

## Filing State Taxes

# Course Overview

- BASIC: State Taxes- Residency
- BASIC: State Taxes- Resident and Non-Resident
- BASIC: Filing a state return in TaxWise
- ADVANCED: State Taxes- Partial Year Resident
- Common State Issues
  - Ohio
  - Kentucky
  - Indiana
  - Michigan
  - Pennsylvania

# State Taxes- Key Terms

- RESIDENT –** The place where you live; maintain a home. You are never resident of two places simultaneously.
- PART YEAR RESIDENT –** You maintain more than one residency within a year. This may mean that you moved within the year, or that you maintain different summer and winter residences. This does not apply to temporary visits.
- NON RESIDENT –** You have earnings in this state, but do not have a home there. You may stay in this place for some period of time, but you retain your home in your resident state.
- RECIPROCITY -** Agreements between states regarding income tax withholding.  
The states agree that residents working in a reciprocal state will not be subject to withholding by that non-resident state. Reciprocity agreements generally apply to earned income, and may or may not apply to retirement or benefit income.

# State Taxes- Residency

- Taxpayers file in the state in which they **LIVE (residence, domicile, maintain an abode)**.
- Income is taxable in the tax filers' state of residency, no matter where the payor is located.
- Check for details if the person has moved within the year, considers residence in the state to be temporary, or maintains homes in more than one state.
- Active duty military personnel have a "State of Legal Residency" on file. This status can be found on the Department of Defense form DD-2058.

# BASIC: State Taxes

## Resident and Non-Resident

- Taxpayers file and pay income taxes in the state in which they LIVE.
- Neighboring states generally have **reciprocity agreements** so that residents who live in one state and work in another are not required to pay income taxes (or file) in the non-resident state.
- BUT ...many employers **withhold** taxes based on the location of the company or worksite, regardless of where the employee lives.



# BASIC: State Taxes

## Reciprocity

- Reciprocity agreements allow employees to *ask their employer* to withhold taxes for their resident state instead of their working state.
- Many employees do not know they can request this. Tax preparers can suggest that clients ask to change the withholding state at the same time they file a W4.
- Complying with this request-- withholding taxes for a state other than the one in which the employer is located-- is optional for the out-of-state employer.
- If the employer does not agree to withhold for the employee's resident state, the employee can instruct the employer not to withhold at all by submitting a state **Certificate of Non-Residency** form. *The employee would then need to pay estimated taxes for his resident state.*

# BASIC: State Taxes


## Non-Resident

- If taxes were withheld for a state in which the taxpayer does not reside, the tax-filer must file a **non-resident return** *with that reciprocity state* in order to receive a refund of that withholding.
- Therefore, individuals living and working in different states may need to file two state returns:
  1. **Resident return** to pay state taxes owed; and
  2. **Non-resident return** for a refund on taxes withheld in the state in which he worked.

# BASIC: State Taxes

State withholding will be shown on Forms W2, W-2G and 1099.

**RULE: ALWAYS check Form W2s, W-2Gs and 1099s to determine the state in which taxes were withheld!**

a Employee's social security number <b>123-45-6789</b>		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a>		
b Employer identification number (EIN) <b>11-2233445</b>		1 Wages, tips, other compensation <b>48,500.00</b>	2 Federal income tax withheld <b>6,835.00</b>			
c Employer's name, address, and ZIP code <b>The Big Company 123 Main Street, Anywhere, PA 12345</b>		3 Social security wages <b>50,000.00</b>	4 Social security tax withheld <b>3,100.00</b>			
		5 Medicare wages and tips <b>50,000.00</b>	6 Medicare tax withheld <b>725.00</b>			
		7 Social security tips	8 Allocated tips			
d Control number <b>A1B2</b>	9		10 Dependent care benefits			
e Employee's first name and initial Last name Suffix <b>Jane A. Doe 457 Home Avenue, Anywhere Else, OH 45111</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b>   <b>1,500.00</b>		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b <b>DD</b>   <b>1,000.00</b>		12c <b>P</b>   <b>4,800.00</b>	
		14 Other		12d		
f Employee's address and ZIP code		15 State wages, tips, etc. <b>50,000</b>		16 State income tax <b>1,535</b>		
18 Employer's state ID number <b>PA 1235</b>		17 Local wages, tips, etc. <b>50,000</b>		19 Local income tax <b>750</b>		
				20 Locality name <b>MU</b>		

