

state tax issues

New York, New Jersey, Connecticut, Pennsylvania, and California tax most of the income subject to federal income tax, but all five states either limit or exclude the itemized deductions you claimed on your federal return. Florida does not impose income taxes on individuals.

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INTRODUCTION

You do not get a complete picture of your personal tax situation until you consider the impact of income taxes in the state or states where you work or live, or from which you derive certain types of income. Each state has specific tax laws so the impact can be very different depending on the state jurisdictions in which you are subject to tax. This chapter is devoted to providing a summary of the state income taxes that may impact you if you work or live in the states of New York, New Jersey, Connecticut, Pennsylvania and California. Florida does not impose a personal income tax.

But before we discuss the factors that distinguish these states from each other, we should point out the rules relating to income exclusions, which are quite similar:

INCOME EXCLUSIONS

New York, New Jersey, Connecticut, Pennsylvania and California do not tax the following items of income:

- Interest on obligations of:
 1. The U.S. and its possessions, such as Puerto Rico (e.g., U.S. Treasury bills and bonds),
 2. Governmental agencies and municipalities within your state of residence, and
 3. Port Authority of New York and New Jersey for residents of New York and New Jersey, including such interest earned through bond funds.

Caution: *New York, New Jersey, Connecticut, Pennsylvania and California tax the interest income from municipal bonds issued by any state other than their own. A mutual fund needs to have at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations in order for any "exempt-interest dividends" to be exempt from California tax. The amount of income that can be excluded from California is based on the percentage of assets so invested.*

A mutual fund needs to have at least 80% of its assets in tax-exempt U.S. obligations and/or in New Jersey or its municipal obligations in order for "exempt-interest dividends" to be exempt from New Jersey tax. The amount of income that can be excluded from New Jersey is based upon the percentage of assets so invested. However, distributions from mutual funds attributable to interest from federal obligations are exempt from New Jersey tax irrespective of whether the 80% test is met.

chart

2018-2019 MAXIMUM NEW YORK TAX RATES

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State or City	Maximum Tax Rates
New York State	8.82%
New York City	3.876%

For 2018-2019, the maximum NYS tax rate is applicable for married filing joint taxpayers with income over \$2,155,350. For income under \$2,155,350, the top rate is 6.85%. For 2020-2024, the highest tax rate for such taxpayers is scheduled to be 6.85% for income above \$323,200.

- State and local income tax refunds (since they do not allow a deduction for payments of state and local income taxes).
- Social Security benefits.
- Certain pension and retirement benefits, subject to various limitations, including the payor of the pension, the age of the recipient, and which state is being considered.

WHAT'S NEW FOR 2018-2019

Impact of *Wayfair*:

The U.S. Supreme Court's *Wayfair* (*South Dakota v. Wayfair, Inc.*, Docket No. 17-494 (6/21/2018), 585 U.S. (2018)) decision has impacted taxation of e-commerce. Prior to this decision, states could generally only subject an out-of-state seller to sales tax if it had some type of "physical presence" in that state. The term physical presence was often misinterpreted to mean some type of permanent physical establishment. In reality, physical presence could be established through agents, affiliates, employee visits, and/or the presence of online marketing agreements or software such as "cookies" in a state. In *Wayfair*, the Supreme Court overturned the physical presence requirement and found that the economic nexus provisions enacted by South Dakota withstood constitutional muster, and were therefore valid. Specifically, the provisions in question imposed a sales tax collection and filing responsibility on remote sellers that had either \$100,000 in remote sales, or 200 separate transactions, into the state. The Court didn't rule that these thresholds were the minimum, just that these were sufficient. As a result, many states have enacted provisions that mirror those of South Dakota. Currently, approximately 38 states have some type of economic nexus provision regarding sales tax, including requirements for marketplace sellers, and reporting

requirements (which may have a much lower threshold). As a result, many companies, of all sizes, now find themselves subject to a vast array of sales tax requirements across the country. Many companies which previously had filing requirements in only one or two jurisdictions, now find themselves struggling to keep up with new collection and filing requirements in 35+ states.

Some of the issues companies must now deal with include:

1. Keeping current on the over 10,000 sales tax rates across the country and implementing these rates with their invoicing/point of sale system;
2. Updating systems to be able to track and obtain the information necessary to file the required returns;
3. Numerous registrations just to get on the tax rolls and obtain a tax account;
4. Filing monthly sales tax returns across the country; and
5. The prospect of increased audits.

For some smaller companies, these burdens could literally be a backbreaker. The increased costs of complying with these requirements across the country can easily be \$50,000 - \$100,000. Consider as an example: A company whose average sale is \$20 could meet the transaction threshold in a state with only having \$4,000 of sales in that state. Thus, the cost of compliance for companies with a \$1 million of sales, if spread evenly across the country, could be enough to force the company to close its doors (or website).

The below paragraphs summarize the economic nexus, and related provisions, of selected states. For more information, please refer to our *Wayfair* Hub on our website at: <https://www.eisneramper.com/knowledge-center/articles/wayfair-hub-folder/wayfair-hub/>

- **California**

Under California's provisions, effective April 1, 2019, a remote retailer is required to collect and remit tax in California if, during the current or previous calendar year, its sales to California exceed \$100,000, or it had sales into California in 200 or more separate transactions. California has literally hundreds of local tax rates which must be taken into account.

- **Connecticut**

Effective December 1, 2018, marketplace facilitators with retail sales of at least \$250,000 are required to collect and remit sales tax on behalf of their marketplace sellers. Further, remote

sellers that make at least 200 retail sales in Connecticut and have at least \$250,000 in gross receipts from Connecticut sales must collect and remit sales tax.

