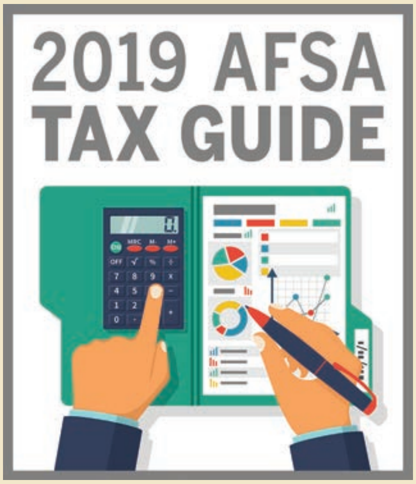
2019 Federal and State Tax Provisions for the Foreign Service

The American Foreign Service Association is pleased to present this year's Tax Guide, your first step to self-help for filing 2019 tax returns. This informational annual guide summarizes many of the tax laws that members of the Foreign Service community will find relevant, including changes mandated by the Tax Cuts and Jobs Act of 2017, most of which were active in 2018 and will have a noticeable impact this year.

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

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



This year, we've added a section addressing moving expenses and traveling in the Foreign Service, the various flavors of which touch different parts of the tax code. Readers will also find information on alimony, the Foreign Earned Income Exclusion, filings related to foreign assets and income, the qualified business income deduction, home mortgage interest and many other topics important for 2019 taxes. Following the federal section is the state-by-state guide, which includes information on state domicile, income tax rates and retirement incentives.

AFSA Senior Labor Management Adviser James Yorke (YorkeJ@state.gov), who compiles the Tax Guide, would like to thank Sam Schmitt, Esq., of the EFM Law Company and Christine Elsea-Mandojana, CPA, of Brenner & Elsea-Mandojana, LLC, 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 with regard to foreign accounts and asset reporting.

Filing Deadlines and Extensions

The deadline for filing 2019 individual income tax returns is April 15, 2020. Anyone posted abroad is allowed an automatic two-month extension to file federal taxes on June 15. To use it, write "taxpayer abroad" at the top of your 1040 and attach a statement explaining that you are living outside the United States, and that your main place of business or post of duty is also outside the United States and Puerto Rico. This extension is federal only and does not apply to some state tax return items, such as the D.C. D-30 (for rental properties and unincorporated businesses in the District). Taxpayers who take advantage of a federal extension must also check their state filing deadlines to avoid inadvertently missing them. An additional automatic extension to Oct. 15 may be obtained by filing Form 4868.

The IRS is not supposed to charge interest or late payment penalties for returns filed under the June 15 deadline for those posted abroad, but they usually do. The taxpayer generally must contact the IRS to have the interest or late penalties removed. The IRS will charge late payment penalties and interest for returns filed with payments due under the Oct. 15 deadline, which is an extension to file but not an extension to pay.

Report All Income on the New 1040

As has been the case for decades, U.S. taxpayers must report "all income from whatever source derived" on IRS Form 1040, which has been revised again this year. Adjustments, deductions and credits remain matters of "legislative grace," so it is important to understand those statutes, regulations, forms and instructions when you claim a credit or deduction. The new 1040 is longer than last year's and is accompanied only by numbered schedules 1 through 3 and the same lettered schedules. There is no longer a tax penalty for failing to carry minimum health insurance coverage, so the check box for this item has disappeared. Commonly used tax credits, such as the earned income and child tax credits, are now on page 2 of the form.

Schedule 1: Report additional income and adjustments, e.g., tax refunds or credits, alimony received for new divorces and settlements, business income or loss (see Schedule C), real estate or other organized business income (see Schedule E), educator expenses.

2019 Individual Income Tax Rates & Brackets				
Married Filing Jointly				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	$0	$19,400	$1,940	$1,940
12%	$19,401	$78,950	$7,146	$9,086
22%	$78,951	$168,400	$19,679	$28,765
24%	$168,401	$321,450	$36,732	$65,497
32%	$321,451	$408,200	$27,760	$93,257
35%	$408,201	$612,350	$71,453	$164,710
37%	$612,351	-	37% of Income over $612k	$612k + 37% of Income over $612k
Head of Household				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	$0	$13,850	$1,385	$1,385
12%	$13,851	$52,850	$4,680	$6,065
22%	$52,851	$84,200	$6,897	$12,962
24%	$84,201	$160,700	$18,360	$31,322
32%	$160,701	$204,100	$13,888	$45,210
35%	$204,101	$510,300	$107,170	$152,380
37%	$510,301	-	37% of Income over $510k	$510k + 37% of Income over $510k
Unmarried				
Bracket	Lower Limit	Upper Limit	Max Tax Per Individual Bracket	Max Possible Incremental Tax for Income Within Bracket Range
10%	$0	$9,700	$970	$970
12%	$9,701	$39,475	$3,573	$4,543
22%	$39,476	$84,200	$9,840	$14,383
24%	$84,201	$160,675	$18,354	$32,737
32%	$160,676	$204,100	$13,896	$46,633
35%	$204,101	$510,300	$107,170	$153,803
37%	$510,301	-	37% of Income over $510k	$510k + 37% of Income over $510k

Schedule 2: Additional taxes, including those formerly on 2018 Schedule 4 (now obsolete), e.g., the alternative minimum tax (AMT), self-employment tax, household employment taxes.

Schedule 3: Nonrefundable credits and payments formerly on 2018 Schedules 3 and 5 (also obsolete), e.g., foreign tax credit, credit for child and dependent care, estimated tax payments, amount paid with a request for an extension.

To reiterate, 2018 Schedules 4, 5 and 6 are no longer valid for 2019. The lettered schedules, commonly A through E, remain.

(A) Itemized deductions, e.g., medical and dental expenses, deductible taxes and interest paid, gifts to charity, casualty losses and others.

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

(C) Profit or loss from business.

(D) Capital gains and losses, e.g., stock, personal use realty, virtual currency.

(E) Supplemental income and loss, e.g., rental property, sole proprietorship, LLC and S Corp income.

Many other lettered schedules and incentive-specific forms (e.g., 8283 gifts to charity or 8889 health care savings accounts) and corresponding worksheets may be necessary. All are available from the IRS, most with corresponding product pages and instructions.

In summary, most of the calculations and legal categories for income have not changed despite the administrative rearrangement of this year's 1040. AFSA recommends that members review the IRS's 1040 information webpage "About Form 1040, U.S. Individual Income Tax Return," the 1040 Instructions, Publication 17 and this year's IRS Nationwide Income Tax Forums Online.