Form **W-2 Wage and Tax Statement**

**2014**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.



# BASIC: State Taxes

## Practice Example

Sarah lives in Ohio. She works at a janitorial company cleaning an office building in Kentucky. **Where should she file and why???**

1. The W2 lists the company address at its headquarters in Ohio. The W2 shows withholding in Ohio.

**OR**

2. The W2 shows a company address in Kentucky but withholding in Ohio. Why did this happen? Where should she file?

**OR**

3. The W2 shows a company address and withholding in Kentucky.



# BASIC: State Taxes

## Practice Answers

1. While Sarah's worksite is in Kentucky, the W2 lists the company address at its headquarters in Ohio. The W2 shows withholding in Ohio.

✓ **Sarah should file state taxes in Ohio, her state of residence.**

**OR**

2. The W2 shows a company address in Kentucky but withholding in Ohio. *The company has acknowledged reciprocity and correctly withheld taxes for Sarah in her state of residence.*

✓ **Sarah should file state taxes in Ohio, her state of residence.**

**OR**

3. The W2 shows a company address and withholding in Kentucky.

✓ **Sarah should file state taxes in Ohio, her state of residence.**

✓ **Sarah should ALSO file as a non-resident in Kentucky to receive a refund of the taxes withheld in Kentucky.**



# Completing Resident Taxes in TaxWise

- Consult with the taxpayer on whether he wishes to file his state taxes during this VITA session.
- Be sure to check that **resident and non-resident** status are correctly identified for each state on the Main Information Sheet.
- Complete the appropriate state tax forms in TaxWise. The program may create additional copies of W2s
- Notify the tax-filer of his required payment or expected refund from his or her resident state.
- State taxes may be filed electronically or on paper.
- The Quality Review should include a review of state taxes.

US	Main Information Sheet	2014
This return can be filed on Form <u>1040A</u>		
Check form you are using: <input checked="" type="radio"/> 1040 <input type="radio"/> 1040A <input type="radio"/> 1040EZ <input type="radio"/> 1040PR <input type="radio"/> 1040NR <input type="radio"/> 1040NREZ		
<b>State Information</b> If you are not preparing a state return, check here <input type="checkbox"/> or fill in state information below		
Full year resident: <u>   </u> and <u>   </u> ▶		Nonresident: <u>   </u> <u>   </u> <u>   </u> <u>   </u>
Part-year: <u>OH</u> and <u>KY</u>		

# Advanced – Part-Year Resident

- If the taxpayer was a resident of multiple states during the year (for example, moved partway through the year), he will need to file tax returns in both states.
- In TaxWise, identify partial year residency in the **Main Info Sheet**.
- A Part-Year Residence Worksheet will be generated.

**US** **Main Information Sheet** **2014**

This return can be filed on Form 1040A

check form you are using:  1040  1040A  1040EZ  1040PR  1040NR  1040NREZ

**State Information** If you are not preparing a state return, check here  or fill in state information below

Full year resident: \_\_\_ and \_\_\_ ▶ **Part-year: OH and KY** Nonresident: \_\_\_ \_\_\_ \_\_\_ \_\_\_

# Part Year Resident

- In the **Part-Year Resident States Worksheet**, verify or correct allocation of income between states.

