

# **Documentation for a Comprehensive Historical U.S Federal and State Income Tax Calculator Program**

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## Abstract:

This paper provides documentation for a tax calculator program that models federal and state personal income taxes at a high level of detail for a large number of years. The current edition of the program covers federal personal income tax law from 1913 through 2017 (with projected future law through 2027, although not yet reflecting the provisions of TCJA), and state income tax laws from 1900 through 2017. The documentation explains the structure of the program, provides a variable-by-variable description of the data, and supplies references to sources of information on historical tax laws. [JEL Classifications: H20, H24, H71. Keywords: Personal Income Taxation, Federal Income Tax, State Income Tax.]

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## I. OVERVIEW

*IncTaxCalc* is a federal and state personal income tax calculator program written in SAS that currently covers state law for 1900 through 2017, and federal law for 1913 through 2017, with projected federal law through 2027. The current edition of the calculator includes all major features of federal and state personal income tax laws in all of these years. This preliminary version of *IncTaxCalc* is not currently available to the public, and can only be used by permission of the author. I may make it freely available to the public at some future date. The intended uses of the program are to support economic research, and to perform simulations of the impacts of potential policy reforms. I do sometimes make it available to researchers working on non-competing research projects under various arrangements. Among other applications, the Urban Institute is currently using a portion of the program under contract to serve as a component of its MINT and DYNASIM microsimulation models, and it is also used to perform state tax calculations for the Urban-Brookings Tax Policy Center microsimulation model. Any research making use of the calculator or results from the calculator should cite this document for the time being.

## II. STRUCTURE OF THE PROGRAM

### **Tax law data**

*IncTaxCalc* consists of a single SAS program (*IncTaxCalc.sas*) and two data sets of federal and state tax parameters: *IncTaxFed.xlsx* (which contains the parameters of federal income tax laws) and *IncTaxState.xlsx* (which contains the parameters of state income tax laws). Each of the tax parameter data sets is also included as a comma-delimited (.csv) ASCII text file: *IncTaxFed.csv* and *IncTaxState.csv*. The .csv versions omit the first row (containing the variable names), and are the files that the .sas program actually reads in. We use simple ASCII text .csv files to facilitate transportability across platforms. In each of the tax parameter data sets, there are three rows (records) for each calendar year between 1900 and 2015 (or 2027 for federal) during which a personal income tax existed for the federal government or the state in question, with one row for each filing status (single, married, and head of household). Each column represents a different variable containing information about some aspect of the tax law. The tax law information can easily be edited, updated, or changed for policy simulation purposes by making copies of the .xlsx files, saving them as .csv files, and deleting the first row of each .csv file. If you save them under a different name than the default (*IncTaxFed* or *IncTaxState*), a parameter in the SAS macro that calls the tax calculator allows you to specify different names for the tax parameter files. (See “User-selected options within the SAS program” below).

### **Input data set with taxpayer information**

The user must supply an input data set containing information on each taxpaying unit. There are 74 variables included in the input data set, representing various characteristics of the taxpaying unit (e.g., marital status, age of primary taxpayer and spouse, number of

children, etc.) and the values of various components of income and deductions. The input data set is described further in section V below.