New W-4 Withholding Certificate Has No Exemptions Beginning in 2020

Taxpayers usually do not think to revise their W-4 withholdings until April, after they've paid their final 2019 taxes and withheld taxes on their wages based on an old calculation for several months of 2020. Don't wait. Withholding for next year begins Jan. 1, so readers who have not already resubmitted are withholding their taxes filed in April based on an old W-4. AFSA recommends readers revise their W-4s (with the new form) via their Human Resources office or through their employer's online portal (e.g. Employee Express for State Department employees). Promptly doing so will help you avoid overwithholding or playing catch-up due to underwitholding for several months.

Standard Deduction

The standard deduction has gone up slightly this year:

- $24,400 married filing jointly,
- $18,350 for heads of household, specifically defined by IRC Section 2(b), and
- $12,200 for individuals filing separately.

The personal exemption remains $0 for 2019.

Capital Gains for Sale of Capital Assets Such as Realty, Stocks or Virtual Currency

Short-term capital gains are taxed at the same rate as ordinary income. With a couple of exceptions, long-term capital gains rates vary based on taxable gross income—from 0 percent for those in the lowest tax bracket to 20 percent for those in the highest.

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 above:

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

Child and Dependent-Related Incentives

Child Tax Credit

A tax credit of up to $2,000 (limit of $1,400 refundable) per year is available for each qualifying child under age 17. It continues to operate as described by last year's Tax Update and is claimed directly on the 1040.

Other Dependent Credit

A separate but related Other Dependent Credit is available, often for those who do not meet the qualifying child requirement. Calculate these first two incentives 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 1040 instructions for line 13a. AFSA also recommends IRS Publication 5307, Publication 927, the instructions for Schedule 8812 (additional child tax credit), and IRC Sec. 24 for the Child Tax Credit and Other Dependent Credit.

Child and Dependent Care Tax Credit

Taxpayers with a qualifying dependent may be separately eligible for a credit for part of their child and dependent care expenses. AFSA recommends IRS Tax Topic 602, Form 2441 and instructions, as well as 1040 Schedule 3 and corresponding 1040 instructions. To claim this for care providers who do not have a U.S. taxpayer identification number (either a Social Security number or Employer Identification Number), presumably because you are posted abroad, enter "LAFCP" (Living Abroad Foreign Care Provider) on Form 2441 in the space for the care provider's taxpayer identification number.

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

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

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

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

All travel authorized under Section 901 of the Foreign Service Act, which includes permanent change of station, 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 appears on a W-2 for State Department employees. Non-State Department employees and anyone who doubts they are traveling under the Foreign Service Act should contact a professional to determine what relocation expenses may now be taxable.

Personally Incurred Expenses for Home Leave and R&R

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

Representational & Official Residence Expenses

The IRS published information on ORE and several other topics related to the Foreign Service in the International Taxpayers portion of its website in March, which is not binding on the IRS or the Tax Court. Much of it appears inaccurate (e.g., contrary to that information, Schedule A is not appropriate for deducting ORE).

Alimony for Divorces, Settlements & Modifications Beginning in 2019

For 2019 tax returns, alimony paid pursuant to agreements and orders entered before Jan. 1 is deductible by the payor and taxed as income to the payee, which is how alimony has traditionally been treated. Alimony payments paid pursuant to agreements and orders entered into or modified Jan. 1 or after, however, are not deductible by the payor or taxed as income to the payee. Payors should read Form 1040 Schedule 1, the 1040 Instructions, and Tax Topic 452. Note that the Tax

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Cuts and Jobs Act of 2017 repealed IRC Sec. 71 and 26 CFR 1.71-1, versions of which remain online from various sources.

Foreign Earned Income Exclusion

Taxpayers living and working overseas may be eligible for the FEIE. In 2019 the first $105,900 earned overseas as a (nongovernment) employee or self-employed person may be exempt from federal income taxes but not from self-employment taxes.

To receive this exclusion the taxpayer must:

(1) Establish a tax home in a foreign country, which is the general area of the taxpayer's "main place of business, employment or post of duty" (i.e., where the taxpayer is "permanently or indefinitely engaged to work as an employee or self-employed individual"); and

(2) Either (a) meet the "bona-fide residence" test, which requires that the taxpayer be a bona-fide resident of a foreign country for an uninterrupted period that includes an entire tax year, or (b) meet the "physical presence" test, which requires the taxpayer to be present in a foreign country for at least 330 full (midnight-to-midnight) days during any 12-month period (the 12-month period may be different from the tax year). Travel days to and from the United States do not count toward the total for days inside the foreign country (they are considered U.S. days). Members 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.

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

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

The U.S. Tax Court took up five FEIE cases in 2019, three involving members of the military and one, a civilian pilot. The best further reading in this regard is *Haskins v. IRS*, 2019 TC Memo 87 (July 11, 2019) because the intricate fact pattern is provided in full and the court includes a complete FEIE analysis for foreign presence and foreign tax home. Unfortunately, since Ms. Haskins' abode was stateside even though she was abroad with a foreign tax home, hers is not a model case for FEIE planning or dispute resolution before the IRS (of which the Tax Court is part). These cases (e.g., *Bellwood v. IRS*, 2019 TC Memo 135, pp. 14-21 [Oct. 7, 2019]) are available via Google Scholar and the U.S. Tax Court website by searching "foreign income" and "exclusion" or the case citations.

Regarding calculating income for other benefits, taxpayers must add the amount excluded under the FEIE back to AGI to figure what their tax liability would be prior to calculating what they owe with the FEIE exclusion. For example, a Foreign Service employee earns $80,000 with a teacher spouse earning $30,000. All else being equal, tax liability on $110,000 gross income is $15,917; tax on $30,000 foreign income is $3,212; and net tax liability is $15,917 minus $3,212, yielding $12,705 due. Many other tax credits and deductions (e.g., Traditional IRA and Roth IRA contributions) also work this way.

As a final note, if all the taxpayer or spouse's income is excluded under the FEIE in a tax year, then the taxpayer will not qualify for the Child and Dependent Care credit that year.

Foreign Accounts and Asset Reporting

When a U.S. person (defined as a citizen, resident or green card holder) has offshore income, assets, accounts and/or entities, U.S. income tax and reporting obligations can become a minefield of potential penalties. Many additional reporting forms apply to such taxpayers, but only a handful of accountants and tax attorneys have the expertise to identify which forms need to be completed and to complete them correctly. The penalties for failing to file or making mistakes on such forms can be draconian.