TERESA MARTIN  
Current AGI: \$41,000  
\$3,866  
Current Refund

Loaded Forms

Add Delete

US

- Main Info
- Interview x
- 1040 Wkt3
- 1040 WktB
- 1040 Pg 1
- 1040 Pg 2
- Sch A
- Sch EIC
- Sch EIC Wkt
- W2 (TP-MARICDP...)
- W2 (Copy 2; SP...)
- 1099G Wkt (TP-STATE U...)
- 1099R (TP-KENT ST...)
- 1310
- 2441 Pg 1
- 2441 Pg 2
- 5329 TP 1
- 5329 TP 2
- 6251 Pg 1
- 6251 Pg 2
- 8812 Pg 1
- 8812 Pg 2
- MFJ-MFS Pg 1
- MFJ-MFS Pg 2
- 8879
- Prap Use x
- PY Res Wkt
- RES/NR Wkt
- Summary

US **Allocation of Income: Part-Year Resident States Worksheet** 2014

Name: TERESA & ADAM MARTIN SSN: 259-48-8868

Amounts are transferred from this form to the state(s) designated below.  
Check here  if you have verified the amounts on this form.

Some states allow joint Federal filers to file separately on the state return, if it is to their advantage. Federal amounts, where you listed taxpayer, spouse, or joint, have already been calculated. Other amounts default to the taxpayer and the first state listed. Enter the proper amounts in each column. Do not enter amounts in the spouse column for states that do not have income splitting provisions. Since most states apportion deductions and exemptions based on Federal AGI, we are accumulating amounts in the far right columns for this purpose.

	Part-year resident state: GA		Part-year resident state: OH		Federal amounts	
	Taxpayer/default	Spouse	Taxpayer or joint	Spouse	Taxpayer or joint	Spouse
Wages	37300	0	0	1700	37300	1700
Other comp	0	0	0	0	0	0
Disability	0	0	0	0	0	0
4137 / 8919	0	0	0	0	0	0
Hsh/Sship	0	0	0	0	0	0
Interest	0	0	0	0	0	0
Dividends	0	0	0	0	0	0
St tax refund	0	0	0	0	0	0
Alimony	0	0	0	0	0	0
Sch C, CEZ	0	0	0	0	0	0
Sch D	0	0	0	0	0	0
Cap gain dist	0	0	0	0	0	0
Form 4797	0	0	0	0	0	0
IRA	0	0	0	0	0	0
Pensions	0	0	650	0	1300	0
Sch E	0	0	0	0	0	0

# Completing Taxwise

- Sections of federal **Schedule A** should be completed in order to supply information for the state return *even though the taxpayer may not benefit from itemizing on the federal return.*
  - **Medical worksheet information** flows through to the **Ohio** state return
  - **Property tax information** flows to the **Indiana** state return for a deduction
  - **Itemized deductions** flow through to the **Kentucky** state return

# State Issues: Overview

- States start with the federal adjusted gross income,
  - + **ADD IN** Income that is taxable at the state but not federal level,
  - **DEDUCT** Income that is taxable at the federal but not state level,
  - **Offer** **EXEMPTIONS and CREDITS** based on state tax law,
  - + **File** **ADDITIONAL STATE TAXES** that get collected with income tax.
- Most states have
  - ✓ credits for individuals over 65;
  - ✓ deductions for contributions to a state college fund;
  - ✓ exemptions for service in the state's national guard;
  - ✓ a “sales and use tax” on property purchased online or out of state and for which no sales tax was charged.

# Which State Form Should I Use?

## OHIO –

**NEW Universal IT 1040** (For Original and Amended Return Filings) for full year residents, part year residents and non-residents.

**NEW Universal SD 100** (For Original and Amended Return Filings) may be needed if the taxpayer resides in a school district with an income tax.

## INDIANA –

**IT-40** for full year residents only.

**IT-40 PNR** for non-residents and part year residents.

**IT-40 RNR** for full year non-residents of reciprocal states.

## KENTUCKY –

**Form 740** or full year residents only.

**Form 740-NP** for non-residents and part year residents.

**Form 740-NP-R** for full year non-residents of reciprocal states claiming a refund, *however this form cannot be filed electronically at this time.*