- **Florida**

Florida has not yet enacted any economic nexus or marketplace facilitator provisions.

- **New Jersey**

Effective November 1, 2018, remote sellers must collect and remit sales tax if their gross revenue to New Jersey customers exceeds \$100,000, or they have more than 200 separate transactions with New Jersey customers. Further, marketplace facilitators must collect sales tax on the sales they facilitate into New Jersey in various circumstances.

- **New York**

Under New York's economic nexus provisions, remote sellers must collect and remit sales tax if they have more than \$300,000 in sales and had more than 100 separate transactions delivered into New York in the immediately preceding four sales tax quarters. New York is not clear on exactly when this provision is effective, and has yet to issue FAQs or any other definitive guidance.

- **Pennsylvania**

Marketplace facilitators and remote sellers who have more than \$100,000 in Pennsylvania sales must now register, collect and remit sales tax starting July 1, 2019. These thresholds are measured by the calendar year. Note that Pennsylvania also has reporting requirements for remote sellers. Specifically, marketplace facilitators and online sellers that have more than \$10,000 but less than \$100,000 in sales are required to either collect and remit tax, or comply with onerous notification and reporting requirements. These reporting requirements were effective March 1, 2018.

State Treatment of Deemed Repatriation Income and Global Intangible Low Taxed Income ("GILTI")

A taxpayer that had or will have income/deductions reported under IRC Sec. 965 and/or GILTI income on their federal personal income tax return must also consider the state tax treatment of such income. IRC Sec. 965 income was reportable for most taxpayers on their 2017 federal income tax return while GILTI is generally first applicable for tax years beginning on or after December 31, 2017. In both cases, the TCJA requires taxpayers to recognize deemed income prior to the actual receipt of such income. IRC Sec. 965 generally requires U.S. shareholders to pay a one-time transition tax on the untaxed earnings of certain specified foreign corporations. Taxpayers reporting such income are allowed a "participation exemption" under IRC Sec. 965(c), which is a deduction that reduces the federal tax rate

on repatriation income. In certain cases, a taxpayer can elect, for federal income tax purposes, to defer the tax liability on IRC Sec. 965 income until a specified triggering event (this applies for S corporation shareholders) or, in the case of individuals, they can elect to pay the tax on such income over eight years.

The personal income tax treatment of such provisions in selected states is subject to change as some states have been slow to issue guidance on the treatment of deemed repatriation/GILTI income. Further, there may be state legislative changes that are under consideration. Thus, prior to filing your state tax return(s), we recommend that you consult your tax advisor for the latest state guidance.

- California has not adopted the TCJA changes to IRC Sec. 965 or the GILTI provisions in IRC Sec. 951A. Accordingly, neither the income nor the deductions are reportable on California personal income tax returns.
- Connecticut and New York State both use federal adjusted gross income as the starting point to arrive at state taxable income. As such, both states recognize the same net IRC Sec. 965 income and gross GILTI income that an individual taxpayer reports in their adjusted gross income for federal income tax purposes. However, neither Connecticut nor New York State allow a taxpayer to elect to defer payment of any portion of the tax associated with IRC Sec. 965 income.
- The Pennsylvania Department of Revenue has issued guidance indicating that IRC Sec. 965 and GILTI income are not taxable for personal income tax ("PIT") purposes; the rationale being that only actual cash or property distributions, out of current or accumulated earnings and profits, are taxable under the PIT. Importantly, when an actual cash or property distribution is made out of earnings and profits, PIT taxpayers must report it as taxable dividend income regardless of whether or not they receive a Form 1099-DIV with respect to such distribution.
- The New Jersey Division of Taxation has addressed IRC Sec. 965 income in various notices. In January 2019, the Division advised that "dividends reported under IRC Section 965 must be included in New Jersey gross income in the same tax year and in the same amount as reported for federal tax purposes." Additionally, the notice explained that, for purposes of the Gross Income Tax, there is no IRC Sec. 965(c) deduction allowed for individual taxpayers, sole proprietorships or partnerships. However, S corporations are allowed an IRC Sec. 965(c) deduction. There are similarities between New Jersey and Pennsylvania's personal income tax regimes including their definition of what constitutes a dividend. Thus, the fact that Pennsylvania does not tax IRC Sec. 965 income (until an actual dividend is received) while New Jersey is following the federal

recognition and timing raises a concern that New Jersey may be mistaken in its interpretation. As such, we recommend that taxpayers consult with their tax advisors prior to paying New Jersey Gross Income Tax on IRC Sec. 965 income.

With respect to GILTI, the Division of Taxation advised that, for Gross Income Tax purposes, such income must be reported by a shareholder in an S corporation in the same year and in the same amount as for federal purposes. For other taxpayers, the Division indicated that GILTI should be reported for New Jersey Gross Income Tax purposes when the income is actually distributed from earnings and profits in the category dividend income.

- The New York City Department of Finance issued a memorandum advising that unincorporated businesses generally must include the net amount of IRC Sec. 965 income in their Unincorporated Business Tax Returns and that the options for deferring the federal tax on such income do not apply for New York City tax purposes. While the Department of Finance has not addressed GILTI for Unincorporated Business Tax purposes, our initial interpretation is that the City will follow the federal treatment. This is due to the Unincorporated Business Tax's conformity with federal taxable income as the starting point for the tax computation and that, currently, there are no modifications allowing for a deduction of such income.

NEW YORK

TAX RATES

Chart 14 shows the maximum tax rates imposed by New York State and New York City. These rates apply to all types of income since New York does not have lower tax rates for net long-term capital gains or qualifying dividend income.

DEDUCTION ADJUSTMENTS

Beginning in 2018, NYS and NYC allow taxpayers to itemize their deductions whether or not the taxpayers itemized their deductions for federal income tax purposes. Itemized deductions should be computed based on the federal rules as they were in effect prior to the federal TCJA.

New York State allows a deduction of \$1,000 for each dependent. In addition, New York State allows a deduction for some qualified education expenses, subject to certain limitations.

BONUS DEPRECIATION

New York State does not conform to federal rules regarding bonus depreciation, as discussed in the business owner issues and depreciation deductions chapter.

The exception to this rule is that federal bonus depreciation is allowed in limited areas of Lower Manhattan — the “Liberty Zone,” south of Canal Street to the East River; and the “Resurgence Zone,” south of Houston Street and north of Canal Street.

To the extent you take advantage of bonus depreciation on your federal return, either directly or from a pass-through entity, you will need to separately compute your New York depreciation without applying the bonus depreciation rules. New York State does conform to the federal rules regarding IRC Sec. 179 depreciation expense, as discussed in the business owner issues and depreciation deductions chapter.

NEW YORK LONG-TERM CARE INSURANCE CREDIT

New York State allows a credit equal to 20% of the premiums paid during the tax year for the purchase or continuing coverage under a qualifying long-term care insurance policy.

“CIRCUIT BREAKER” TAX CREDIT

For tax years 2014 through 2019, there is a refundable credit of \$350 available for New York residents with NYAGI of at least \$40,000 but not more than \$300,000 who claimed one or more dependent children under the age of 17 on the last day of the tax year and had a tax liability that was equal to or greater than zero.

NEW YORK CITY UBT

Self-employed persons working in New York City are subject to a 4% Unincorporated Business Tax (“UBT”) if their total unincorporated business gross income exceeds \$85,000 (after the maximum allowance for taxpayer’s services of \$10,000 (limited to 20% of UBT income) and a \$5,000 exemption).

New York City residents can claim a credit against their NYC personal income tax for a portion of the UBT paid by them, including their share of the UBT tax paid by a partnership. The credit is 100% of the UBT paid if your taxable income is \$42,000

or less, gradually declining as your income reaches \$142,000, at which point the credit is limited to 23% of the UBT paid.

New York City has concluded the process of ending its slow transition to a single sales factor: For years beginning in 2018 and forward, the UBT will be computed based on a single receipts factor.

METROPOLITAN COMMUTER TRANSPORTATION MOBILITY TAX (“MCTMT”)

Beginning in 2009, a tax was imposed on employers and self-employed individuals engaged in business within the five boroughs of New York City and the counties of Nassau, Rockland, Orange, Putnam, Suffolk, Dutchess, and Westchester. A graduated tax rate between 0.11% and 0.34% applies to employers based upon the amount of quarterly payroll. For quarters beginning on or after April 1, 2012, payroll must be greater than \$312,500 in a calendar quarter before the employer tax applies. The tax also applies to self-employed individuals, including partners in partnerships and members of LLCs that are treated as partnerships based on their net earnings from self-employment allocated to the MCTD. The tax does not apply if the allocated net earnings from self-employment are \$50,000 or less for the year.

COLLEGE SAVINGS PROGRAM, CREDITS AND EXPENSES

New York State has a program that allows you to make contributions to IRC Sec. 529 plans as discussed in detail in the chapter on education incentives. New York State allows a deduction up to \$5,000 (\$10,000 if married filing jointly) if paid to a New York IRC Sec. 529 plan.

In addition, a tuition credit or itemized deduction is available if you were a full-year New York State resident and your spouse or dependent (for whom you taken an exemption) was an undergraduate student enrolled at or who attended an institution of higher education and paid qualified tuition expenses, and are not claimed on another person’s return. The credit may be as much as \$400 per student; 4% of qualified expenses up to \$10,000. Alternatively, the maximum tuition deduction is \$10,000 per student. You may claim the credit or the deduction, but not both.

NEW JERSEY

TAX RATES

Effective January 1, 2018, the maximum tax rate imposed by New Jersey is 10.75% for taxpayers that have income in excess of \$5,000,000 regardless of filing status. The maximum tax rate for taxpayers with \$5,000,000 or less income remains at 8.97%. This rate applies to all types of income since New Jersey does not have lower tax rates for net long-term capital gains or qualifying dividend income.

Note: For New Jersey, the marginal tax rate for single taxpayers with taxable income in excess of \$75,000 but less than \$500,000 is 6.37%. Married/civil union partner taxpayers filing jointly are subject to the 6.37% rate on income in excess of \$150,000 but less than \$500,000. Single and married/civil union partner taxpayers filing jointly with incomes over \$500,000 are subject to a top marginal rate of 8.97%.

DEDUCTION ADJUSTMENTS

Except as noted below, no deduction is allowed for itemized deductions since New Jersey is a "gross income" state. In addition to the income exclusions noted above, New Jersey allows the following deductions to reduce your taxable income:

- Personal exemptions of \$1,000 each for you and your spouse (or domestic partner). New Jersey allows a \$1,500 personal exemption for each dependent child or other dependent (who qualifies as your dependent for federal income tax purposes). Taxpayers 65 years of age or over at the close of the taxable year, blind, or disabled, and certain dependents attending college are allowed an additional \$1,000 exemption.
- Alimony, separate maintenance, or spousal support payments to the extent they are includible in the gross income of the recipient (regardless of where the recipient lives).
- Medical expenses in excess of 2% of New Jersey gross income.
- Business travel and entertainment expenses for self-employed individuals, business owners, and partners in a partnership: The recent federal changes have no impact on the New Jersey travel and entertainment deduction.
- Property taxes up to a maximum of \$15,000 paid on a personal residence.

- Tenants are allowed a property tax deduction based on 18% of the rent paid during the year.

If you are considered a self-employed individual for federal income tax purposes or you received wages from an S corporation in which you were a more-than-2% shareholder, you may deduct the amount you paid during the year for health insurance for yourself, your spouse/civil-union partner/domestic partner, and your dependents. The amount of the deduction may not exceed the amount of your earned income, as defined for federal income tax purposes, derived from the business under which the insurance plan was established. You may not deduct any amounts paid for health insurance coverage for any month during the year in which you were eligible to participate in any subsidized plan maintained by your (or your spouse's/civil-union partner's/domestic partner's) employer. Note that for federal tax purposes, you may be able to deduct amounts paid for health insurance for any child of yours who is under the age of 27 at the end of 2018. However, for New Jersey purposes, you may deduct such amounts only if the child was your dependent.

BONUS DEPRECIATION

New Jersey has not conformed to federal rules regarding bonus depreciation. See the chapter on business owner issues and depreciation deductions.

IRC SEC. 179 EXPENSE

New Jersey permits a limited IRC Sec. 179 deduction of up to a maximum of \$25,000. If you have more than one business, farm or profession, you may not deduct more than a total of \$25,000 of IRC Sec. 179 costs for all activities. To the extent higher IRC Sec. 179 deductions were taken for federal purposes, you will need to separately compute your New Jersey deduction.

COLLEGE SAVINGS PROGRAM

New Jersey does not provide for a college savings credit or deduction.

NEW JERSEY HOMESTEAD BENEFIT AND SENIOR FREEZE (PROPERTY TAX REIMBURSEMENT) PROGRAMS

These programs provide property tax relief for amounts paid on a principal residence.

Senior Freeze Program

The Senior Freeze Program provides for a reimbursement of the difference between the amount of property taxes paid for the base year and the amount for which you are applying for a reimbursement. Applicants must meet the following conditions to be eligible for a Senior Freeze property tax reimbursement:

- Have been age 65 or older OR receiving federal Social Security disability benefits;
- Have lived in New Jersey for at least ten consecutive years as either a homeowner or renter;
- Have owned and lived in your home for at least three consecutive years;
- Have paid the full amount of the property taxes due on the home for the base year and each succeeding year up to and including the year in which you are claiming the reimbursement; and
- Have met the income limits for the base year and for each succeeding year up to and including the year for which you are claiming the reimbursement. These limits apply regardless of marital/civil-union status. However, applicants who are married or in a civil union must report combined income of both spouses/civil-union partners.

Note: Under the terms of the State Budget for FY 2019 for application year 2017, only those applicants whose income for 2016 did not exceed \$87,007 and whose income for 2017 did not exceed \$70,000 (the original limit was \$87,007) will be eligible to receive reimbursements for 2017 provided they met all the other program requirements. Residents whose 2017 income was over \$70,000 but not over \$87,268 will not receive reimbursements for 2017, even if they met all the other program requirements. The Division of Taxation will send notices to these applicants advising them that they are not eligible to receive reimbursement payments for 2017. However, by having filed an application by the

October 31, 2018 extended due date, these residents established their eligibility for benefits in future years and ensure that they will be mailed an application for 2018.

The Senior Freeze Program is expected to continue in 2019 for property taxes paid in 2018.

Homestead Benefit Program

The requirements for the Homestead Benefit are slightly different, have different filings deadlines and are not age-based. It is possible to be eligible for both the Homestead Benefit Program and the Senior Freeze (Property Tax Reimbursement) program, but the amount of benefits received cannot exceed the amount of property taxes paid on their principal residence.

ESTATE TAX

Effective January 1, 2018, the New Jersey estate tax was repealed.

EARNED INCOME TAX CREDIT

The credit is equal to 37% of the federal credit. The rate will increase to 39% in 2019 and 40% in 2020 and thereafter.

CHILD AND DEPENDENT CARE CREDIT

Effective January 1, 2018, New Jersey will allow a child and dependent care credit for a qualifying individual based on the federal credit. A child under the age of 13 or a spouse/dependent who lived with the taxpayer for more than half of the year and is physically or mentally incapable of self-care is considered a qualifying individual. The credit is non-refundable. The credit cannot exceed \$500 for one qualifying individual or \$1,000 for two or more qualifying individuals. The credit is a percentage of the federal credit based on New Jersey taxable income as indicated below.

NJ Taxable Income	Amount of the NJ credit
Not over \$20,000	50% of federal credit
\$20,001 - \$30,000	40% of federal credit
\$30,001 - \$40,000	30% of federal credit
\$40,001 - \$50,000	20% of federal credit
\$50,001 - \$60,000	10% of federal credit

RETIREMENT INCOME TAX

The 2018 retirement income tax exclusion for joint filers is \$64,000, and will increase to \$80,000 in 2019. The exclusion

will continue to increase until it caps out at \$100,000 in 2020. For a married person filing separately, the exclusion is \$30,000 for 2018 and will increase to \$50,000 in 2020, and for a single taxpayer, the exclusion is \$45,000 for 2018 and will increase to \$75,000 in 2020.

VETERANS' EXEMPTION

Veterans who are honorably discharged from active service in the military or the National Guard are eligible for an additional \$3,000 exemption. An additional \$3,000 exemption can be claimed if your spouse (or civil union partner) is also an honorably discharged veteran. The exemption is available to both New Jersey residents and non-residents. In order to claim the exemption, a copy of Form DD-124, Certificate of Release or Discharge and the Veteran Exemption Submission Form must be submitted prior to the first return you are claiming the exemption or with your tax return.

TAX CUTS AND JOBS ACT IMPACT

Without New Jersey conforming legislation, which appears unlikely, most of the personal income tax changes contained in the TCJA are expected to have minimal or no impact on New Jersey personal income taxes since the New Jersey "Gross Income Tax" ("GIT") is not based on the federal tax system.

The New Jersey GIT Act does not adopt the Internal Revenue Code nor does it adopt or use a taxpayer's federal adjusted gross income or federal taxable income in the state taxable income calculation. Thus, federal law changes such as the lowering of individual income tax rates, doubling of the standard deduction, limits on deductions for mortgage interest, reduced deductions for property tax and income tax, removal of personal exemption deductions, limiting the deductibility of meals and entertainment, etc. should have no impact on a taxpayer's New Jersey GIT liability.

Similarly, the federal 20% qualified business income deduction, allowable starting in 2018 for certain pass-through entities, does not apply since New Jersey has its own statutory deductions that are not based on a taxpayer's federal deductions. Further, the TCJA's 100% bonus depreciation under IRC Sec. 168(k) and the increased IRC Sec. 179 expense should not apply as New Jersey does not adopt bonus depreciation and limits a taxpayer's IRC Sec. 179 expense to \$25,000 per year. The New Jersey real estate tax deduction is limited to \$15,000 per year starting in 2018.

CONNECTICUT

TAX RATES

The maximum tax rate imposed by Connecticut is 6.99%. This rate applies to all types of income since Connecticut does not have lower tax rates for net long-term capital gains or qualifying dividend income.

Note: *The maximum tax rate for Connecticut is 6.9% for the following individuals:*

- Filing status is Single or Married filing separately with Connecticut taxable income of over \$250,000 but not over \$500,000.
- Filing status is Head of Household with Connecticut taxable income of over \$400,000 but not over \$800,000.
- Filing status is Joint or Qualifying Widow(er) with Connecticut taxable income of over \$500,000 but not over \$1,000,000.

If your taxable income is more than these thresholds, the maximum tax rate is 6.99%.

RECAPTURE TAX AMOUNT FOR TAXPAYERS IN HIGHER INCOME BRACKETS

A taxpayer whose Connecticut AGI exceeds the income thresholds specified below, after computing his or her Connecticut income tax liability using the applicable tax rates, and after applying the 3% phase-out provision, is required to add the recapture amount of tax as indicated below. The result of the recapture tax is essentially that the entire AGI is taxed at the highest income tax rate, without the benefit of graduated rates.

- Filing status is Single or Married filing separately: If Connecticut AGI is more than \$200,000.
- Filing status is Head of household: If Connecticut AGI is more than \$320,000.
- Filing status is Joint or Qualifying widow(er): If Connecticut AGI is more than \$400,000.

tax tip**27****RESIDENCY CAUTION**

Your principal residence is in Connecticut but you work in New York City and maintain an apartment there. During the year you were present in New York for more than 183 days. You are a statutory resident of both New York State and New York City for tax purposes. As a result, Connecticut, New York State, and New York City would tax all of your income. A partial credit is available to offset some of this additional tax.

You can eliminate this tax by being present in New York State for 183 days or less or by eliminating the New York City apartment. By statute, a partial day in New York is considered a full day spent in New York with minor exceptions. Also, a day working at your home in Connecticut will be considered by New York to be a day working in New York, while Connecticut will consider it a day working in Connecticut. Therefore, income allocated to these days will be taxed by both New York State and Connecticut with no offsetting credit. Be sure to maintain substantiation to support the days in and out of New York.

DEDUCTION ADJUSTMENTS

No deductions are allowed for itemized deductions, as Connecticut is a "gross income" state, as modified by the income exclusions noted above.

Connecticut allows resident individual taxpayers' income tax credits for real estate and personal property taxes paid to Connecticut political subdivisions on their primary residences or privately owned or leased motor vehicles. The maximum credit of \$200 cannot exceed your personal tax liability. These credits are phased out for higher income persons. For the taxable years commencing January 1, 2018, the property tax credit will only be allowed for a resident who is 65 or older before the close of the applicable year, or who files a return under the federal income tax for the applicable taxable year validly claiming one or more dependents.

BONUS DEPRECIATION

Connecticut has conformed to federal rules regarding bonus depreciation, with the exception of C corporations. See the chapter on business owner issues and depreciation deductions.

IRC SEC. 179 EXPENSE

Connecticut does conform to the federal rules regarding IRC Sec. 179 depreciation expense as discussed in the business owner's issues and depreciation deductions chapter.

COLLEGE SAVINGS PROGRAM

Connecticut taxpayers may deduct contributions to the Connecticut Higher Education Trust from federal AGI, up to

\$5,000 for individual filers and \$10,000 for joint filers. Amounts in excess of the maximum allowable contributions may be carried forward for five years after the initial contribution was made.