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

The separately filed FBAR (via the BSA e-filing system) may also be essential—penalties associated with failing to file or filing an erroneous FBAR are enormous. This form is required from taxpayers with non-U.S. bank accounts and other offshore assets (including some life insurance policies and pensions) that have an aggregate value of more than $10,000 at any time during the year. Failing to report an account on an FBAR can lead to penalties ranging from

$12,921 per account, per year (for an accidental, non-willful error) up to the greater of $129,210 or 50 percent of each account balance, per account, per year (for a more serious offense, such as one coupled with a misstatement on Schedule B or where an investment account was reported but a pension account missed). Willful failures and errors can result in additional penalties and even jail time. These and other penalties for failing to file foreign asset reporting forms can be greater than the value of the assets for which they are filed.

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

Additional tax forms must be filed by taxpayers who:

(1) have interests in or engage in transactions with offshore entities, trusts and pensions;

(2) have investments in foreign mutual funds;

(3) receive substantial gifts from non-U.S. persons; and

(4) wish to claim the benefit of a treaty-based return position.

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

Taxpayers with foreign assets may want to work with a qualified tax professional who is experienced in the realm of foreign asset reporting to avoid errors. Provide the tax preparer with a complete set of statements for each asset for every year, and save every bank, life insurance and pension statement for at least seven years.

Qualified Business Income Deduction

To encourage small businesses and start-ups back home, the Tax Cuts and Jobs Act of 2017 created a deduction for up to 20 percent of qualified business income and 20 percent of qualified real estate investment trusts income. The QBI portion only includes expenses connected to the business that are used to conduct the business, and that were material to generating revenue. REIT includes payments, like dividends, from a real estate investment trust that are not capital gain dividends or qualified dividend income. Calculate this deduction on Form 8995, for which the associated instructions are essential.

Also of note are pass-through entities such as S Corps, LLCs and sole proprietorships that can claim this deduction; but pay attention to pass-through requirements (e.g., via K-1s) and do not double dip. Business income earned outside the United States is not QBI—the income must be earned in a U.S. trade or business. Some trusts and estates may be eligible, as well; but income earned as an employee of a C Corporation does not qualify. For specified trades and businesses, which are specifically identified by code and include many services businesses such as law firms, accounting firms and consulting businesses, the QBID is prohibited for taxpayers whose taxable income (before the deduction and excluding capital gain) is $160,700 for individual filers or $321,400 married filing jointly. Other complicated limits and requirements apply to nonspecified trades or businesses.

Adjustments and Basis

As of early December 2019, the calculation of basis in assets such as a home, increases for investments and decreases for depreciation or damage, has not changed. Please refer to Tax Topic 703, Publication 551, 1040 Schedule D with instructions, IRC Sections 1011, 1012 and 1014 through 1017, and associated tax regulations beginning at 26 CFR Sec. 1.1012-1. Recent iterations of the annual tax seminar offered by Christine Elsea-Mandojana through the Foreign Service Institute have illustrated how mistakes in tracking basis can result in incorrectly reported gain or loss from the sale of a principal residence.

Federal Estate & Gift Taxes

In 2019 the first $11.4 million of a decedent's aggregate estate (up to $22.8 million for a surviving spouse with a portability election on Form 1041) was exempt from the federal estate tax. That amount will increase to $11.58 million for decedents who pass away in 2020. The same amounts would apply to (and are reduced by) lifetime gift-giving over the annual tax-free gift exclusion. The limit on the exclusion for gifts given in 2020 is $15,000 ($30,000 for gifts split by married couples on Form 709).

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

The standard contribution and catchup contribution limits for all three methods of retirement savings increase by $500 in 2020. For 401(k)s and the Thrift Savings Plans, individual participant may contribute $19,500 during the year. Those 50 and older may make 401(k) and TSP catchup contributions of $6,500. Finally, the IRA contribution limits increase to $6,000 for those under 50 and $7,000 for those 50 and over. The 2019 tax year deadline is April 15, 2020 for contributing to a Roth IRA or traditional IRA (at the $5,500/$6,500 limits). Deposits to a 401(k) may only be made via payroll deductions, the last of which is possible Dec. 31, 2019. The 2019 ROTH and IRA contribution limits are $6,000 for under age 50 and $7,000 for age 50 and over.

Itemized Deductions Still Allowed via Schedule A

Although the Tax Cuts and Jobs Act of 2017 removed the overall cap for itemized deductions, it suspended miscellaneous itemized deductions, to the extent they exceed two percent of AGI, through 2025. Schedule A and the instructions are the best guide for what remains deductible for itemizers. In other words, many Schedule A deductions remain available but only those subject to the two percent floor, like home leave as an employee expense, were eliminated.

Medical and Dental: Deduct for Expenses Over 10 Percent of AGI

The deduction for unreimbursed medical and dental expenses is possible only to the extent qualifying expenses exceed 10 percent of a taxpayer's AGI (changed from 7.5 percent in 2018). AFSA recommends that members claiming these deductions read IRS Publication 502, Tax Topic 502 and IRC Section 213. Note that the referenced IRS publications continue to list 7.5 percent of AGI as the deduction threshold, which only applies for 2017 and 2018.

Taxes, including State & Local Property

The IRS recently adopted new regulations relating to tax credits that affect deductions for charitable contributions. The new regulations require a reduction in a taxpayer's federal charitable contribution deduction (including estates and trusts) by an amount equal to all state and local tax credits the taxpayer expects on their return.

An example offered by the IRS illustrates the effect of the new regulation well: "If a state grants a 70 percent state tax credit pursuant to a state tax credit program, and an itemizing taxpayer contributes $1,000 pursuant to that program, the taxpayer receives a $700 state tax credit. A taxpayer who itemizes deductions must reduce the $1,000 federal charitable contribution deduction by the $700 state tax credit, leaving a federal charitable contribution deduction of $300."

Refer to IRS Notice 2019-12, Treasury Decision 98-64, 26 CFR Sec. 1-170A-1(h)(3), Tax Topic 503 and IRC Sections 164, 170(c) for more on these provisions. This new regulation prevents taxpayers from sidestepping the $10,000 cap on the deduction for state and local taxes by instead contributing the excess to the state or local jurisdiction and claiming it as a charitable contribution.

