

Multi-State Taxation



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Tax Patterns for State Returns

Resident Returns

States that have an individual income tax follow one of four basic patterns for calculating tax liability on income tax returns for residents.

- 1) **Federal AGI.** The first, and most common, pattern is for the state return to begin with federal AGI and then modify federal income by state-specific additions and subtractions. State returns within the federal AGI category may allow:
 - A deduction for standard or itemized deductions,
 - A deduction for personal exemptions, and/or
 - A credit for personal exemptions.
- 2) **Federal taxable income.** State returns in the federal taxable income category begin with federal taxable income so the standard or itemized deduction has already been included. Federal income is then modified by state-specific additions and subtractions.
- 3) **State-defined income.** A number of state returns do not use a federal starting point; income is included and excluded based on state law. State returns within the state-defined income category may allow:
 - A deduction for standard or itemized deductions,
 - A deduction for personal exemptions, and/or
 - A credit for personal exemptions.
- 4) **Interest/dividend income only.** New Hampshire taxes only interest and dividend income and allows a deduction for personal exemptions.

No individual income tax. Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming do not have an individual income tax.

Part-Year Resident Returns

States follow one of two basic patterns for calculating tax liability on income tax returns for part-year residents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in each state's instruction booklet.

- 1) **Determine items of AGI received while a resident.** Part-year residents determine items of AGI received while a resident. Deductions and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from AGI received while a resident.

- 2) **Prorate tax calculated as if a full-year resident.** Part-year residents calculate tax as if a full-year resident and then prorate the tax by a ratio of income received while a resident to total income.

Nonresident Returns

States follow one of two basic patterns for calculating tax liability on income tax returns for nonresidents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in the each state's instruction booklet.

- 1) **Determine state-source AGI.** Nonresidents determine state-source AGI based on income that is derived from or connected with state sources. Deduction and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from state-source AGI.
- 2) **Prorate tax calculated as if a full-year resident.** Nonresidents calculate tax as if a full-year resident and then prorate the tax by a ratio of state-source income to total income.

Military Spouses Residency Relief Act

A military spouse's legal residence or domicile does not change by reason of being absent or present in the duty station state solely to be with the servicemember in compliance with military orders if the residence or domicile is the same for the servicemember and the spouse. Military spouses pay state income tax (if applicable) on income in the legal residence state, rather than in the duty station state.

Election. The spouse of a servicemember may elect, for any taxable year of the marriage, to use the same legal residence state as the servicemember for state tax purposes, regardless of the date on which the marriage of the spouse and the servicemember occurred.

Note: Making the election prevents the need for filing separate state tax returns.