The "CHET Baby Scholars" program provides up to \$250 toward a newborn's future college costs. For children born or adopted on or after January 1, 2015, CHET Baby Scholars will deposit \$100 into a CHET account. A second deposit of \$150 will be made if family and friends add at least \$150 to the child's enrolled CHET account within four years. The deadline to participate is 12 months after the child's birth or adoption and there are no income limitations.

TAX CUTS AND JOBS ACT IMPACT

Connecticut has passed the "Pass-Through Entity Tax" ("PET") effective for the 2018 tax year, which imposes an "income" tax on pass-through entities. This tax applies and is paid by the business entity, but individuals and corporate members of the effected business entities are entitled to an offsetting credit against their respective income tax.

chart**2018-2019 MAXIMUM PENNSYLVANIA TAX RATES****15**

State or City	Maximum Tax Rates
Pennsylvania	3.07%
Philadelphia	3.8909% (eff July 1, 2018 and subsequent years)

See chart 16 for Philadelphia rate of tax withheld on Form W-2.

chart

16

PHILADELPHIA RATE OF TAX WITHHELD ON FORM W-2 FOR WAGES

Period	Resident	Nonresident
Effective July 1, 2018	3.8809%	3.4567%
Effective July 1, 2017	3.8907%	3.4654%

PENNSYLVANIA

TAX RATES

Pennsylvania imposes a flat tax on all income at a rate of 3.07% (see Chart 15). Pennsylvania has eight categories (buckets) of income, and income/loss from one bucket may not be used to offset income/loss from another. The single flat tax rate of 3.07% applies to all types of income since Pennsylvania does not have lower tax rates for net long-term capital gains or qualifying dividend income.

Income from a business is subject to allocation and apportionment to the extent the business is “doing business” both within and outside of Pennsylvania. The default method is specific allocation if the taxpayer has books and records to substantiate the allocation. However, most taxpayers apportion their business income. The apportionment formula for Pennsylvania Personal Income Tax purposes is an equal weighted three-factor method, and the sales factor utilizes a cost of performance method.

Note: *The Pennsylvania three-factor apportionment method, based upon cost of performance, differs from the corporate tax apportionment method of a single sales factor based upon market sourcing.*

Philadelphia imposes a Wage Tax on compensation earned by residents of the City and on nonresidents who work within the City. The tax rate for compensation paid after July 1, 2018 is 3.8809% for residents and 3.4657% for nonresidents. However, nonresidents may apportion their income based upon duty days spent working within the City of Philadelphia.

Philadelphia imposes an unearned income tax, known as the “School Income Tax,” upon all residents of the City. The tax rate for 2018 and subsequent years is 3.8809%. Some examples of taxable unearned income are dividends, certain rents and

royalties, S corporation distributed income, and short-term (held for six months or less) capital gains. Earned income that is otherwise subject to the Philadelphia Business Income and Receipt Tax (“BIRT”), the Net Profits Tax (“NPT”) or Wage Tax is not subject to the School Income Tax.

Philadelphia imposes a BIRT (f/k/a the Business Privilege Tax (“BPT”)) upon all persons engaged in business within the City. “Persons” includes individuals, partnerships, associations and corporations. Rental activities are usually considered to be business activities. The BIRT is the sum of two taxes; one on income and one on gross receipts. For 2018 and 2019, the gross receipts tax rate is 0.1415%, and the income tax rate is 6.30% and 6.25% respectively on net taxable income. For the 2018 and subsequent tax years, the income tax apportionment methodology is a single sales factor. The sales factor and taxable receipts for the gross receipts tax are determined on a cost of performance method for most businesses, notably software companies use market-based sourcing of receipts.

Philadelphia imposes a NPT on the net profits from the operation of a trade, business, profession, enterprise or other activity conducted by individuals, LLCs, partnerships, associations or estates and trusts. The tax is imposed on the entire net profit of any self-employed person who is a resident of Philadelphia regardless of the location of the business. It is also imposed on businesses conducted in Philadelphia by nonresidents. Corporations are not subject to this tax. Also, the proportionate amount of partnership, LLC, and other association income attributable to corporate partners or members is exempt from the NPT. For residents, the NPT rate is 3.8809% for 2018 and subsequent years, and for nonresidents the NPT rate is 3.4657% for 2018 and subsequent years.

DEDUCTION ADJUSTMENTS

No deductions are allowed for itemized deductions, as Pennsylvania is a “gross income” state, as modified by the income exclusions noted above.

TAX CUTS AND JOBS ACT IMPACT

Because the starting point for computing Pennsylvania corporate taxable income is federal taxable income before net operating loss deduction and special deductions, Pennsylvania generally conforms to the IRC as currently amended, and therefore conforms to the changes in the Tax Cuts and Jobs Act unless specifically adjusted by Pennsylvania law. Pa. Stat. Ann. 72 §7401(3)(1)(a).

For Pennsylvania personal income tax purposes, most of the personal income tax changes contained in the TCJA are expected to have minimal or no impact, in the absence of legislation, because the Pennsylvania personal income tax is not based on the federal tax system.

The Pennsylvania personal income does not adopt the Internal Revenue Code nor does it adopt or use a taxpayer's federal adjusted gross income or federal taxable income in the state taxable income calculation. Thus, federal law changes such as the lowering of individual income tax rates, the deemed repatriation rules under IRC Sec. 965, doubling of the standard deduction, limits on deductions for mortgage interest, reduced deductions for property tax and income tax, removal of personal exemption deductions, limiting the deductibility of meals and entertainment, the QBI deduction, etc. should have no impact on a taxpayer's Pennsylvania liability.

BONUS DEPRECIATION

Pennsylvania requires that taxpayers add back the federal bonus depreciation. For property placed in service before September 27, 2017, the taxpayer may continue to subtract an amount equal to three-sevenths of the taxpayer's ordinary depreciation deduction under IRC Sec 167. The deduction may be claimed in succeeding taxable years until the entire amount of the addback has been claimed. Any disallowed depreciation not claimed as a result of the subtraction may be claimed in the last year that the property is depreciated for federal tax purpose. For property placed in service after September 27, 2017, the taxpayer is required to add back the federal bonus depreciation but may again continue to take ordinary depreciation deduction under IRC Sec. 167 and/or IRC Sec. 168, but not under IRC Sec. 168(k). This new provision generally gets a taxpayer back to the three-sevenths rule historically provided in Pennsylvania.

IRC SEC. 179

Pennsylvania permits a limited deduction of up to a maximum of \$25,000 using IRC Sec. 179. If you have more than one

business, farm or profession, you may not deduct more than a total of \$25,000 of IRC Sec. 179 costs for all activities. To the extent higher IRC Sec. 179 deductions were taken for federal purposes, you will need to separately compute your Pennsylvania depreciation deductions.

COLLEGE SAVINGS PROGRAM

Pennsylvania allows a deduction of up to the maximum federal annual exclusion amount of \$15,000 (\$30,000 if married filing jointly) for 2018 to any Pennsylvania or non-Pennsylvania 529 plan in computing Pennsylvania taxable income. The deduction amount is tied to the federal annual gift exclusion.

CALIFORNIA

TAX RATES

California's top marginal income tax rate is 12.3% for the 2018 tax year. This rate applies to all types of income since California does not have lower tax rates for net long-term capital gains or qualifying dividend income.

The following table shows the 2018 marginal tax rates in effect for married filing joint taxpayers:

Taxable Income:	
\$572,984 or less	9.3%
\$572,984 to \$687,576	10.3%
\$687,576 to \$1,145,960	11.3%
Over \$1,145,960	12.3%

There is an additional Mental Health Services Tax of 1% for taxable income in excess of \$1,000,000.

BONUS DEPRECIATION

California did not conform to the federal bonus depreciation provisions.

IRC SEC. 179 EXPENSE

California law only allows a maximum deduction of \$25,000. The California maximum expensing amount is reduced dollar-for-dollar by the amount of qualified expensing-eligible property placed in service during the year in excess of \$200,000. California's \$200,000 phase-out threshold is not adjusted for inflation.

ESTIMATED TAX PAYMENTS

Installments due shall be 30% of the required annual payment for the first required installment, 40% of the required annual payment for the second required installment, and 30% of the required annual payment for the fourth required installment. No payment is required for the third installment.

You are to remit all payments electronically once you make an estimate or extension payment exceeding \$20,000 or you file an original return with a total liability over \$80,000 for any taxable year that begins on or after January 1, 2009. Once you meet the threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically. Individuals who do not pay electronically will be subject to a 1% noncompliance penalty.

There are limits on the use of the prior year's tax safe harbor. Individuals who are required to make estimated tax payments, and whose California AGI is more than \$150,000 (or \$75,000 for married filing separately), must figure estimated tax based on the lesser of 90% of their current year's tax or 110% of their prior year's tax including AMT. Taxpayers with current year's California AGI equal or greater than \$1,000,000 (or \$500,000 for married filing separately) must figure estimated tax based on 90% of their tax for the current year.

NET OPERATING LOSS CARRYOVERS

Net operating losses attributable to taxable years beginning on or after January 1, 2015 can be carried back in full. A taxpayer may elect to relinquish the entire carryback period with respect to a net operating loss for any taxable year. If the taxpayer elects to relinquish the carryback period, the net operating loss is carried forward only to the years eligible under the applicable carryover period.

CHILD AND DEPENDENT CARE BENEFITS

California does not allow the pretax deduction of dependent care benefits as a reduction of W-2 wage income. The amount

of dependent care benefits deferred by the taxpayer is added back to California income as a separate adjustment to wages.

IRC SEC. 1031 LIKE-KIND EXCHANGES

Effective January 1, 2014, taxpayers that exchange a California property for a property outside the state will be taxed on the deferred gain upon the eventual sale of the replacement property. The taxpayer must file Form 3840 for each year as long as they own the out-of-state property. The purpose of the filing is to notify California that the taxpayer continues to hold the replacement property and acknowledges the deferred liability. The annual filing is required regardless of whether the taxpayer has any need to otherwise file a California tax return in any year.

TAX CUTS AND JOBS ACT IMPACT

California has not conformed with federal tax law changes since 2015. Most importantly, many itemized deductions that have been disallowed or limited under the TCJA are not taken into account in determining California taxable income. Key amount these nonconforming exceptions are the following:

- Personal residence debt limit is still \$1.1 million for deduction of interest
- Second home interest is still deductible
- Real estate taxes are not limited to \$10,000 per year
- Miscellaneous itemized deductions are not eliminated
- California does not have a 20% income deduction under IRC Sec. 199A
- Non-meal entertainment expenses are deductible

FLORIDA

TAX RATES

Florida does not impose a personal income tax.

PROPERTY TAX EXEMPTIONS

Florida resident property owners may receive an exemption from a portion of Florida property taxes. The homestead

exemption provides that the first \$25,000 of the value of a taxpayer's primary, permanent Florida residence is exempt from all property taxes, including school district taxes. The second \$25,000 of value is fully taxable, and the third \$25,000 of value is exempt from all non-school taxes.

In addition to the homestead exemption, there are \$500 exemptions from property tax available to widows and widowers who have not remarried and to legally blind individuals. Florida also provides property tax exemptions for military veterans and military members deployed during the previous calendar year.

S CORPORATIONS

Florida recognizes the federal S corporation election and does not impose tax on S corporations except for years when they are liable for federal tax. Tax on taxable S corporations is imposed only on built-in gains and passive investment income. Because Florida does not have a personal income tax, other S corporation income is not taxed.

Qualified subchapter S subsidiaries are not treated as separate corporations or entities from the S corporation parent.

TAX CUTS AND JOBS ACT IMPACT

For corporate income tax purposes, Florida continues to adopt the IRC as amended annually and did so again in 2018. The IRC (with TCJA amendments) in effect on January 1, 2018 was adopted, but with specific exceptions which generally remain unchanged by the TCJA amendments.

BONUS DEPRECIATION AND IRC SEC. 179 EXPENSING

C corporations are taxed in Florida.

Florida decouples from the federal IRC provisions related to regular and bonus depreciation. Taxpayers must add-back to taxable income an amount equal to 100% of any amount deducted for federal income tax purposes as bonus depreciation for the taxable year pursuant to IRC Sec. 167, IRC Sec. 168(k) and IRC Sec. 169, for property placed in service after December 31, 2007, and before January 1, 2021. For the taxable year and for each of the six subsequent taxable years, taxpayers must subtract from this taxable income an amount equal to one-seventh of the amount by which taxable income was increased by the addition. It is presumed that Florida will likely

continue to decouple from the new federal law related to bonus depreciation and not permit immediate expensing of certain qualified business assets.

For tax years beginning before January 1, 2015, Florida required that taxpayers add back to taxable income 100% of IRC Sec. 179 deductions in excess of \$128,000 and deduct one-seventh of the addback each year for seven years. For assets placed in service after 2014, no addbacks are required for IRC Sec. 179 deductions. Florida currently conforms to the IRC as of January 1, 2018, and so it has adopted the changes made by the TCJA related to expensing certain depreciable business assets.

OTHER CONSIDERATIONS

BUILD AMERICA BONDS

Build America Bonds (tax credit type) provide the bondholder a non-refundable tax credit of 35% of the interest paid on the bond each year. If the bondholder lacks sufficient tax liability in any year to fully utilize that year's credit, the excess credit can be carried forward for use in future years.

NONRESIDENT TAXATION

Residents of New York, New Jersey, Connecticut, Pennsylvania or California working in other states as nonresidents are taxed by that other state. The income subject to tax is generally based on an allocation of salary and other earned income, using a formula comparing days worked within and outside the state. Also, the sale of real property located in a nonresident state by a nonresident is typically subject to tax by the nonresident state. This includes the gain on the sale of a cooperative apartment by a nonresident of New York State. However, you are allowed to reduce your resident state tax by a credit amount based on the tax paid to the nonresident state, subject to limitations.

Note: *New York State treats days worked at home for the convenience of the employee as days worked in New York. To qualify as a day worked outside New York, you must prove that there was a legitimate business reason that required you to be out of state, such as meeting with a client or customer. You should keep a diary or calendar of your activities and with supporting documents proving your whereabouts (e.g., airplane tickets, credit card statements, bank statements and your passport).*

New York taxes certain income received by a nonresident related to a business, trade, profession or occupation previously carried out within New York, whether or not as an employee. This income

includes, but is not limited to, income related to covenants not to compete and income related to termination agreements.

Note: *Pennsylvania has signed reciprocal agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia under which one state will not tax employee compensation subject to employer withholding by the other states. These agreements apply to employee compensation only and not to income from sole proprietorships, partnerships and other entities.*

Note: *Other state tax credits are allowed for California residents for net income taxes paid to another state (not including any tax comparable to California's alternative minimum tax) on income also subject to the California income tax. No credit is allowed if the other state allows California residents a credit for net income taxes paid to California. These reverse credit states include Arizona, Indiana, Oregon and Virginia.*

RESIDENCY CAUTION

Individuals who maintain a residence in one jurisdiction, such as New York City, but also have a residence in another jurisdiction must be very careful to avoid the strict rules that could make them a resident of both jurisdictions for tax purposes (see Tax Tip 27). Generally, if you maintain a permanent place of abode in New York, New Jersey, Connecticut or Pennsylvania and spend more than 183 days in that state, you will be taxed as a resident of that state even if your primary residence is in another state. California applies a similar test using nine months as the threshold, unless you can prove that the time spent in the state was due to a temporary or transitory purpose. In addition, the domicile test treats you as a resident of New York or New Jersey even if you only spend as little as 30 days in the state if you continue to be domiciled there. "Domicile" is generally defined as the place which is most central to your life and is determined using a facts and circumstances test.

STATE ESTATE OR INHERITANCE TAXES

New York, New Jersey, Connecticut and Pennsylvania impose an estate or inheritance tax on persons who are domiciled in the state or have property located in the state. California and Florida do not have an estate or inheritance tax. See the chapter on estate and gift tax planning for a further discussion.

Connecticut is the only state in the country that imposes a state gift tax. The gift tax is imposed if the aggregate amount of Connecticut taxable gifts made on or after January 1, 2005 is \$2,000,000. For 2018, this threshold increases to \$2,600,000 and for 2019, it will be \$3,600,000. The maximum amount of gift or estate tax that a donor or decedent will be required to pay is \$20 million for 2018. For 2019, this amount is adjusted to \$15 million.