Selling a Principal Residence, Military Families Tax Relief Act Unchanged

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

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

Military Families Tax Relief Act of 2003

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

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

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), as a rental property or for a daycare facility.

A taxpayer who meets that threshold must then either calculate the actual expenses of the home office—e.g., cost of a business phone line and part of state and local property taxes, utilities, mortgage interest and depreciation—or use the IRS' simplified method based on a flat rate for the square footage used for business (up to a maximum of 300 square feet). Also note that expenses incurred for the entire home, such as property taxes, must be prorated based on the percentage of the home used exclusively for the business if you choose the regular (not simplified) calculation. For more information, contact a professional and read IRS Topic 509, Publication 587, the instructions for Form 8829, 1040 Schedule C, and IRC Sections 162, 212 and associated regulations.

Depreciating Real Property Used to Produce Income

The cost of income-producing capital property, such as residential and nonresidential rental property, is deductible over the IRS-defined recovery period for the structure or property. The deductible portion of income-producing property is referred to as depreciation. To calculate annual depreciation, a taxpayer must know the property's cost basis, adjustments to basis (tracked throughout the life of the property), the date the property was placed in service as income-producing property, and the IRS-required 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 prohibits a taxpayer, however, from depreciating land, including the land on which a depreciable asset sits, such as a residential rental property. 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 a business, calculate business expenses (including depreciation), account for income derived from the property and file correct tax forms on time each year. AFSA recommends also reading Tax Topics 703 (basis), 704 (depreciation) and 414 (rental property); the Schedule E and 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. Professional assistance may be necessary for a possible IRC Section 1031 Exchange of like-kind, real property located in the United States, which is held for the production of income (i.e., not a personal residence, but possibly domestic rental property).

Charitable Contributions

Up to 60 percent of a taxpayer's income base can be deducted for charitable contributions. Common issues include contributing to a qualified organization, properly documenting contributions of $250 or more, accounting for benefits received in return for donations and calculating the income base. Note that the Tax Cuts and Jobs Act of 2017 significantly restricts deductions for contributions to colleges and universities in return for the right to buy tickets to sporting events. Refer also to the new IRS regulations linking this tax incentive with the capped deduction for state and local taxes above. AFSA recommends Tax Topic 506, Publication 526, the Schedule A and 1040 instructions, and IRC Section 170 for more information.

Casualty and Theft Losses

The value of property lost by taxpayers to theft (for business property only) or natural disaster of over $500 is deductible under IRC Section 165. The requirement that such losses exceed 10 percent of AGI is suspended from 2018 through 2025. For individual taxpayer personal use property only, losses must be attributable to federally declared disasters defined by Sec. 165(i). Note that amounts claimed for deductions must be reduced by amounts received for salvage or insurance benefits. AFSA recommends Tax Topic 515, Publication 547 and IRC Sec. 165.

Health Care Savings Account (HSA)

In 2020 State Department employees may contribute up to $2,750 to a Health Care Savings Account. Each qualifying employee may do so, for a combined total limit of $5,500. Additional contributions may be made to Limited Expense Health Care Flexible Spending Accounts, but only eligible dental and vision expenses may be reimbursed therefrom. The contributions are pre-tax, expenditures on qualifying medical expenses are not taxed and unused amounts can be rolled over from year to year with a proper election. AFSA recommends Publication 969, the Form 8889 instructions and the basics from the FSA Feds website.

Conclusion

Despite some administrative reorganization with the 1040 and numbered schedules this year, the tax code remained stable in 2019. Those administrative differences are, however, reason to file a revised W-4 with your employer as soon as possible. Other than some adjustments to dates and for inflation, the only probable variables for this year's tax return are changes to a source of income or an asset.

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 thorny international income and assets issues. For now, enjoy the relative calm. The upcoming general election may shake up the tax code next year.

2019 STATE TAX PROVISIONS

Liability

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

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

Domicile and Residency

Many criteria are used in determining which state is a citizen's domicile. One of the strongest determinants is prolonged physical presence, a standard that Foreign Service personnel frequently cannot meet because of overseas service. In such cases, the states will determine 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 has bank accounts or other financial holdings.

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

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

Domestic Employees in the D.C. Area

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

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

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

States That Have No Income Tax

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

States That Do Not Tax Nonresident Domiciliaries

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

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

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

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

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

We also recommend the Tax Foundation website at www.taxfoundation.org, which offers a great deal of useful information, including a table showing 2019 tax rates for all states at https://taxfoundation.org/state-individual-income-tax-rates-brackets-2019/.

TAX WITHHOLDING WHEN ASSIGNED DOMESTICALLY

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

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

Note that the Bureau of the Comptroller and Global Financial Services does not adjudicate state income tax elections when you are serving overseas, since in those circumstances, it is the employee's responsibility to accurately designate a state for which income taxes will be withheld. 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 www.afsa.org/domicile.

STATE OVERVIEWS

ALABAMA

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

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

Phone: (334) 242-1170

Website: https://revenue.alabama.gov

Email: Link at bottom of main webpage.

ALASKA

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

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

Phone: (907) 465-2320

Website: www.tax.state.ak.us

ARIZONA

Individuals domiciled in Arizona are considered residents and are taxed on any income that is included in the Federal Adjusted Gross Income, regardless of their physical presence in the state. Arizona's tax rate ranges in five brackets from a minimum of 2.59 percent to a maximum of 4.54 percent of taxable income over $331,346 married filing jointly or $165,674 for single filers.

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

Phone: (602) 255-3381

Website: www.azdor.gov

Email: taxpayerassistance@azdor.gov

ARKANSAS

Individuals domiciled in Arkansas are considered residents and are taxed on their entire income, regardless of their physical presence in the state. The Arkansas tax rate ranges in six brackets from a minimum of 2.4 percent to a maximum of 6.9 percent of net taxable income over $84,601.

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

Phone: (501) 682-1100

Website: www.arkansas.gov/dfa

Email: individual.income@dfa.arkansas.gov

CALIFORNIA

Foreign Service employees domiciled in California must establish nonresidency to avoid liability for California taxes (see Franchise Tax Board Publication 1031). However, a "safe harbor" provision allows anyone who is domiciled in state but is out of the state on an employment-related contract for at least 546 consecutive days to be considered a nonresident. This applies to most Foreign Service employees and their spouses, but members domiciled in California are advised to study FTB Publication 1031 for exceptions and exemptions. The California tax rate for 2018 (2019 rates not available at press time) ranged in eight brackets from 1 percent of taxable income under $8,544 for singles and $17,088 for joint filers, to a maximum of 12.3 percent on taxable income over $572,980 for singles and $1,145,960 for joint filers. Nonresident domiciliaries are advised to file on Form 540NR.