## MICHIGAN –

## PENNSYLVANIA -



# Common State Issues:

# OHIO

- **RETIREE:** Credits for retired individuals receiving retirement benefits, annuities or pension distributions or those who take lump sum distributions on retirement income. *Check for this in TaxWise!*
- **MEDICAL:** A number of deductions, adjustments and credits for unsubsidized or unreimbursed health insurance, employer-paid insurance for qualifying relatives, medical savings accounts, medical payments and organ donor expenses. *(Complete Federal Schedule A)*
- **EDUCATION OR TRAINING:** Deductions for Pell Grants and/or Ohio College Opportunity Grants used to pay for college room and board; a credit for retraining expenses for qualified dislocated workers.
- **DISABILITY AND SURVIVORSHIP BENEFITS:** Benefits paid as the result of a permanent disability or benefits paid from a qualified survivorship plan as a result of death.
- **NEW BUSINESS INCOME SCHEDULE (IT BUS):** A deduction for the portion a taxpayer's AGI attributable to business income reported on federal schedules C, C-EZ, E or F. For the 2015 individual income tax return, there will be a 75% deduction for the first \$250,000 business income.
- **FAMILY:** Joint filing credit, dependent or child care credit; non-refundable earned income credit. These should be computed by TaxWise.

# Common State Issues:

# KENTUCKY

- **ITEMIZED DEDUCTIONS:** Itemized deductions are allowed on the Kentucky state return if they exceed the standard deduction. Filers can itemize and deduct taxes paid to another state. TaxWise will compute this for you as long as you have entered the information on the federal Schedule A.
- **FAMILY STATUS:** Individuals who can be claimed as dependents at the federal level may file as individuals at the state level. Also, Kentucky does not recognize the federal “injured spouse” status.
- **PENSIONS ANNUITIES AND RETIREMENT PLANS:** The first \$41,110 of retirement income is exempt; there are special issues for pensions and annuities starting between 1986 and 1990. Use the Kentucky Schedule P.
- **GAMBLING:** gambling winnings and losses, especially those from other states, require special treatment. Seek a site supervisor.
- **STUDENT:** A Kentucky Education Tuition Tax credit for undergraduate studies within Kentucky and may be carried forward for up to five years.
- **CREDITS: FAMILY SIZE CREDIT** for low income families. **CHILD AND DEPENDENT CARE CREDIT** based on the federal credit. TaxWise can compute these.

# Common State Issues:

# INDIANA

- **HOME RENTERS:** A deduction if you paid rent on your principal residence (except dorms or tax-exempt buildings). *Make sure to ask the client whether he is a renter!*
- **HOME OWNERS:** A deduction for property taxes on your principal residence—unless it was already deducted on the federal Schedules C, C-EZ, E or F.
- **LIVING IN A CARE FACILITY:** Deduction for Medicaid recipients living in care homes, long-term care facilities and nursing homes.
- **PRIVATE SCHOOL/HOMESCHOOL:** deduction for education expenditures paid for dependent children enrolled in a private school or homeschooled.
- **UNEMPLOYED:** Deduction for unemployment compensation payments that were taxed on the federal return.
- **ACTIVE MILITARY, MILITARY RETIRED:** Several deductions on federally taxable income for active military or military retirement income.

> SEE NEXT PAGE

# Common State Issues:

## INDIANA *(cont)*

- **EARNED INCOME CREDIT:** Based on eligibility for federal Earned Income Credit
- **UNIFIED TAX CREDIT FOR THE ELDERLY** – for people age 65 and over with income less than \$10,000. (Even if there is no filing requirement - the credit is refundable),
- **NON-INDIANA LOCALITY EARNINGS DEDUCTION:** A deduction for wages earned outside of Indiana that were taxed by a non-Indiana locality. For example – An Indiana resident who works in Cincinnati will pay city taxes. These wages are eligible for the deduction. Maximum amount \$2,000.
- **CREDIT FOR LOCAL TAXES PAID OUTSIDE INDIANA** – An Indiana resident or part-year resident who works outside of Indiana and has withholding for a local tax district (City, County, School District, etc.) is entitled to a credit against the county income tax that must be paid in Indiana.

# Common State Issues: MICHIGAN

**MICHIGAN** Tax Return scenarios within common situations:

# Common State Issues: PENNSYLVANIA

**PENNSYLVANIA** Tax Return scenarios within common situations: