$5,298	\$6,868
22%	\$59,851	\$95,350	\$7,810	\$14,678
24%	\$95,351	\$182,100	\$20,820	\$35,498
32%	\$182,101	\$231,250	\$15,728	\$51,226
35%	\$231,251	\$578,100	\$121,398	\$172,624
37%	\$578,101	-	-	-
Unmarried				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	\$0	\$11,000	\$1,100	\$1,100
12%	\$11,001	\$44,725	\$4,047	\$5,147
22%	\$44,726	\$95,375	\$11,143	\$16,290
24%	\$95,376	\$182,100	\$20,814	\$37,104
32%	\$182,101	\$231,250	\$15,728	\$52,832
35%	\$231,251	\$578,125	\$121,406	\$174,238
37%	\$578,126	-	-	-

2024 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 2023 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 2024. Don't wait. AFSA recommends readers revise their Form W-4 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 over-withholding or playing catch-up due to under-withholding for several months.

For help in calculating withholding, the IRS built a withholding estimator, found at <https://irs.gov/W4App>. Please note that 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.

Please take particular note that the withholding necessary for a married couple filing jointly with two incomes should account for both spouses' incomes. The Form W-4 includes optional methods to account for two or more incomes on the withholding under Step 2. Form W-4 no longer allows exemptions for dependents but does account for the child and other dependent tax credits available under current law.

Standard Deduction

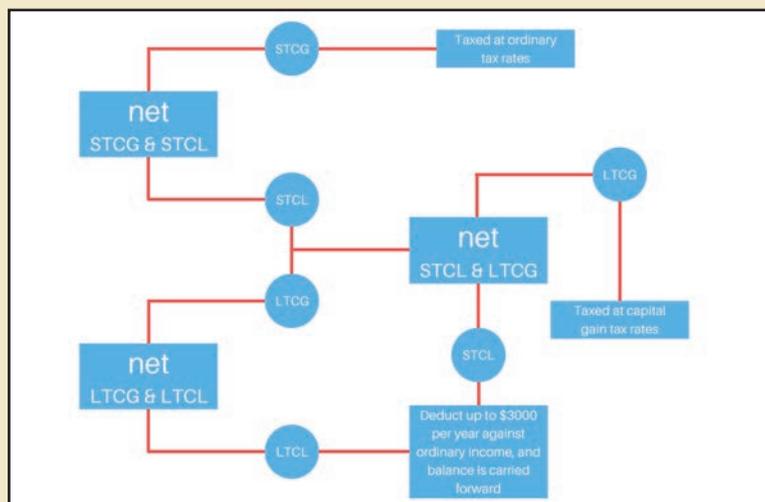
The standard deduction has increased this year to:

- \$27,700 married filing jointly (MFJ) including qualifying surviving spouses,
- \$20,800 for heads of household (HOH), specifically defined by Internal Revenue Code (IRC) Section 2(b), and
- \$13,850 for single taxpayers and married individuals filing separately (MFS).

The personal exemption remains \$0 for 2023.

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 process is taxed at the capital gains rates in the table below:

2023 Capital Gain Tax Rates & Brackets		
Single		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$44,625
15%	\$44,626	\$492,300
20%	\$492,301+	
Married Filing Jointly or Qualified Surviving Spouse		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$89,250
15%	\$89,251	\$553,850
20%	\$553,851+	
Head of Household		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$59,750
15%	\$59,751	\$523,050
20%	\$523,051+	
Married Filing Separately		
Bracket	Lower Limit	Upper Limit
0%	\$0	\$44,625
15%	\$44,626	\$276,900
20%	\$276,901+	

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 "Investments in Real Estate," on page 50).

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 MFJ or qualifying surviving spouse with a dependent child,
- \$200,000 HOH or single, and
- \$125,000 for those MFS.

1099-K: Payment Card and Third-Party Network Transactions

The reporting requirements for business transactions processed through third-party payment settlement entities (PSE) such as Venmo and PayPal were put on hold for certain transactions in 2022. Starting with 2023, a taxpayer who receives amounts from business transactions through a PSE that exceed \$600 (regardless of the number of individual transactions) will be issued a 1099-K by the PSE for 2023. Although there is pending legislation in Congress to increase the \$600 threshold, this legislation may not pass in time to affect 2023 tax returns or may not pass at all.

The 1099-K will need to be accounted for on the taxpayer's 2023 tax return. If the 1099-K was issued due to the sale of personal items, the taxpayer must calculate the gain or loss from the sales of personal items on a per transaction basis. Each sale of a personal item that resulted in a gain must be reported on both Form 8949 and Schedule D, even if the taxpayer did not receive a 1099-K reporting the transaction. The sale of personal items that results in a loss must only be reported if the taxpayer received a 1099-K reporting the transaction. In this case, the taxpayer must report the proceeds from the sale and the cost basis as equal amounts so no loss is reported, because personal losses are not tax deductible. If the sale of personal items that results in a loss is not reported on a 1099-K, then the sale does not need to be reported to the IRS.

Readers should keep adequate records to substantiate the original purchase price of sold items. Readers should also ensure they code transactions through PSEs correctly so only business-related transactions are reported on Form 1099-K. Finally, readers should confirm if the payment service they are using is a PSE. Certain money transfer services, such as Zelle, are not PSEs and are not required to issue a Form 1099-K.

Virtual Currency/Digital Assets

In recent years, the IRS has placed increased scrutiny on virtual currency transactions (now referred to as a digital asset, along with many other types of digital assets such as nonfungible tokens [NFTs]). The draft 2023 Form 1040 illustrates this continued scrutiny by requiring taxpayers to confirm in a check box on page 1 of Form 1040 whether the taxpayer received a reward, award, or payment for property or services or sold, exchanged, or otherwise disposed of any digital asset or a financial interest in any digital asset during 2023.

In addition to confirming if a reportable transaction occurred during 2023, members must be sure to complete the forms necessary to report the transaction when required, along with any resulting income or deductions. Further, virtual currency/digital assets 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. Although foreign accounts that only hold virtual currency are not currently required to be reported on the FinCen114 (FBAR), FinCen Notice 2020-2 states that FinCen intends to amend the FBAR regulations to include virtual currencies as FBAR reportable accounts. The IRS has provided FAQs related to digital assets, which can be found at <https://irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions>.

Readers should particularly note that taxpayers who use virtual currency to pay for goods or services or who sell virtual currency must report the transaction(s) on their income tax return. Taxpayers who receive virtual currency as payment for services must report currency received as income on their tax return. Virtual currency that a taxpayer holds as an investment is generally taxed as a capital gain or loss, as described in the preceding section. Many other types of virtual currency/digital asset transactions must also be reported on the taxpayer's tax return.

AFSA recommends consulting IRS Notice 2014-21 as modified by IRS Notice 2023-34, Revenue Ruling 2019-24, Revenue Ruling 2023-14, specific to NFTs IRS Notice 2023-27, and the FAQs to determine the tax treatment, if any, of a transaction.

Investments in Real Estate

Taxpayers generally invest in real estate in five 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 rent 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.
- Scenario 5: To rent as a short-term rental (e.g., Airbnb).

Adjusted Basis

In all five 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.

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. Current tax law allows a taxpayer to deduct mortgage interest up to current mortgage limits (\$375,000 MFS/\$750,000 MFJ unless the mortgage meets the requirements for grandfathered mortgage limit of \$500,000 MFS/\$1 million MFJ) for up to two properties: a personal residence and a second home personally used by the taxpayer. Interest paid on home equity loans

(including popular HELOCs) is no longer deductible unless the proceeds from the loan are used to substantially improve the property on which the HELOC is taken, and the total mortgage loan balance (including home equity loans) stays within the permitted mortgage limits.

Scenario 2: Vacation Home. A vacation home is a home that may be used by you and is 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 real estate taxes on Schedule A. If you rent the vacation home out more than 14 days, 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. Note that in cases when there is fractional ownership of a vacation home, a taxpayer must include the personal use of all co-owners of the vacation home in determining whether it is considered a personal residence.

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) or 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 paid on Schedule E. The rules requiring expensing or capitalization/depreciation of expenditures made for a rental property are complex. Readers should refer to the FAQs for the Tangible Property Regulations (<https://irs.gov/businesses/small-businesses-self-employed/tangible-property-final-regulations>) for information on expensing and capitalization requirements. Consultation with a tax professional is also recommended.

Scenario 5: Short-Term Rental. Real estate that you rent on a short-term basis may be treated differently on your tax return from long-term rentals. Income and expenses could be reported on Schedule C or Schedule E, depending on whether substantial services are provided to renters. AFSA recommends Publication 527 for examples of substantial services. In addition, readers need to consider the average period of customer (renter) use, which can change the treatment of the rental activity from a passive activity (requiring Form 8582)

to a nonpassive activity if the rental activity meets material participation requirements (though most readers won't meet the threshold for material participation). Consult Treasury Regulation 1.469-1T for exceptions to the passive activity rules related to short-term rentals. Finally, the depreciable life of a short-term rental property may be 39 years rather than the usual 27.5 years for residential rental property if the property is being rented on a transient basis (and thus considered nonresidential real property for these purposes). Readers are referred to IRC Section 168.

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. Readers should note that the depreciable basis of the property must be adjusted for prior mandatory depreciation deductions when a previously rented property converts back to rental use after a period of personal use. Failure to include the proper amount of depreciation on Schedule E 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 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—IRC Section 121

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 out the property at any time during ownership can only exclude the qualifying IRC Section 121 capital gain, which is the capital gain other than the gain created under IRC Section 1250 (see below for a discussion of IRC Section 1250). IRC Section 121 allows an exclusion of qualifying capital gain up to \$500,000 MFJ or \$250,000 for all other filing statuses. To qualify for the full IRC Section 121 exclusion, the taxpayer(s): (1) must have owned the home and lived there as their principal residence 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 MFJ) 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 Sec. 121, and related regulations.

Military Families Tax Relief Act of 2003

According to the Military Families Tax Relief Act of 2003 (which AFSA was instrumental in enacting), 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 Sec. 1.121-5.

Selling a Property That Was Previously Rented—IRC Section 1250

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 (even if the taxpayer did not properly claim depreciation deductions) 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. AFSA recommends Topic 701, Publication 523, IRC Sec. 1250, and related regulations.

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 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 to report the business activity). A taxpayer who meets that threshold must then either calculate the actual expenses of the home office—e.g., cost of a business phone/internet line and the business use portion 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). 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 qualifying child for purposes of 2023 tax returns is one who has not attained age 17 by Dec. 31, 2023. The child tax credit is up to \$2,000 for each qualifying child. The qualifying income thresholds to claim the maximum child tax credit are as follows: modified adjusted gross income up to \$400,000 if MFJ, or up to \$200,000 for all other filing statuses for the maximum \$2,000 per qualifying child. The child tax credit is fully refundable up to \$1,600 per child.

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 for 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. AFSA also recommends Publi-

cation 972, the instructions for 2023 Schedule 8812, and IRC Sec. 24 for the Child Tax Credit and Other Dependent Credit.

Child and Dependent Care Tax Credit. Qualifying taxpayers with a qualifying dependent may be separately eligible for a credit for part of their child and dependent care expenses. A qualifying taxpayer is a taxpayer who earned income (not excluded under FEIE), looked for work and received earned income by the end of the tax year, or was a qualifying full-time student during the tax year. Most MFS taxpayers will not qualify. In the case of married taxpayers, both taxpayers must meet at least one of these requirements. The dollar limits for child and dependent care qualifying expenses for 2023 are \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals. Taxpayers who utilize a Dependent Care FSAFEDS (DCFSA) account to pay for qualifying dependent care expenses must still file Form 2441 to report that they used the funds for qualifying dependent care.

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. 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 rules can quickly become complex, especially in the case of divorce or separation.

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

In 2023, taxpayers covered by a self-only high-deductible insurance plan may contribute up to \$3,850 to an HSA. Individuals with family high-deductible insurance coverage may contribute up to \$7,750 for 2023. HSA 2023 contributions are due by the 2023 individual tax filing deadline (currently April 15, 2024).

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 (as in the case of the Health Care FSAFEDS account) or to pay for qualifying dependent care (as in the case of the DCFSA account). The Consolidation Appropriation Act (CAA) signed by Congress on Dec. 27, 2020, permits FSA administrators to allow certain carryover and grace periods for FSA accounts. FSAFEDS has adopted many of these provisions. Health Care FSAFEDS (HCFSA) allows re-enrolled participants for the 2023 plan year to carry over \$610 of unspent HCFSA funds to the next year.

The Dependent Care FSA limit for 2023 tax returns is \$5,000 per household or \$2,500 if married, filing separately.

Readers should take note that masks, hand sanitizers,

and sanitizing wipes used to prevent the spread of COVID-19 are now qualifying expenses for HCFSA funds (per IRS announcement 2021-7). Additionally, the CARES Act permanently 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 HCFSA) to pay for these expenses. The IRS also announced that the cost of COVID-19 home testing is an eligible medical expense and may be paid or reimbursed from HSAs or FSAs. AFSA recommends Publication 969, the Form 8889 instructions, and the FSAFEDS website.

Deductions for Moving for a New Job and Retiring from Overseas Are No Longer Available

The personal costs incurred to move to a new job (IRC Sec. 217[j]) and for moving back to the United States after retiring from overseas are not deductible following amendments included in the 2017 Tax Cuts and Jobs Act (TCJA). Only active-duty members of the armed forces should use Form 3903 to calculate and deduct moving expenses from their military moves. Visit the IRS webpage “Moving Expenses to and from the United States.”

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 secured advice from the IRS to this effect, which is consistent with IRS guidance issued in April 2018. None of these reimbursements appear 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 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 TCJA, lodging, food, and transportation expenses paid by the employee on official home leave were deductible on Schedule A as unreimbursed employee business expenses. The TCJA eliminated the tax deduction for most unreimbursed employee business expenses, so these expenses cannot be deducted until/if the TCJA sunsets in 2026 (filed April 2027). The Schedule A line 16 “other itemized deductions” section is not appropriate for deducting these expenses.

Representational and 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 payer 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 payer or taxed as income to the payee. Any modifications after Dec. 31, 2018, to agreements finalized before Jan. 1, 2019, 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, TCJA generally repealed IRC Section 71 and 26 CFR 1.71-1 for agreements entered into after Dec. 31, 2018.

Required Minimum Distributions (RMD) from Inherited IRAs and Retirement Accounts

For inherited traditional IRAs and retirement plan accounts (Account) where the Account owner dies after Dec. 31, 2019, the 2019 SECURE Act changed some rules for RMDs and distinguished between an eligible designated beneficiary (EDB) and other beneficiaries (non-EDBs). EDBs include the surviving spouse, a disabled individual, a chronically ill individual, a minor child until age 21, or an individual not more than 10 years younger than the Account owner. Generally, an EDB may take distributions over the EDB's life expectancy. However, non-EDBs must withdraw the entire Account by the 10th calendar year following the year of the Account owner's post-2019 death.

Proposed regulations issued in February 2022 clarified that non-EDBs who inherit the Account before the deceased owner's required beginning date (RBD) of distributions must withdraw the entire Account before the end of the 10th calendar year following the owner's death. If the Account owner died on or after their RBD, the proposed regulations state that non-EDBs must take annual RMDs (based on the non-EDB's lifespan) for years one to nine and receive the remaining balance in the 10th calendar year. Prior to these proposed regulations, non-EDBs who inherited Accounts in 2020 reasonably expected they could wait until the end of the 10-year period to withdraw the entire Account. The IRS

issued Notice 2023-54 on July 14, 2023; among other things, it allows beneficiaries under the 10-year rule to avoid taking an RMD in 2023. Further, the IRS announced that the proposed regulations when finalized will apply to calendar years beginning no earlier than 2024.

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

Individuals may contribute up to \$22,500 to 401(k) plans, the Thrift Savings Plan, and 403(b) plans in 2023. Taxpayers age 50 and older (note the additional amount permitted for ages 60-63 beginning in 2024 as explained below) may make additional catch-up contributions of \$7,500 to their qualified employer workplace retirement plan. The 2023 Traditional IRA and Roth contribution limits (in total) are \$6,500 for those under age 50 and \$7,500 for those age 50 and older. The 2023 tax year deadline for contributing to a Roth IRA or Traditional IRA is April 15, 2024.

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 Dec. 31, 2023. MFJ 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 Roth contribution threshold may want to consider a back-door Roth contribution strategy.

In 2022, Congress considered legislation to eliminate back-door Roth contributions and Roth conversions. While this proposed legislation appears to have stalled in Congress, it could be reconsidered in future legislation.

The Consolidated Appropriations Act (which included the SECURE 2.0 Act) made some additional changes to retirement plans:

- Increases the age for required mandatory distributions (RMD). For 2023 through 2032, the RMD age is 73 and then changes to age 75 after 2032.
- Increases the retirement plan catch-up limits for ages 60 through 63 beginning in 2024 to the greater of \$10,000 or 50 percent more than the regular catch-up for those 50 and older.
- Allows beneficiaries of 529 college savings accounts to roll over up to a total of \$35,000 from a 529 account that has been open more than 15 years to their Roth IRA starting in 2024. Readers should review all available IRS guidance before initiating a 529 plan rollover to ensure all requirements are met.
- The excise tax if a taxpayer does not take the RMD is reduced from 50 percent to 25 percent of the amount that the RMD amount exceeds the actual distribution in a given

year (beginning in 2023). If the taxpayer corrects the failure to take the correct RMD amount in a timely manner (within two years), the excise tax is reduced to 10 percent.

- Provides new exceptions after Dec. 31, 2023, to the 10 percent early withdrawal penalty for distributions of up to \$1,000 per year for emergency expenses (unforeseeable or immediate financial needs for personal or family emergencies) and for certain victims of domestic abuse who withdraw the lesser of \$10,000 or 50 percent of their account (subject to self-certifying requirements). Readers should review the Secure Act 2.0 IRS FAQs and other IRS information before initiating a withdrawal under these exceptions.

- Owners of Roth employer retirement plan accounts (such as the ROTH TSP) are no longer required to take required minimum distributions from the Roth starting Jan. 1, 2024.

New Energy Credits

The IRA legislation passed energy credits that became effective starting in 2023. These credits include the Energy Efficient Home Improvement Credit, the Residential Clean Energy Credit, the Clean Vehicle Credit (for new vehicles), the Previously-Owned Clean Vehicle Credit, and the Alternative Fuel Refueling Property Credit. We recommend readers refer to the following IRS FAQs: <https://irs.gov/pub/taxpros/fs-2022-40.pdf> (related to the home improvement and residential clean energy credits), <https://irs.gov/pub/taxpros/fs-2023-22.pdf> (related to both clean vehicle credits), and IRS Notice 2023-59 (related to guidance on home energy audits for purposes of the home improvement credit). The IRS is expected to provide additional guidance on the alternative fuel credit for 2023 returns; however, readers can refer to the Form 8911 instructions for assistance. For additional information, readers are also referred to https://energystar.gov/about/federal_tax_credits and <https://fueleconomy.gov/feg/taxcenter.shtml>.

Foreign Earned Income Exclusion (FEIE)

Taxpayers living and working overseas may be eligible for the FEIE. In 2023 the first \$120,000 of gross taxable income 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 to claim 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 (at a minimum) an entire tax year (Jan. 1 through Dec. 31). 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 residence 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 that begin or end in the tax return filing year (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 this test. 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.

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

U.S. tax reporting is often more complicated for members of the Foreign Service community, particularly when offshore postings give rise to offshore assets. It is common for Foreign Service spouses to take jobs in the local economy, through which foreign bank account and pension interests are acquired, giving rise to enhanced U.S. tax and reporting obligations. Similarly, many Foreign Service spouses own businesses organized outside the United States, which require additional U.S. reporting beyond income and deduction items. Even the most well-intentioned and diligent taxpayers can run afoul of the minefield of reporting requirements that exist for U.S. persons (citizens, residents, and Green Card holders) who have offshore income and assets. As the pool of accountants and tax attorneys with the expertise to identify and correctly complete the specific forms that need be filed is limited, it can be a challenge to obtain accurate advice and report correctly. The penalties for failing to file or making mistakes on foreign reporting forms are severe, often disproportionate to the infraction.

U.S. persons are taxed on their worldwide income and must file Form 1040, regardless of where they are living. In addition to the basic tax return, Foreign Service taxpayers may also be required to report a wide variety of offshore assets and activities on specific U.S. reporting forms, even if such activities occur abroad and even if the assets earn \$0 in income. For example, U.S. persons with ownership or signature authority over a foreign bank account must denote this interest in Part III of Schedule B of Form 1040. This often-overlooked section of the return (signed under penalties of perjury) lets the IRS know when to expect a Foreign Bank and Financial Accounts Report (FBAR). A Schedule B misstatement can be used against the taxpayer by the IRS when assessing penalties.

The FBAR form is required from taxpayers with non-U.S. bank accounts and other offshore assets (including life insurance policies and pensions) that have an aggregate value greater than \$10,000 at any time during the year. Failing to report an asset on an FBAR can lead to penalties ranging from \$15,611 per account, per year (for a non-willful error) up to the greater of \$156,107 or 50 percent of each account balance,

per account, per year (for a more serious offense, such as those with Schedule B errors). Willful failures and errors can result in additional penalties (which may exceed the value of the asset) and even jail time.

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. Errors relating to this form may result in a penalty of \$10,000 per year. 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) own business interests organized outside the United States;
- (4) receive substantial gifts or inheritances from non-U.S. persons; and/or
- (5) 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. The statute of limitations for assessment on a foreign reporting form does not close until three years after the form is filed.

New Domestic Company Reporting Requirement Beginning 2024

Pursuant to the Corporate Transparency Act passed by Congress in 2021, certain domestic (U.S.) companies are required to report beneficial ownership information (BOI) to FinCEN starting in 2024. We refer readers to the BOI website at <https://fincen.gov/boi>. According to the BOI FAQs found at <https://fincen.gov/boi-faqs>, domestic companies such as corporations, limited liability companies, and any other entities created by the filing of a document with a secretary of state or any similar office in the U.S., and foreign companies such as entities (including corporations and limited liability companies) formed under the law of a foreign country that have registered to do business in the U.S. by the filing of a document with a secretary of state or any similar office, are considered BOI reporting companies. There are currently 23 entities exempt from this reporting. Readers should read question C.2. of the BOI FAQs for these exempt entities.

Qualified Business Income Deduction (QBID)

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 located in the U.S. can claim this deduction if they otherwise qualify. Business income earned outside the United States is not QBI—the income must be earned in a U.S. trade or business to qualify. Although “trade or business” is not specifically defined in the Internal Revenue Code (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 (\$364,200 for MFJ, \$182,100 for MFS and all other returns). Other complicated limits and requirements may apply.

Federal Estate and Gift Taxes

In 2023, the first \$12.92 million of a decedent’s aggregate estate (up to \$25.84 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 \$17,000 per donee (\$34,000 for gifts split by married couples on Form 709) for 2023. 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 during one tax year up to the annual gift tax exclusion (\$17,000 for 2023) for up to five years (\$85,000 maximum for 2023). Taxpayers choosing this five-year option must file a Form 709 Gift Tax Return, selecting the five-year election, and they cannot give additional amounts to the same donee during the tax years in which they have chosen to contribute the \$17,000 per year maximum 529 plan contribution.

Wage Overpayments

Each year, many readers of this article receive an overpayment of wage income that they must repay in a future year.

If you are overpaid wages in a tax year and you repay the full overpayment in the same tax year, then there is generally

no action required on that year’s tax return. Your employer should have already accounted for the repayment of overpaid wages in your W2 for the tax year without further action required by you.

If you are overpaid wages and you repay the overpayment in a later tax year, then you must determine if you can recoup any of the taxes you paid on the repaid wages.

Wage Repayments Less Than \$3,000. If you were overpaid less than \$3,000 and you repaid the overpayment in a later tax year, then you will not be able to recoup any of the federal income taxes you originally paid on the repaid wages. The TCJA eliminated most miscellaneous itemized deductions subject to a 2 percent AGI floor, including the itemized deduction permitted for wage repayments of less than \$3,000. Please note that you cannot file a Form 1040X (amended return) for the year of overpayment to reduce your taxable wages for wage amounts repaid in a later tax year.

Wage Repayments of \$3,000 or More. If you were overpaid \$3,000 or more, and you repaid the overpayment in a later tax year, you can file an IRC 1341 claim of right credit for the federal income taxes you paid in the year you received the overpayment on the tax return for the year you repay the wages. IRS Publication 525 provides detailed examples of how to calculate the credit for your tax return under the “Repayments” section of the publication.

Repaid Social Security and Medicare Taxes

You can recoup repaid social security and Medicare taxes paid on wage overpayments by filing a claim for refund using Form 843. If you repaid wages subject to the additional Medicare tax, you must file a Form 1040X for the year in which you received the overpaid wages to claim a refund of overpaid additional Medicare taxes. However, you cannot recoup the federal income taxes from a wage repayment on the Form 1040X.

Itemized Deductions Still Allowed via Schedule A

Although the TCJA 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 updates on a few often-used itemized deductions.

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

The 2023 deduction for unreimbursed medical and dental expenses is possible only to the extent qualifying expenses exceed 7.5 percent of a taxpayer’s AGI. 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 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 Section 164.

3) Charitable Contributions

For 2023 returns, deductible cash contributions are limited to 60 percent of the taxpayer's adjusted gross income. 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 checks or written communication from the charity) for all cash contributions. Non-cash contributions require a receipt regardless of the value of the contribution. For cash and non-cash contributions of \$250 or more, the charity must provide an official tax receipt along with an additional acknowledgment stating whether any goods or services were given in return for the donation. If any goods or services are received, the acknowledgment should provide a description and a good faith estimate of the goods or services received by the donor. Taxpayers must have the complete official tax receipt of contributions on or before the earlier of the date a return is filed or the due date (including extensions) for filing such return. Taxpayers obtaining receipts from a charity after these dates may be denied a charitable deduction. For non-cash contributions 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, Publications 526 and 1771, the Schedule A and Form 1040 instructions, and IRC Section 170.

Conclusion

Minor changes made to draft Form 1040 and the numbered schedules for 2023 were reviewed when writing this article. However, there may be additional changes to the final Form 1040 when it is released for 2023 tax returns.

We encourage readers to monitor significant tax law changes that may be finalized in the coming months and retroactively applied to 2023 tax 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 2023 tax returns. Best wishes for the coming tax filing season. ■

2023 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 Department employees, and we encourage you to read the CGFS Knowledge Base article on the Tax Guide page of the AFSA website.)

Domicile and Residency

Many criteria are used to determine which state is a citizen's domicile. One of the strongest determinants is prolonged physical presence, a standard that Foreign Service personnel frequently cannot meet due to overseas service. In such cases, the states will make a determination of the individual's income tax status based on other factors, including where the individual has family ties, has been filing resident tax returns, is registered to vote, has a driver's license, owns property or where the person has bank accounts or other financial holdings.

In the case of Foreign Service employees, the domicile might be the state from which they joined the Service, where their home leave address is or where they intend to return upon separation. For the 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 <https://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 requires 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, Virginia, or Maryland your affiliation to your home state.

When Overseas ...

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

Teleworking Domestically

If you are working in a state that is not your permanent legal domicile, you could trigger a tax reporting requirement as a statutory resident or nonresident. If you work even one day in a state, you should review that state's law for the reporting/filing requirements.

States That Have No Income Tax

There are currently nine states with no tax on earned income: Alaska, Florida, Nevada, South Dakota, New Hampshire, Tennessee, Texas, Washington, and Wyoming. New Hampshire, however, does tax profits from the sale of bonds and property.

States That Do Not Tax Nonresident Domiciliaries

There are 10 states that, under certain conditions, do not tax income earned while the taxpayer is outside the state: California, Connecticut, Idaho, Maine, 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.

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

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 outside 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 <https://kb.gfs.state.gov/>) Issue 39479.

Note that the Bureau of the Comptroller and Global Financial Services do 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. On 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 <https://afsa.org/domicile>. ■

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 always 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, which provides a great deal of useful information, including a table showing tax rates for all states for 2023 at <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>.

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 under \$500 for single taxpayers and \$1,000 for married filing jointly, to 5 percent on income over \$3,000 for single taxpayers and \$6,000 for married filing jointly.

Write: Alabama Department of Revenue, 50 N. Ripley St., Montgomery AL 36130

Phone: (334) 242-1170, Option 1

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

Email: Link through the website's "Help Center"

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: <https://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 introduced a flat tax rate of 2.5 percent in 2023 for all filers.

Write: Arizona Department of Revenue, Customer Care, 400 W. Congress St., Tucson AZ 85701

Phone: (602) 255-3381

Website: <https://azdor.gov>

Email: taxpayerassistance@azdor.gov (for general questions)

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 three brackets from a minimum of 2 percent to a maximum of 4.9 percent of net taxable income over \$8,500 for all filers.

Write: Department of Finance and Administration, Income Tax Section, P.O. Box 8110, Little Rock AR 72203

Phone: (501) 682-1130

Website: <https://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 ranges in eight brackets from 1 percent of taxable income under \$10,099 for singles and \$20,190 for joint filers, to 12.3 percent on taxable income over \$677,275 for singles and \$1,000,000 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: <https://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 in 2023 is a flat 4.4 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: <https://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. In addition, Connecticut has a complicated set of phase out provisions. Refer to the state website or the Tax Foundation website for details.

Write: Department of Revenue Services, 450 Columbus Blvd., Suite 1, Hartford CT 06103
Phone: (860) 297-5962
Website: <https://ct.gov/drs>
Email: Contact through the website’s “Contact Us” page

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: <https://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 portion of any calendar year in which they are physically present in the district for 183 days or more. The district’s tax rate for all filers 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 \$250,000; 9.25 percent between \$250,000 and \$500,000; 9.75 percent between \$500,000 and \$1,000,000; and 10.75 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: <https://otr.cfo.dc.gov>
Email: taxhelp@dc.gov

FLORIDA

Florida does not impose personal income, inheritance, gift, or intangible personal property taxes. Real property is taxed at 100 percent of its value; there are many exemptions, but 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 8 percent.

Write: Taxpayer Services, Florida Department of Revenue, Mail stop 3-2000, 5050 W. Tennessee St., Bldg. L, Tallahassee FL 32399-0112
Phone: (850) 488-6800
Website: <https://floridarevenue.com/taxes>
Email: Use “Ask a Tax Question” on the website’s “Contact” page

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: <https://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 11 steps to a maximum of 11 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: <https://tax.hawaii.gov/>
Email: Taxpayer.Services@hawaii.gov

IDAHO

Starting in 2023, Idaho has a flat tax rate of 5.8 percent. 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 under certain conditions—see Idaho Code Sections 63-3013 and 63-3030. Nonresidents must file an Idaho income tax return if their 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: <https://tax.idaho.gov>

Email: Submit a question through the “Contact Us” portal

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. For individuals, Illinois charges a flat income tax rate of 4.95 percent of net income.

Write: Illinois Department of Revenue, P.O. Box 19001, Springfield IL 62794-9001

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

Website: <https://tax.illinois.gov>

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. In 2023, Indiana's tax rate reduced to a flat 3.15 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: <https://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. In 2023, Iowa's tax rate rises in three steps from 4.40 percent on taxable income under \$6,000 for single filers and \$12,000 for joint filers, to a maximum 6 percent of taxable income over \$75,000 for singles and \$150,000 for joint filers. A flat rate tax of 3.9 percent is scheduled for 2026.

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: Link through the website's “Contact Us” page

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 Ave., Topeka, KS 66612-1103

Phone: (785) 368-8222

Website: <https://ksrevenue.gov>

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 in 2023 is a flat 4.5 percent.

Write: Kentucky Department of Revenue, 501 High St., Frankfort KY 40601

Phone: (502) 564-4581

Website: <https://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 in 2023 is 1.85 percent for the first \$12,500 for single filers or \$25,000 for joint filers, 3.5 percent over \$12,500 for singles and over \$25,000 for joint filers, and 4.25 percent for over \$50,000 for single filers or \$100,000 for joint filers.

Write: Taxpayer Services Division, Individual Income Tax Section, Louisiana Department of Revenue, P.O. Box 201, Baton Rouge LA 70821-0201

Phone: (855) 307-3893

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

Email: Link through the website's “Contact Us” page

MAINE

Individuals domiciled in Maine are considered residents and are subject to tax on their entire income. However, 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 perma-

ment 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 is 5.8 percent on Maine taxable income below \$24,500 for singles and \$49,050 for joint filers, 6.75 percent up to \$58,050 for singles and \$116,110 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: <https://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 St., Annapolis MD 21411-0001
 Phone: (800) 638-2937 or (410) 260-7980
 Website: <https://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 percent. Some income (e.g., short-term capital gains) remains taxed at 12 percent. In addition, starting in 2023, Massachusetts will add an additional 4 percent tax on taxable income over \$1 million.

Write: Massachusetts Department of Revenue, Taxpayer Services Division, P.O. Box 7010, Boston MA 02204
 Phone: (617) 887-6367
 Website: <https://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, 430 W Allegan St., Lansing MI 48922
 Phone: (517) 636-4486
 Website: <https://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 \$30,070 for singles or \$43,950 for married joint filers, rising in three steps to a maximum of 9.85 percent on taxable income over \$183,340 for single filers or \$304,970 for married filing jointly.

Write: Minnesota Department of Revenue, 600 North Robert St., St. Paul MN 55146
 Phone: (800) 657-3666 or (651) 556-3000
 Website: <https://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. In 2023, Mississippi's tax rate is 5 percent on all taxable income over \$10,000 for single and joint filers.

Write: Department of Revenue, P.O. Box 1033, Jackson MS 39215-1033
 Phone: (601) 923-7700
 Website: <https://dor.ms.gov>
 Email: Link through the website's "Contact Us" tab

MISSOURI

If an individual domiciled in Missouri 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, they are considered a nonresident and are

not liable for tax on Missouri income. Otherwise, any taxable income over \$7,847 is taxed at a rate of 4.95 percent for joint and single filers.

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 rises in seven steps from 1 percent of taxable income under \$3,600 to a maximum of 6.75 percent of taxable income over \$21,600 for joint and single filers. See the website for various deductions and exemptions.

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

Phone: (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. The individual income tax rates range in four steps from a minimum of 2.46 percent to a maximum of 6.64 percent of the excess over \$35,730 for singles and \$71,460 for joint filers.

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

Phone: (402) 471-5729

Website: <https://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: <https://tax.state.nv.us>

NEW HAMPSHIRE

The state imposes no personal income tax on earned income and no general sales tax. In 2023, New Hampshire levies a 4 percent tax on interest and dividend income of more than

\$2,400 annually for single filers and \$4,800 annually for joint filers. 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: <https://revenue.nh.gov>

E-Mail: See website's "Contact" page

NEW JERSEY

A New Jersey domiciliary is considered a nonresident for New Jersey tax purposes if the individual has no permanent residence in New Jersey, has a permanent residence elsewhere, and is not physically in the state for more than 30 days during the tax year. Filing a return is not required (unless the nonresident has New Jersey-source income), but it is recommended in order to preserve domicile status. Filing is required on Form 1040-NR for revenue derived from in-state sources. Tax liability is calculated as a variable lump sum plus a percentage from a minimum of 1.4 percent of taxable gross income up to \$20,000, in three steps to 6.37 percent between \$75,000 and \$500,000, and a maximum of 8.97 percent on taxable gross income over \$500,000 for both single and joint filers. There is also a top rate of 10.75 percent for income over \$1,000,000.

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

Phone: (609) 292-6400

Website: <https://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 5.9 percent on New Mexico taxable income over \$210,000 for single filers and \$315,000 for married filing jointly.

Write: New Mexico Taxation and Revenue Department, 1200 South St. Francis Drive, Santa Fe NM 87505

Phone: (505) 827-0700; Tax Call Center (866) 285-2996

Website: <https://tax.newmexico.gov/>

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

NEW YORK

There is no tax liability for out-of-state income if you have no permanent residence in New York, have a permanent residence elsewhere, and are not present in the state more than 30 days during the tax year or you were in a foreign country for at least 450 days during any period of 548 consecutive days; and you,

your spouse, and minor children spent 90 days or less in New York state during this 548-day period. Filing a return is not required, but it is recommended to preserve domicile status. The tax rate rises in six steps from a minimum of 4 percent to 6 percent of taxable income over \$80,650 for single filers and \$161,550 for married filing jointly; 6.25 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 9.65 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 https://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: <https://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 4.75 percent for 2023. 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) 814-9701

Website: <https://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 \$41,775 for singles and \$69,700 for joint filers to a maximum of 2.9 percent on taxable income over \$458,350 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) 328-7088

Website: <https://nd.gov/tax>

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

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 2.76 percent on taxable income up to \$26,050, rising in three steps to a maximum of 3.75 percent on taxable income over \$115,300 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: <https://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 4.75 percent on taxable income over \$7,200 for single filers and \$12,200 for married filing jointly.

Write: Oklahoma Tax Commission, 300 N Broadway Ave., Oklahoma City OK 73194

Phone: (405) 521-3160

Website: <https://ok.gov/tax/>

Email: Use website's "General Contact"

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 4.75 percent 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: <https://oregon.gov/DOR>

Email: questions.dor@oregon.gov

PENNSYLVANIA

Pennsylvania's tax rate is a flat 3.07 percent. Pennsylvania tax authorities have ruled that Pennsylvania residents in the U.S. Foreign Service are not on active duty for state tax purposes, and thus their income is taxable compensation. For non-Foreign Service state residents, there is no tax liability for out-of-state income if the individual has no permanent residence in the state, has a permanent residence elsewhere, and spends no more than 30 days in the state during the tax

year. However, Pennsylvania does not consider government quarters overseas to be a “permanent residence elsewhere.” Filing a return is not required, but it is recommended to preserve domicile status. File Form PA-40 for all income derived from Pennsylvania sources.

Write: Commonwealth of Pennsylvania, Department of Revenue, Taxpayer Services Department, 1131 Strawberry Square, Harrisburg PA 17128-1061

Phone: (717) 787-8201

Website: <https://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. Refer to website for details of tax bands and percentages.

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

Phone: (787) 622-0123

Website: <https://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 \$68,200 for all filers, 4.75 percent for income over \$68,200, and 5.99 percent of taxable income over \$155,050 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: <https://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 two steps to a maximum of 6.5 percent of taxable income over \$16,040 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: <https://dor.sc.gov/>

Email: iitax@dor.sc.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 3 percent.

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

Phone: (605) 773-3311 or (800) 829-9188

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

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

TENNESSEE

Salaries and wages are not subject to state income tax.

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

Phone: (615) 253-0600

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

Email: TN.Revenue@tn.gov

TEXAS

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

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

Phone: Customer Service Liaison (888) 334-4112

Website: <https://comptroller.texas.gov/>

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

UTAH

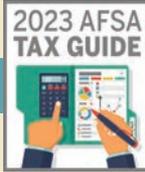
Utah has a flat tax of 4.85 percent on all income. Individuals domiciled in Utah are considered residents and are subject to Utah state tax. Utah requires that all Federal Adjusted Gross Income reported on the federal return be reported on the state return regardless of the taxpayer’s physical presence 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: <https://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. Tax rates range from 3.35 percent on taxable income under \$42,150 for singles and \$70,450 for joint filers to a maximum of 8.75 percent on taxable income over \$213,150 for singles and \$259,500 for joint filers.

Write: Vermont Department of Taxes, Taxpayer Services Division, 133 State St., Montpelier VT 05602

Phone: (802) 828-2865 or (866) 828-2865

Website: <https://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: <https://tax.virginia.gov>

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

WASHINGTON

There is no state income tax. However, in 2022, Washington created a 7 percent tax on the sale or exchange of long-term capital assets such as stocks, bonds, business interests, or other investments and tangible assets. There is an annual standard deduction of \$250,000 per individual, married couple, or domestic partnership. Residents may deduct Washington sales tax on their federal tax returns if they itemize

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deductions. State tax rate is 6.5 percent and local additions can increase that to as much as 9.29 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: <https://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 all filers, to 6.5 percent of taxable income over \$60,000 for all filers

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: <https://tax.wv.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 4.65 percent on income over \$13,810 for single filers or \$18,420 for joint filers, 5.3 percent over \$27,630 for single filers and \$36,840 for joint filers, and 7.65 percent on income over \$304,170 for single filers or \$495,550 for joint filers.

Write: Wisconsin Department of Revenue, Customer Service Bureau, P.O. Box 8949, Madison, WI 53708-8949

Phone: (608) 266-2486

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

Email: DORIncome@wisconsin.gov, or link through the website's "Contact Us" tab

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: <https://revenue.wyo.gov>

Email: dor@wyo.gov ■

2023 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 received for years worked before Oct. 1, 1991, while exempting certain categories of Civil Service employees. Several websites provide more information on individual state taxes for retirees, but the Retirement Living Information Center at <https://retirementliving.com/taxes-by-state> is one of the more comprehensive and is recommended for further information.

ALABAMA

Social Security and U.S. government pensions are not taxable. The Alabama state sales tax is 4 percent. Depending on the municipality, combined local and state sales tax could be 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 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. Social Security is excluded from taxable income. Arizona state sales and use tax is 5.6 percent, with additions up to 2.8 percent depending on the county and/or city.

ARKANSAS

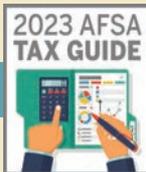
The first \$6,000 of income from any retirement plan or IRA is exempt (to a maximum of \$6,000 overall). Social Security is excluded from taxable income. There is no estate or inheritance tax. State sales and use tax is 6.5 percent; city and county taxes may add another 6 percent.

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. Eligible persons are authorized to subtract from their adjusted gross income 100 percent of pension and annuity income when calculating their Connecticut income tax liability, subject to income thresholds. Beginning in 2023, 25 percent of a traditional IRA distribution is exempt for joint filers (less than \$100,000 of Federal Adjusted Gross Income) and other taxpayers (less than \$75,000). The exemption percentage will increase to 50 percent in 2024, 75 percent in 2025, and 100 percent in 2026. Statewide sales tax is 6.35 percent. No local additions.

DELAWARE

Social Security is excluded from taxable income. Taxpayers who are at least 60 years of age can exclude \$12,500 of retirement income from any source. Retired taxpayers under the age of 60 are entitled to a \$2,000 exclusion. There is an additional standard deduction of \$2,500 if age 65 or over if you do not itemize. Delaware does not impose a sales tax.

DISTRICT OF COLUMBIA

Social Security is excluded from taxable income. Pensions and annuities are fully taxed for residents. 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 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 8 percent.

GEORGIA

Social Security is excluded from taxable income. Taxpayers who are 62 years of age or older, as well as individuals with a total and permanent disability, may exclude \$5,000. Retirement income exceeding the maximum adjustable amount will be taxed at the normal rate. Sales tax is 4 percent statewide, with additions of up to 4.9 percent depending on jurisdiction.

HAWAII

Social Security is excluded from taxable income. Pension and annuity distributions from a government pension plan are not taxed in Hawaii. If an employee contributed to the plan, such as through a 401(k) with employer matching, only employer contributions are exempt. 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,

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David L. Mortimer, CPA, has over 25 years of experience in tax planning and research, including developing tax minimization strategies, planning business/real estate transactions and audit representation.

- Income tax services
- Financial planning
- Practiced before the IRS



David L. Mortimer, CPA

120 S Royal Street, Alexandria, VA 22314
Tel: (703) 869-0272 • Fax: (202) 204-5199
Email: David@mytaxcpa.net
Website: www.mytaxcpa.net

FIRST CONSULTATION FREE

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 3.15 percent Indiana income tax rate. Sales tax and use tax is 7 percent.

IOWA

Social Security is fully exempt. Beginning in 2023, all retirement income is exempt for taxpayers 55 and older. Statewide sales tax is 7 percent.

KANSAS

U.S. government pensions are not taxed. There is an extra deduction of \$850 if over 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 up to 4.1 percent depending on jurisdiction.

KENTUCKY

Social Security and Roth IRA distributions are exempt. 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. Sales and use tax is 6 percent statewide, with no local sales or use taxes.

LOUISIANA

Social Security is excluded from taxable income. 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. State sales tax is 4.45 percent with local additions up to a possible total of 7 percent. Use tax is 8 percent regardless of the purchaser's location.

MAINE

Social Security is not taxed. For 2023, up to \$30,000 of other retirement income from pensions, 401(k) plans, and IRAs is exempt, but taxpayers must subtract Social Security benefits. For those age 65 and over, there is an additional standard deduction of \$1,600 (filing singly) or \$2,600 (married filing jointly). Sales tax is 5.5 percent.

MARYLAND

Those over 65 or permanently disabled, or who have a totally disabled spouse, can exclude up to \$34,300 income from a pension or 401(k). 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. See the worksheet and instructions in the Maryland Resident Tax Booklet. General sales tax is 6 percent.

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

Social Security is excluded from taxable income. 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, there is no exemption until taxpayer reaches age 67. Taxpayers have two options when they turn 67: either

deduct \$20,000 from all income sources (\$40,000 for joint filers) or claim personal exemptions and deduct Social Security, military, and railroad retirement income. Full details at: <https://michigan.gov/taxes/0,4676,7-238--459647-,00.html>.

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

MINNESOTA

Social Security income is taxed by Minnesota to the same extent it is on your federal return, unless it is your only source of income. 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

Missouri taxes all retirement income, including Social Security. 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. 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 4.23 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. 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 \$40,980 (single filers) or \$43,300 (joint filers), half of Social Security retirement income is deductible. Those over 65 can exempt an additional \$800 of interest income for single taxpayers and \$1,600 for married joint filers. 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. Various deductions are available for those over age 62, and for those over 65 and/or blind. State sales tax is 5.5 percent; local taxes may add another 2.5 percent.

NEVADA

No personal income tax. Retirement income is not taxed. Sales and use tax varies from 6.85 to 8.1 percent, depending on local jurisdiction.

NEW HAMPSHIRE

No personal income tax. No inheritance tax. In 2023 the 5 percent tax on interest/dividend income over \$2,400 for singles (\$4,800 married filing jointly) is 5 percent. A \$1,200 exemption is available for those age 65 or over. No general sales tax. Several services (prepared food, hotel rooms, etc.) are taxed at 9 percent.

NEW JERSEY

Social Security is excluded from taxable income. 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. However, see this link for the distinction between the “three-year method” and the “general rule method” for contributory pension plans: <https://state.nj.us/treasury/taxation/njit6.shtml>. Taxpayers age 62 or older with \$100,000 or less in state income can exclude up to \$60,000 of pension, annuity, IRA, or other retirement plan income. Joint filers can exclude up to \$150,000 (\$50,000 for married filing separately and \$75,000 for single filers). These exclusions are eliminated for New Jersey gross incomes over \$100,000. Residents over age 65 may be eligible for an additional \$1,000 personal exemption. State sales tax is 6.63 percent.

NEW MEXICO

All pensions and annuities are taxed as part of Federal Adjusted Gross Income, but single filers with less than \$100,000 in income, joint filers with under \$150,000 in income, and married filing separately with under \$75,000 in income are not taxed on their Social Security income. Taxpayers age 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. The 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 59½, up to \$20,000 of other annuity income (e.g., Thrift Savings Plan) may be excluded. See N.Y. Tax Publication 36 at <https://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

Social Security is excluded from taxable income. All other forms of retirement income are taxed. However, pursuant to the “Bailey” decision (see <https://dornc.com/taxes/individual/benefits.html>), government retirement benefits received by federal retirees who had five years of creditable service in a federal retirement system on Aug. 12, 1989, are exempt from North Carolina income tax. State sales tax is 4.75 percent; local taxes may increase this by up to 2.75 percent.

NORTH DAKOTA

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

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OHIO

Social Security is excluded from taxable income. Other retirement income is taxed. Taxpayers age 65 and over may take a credit of up to \$200 per return. 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. One 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 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

Social Security is excluded from taxable income. Generally, all other 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 instruc-

tions in the tax booklet. (The portion of that pension for the years before Oct. 1, 1991, is not taxed.) Oregon Retirement Income Credit allows for a credit of up to \$6,250, depending on household income. Oregon has no sales tax.

PENNSYLVANIA

All retirement income is tax exempt for Pennsylvania residents age 60 and older. This includes public and private pensions, Social Security income, and Civil Service annuities. Pennsylvania sales tax is 6 percent. Other taxing entities may add up to 2 percent.

RHODE ISLAND

U.S. government pensions and annuities are fully taxable. Social Security is taxed to the extent it is federally taxed. Joint filers at retirement age with a Federal Adjusted Gross Income over \$111,200 (\$88,950 for single filers) 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 taxed at 8 percent.

SOUTH CAROLINA

Retirement income is taxed, but individuals over age 65 can exempt \$10,000 of qualified retirement income; ages 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 exclusion 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 are exempt from 1 percent of the state sales tax.

SOUTH DAKOTA

No personal income tax or inheritance tax. State sales and use tax is 4.5 percent; municipalities may add up to an additional 2.75 percent. Residents who are age 66 and older and have an annual income under \$12,880 (single) or total household income under \$17,420 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. State sales tax is 5 percent on food and 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 4.85 percent of all income. For taxpayers over age 65, there is a retirement tax credit of \$450 for single filers and \$900 for

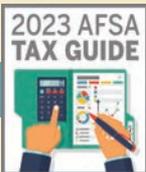
joint filers. Qualifying modified adjusted gross income levels are under \$25,000 for single residents and under \$32,000 for joint filers. Married taxpayers who file separate returns are eligible with a modified AGI under \$34,000. See the state website for details. State sales tax ranges from 6.1 percent to 9.05 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 more than \$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

Social Security is excluded from taxable income. Individuals born before Jan 1, 1939, can claim a \$12,000 deduction. If you were born between Jan. 2, 1939, and Jan. 1, 1956, your age deduction is based on your income. The maximum \$12,000 deduction is reduced by one dollar for each dollar by which Adjusted Gross Income exceeds \$50,000 for single taxpayers and \$75,000 for married taxpayers. All taxpayers over age 65 receive an additional personal exemption of \$800. The estate tax was repealed for



all deaths after July 1, 2007. The general sales tax rate is 5.3 percent (4.3 percent state tax and 1 percent local tax, with an extra 0.7 percent in Northern Virginia).

WASHINGTON

No personal income tax. Retirement income is not taxed. State sales tax is 6.5 percent; rates are updated quarterly. Local taxes may increase the total to as much as 9.29 percent.

WEST VIRGINIA

All retirement income is taxed with the first \$8,000 (individual filers) or \$16,000 (married filing jointly) being exempt. Out-of-state government pensions qualify for this exemption. Social Security is not taxed if Federal Adjusted Gross Income does not exceed \$100,000 (married filing jointly) or \$50,000 (filing singly). State sales tax is 6 percent, with additions of up to 1 percent in some jurisdictions.

WISCONSIN

Social Security is excluded from taxable income. Pensions and annuities are fully taxable. 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 Federal Adjusted Gross Income 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 add another 1.75 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. ■



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