### **How it works**

The user must supply an input data set where each record represents a tax unit (i.e., an individual income tax return, where the “tax unit” includes all the individuals represented on one return). Each tax unit must have values for each of the 74 variables required for the input data set, including information on year, state, age, values of components of income, potentially deductible expenses, and certain credits. The SAS program then merges each individual tax record with the applicable federal and state tax law parameters from IncTaxFed.csv and IncTaxState.csv. To speed processing, the calculator actually uses the “lookup table” approach in SAS (relying on the “key=” feature of the “set” statement and indexed data sets) instead of the “merge” statement. The calculator then runs through the records all at once to calculate tax liabilities and other variables of interest. First, federal tax liability is calculated. Then state tax liability is calculated, and the federal tax variables that were just calculated in the first step are used to help compute state tax liability (for example, this takes into account if federal taxes are deductible at the state level, if state itemization status is required to be the same as federal, if there is a state AMT that depends on the federal AMT, etc.). Then federal tax liability is recalculated, using the state tax liability calculated in the previous step to calculate itemized deductions (and anything else in the federal tax that depends on state taxes). Federal itemization status is chosen to minimize combined federal-state income tax liability. Then state tax liability is recalculated using the newly recalculated federal tax variables from the previous step. And so on, for six iterations each of the federal and state tax computations. Then, once that is done, a small increment chosen by the user (say, \$0.10) is added to some variable chosen by the user (say, wage and salary income of the primary earner), and then the entire set of iterations is done again. The marginal tax rate (**mtr**) is then the change in combined federal-state tax liability caused by adding the increment, divided by the size of the increment; the federal marginal tax rate (**mtrf**) is the change in federal tax liability divided by the size of the increment; and the state marginal tax rate (**mtrs**) is the change in state tax liability divided by the size of the increment. So this fully takes into account *all* interactions between federal and state income taxes -- deductibility of state taxes at the federal level, deductibility of federal income tax at the state level where applicable, federal and state minimum taxes, itemization status, and lots of other complicated interactions as well. Finally, the program produces a basic output data set with tax liability and tax rate information, or optionally produces a more detailed data set with the basic output plus information on many details of the tax calculation.

## User-selected options within the SAS program

There are a number of options that the user can modify, all of which are included at the very top or the very bottom of the SAS tax calculator program (*IncTaxCalc.sas*).

Top of program: relevant pathnames on the local computer system need to be specified at here.

Bottom of program: At the bottom of the program, the user can select a variety of options by choosing the values of the “parameters” of the *IncTaxCalc* SAS macro command, which is reproduced below:

```
%IncTaxCalc(  
programpath= ,  
inputpath= ,  
outputpath= ,  
inputset= ,  
outputset= ,  
fedparam= ,  
stateparam= ,  
loadparam= ,  
mtrvar= ,  
incrementkind= ,  
incrementquantity= ,  
detail= ,  
inputformat= ,  
outputformat= ,  
reverseMTR= ,  
checkMTR= ,  
statecodetype= ,  
yearstart= ,  
cbinclude= ,  
local= ) ;
```

Each name to the left of an equals sign within the parentheses above is a macro “parameter.” Options can be chosen by filling in values to the right of each equals sign. The meaning of each parameter, and its possible values, are given below.

**programpath** Pathname of directory where program and federal and state tax law parameter data sets are stored. Do not put slash at end. (Example: C:\files\taxcalc).

**inputpath** Pathname of directory where data on individual taxpayers are stored. Do not put slash at end.

**outputpath** Pathname of directory where output data sets containing calculated tax rates, tax liabilities, details of tax calculation, and log file are sent. Do not put slash at end.

**inputset** Name of input data set with individual taxpayer information. Do not include any file extension.

|                          |   |
|--------------------------|---|
| <b>outputset</b>         | Name of output data set containing calculated tax rates, tax liabilities, and details of tax calculation. Do not include any file extension.  |
| <b>fedparam</b>          | Name of data set containing parameters of federal law. Do not include file extension. For baseline federal tax parameters use <i>IncTaxFed</i> .  |
| <b>stateparam</b>        | Name of data set containing parameters of state law. Do not include file extension. For baseline state tax parameters use <i>IncTaxState</i> .  |
| <b>loadparam</b>         | Specify whether to load the federal and state tax law parameter data sets.<br><br><i>0</i> -- No, do not load the text tax law parameter data sets. You may want to choose this option if you have already run the <i>IncTaxCalc</i> macro at least once during this SAS session and do not want to change the parameters of federal or state laws. In that case, the program will just read the temporary SAS data sets for federal and state tax law parameters that are already in the working directory, which will slightly reduce processing time.<br><br><i>1</i> = Yes, do load the text tax law parameter data sets. Always choose this the first time you are running <i>IncTaxCalc</i> during this SAS session, or if you want to change the tax law parameters. |
| <b>mtrvar</b>            | The marginal tax rate is calculated with respect to the variable specified in <b>mtrvar</b> . Any income or deduction variable in the input data set can be used.   |
| <b>incrementkind</b>     | Type of marginal tax rate increment. The marginal tax rate is calculated by adding an increment to the income component or deduction chosen in <b>mtrvar</b> above. The increment can be either a fixed dollar amount ( <b>incrementkind=dollar</b> ), or a percentage of income ( <b>incrementkind=incpct</b> ). If the latter is chosen, the increment applied will be the maximum of $(incpct/100)*income$ or \$0.10, to deal with situations where income is non-positive.  |
| <b>incrementquantity</b> | Size of increment used to calculate marginal tax rate. If <b>incrementkind=dollar</b> , then put the dollar amount here. If <b>incrementkind=incpct</b> , then put the percentage here (e.g., if the increment is 10% of income, then write 10). Note that calculator does not allow the addition of the increment to change itemization status. This helps avoid certain situations that would otherwise   |