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

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

Website: www.ftb.ca.gov

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

COLORADO

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

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

Phone: (303) 238-7378

Website: www.colorado.gov/revenue

Email: DOR_TaxpayerService@state.co.us

CONNECTICUT

Connecticut domiciliaries may qualify for nonresident tax treatment under either of two exceptions as follows:

Group A—the domiciliary 1) did not maintain a permanent place of abode inside Connecticut for the entire tax year; and 2) maintains a permanent place of abode outside the state for the entire tax year; and 3) spends not more than 30 days in the aggregate in the state during the tax year.

Group B—the domiciliary 1) in any period of 548 consecutive days, is present in a foreign country for at least 450 days; and 2) during the 548-day period, is not present in Connecticut for more than 90 days; and 3) does not maintain a permanent place of abode in the state at which the domiciliary's spouse or minor children are present for more than 90 days.

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

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

Phone: (860) 297-5962

Website: www.ct.gov/drs

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

DELAWARE

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

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

Phone: (302) 577-8200

Website: www.revenue.delaware.gov

Email: personaltax@state.de.us

DISTRICT OF COLUMBIA

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

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

Phone: (202) 727-4829

Website: www.otr.cfo.dc.gov/

Email: taxhelp@dc.gov

FLORIDA

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

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

Phone: (850) 488-6800

Website: floridarevenue.com/taxes

Email: DOR@floridarevenue.com

GEORGIA

Individuals domiciled in Georgia are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Georgia has a graduated tax rate rising in six steps to a maximum of 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 the Georgia Tax Center (login required)

Website: dor.georgia.gov/taxes

HAWAII

Individuals domiciled in Hawaii are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. For tax year 2019, Hawaii's tax rate rises in 12 steps from 1.4 percent on taxable income below $2,400 for single filers and $4,800 for joint filers, to a maximum of 11.00 percent for taxable income above $200,000 for single filers and $400,000 for joint filers.

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

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

Website: tax.hawaii.gov

Email: Taxpayer.Services@hawaii.gov

IDAHO

Individuals domiciled in Idaho for an entire tax year are considered residents and are subject to tax on their entire income. You are, however, considered a nonresident if: 1) you are an Idaho resident who lived outside Idaho for at least 445 days in a 15-month period; and 2) after satisfying the 15-month period, you spent fewer than 60 days in Idaho during the year; and 3) you did not have a personal residence in Idaho for yourself or your family during any part of the calendar year; and 4) you did not claim Idaho as your federal tax home for deducting away-from-home expenses on your federal return; and 5) you were not employed on the staff of a U.S. senator; and 6) you did not hold an elective or appointive office of the U.S. government other than the armed forces or a career appointment in the U.S. Foreign Service (see Idaho Code Sections 63-3013 and 63-3030).

In 2019 Idaho's tax rate rises in six steps from a minimum of 1.125 percent to a maximum of 6.925 percent on the amount of Idaho taxable income over $11,554 for singles and $23,108 for married filers. A nonresident must file an Idaho income tax return if his or her gross income from Idaho sources is $2,500 or more.

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

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

Website: www.tax.idaho.gov

Email: taxrep@tax.idaho.gov

ILLINOIS

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

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

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

Website: www.revenue.state.il.us

Email: Link through the website's Contact Us page under "Taxpayer Answer Center."

INDIANA

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

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

Phone: (317) 232-2240

Website: www.in.gov/dor

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

IOWA

Individuals domiciled in Iowa are considered residents and are subject to tax on their entire income to the extent that income is taxable on the person's federal income tax returns. Iowa's 2019 tax rate rises in eight steps from 0.33 percent to a maximum 8.53 percent of taxable income over $73,710, for both single and joint filers.

Write: Taxpayer Services, Iowa Department of Revenue, P.O. Box 10457, Des Moines IA 50306-0457.

Phone: (515) 281-3114 or (800) 367-3388

Website: tax.iowa.gov

Email: Use form on 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. In 2019 the tax rate is 5.25 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 St., Topeka KS 66612-1103.

Phone: (785) 368-8222

Website: www.ksrevenue.org

Email: kdor_tac@ks.gov

KENTUCKY

Individuals domiciled in Kentucky are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Kentucky's tax rate is a flat 5 percent.

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

Phone: (502) 564-4581

Website: www.revenue.ky.gov

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

LOUISIANA

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

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

Phone: (225) 219-0102

Website: www.revenue.louisiana.gov

Email: Link through the website's Contact Us page under "Contact LDF Online."

MAINE

Individuals domiciled in Maine are considered residents and are subject to tax on their entire income. Since Jan. 1, 2007, however, there have been "safe harbor" provisions. Under the General Safe Harbor provision, Maine domiciliaries are treated as nonresidents if they satisfy all three of the following conditions: 1) they did not maintain a permanent place of abode in Maine for the entire taxable year; 2) they maintained a permanent place of abode outside Maine for the entire taxable year; and 3) they spent no more than 30 days in the aggregate in Maine during the taxable year. Under the Foreign Safe Harbor provision, Maine domiciliaries are also treated as nonresidents if they are present in a foreign country for 450 days in a 548-day period and do not spend more than 90 days in Maine during that period. Maine's tax rate in 2019 is 5.8 percent on Maine taxable income below $21,850 for singles and $43,700 for joint filers, 6.75 percent up to $51,700 for singles and $103,400 for married filing jointly, and 7.15 percent over those amounts.

Write: Maine Revenue Services, Income Tax Assistance, P.O. Box 9107, Augusta ME 04332-9107.

Phone: (207) 626-8475

Website: www.maine.gov/revenue

Email: income.tax@maine.gov

MARYLAND

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

Email: taxhelp@comp.state.md.us

MASSACHUSETTS

Individuals domiciled in Massachusetts are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Salaries and most interest and dividend income are taxed at a flat rate of 5.05 percent for 2019. Some income (e.g., short-term capital gains) remains taxed at 12 percent.

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

Phone: (617) 887-6367
Website: www.mass.gov/dor
Email: Link through the website's Contact Us tab.

MICHIGAN

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

Write: Michigan Department of Treasury, Lansing MI 48922.
Phone: (517) 636-4486
Website: www.michigan.gov/treasury
Email: treasIndTax@michigan.gov

MINNESOTA

Individuals domiciled in Minnesota are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Minnesota's tax rate in 2019 is 5.35 percent on taxable income up to $26,520 for singles or $38,770 for married joint filers, rising in three steps to a maximum of 9.85 percent on taxable income over $163,890 for single filers or $273,150 for married filing jointly.

Write: Minnesota Department of Revenue, 600 North Robert St., St. Paul MN 55146-5510.
Phone: (800) 652-9094 or (651) 296-3781
Website: www.revenue.state.mn.us
Email: individual.incometax@state.mn.us

MISSISSIPPI

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

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

MISSOURI

An individual domiciled in Missouri is considered a nonresident and is not liable for tax on Missouri income if the individual has no permanent residence in Missouri, has a permanent residence elsewhere and is not physically present in the state for more than 30 days during the tax year. Missouri calculates tax on a graduated scale up to $8,424 of taxable income. Any taxable income over $8,424 is taxed at a rate of 5.4 percent.

Write: Individual Income Tax, P.O. Box 2200, Jefferson City MO 65105-2200.
Phone: (573) 751-3505
Website: dor.mo.gov/contact
Email: income@dor.mo.gov

MONTANA

Individuals domiciled in Montana are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Montana's tax rate for 2019 rises in six steps from 1 percent of taxable income under $3,000, to a maximum of 6.9 percent of taxable income over $18,400. See the website for various deductions and exemptions.

Write: Montana Department of Revenue, P.O. Box 5805, Helena MT 59604-5805.
Phone: (866) 859-2254 or (406) 444-6900
Website: mtrevenue.gov
Email: Link through the website's Contact Us tab.

NEBRASKA

Individuals domiciled in Nebraska are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. For 2019, the individual income tax rates range in four steps from a minimum of 2.46 percent to a maximum of 6.84 percent of the excess over $31,780 for singles and $63,550 for joint filers.

Write: Department of Revenue, 301 Centennial Mall South, P.O. Box 94818, Lincoln NE 68509-4818.
Phone: (402) 471-5729
Website: www.revenue.state.ne.us
Email: Link through the website's Contact Us tab.

NEVADA

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

Write: Nevada Department of Taxation, 1550 College Pkwy., Suite 115, Carson City NV 89706.
Phone: (866) 962-3707 or (775) 684-2000
Website: www.tax.state.nv.us

NEW HAMPSHIRE

The state imposes no personal income tax on earned income and no general sales tax. The state does levy, among other taxes, a 5 percent tax on interest and dividend income of more than $2,400 annually for single filers and $4,800 annually for joint filers, and for the 2019 tax year, a 7.9 percent tax on business profits, including sale of rental property. This percentage drops to 7.7 for tax years 2020 and 2021. There is no inheritance tax. Applicable taxes apply to part-year residents.

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

Phone: (603) 230-5000

Website: www.revenue.nh.gov

NEW JERSEY

A New Jersey domiciliary is considered a nonresident for New Jersey tax purposes if the individual has no permanent residence in New Jersey, has a permanent residence elsewhere and is not physically in the state for more than 30 days during the tax year. Filing a return is not required (unless the nonresident has New Jersey–source income), but it is recommended to preserve domicile status. Filing is required on Form 1040-NR for revenue derived from in-state sources. Tax liability is calculated as a variable lump sum plus a percentage from a minimum of 1.4 percent of taxable gross income up to $20,000, in three steps to 6.37 percent between $75,000 and $500,000, and a maximum of 8.97 percent on taxable gross income over $500,000 for both single and joint filers. There is also a top rate of 10.75 percent for income over $5,000,000.

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

Phone: (609) 292-6400

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

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

NEW MEXICO

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

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

Phone: (505) 827-0700

Website: www.tax.newmexico.gov

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

NEW YORK

There is no tax liability for out-of-state income if you have no permanent residence in New York, have a permanent residence elsewhere and are not present in the state more than 30 days during the tax year—or you were in a foreign country for at least 450 days during any period of 548 consecutive days, and you, your spouse and minor children spent 90 days or less in New York State during this 548-day period. Filing a return is not required, but it is recommended to preserve domicile status.

The tax rate for 2019 rises in six steps from a minimum of 4.5 percent to 6.21 percent of taxable income over $21,400 for single filers and $43,000 for married filing jointly; 6.49 percent on taxable income over $80,650 for single filers and $161,550 for joint filers; 6.85 percent on taxable income over $215,400 for single filers or $323,200 for joint filers; and 8.82 percent over $1,077,550 for single filers and over $2,155,350 for joint filers. In New York City, the maximum rate is 3.876 percent over $90,000 for joint filers and over $50,000 for single filers. Filing is required on Form IT-203 for revenue derived from New York sources.

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

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

Phone: (518) 457-5181

Website: www.tax.ny.gov

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

NORTH CAROLINA

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

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

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

Website: www.dornc.com

NORTH DAKOTA

Individuals domiciled in North Dakota and serving outside the state are considered residents and are subject to tax on their entire income. For the 2019 tax year, the tax rate ranges in four steps from 1.1 percent on North Dakota taxable income up to $39,450 for singles and $65,900 for joint filers, to a maximum of 2.9 percent on taxable income over $433,200 for singles and joint filers.

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

Phone: (701) 328-1247

Website: www.nd.gov/tax

Email: individualtax@nd.gov

OHIO

Individuals domiciled in Ohio are considered residents and their income is subject to tax, using the Federal Adjusted Gross Income figure as a starting base. Ohio's 2019 tax rate starts at a minimum of 1.98 percent on taxable income over $10,850, rising in six steps to a maximum of 4.997 percent on taxable income over $217,400 for single and joint filers. Ohio also charges a school district income tax of between 0.5 and 2 percent, depending on jurisdiction.

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

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

Website: www.tax.ohio.gov

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

OKLAHOMA

Individuals domiciled in Oklahoma are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. Oklahoma's tax rate for 2019 rises in eight stages to a maximum of 5 percent on taxable income over $7,200 for single filers and $12,200 for married filing jointly.

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

Phone: (405) 521-3160

Website: www.tax.ok.gov

Email: otcmaster@tax.ok.gov

OREGON

Individuals domiciled in Oregon are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. For 2019, Oregon's tax rate rises from 5 percent on taxable income over $3,550 for single filers and $7,100 for married filing jointly, in three steps to 9.9 percent on taxable income over $125,000 for single filers and $250,000 for joint filers. Oregon has no sales tax.

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

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

Website: www.oregon.gov/DOR

Email: questions.dor@oregon.gov

PENNSYLVANIA

Pennsylvania's tax rate is a flat 3.07 percent. 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. Pennsylvania does not, however, consider government quarters overseas to be a "permanent residence elsewhere." Filing a return is not required, but it is recommended to preserve domicile status. File Form PA-40 for all income derived from Pennsylvania sources.

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

Phone: (717) 787-8201

Website: www.revenue.pa.gov

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

PUERTO RICO

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

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

Phone: (787) 622-0123, Option 8

Website: www.hacienda.gobierno.pr

Email: infoserv@hacienda.gobierno.pr

RHODE ISLAND

Individuals domiciled in Rhode Island are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. The 2019 Rhode Island tax rate is 3.75 percent of taxable income up to $64,050 for all filers, 4.75 percent for income over $62,550, and 5.99 percent of taxable income over $145,600 for all filers. Also, a 2010 change treats capital gains as ordinary taxable income. Refer to the tax division's website for current information and handy filing hints, as well as for forms and regulations.

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

Phone: (401) 574-8829, Option 3

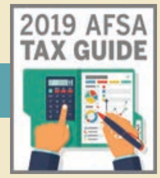
Website: www.tax.state.ri.us

Email: Tax.Assist@tax.ri.gov

SOUTH CAROLINA

Individuals domiciled in South Carolina are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. South Carolina's 2019 tax rates rise in six steps to a maximum of 7 percent of South Carolina taxable income over $12,250 for all filers.

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



Phone: (844) 898-8542, Option 2, or (803) 898-5000
Website: www.sctax.org
Email: iitax@dor.sctax.gov, or link through the website's Contact Us tab.

SOUTH DAKOTA

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

Write: South Dakota Department of Revenue, 445 East Capitol Ave., Pierre SD 57501-3185.
Phone: (605) 773-3311
Website: dor.sd.gov
Email: Link through the website's Contact Us tab.

TENNESSEE

Salaries and wages are not subject to state income tax, but for 2019, Tennessee imposes a 2 percent tax on most dividends and interest income of more than $1,250 (single filers) or $2,500 (joint filers) in the tax year. This is planned to be reduced by 1 percent per year until elimination on Jan. 1, 2021.

Write: Tennessee Department of Revenue (Attention: Taxpayer Services), 500 Deaderick St., Nashville TN 37242.
Phone: (615) 253-0600
Website: www.tn.gov/revenue
Email: TN.Revenue@tn.gov

TEXAS

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

Write: Texas Comptroller, P.O. Box 13528, Capitol Station, Austin TX 78711-3528.
Phone: (888) 334-4112 for Customer Service Liaison
Website: www.comptroller.texas.gov
Email: Link through the website's Contact Us tab.

UTAH

Utah has a flat tax of 4.95 percent on all income in 2019. Individuals domiciled in Utah are considered residents and are subject to Utah state tax. Utah requires that all Federal Adjusted Gross Income reported on the federal return be reported on the state return regardless of the taxpayer's physical presence in the state. Some taxpayers will be able to claim either a taxpayer tax credit or a retirement tax credit, or both (see website for explanation).

Write: Utah State Tax Commission, Taxpayer Services Division, 210 North 1950 West, Salt Lake City UT 84134.
Phone: (800) 662-4335 or (801) 297-2200
Website: www.tax.utah.gov
Email: Link through the website's Contact Us tab.

VERMONT

Individuals domiciled in Vermont are considered residents and are subject to tax on their entire income, regardless of their physical presence in the state. The 2019 tax rate ranges from 3.35 percent on taxable income under $39,600 for singles and $66,150 for joint filers, to a maximum of 8.75 percent on taxable income over $200,100 for singles and $243,650 for joint filers.

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

Phone: (802) 828-2505

Website: www.tax.vermont.gov

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

VIRGINIA

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

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

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

Phone: (804) 367-8031

Website: www.tax.virginia.gov

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

WASHINGTON

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

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

Phone: (800) 647-7706 or (360) 705-6705

Website: www.dor.wa.gov

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

WEST VIRGINIA

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

Write: Department of Tax and Revenue, The Revenue Center, 1001 Lee St. E., Charleston WV 25337-3784.

Phone: (800) 982-8297 or (304) 558-3333

Website: www.wvtax.gov

Email: TaxHelp@WV.Gov

WISCONSIN

Individuals domiciled in Wisconsin are considered residents and are subject to tax on their entire income, regardless of where the income is earned. Wisconsin's 2019 tax rate rises in four steps from 4 percent on income up to $11,760 for single filers or $15,680 for joint filers, to a maximum of 7.65 percent on income over $258,950 for single filers or $345,270 for joint filers.

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

Phone: (608) 266-2486

Website: www.revenue.wi.gov

Email: 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, Herschler Building, 122 West 25th St., Cheyenne WY 82002-0110.

Phone: (307) 777-5200

Website: revenue.wyo.gov

Email: dor@wyo.gov

2019 STATE PENSION AND ANNUITY TAX

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

ALABAMA

Social Security and U.S. government pensions are not taxable. The combined state, county and city general sales and use tax rates range from 7 percent to as much as 8.65 percent.

ALASKA

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

ARIZONA

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

ARKANSAS

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

CALIFORNIA

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

COLORADO

Up to $24,000 of pension or Social Security income can be excluded if 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 that to as much as 11.2 percent.

CONNECTICUT

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

DELAWARE

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

DISTRICT OF COLUMBIA

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

FLORIDA

There is no personal income, inheritance, gift tax or tax on intangible property. All property is taxable at 100 percent of its just valuation, but many exemptions are available. The state sales and use tax is 6 percent. There are additional county sales taxes, which could make the combined rate as high as 9.5 percent.

GEORGIA

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

HAWAII

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

IDAHO

If the individual is age 65 or older, or age 62 and disabled, Civil Service Retirement System and Foreign Service Retirement and Disability System pensions qualify for a deduction. Refer to Form 38 R for details. Federal Employees Retirement System or Foreign Service Pension System pensions do not qualify for this deduction. The deduction is reduced dollar for dollar by Social Security benefits. Social Security itself is not taxed. Idaho state sales tax is 6 percent; some local jurisdictions add as much as another 3 percent.