produce enormous marginal tax rates. Because itemization status is held constant before and after adding the increment, marginal tax rate estimates calculated using large increments should be interpreted with caution. If **incrementquantity** = 0 the calculator will not perform marginal tax rate calculations. If you do not need marginal tax rates, the **incrementquantity** = 0 option will save you some time because it will reduce the number of iterations that the calculator performs.

## **detail**

Indicator for whether to produce an output file containing only the basic tax results, or an output file containing the details of the tax calculations.

0 = Produce basic output data set.

1 = Produce detailed output data set.

2 = Produce detailed output data set, plus create a separate file containing the values of all variables at the end of each iteration of federal or state tax calculation. Note that the code implementing this is normally commented out of the program, so that choosing **detail** = 2 will just produce the same results as **detail** = 1 unless the user goes into the program and removes the relevant comment lines (which all uniquely include the term "save all variables from all iterations"). This is useful for debugging purposes, but be cautious as this creates a tremendous amount of output. It is best to use this option for test purposes only, with a very small input data set. This produces 27 separate files, named allvars01 through allvars27, with larger numbers representing later iterations. Some of the files will be empty, depending on how many iterations the calculator actually executed (for example, allvars19 through allvars27 will be empty if the program did not re-calculate marginal tax rates a second time after subtracting an increment from a variable). The relevant code is normally commented out to avoid creating 27 unnecessary empty files. Some useful reference variables in this output data set include: **iteration** (which equals 1 before an increment is added to a variable to calculate marginal tax rates, 2 after adding the increment, and 3 if marginal tax rates are being re-calculated after subtracting an increment); **deductcycle** (which ranges from 0 to 6, increases by one each time the federal tax calculator is executed, and resets to zero when **iteration** increases); and **lastcalc**, which indicates which portion of the calculator, state, federal, or none, was most recently executed.

## **inputformat**

Format of input data set.

0 = Tab delimited text

1 = Permanent SAS data set

2 = Temporary SAS data set in working directory. If this option is chosen, the program will assume that the data set specified in



**inputset** above is a temporary SAS data set in the working directory, and will ignore **inputpath**. Choosing this option can speed processing a bit if your **inputset** is already in working memory.