ILLINOIS

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

INDIANA

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

IOWA

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

KANSAS

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

KENTUCKY

Government pension income is exempt if retired before Jan. 1, 1998. If retired after Dec. 31, 1997, pension/annuity income up to $41,110 remains excludable in 2019 depending on date of retirement. Social Security is excluded from taxable income. Sales and use tax is 6 percent statewide, with no local sales or use taxes.

LOUISIANA

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

MAINE

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

MARYLAND

Those over 65 or permanently disabled, or who have a spouse who is permanently disabled, may under certain conditions be eligible for Maryland's maximum pension exclusion of $30,600 in tax year 2019. Also, all individuals 65 years or older are entitled to an extra $1,000 personal exemption in addition to the regular $3,200 personal exemption available to all taxpayers. Social Security is excluded from taxable income. See the worksheet and instructions in the Maryland Resident Tax Booklet. General sales tax is 6 percent; 9 percent on liquor.

MASSACHUSETTS

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

MICHIGAN

Federal, and state/local government pensions may be partially exempt, based on the year you were born and the source of the pension.
(a) If born before 1946, private pension or IRA benefits included in AGI are partially exempt; public pensions are exempt.
(b) If born after 1946 and before 1952, the exemption for public and private pensions is limited to $20,000 for singles and $40,000 for married filers.
(c) If born after 1952, not eligible for any exemption until reaching age 67.
Social Security is excluded from taxable income. Full details at: https://www.michigan.gov/taxes/0,4676,7-238--459647--,00.html.
Michigan's state sales tax rate is 6 percent. There are no city, local or county sales taxes.

MINNESOTA

Social Security income is taxed by Minnesota to the same extent it is on your federal return. If your only income is Social Security, you would not be required to file an income tax return. All federal pensions are taxable, but single taxpayers who are over 65 or disabled may exclude some income if Federal Adjusted Gross Income is under $33,700 and nontaxable Social Security is under $9,600. For a couple who are both over 65, the limits are $42,000 for Adjusted Gross Income and $12,000 for nontaxable Social Security. Statewide sales and use tax is 6.875 percent; a few cities and counties also add a sales tax, which can be as high as 8.375 percent.

MISSISSIPPI

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

MISSOURI
Up to 65 percent of public pension income may be deducted if Missouri Adjusted Gross Income is less than $100,000 when married filing jointly or $85,000 for single filers, up to a limit of $36,976 for each spouse. The maximum private pension deduction is $6,000. You may also deduct 100 percent of Social Security income if over age 62 and Federal Adjusted Gross Income is less than the limits above. Sales tax is 4.225 percent; local sales and use tax additions may raise the total to 10.1 percent.

MONTANA
Montana taxes all pension and retirement income received while residing in Montana. Those over 65 can exempt an additional $800 of interest income for single taxpayers and $1,600 for married joint filers. For taxpayers with an AGI income under $25,000 (single filers) or $32,000 (joint filers), all Social Security retirement income is deductible. For taxpayers above those limits but below $34,000 (single filers) or $44,000 (joint filers), half of Social Security retirement income is deductible. Above those second-level limits, 15 percent is deductible. Montana has no general sales tax, but tax is levied on the sale of various commodities.

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

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

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

NEW JERSEY
Pensions and annuities from civilian government service are subject to state income tax, with exemptions for those age 62 or older or totally and permanently disabled. However, see this link for the distinction between the "Three-Year Method" and the "General Rule Method" for contributory pension plans: http://www.state.nj.us/treasury/taxation/njit6.shtml. For 2019, qualifying singles and heads of households may be able to exclude up to $45,000 of retirement income; those married filing jointly up to $60,000; those married filing separately up to $30,000 each. These exclusions are eliminated for New Jersey gross incomes

over $100,000. Residents over 65 may be eligible for an additional $1,000 personal exemption. Social Security is excluded from taxable income. State sales tax is 6.675 percent.

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

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

NORTH CAROLINA
Pursuant to the "Bailey" decision (see http://dornc.com/taxes/individual/benefits.html), government retirement benefits received by federal retirees who had five years of creditable service in a federal retirement system on Aug. 12, 1989, are exempt from North Carolina income tax. Those who do not have five years of creditable service on Aug. 12, 1989, must pay North Carolina tax on their federal annuities. For those over 65, an extra $750 (single) or $1,200 (couple) may be deducted. Social Security is excluded from taxable income. State sales tax is 4.75 percent; local taxes may increase this by up to 3 percent.

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

OHIO
Retirement income is taxed. Taxpayers 65 and over may take a $50 credit per return. In addition, Ohio gives a tax credit based on the amount of the retirement income included in Ohio Adjusted Gross Income, reaching a maximum of $200 for any retirement income over $8,000. Social Security is excluded from taxable income. State sales tax is 5.75 percent. Counties and regional transit authorities may add to this, but the total 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. Since 2011, 100 percent of a federal pension paid in lieu of Social Security (i.e., CSRS and FSRDS—"old system"—including the CSRS/FSRDS portion of an annuity paid under both systems) is exempt. Social Security included in FAGI is exempt. State sales tax is 4.5 percent. Local and other additions may bring the total up to 9.5 percent.

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

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

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

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

SOUTH CAROLINA
Individuals under age 65 can claim a $3,000 deduction on qualified retirement income; those age 65 or over may claim a $15,000

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

SOUTH DAKOTA

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

TENNESSEE

Social Security, pension income and income from IRAs and TSP are not subject to personal income tax. In 2019, most interest and dividend income is taxed at 2 percent if over $1,250 (single filers) or $2,500 (married filing jointly). However, for tax year 2015 and subsequently, those over 65 with total income from all sources of less than $37,000 for a single filer and $68,000 for joint filers are completely exempt from all taxes on income. State sales tax is 5 percent on food; 7 percent on other goods, with between 1.5 and 2.75 percent added, depending on jurisdiction.

TEXAS

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

UTAH

Utah has a flat tax rate of 4.95 percent of all income. For taxpayers over 65 there is a retirement tax credit of $450 for single filers and $900 for joint filers. This is reduced by 2.5 percent of income exceeding $25,000 for single filers and $32,000 for joint filers. See the state website for details. State sales tax ranges from 5.95 percent to 8.60 percent, depending on local jurisdiction.

VERMONT

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

VIRGINIA

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

WASHINGTON

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

WEST VIRGINIA

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

WISCONSIN

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

WYOMING

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