|                      |   |
|----------------------|---|
| <b>outputformat</b>  | Format of output data set.<br><i>0</i> = Comma delimited text file<br><i>1</i> = Permanent SAS data set.<br><i>2</i> = Temporary SAS data set. If this option is chosen, a temporary SAS data set is written to the working directory, and <b>outputpath</b> above is ignored.  |
| <b>reverseMTR</b>    | Optional alternative marginal tax rate calculation to eliminate notches. When set to <i>0</i> , marginal tax rate will be calculated by adding an increment to the variable specified in <b>mtrvar</b> . If <b>reverseMTR</b> is set to <i>1</i> , then marginal tax rates will be computed first by adding an increment to the initial value, and then, if the absolute value of the marginal rate is greater than the value of <b>checkMTR</b> below, it will be calculated again by subtracting the increment from the initial value. Results will be reported for the case where the overall marginal tax rate is smallest in absolute value. When <b>reverseMTR</b> = 1, the calculator will also perform the alternative marginal rate calculation if <b>mtrfns</b> > <b>checkMTR</b> , in which case results are reported for the case where the maximum of the absolute values of <b>mtr</b> and <b>mtrfns</b> is minimized. (The <b>mtr</b> is the overall marginal tax rate, and the <b>mtrfns</b> is the federal marginal tax rate computed setting state income taxes to zero). |
| <b>checkMTR</b>      | Absolute value of marginal tax rate, expressed as a decimal, above which the <b>reverseMTR</b> calculation described above will be performed.   |
| <b>statecodetype</b> | Type of state code in input data set.<br><i>0</i> = Two-letter postal abbreviation.<br><i>1</i> = IRS Statistics of Income 2-digit numeric code.  |
| <b>yearstart</b>     | Earliest year of federal or state tax parameter data needed. Setting this to a later year can speed processing time.  |
| <b>cbinclude</b>     | Include circuit breaker property tax credits in income tax calculation? Note that a completely accurate circuit-breaker calculation would require information on property tax for non-itemizers, rent, and in a few cases home value.<br><i>0</i> = Ignore all circuit breaker property tax credits   |

1 = Only include circuit breakers that are implemented through the income tax.

2 = Include circuit breakers that are implemented through the income tax, plus any rent circuit breakers that are not on the income tax form.

3 = Include all circuit breakers including those that have nothing to do with the income tax.

## **local**

Include local income taxes? Warning: currently, the tax calculator only allows for a very rough approximation of local income taxes, and only for 1977 and later years. See documentation for the variables **localrate** and **localtype**.

0 = Do not calculate local income tax bill.

1 = Calculate local income tax bill for all states with local income taxes.

2 = Calculate local income tax bill only for states that have significant local income taxes that apply throughout the state (Indiana, Maryland, and Pennsylvania). Note that local tax calculations for these states are considerably more accurate than for other states.

Note that it is also possible to store the whole program as a compiled macro and then to call it from within another SAS program using the SAS Autocall facility. To do this, take the following steps:

- 1) Create a directory to store SAS macros (e.g., C:\SASmacros).
- 2) Copy *IncTaxCalc.sas* into that directory
- 3) In the SAS program where you want to invoke the tax calculator, write the following lines of code at the top of the program:

```
filename macs "c:\SASmacros" ;  
options maautosource ;  
options sasautos=macs ;
```

- 4) Write a line of code in your program that invokes the *IncTaxCalc* macro, i.e.,

```
%IncTaxCalc( ) ;
```

Where all of the parameters noted above are included in the parentheses.

## **SAS Log File**

The calculator program can be modified to send the SAS log file to a file called *IncTaxCalc.log*, in the directory specified in the *outputpath* option described above. This avoids problems that occur when the log file exceeds the maximum length for the SAS

log window. This can be accomplished by un-commenting the following lines that are present near the top of IncTaxCalc.sas:

```
PROC PRINTTO LOG=" &outputpath.\IncTaxCalc.log " NEW;  
RUN;
```

### III. SOURCES OF INFORMATION

For the federal income tax, our sources of information included the tax forms, instructions, and glossary of terms included annually in the IRS Statistics of Income *Individual Income Tax Returns* publication, forms and instructions provided to us by the IRS for each year since 1913, and forms and instructions accessed through the IRS web site <<http://www.irs.gov>> for years since 1992.

For state income taxes, we used a variety of sources. For recent years, we relied heavily on state income tax forms and instructions posted on the web (see, for example, <http://www.taxadmin.org/state-tax-forms> for links to forms and instructions from all states). For earlier years, our primary sources of information were the state tax laws themselves. A snapshot of all of a state's laws applying at a given point in time is provided in each state's "annotated statutes," and the laws passed by the legislature in each year are contained in the state's "session laws." "Cumulative supplements" are also published periodically; these include the up-to-date text of any sections of the law that have been amended since the last edition of the annotated statutes was published. The Lexis-Nexis legal research database contains a searchable collection of current annotated statutes, and state session laws going back to 1989. For earlier years, we made use of the excellent collections of historical state laws at the Georgetown University Law School library and the Cornell University Law School library. We were able to find annotated statutes and cumulative supplements for numerous years spanning the 20<sup>th</sup> century for each and every state. Historical notes in the annotated statutes indicate dates of amendment and reference information for the amendments for each section of the law, and in some cases describe the amendments. The amendments themselves (contained in the session laws) were retrieved in any cases where there were gaps in information between available statutes, when they could not be definitively resolved using other sources at our disposal.

We used a wide variety of other sources to help reconstruct the histories of state tax laws. At the Library of Congress, we found tax planning guides that included forms and instructions for all states for 1970, 1971, 1974, and various years between 1975 and 1978 (differing by state). A variety of secondary sources were also used. Particularly valuable for the early years was Prentice Hall's *Tax Diary and Manual*, which contained very detailed synopses of each state's tax law, and was available at the Library of Congress for almost all years between 1922 and 1954. Through interlibrary loan we were able to find copies of the extremely helpful *All States Tax Handbook* for most years between 1976 and the present (this was published in different years by Prentice Hall, Maxwell Macmillan, and Research Institute of America). Advisory Commission on Intergovernmental Relations publications, such as *Significant Features of Fiscal Federalism*, provided information on state income taxes for most years between 1961 and 1994, at varying levels of detail depending on the year. Commerce Clearing House's

*State Tax Handbook*, which includes information on brackets, rates, and exemptions, was available for most years between 1964 and 1993. The *Book of the States*, published bi-annually by the Council of State Governments, provided summaries of major changes in state tax laws enacted by state legislatures for each year between 1942 and 1993. U.S. Bureau of the Census' 1922 *Digest of State Laws Relating to Taxation and Revenue* includes fairly comprehensive descriptions of each state's tax law for that year. The Tax Foundation's *Facts and Figures on Government Finance* provided limited information (usually top and bottom rates and exemptions) roughly every other year from 1942 to the present. The National Industrial Conference Board's *State Income Taxes* (1930) described the laws as of 1929 and also included histories noting major changes in each state's income tax between its inception and that date. Blakey and Johnson (1942) provided a comprehensive explanation of state income tax laws as of 1942, and Greene (1958) provided tax rates and a few other items of information (e.g., capital gains exclusions) for 1958. The Tax Foundation's *Retail Sales and Individual Income Taxes in State Tax Structures* (1962) included useful information on state treatment of capital gains. Bogart and Gentry (1995) provide some information on state treatment of long-term capital gains between 1979 and 1990. A number other useful resources are listed in the References.

We kept extensive notes on each state, including sources of information for each aspect of state tax law coded into the calculator, as well as explanations of a few isolated areas where we had to make inferences or assumptions due to lack of information. Further information is available upon request.

Finally, decisions about how to structure the program and how to deal with various complications caused by the tax law (for example, "notches" that produce large marginal tax rates) benefited from information about NBER's *Taxsim* model provided in Feenberg and Coutts (1993) and in the notes accompanying the Internet version of that program (<http://www.nber.org/~taxsim/>).

Almost all of the sources of information that we used to construct our calculator have now been electronically scanned, and are stored as carefully indexed (but not internally searchable) PDF image files.

#### **IV. CAPABILITIES, LIMITATIONS, AND TECHNICAL DETAILS OF *INCTXCALC*, AND COMPARISON WITH NBER'S INTERNET *TAXSIM*:**

This section summarizes some of the capabilities, limitations, and technical details of *IncTaxCalc*. It also offers a comparison to the features offered by version 9 of NBER's Internet *Taxsim*, for the benefit of those who are familiar with that program. Any comparisons below refer exclusively to the Internet version of *Taxsim*, since the much more detailed full internal NBER version of *Taxsim* is not publicly available and we do not have full information about its capabilities.

- **Years**

*IncTaxCalc* currently covers the years 1913 through 2016 (with projections through 2027) for the federal income tax, and 1900 through 2015 for state income taxes. Internet *Taxsim* currently covers federal law from 1960-2016 with projections through 2023, and state law for 1977-2016. In *IncTaxCalc*, projections of federal law for 2017 through 2019 are based on current law as of June 2016, with inflation adjustments based on the Congressional Budget Office's January 2016 projections of CPI-U inflation, and the 2016 Social Security Trustees report intermediate projection for maximum earnings subject to OASDI payroll tax.

- **Portability**

*IncTaxCalc* is portable. As a result, it can be used with government data sources that, for confidentiality reasons, cannot be directly accessed by anyone but a limited group of government employees. Submitting such restricted data to the NBER for use with either the Internet or internal versions of *Taxsim* would violate confidentiality regulations. By contrast, *IncTaxCalc* can be used with such data, because government employees who are authorized to work with the data can download the program directly to their computers. NBER recently started to make portable versions of the Fortran code for *Taxsim* available to researchers on an individually-negotiated basis – if interested, contact Dan Feenberg at NBER.

- **Policy simulations**

*IncTaxCalc* has been designed in such a way that it will be fairly easy to adapt it to simulate the effects of proposed tax reforms. For example, the effects of changing various parameters of federal or state tax law can be modeled by changing the values of those parameters in a spreadsheet and then running the calculator using this modified parameter data.

- **Itemized deductions**

*IncTaxCalc* allows users to input data on each type of itemized deduction separately, and accurately models state and federal treatment of each type of deduction. Internet *Taxsim* collapses itemized deductions into three broad categories (property taxes, deductions such as mortgage interest that are not preferences for the AMT, and other itemized deductions).

- **Capital gains**

*IncTaxCalc* incorporates an approximation of the various federal and state provisions affecting the taxation of long-term capital gains. The input data set for *IncTaxCalc* allows users to specify the value of any long-term capital gains that are subject to preferential treatment, and to separately specify the value of any other capital gains or losses that are not subject to preferential treatment. The calculator then takes into account the effects of any exclusions, special tax rates, and alternative maximum taxes applying to long-term gains, albeit in a somewhat simplified fashion. For example, when long-term gains of different holding periods are taxed at different rates, *IncTaxCalc* assumes the “long-term” gains qualify for the longest holding period. Interactions between these and other features such as maximum and minimum taxes are accounted for as well. Internet *Taxsim* now offers roughly similar treatment of capital gains.

- **Minimum and maximum taxes**

*IncTaxCalc* models the federal minimum tax, alternative minimum tax, and maximum tax on earned income, as well as state minimum and maximum tax provisions. *IncTaxCalc* allows the user to input taxpayer data on each type of itemized deduction, long-term capital gains, and summary values of other minimum tax or alternative minimum tax adjustments or preferences that not derivable from other variables already in the input data set. All of these features are then taken into account appropriately in calculating minimum and maximum taxes. Internet *Taxsim* also includes approximations of the federal minimum tax, alternative minimum tax, and maximum tax on earned income, and appears to include state minimum taxes. The *IncTaxCalc* approximations should be more accurate in this case due to a richer array of input variables.

- **Income averaging**

*IncTaxCalc* includes a rough approximation to federal income-averaging laws that applied from 1964-1986, and allows users to input the variable for average lagged taxable income that is necessary to compute tax under income averaging (information on this may be available, for example, in panel data). We have not incorporated any state income averaging provisions, which in any event were quite rare (California is one example).

- **"Circuit-breaker" property tax and rent credits**

*IncTaxCalc* now includes state “circuit-breaker” credits for property taxes and rent payments, as does NBER Internet *Taxsim*. Some of these credits are incorporated into state income tax forms, while others are administered separately from the income tax. Internet *Taxsim* only includes circuit breaker credits administered through the state income tax form. In *IncTaxCalc*, users can choose which kinds of circuit breaker credits to include in the tax calculations and which kinds to leave out.

- **Treatment of other credits**

At the federal level, *IncTaxCalc* computes the EITC, child credit, credit for child care expenses, and credit for the elderly endogenously, but takes the value of other federal credits as given. At the state level, any general credits, child care credits, credits for

the elderly or retirement income, low-income credits (except for circuit-breakers), and state EITCs are computed endogenously. Any other state credits are currently ignored. It is not entirely clear which credits are computed endogenously by Internet *Taxsim*, but the list appears to include EITC, child credits, credits for child care expenses, and possibly credits related to retirement income and pensions or targeted to low-income people; other credits are apparently also ignored by Internet *Taxsim*.

- **Treatment of social security benefits and unemployment compensation**  
*IncTaxCalc* accurately models both federal and state treatment of social security benefits, and it appears that Internet *Taxsim* does the same. For unemployment compensation, *IncTaxCalc* accurately models federal treatment, but assumes that state treatment is the same as federal. We know that this assumption is incorrect in many cases, have collected the data necessary to get it right, and intend to incorporate it in a future version. It's not clear but it appears that Internet *Taxsim* may accurately incorporate differences between federal and state treatment of unemployment insurance.
- **Differences between federal and state treatment of interest income**  
The federal income tax exempts interest on state and local government bonds, and taxes interest on federal government bonds. Some, but not all, state income taxes differ from this federal approach. In a number of cases, the states exempt federal bond interest, and tax state and local government bond interest (often exempting interest from their own state's bonds). Neither *IncTaxCalc* nor *Taxsim* incorporate differences between federal and state taxes in which sorts of interest are taxed. *IncTaxCalc* does include variables for both "interest" and "federally tax-exempt interest" in the input data set; the former is assumed to be taxable interest at both the federal and state levels, while the latter is only used for computing the income measures used for the phase-in of social security benefit taxation and the phase-out of the earned income credit.
- **Adjustments to income**  
In *IncTaxCalc*, federal adjustments to income and "above the line" deductions, such as IRA contributions and student loan deductions, are not modeled in much detail. *IncTaxCalc* accurately models employee business expenses, moving expenses, the two-earner deduction, and the adjustment for one-half of social security taxes on self-employment income (the first two are variables in the input data set with taxpayer characteristics, and the latter two are computed endogenously by the calculator from other information in the input data set). But *IncTaxCalc* takes other adjustments, such as IRA and Keogh contributions, as given (these are supplied by the user in the taxpayer input data set in the variables **othadj1** and **othadj2**). Eligibility, phase-outs, etc. are not endogenously calculated for these other adjustments. Internet *Taxsim* does not have a separate input variable for adjustments, but they can be entered as negative income in the **otherprop** field. Internet *Taxsim* may compute some adjustments (such as the two-earner deduction) endogenously from other information in the input data set.

- Business and pass-through entity income**

Federal personal income tax treatment of income from partnerships, S-corporations, and sole proprietorships is assumed to apply at the state level as well in almost all cases. Our review of historical state tax laws suggests that in some cases state personal income taxes treated some of these forms of income differently than the federal income tax did, but we have not yet attempted to incorporate these differences into the calculator. An exception is that we did code in special reduced rates on pass-through entity income adopted in Kansas and Ohio in recent years.
- Other approximations.**

Some particularly complex features of the tax code have been approximated with simpler representations. One example in *IncTaxCalc* is that full details on how to calculate the amount of capital gains subject to varying kinds of special treatment are not modeled. Rather, users are asked to input a single variable representing a summary value of long-term gains subject to special treatment, and the calculator assumes that the treatment applying to gains with the longest holding period applies. There is then one other variable for capital gains not subject to special treatment, or losses. Similarly, features such as alternative minimum taxes, minimum taxes, maximum taxes, and income averaging provisions are as accurate as possible given the 74 variables we have specified in the input data set, but there are still a number of approximations arising from the fact that complete accuracy would require information on a lot more than 74 items.

### **Joint versus separate filing and division of income and deductions between spouses**

In the federal income tax before 1948, and in many states to this day, the bracket and rate structure is the same regardless of marital status. In those cases, it is usually advantageous for married couples to file separate returns in order to reduce the marriage penalty. The division of income, deductions, exemptions, and credits between spouses can affect tax liability in these cases.

To determine whether a married couple files jointly or separately, *IncTaxCalc* adheres to the following rules:

- Married couples are assumed to file jointly in the following cases: (1) at the federal level in all years from 1948 on; (2) in all community property states in all years; (3) in any state that had different tax brackets for people of different marital statuses; (4) in any state where taxpayers were required to choose the same filing status as federal in any year from 1948 on; (5) in any state where filing separately was explicitly disallowed; and (6) in any state that had a single tax rate (except in the case where **mardedtype** = 11 – see below). In all of these cases, filing jointly would generally result in a tax liability that was less than or equal to the liability from filing separately. For example, in the case of community property states, throughout history, their income taxes effectively imposed tax brackets on married couples that were twice as large as those for singles, and all income was treated as being earned 50% by each spouse, so that filing separately and filing jointly were exactly equivalent at the



state level. In 1948 and later years, there have occasionally been some rare exceptions to the rule that joint filing is always advantageous for married couples – for example, it could be advantageous to file separately when medical expenses are very large. The calculator ignores those rare exceptions.

- In the few rare cases where joint filing was not allowed under state law, the calculator always computes tax liability for married couples based on separate filing.
- In all other cases, the calculator computes tax liability for married couples under both joint and separate filing, and then chooses the one that produces the lowest tax liability for the couple. In these cases, filing separately is almost always advantageous. But joint filing could be advantageous, for example, if one spouse had large losses which could be used to offset the income of the other spouse. Also, in general, joint and separate filing produce the same result when combined taxable income falls completely into the first tax bracket.

When spouses file separately, income, exemptions, deductions, and credits are allocated to each spouse based on the following rules:

- The user specifies how each item of income is allocated between spouses in the input data set.
- Whenever the state or federal tax law leaves discretion about how to allocate deductions and exemptions between spouses filing separately, the calculator divides them so as to make the taxable incomes of each spouse as close to equal to each other as possible, which is generally consistent with tax minimization. This is because states' graduated marginal tax rate schedules were generally strictly non-decreasing in income. It is true that in a number of cases, phase-outs of various provisions could cause "bubbles" where the marginal tax rate in one income range was lower than the marginal rates imposed at higher incomes. Generally, however, these phase-outs were based on the combined (adjusted) gross incomes of both spouses, so that changing the allocation of deductions or exemptions between spouses could not help avoid the "bubbles." Therefore, it is generally true that making taxable incomes on each spouse's return as close as possible to each other would yield tax minimization.
- The allocation between spouses of exemptions, standard deductions, and credits follows the rules specified in the relevant state or federal law. In cases where there is some discretion (for instance, in some cases an exemption for married couples could be divided between the spouses in any way they choose), the deductions are allocated in order to make the taxable incomes of the two spouses as close to equal as possible. In many cases, it was required that dependent exemptions be claimed by the parent providing more than 50% of material support; this is assumed to be the parent with the higher adjusted gross income. It was a general rule that if one spouse chose to take the standard deduction, the other spouse had to do so as well, and that if one spouse took an itemized deduction, the other spouse had to itemize as well, and the calculator follows this rule.

- For itemized deductions, in almost all cases, when spouses filed separately, federal and state law either required each spouse to report his or her “own” itemized deductions (most of which were easily fungible), or the tax form explicitly stated that the spouses could divide the deductions between themselves in any manner they chose. The major exception was that deductions for income taxes generally had to be divided in proportion to how much tax each spouse actually paid, or, if this could not be determined, had to be divided in proportion to each spouse’s share of AGI. In a few states, spouses were required to divide *all* itemized deductions between the spouses in proportion to their shares of AGI.

The calculator allocates itemized deductions between spouses in the following manner. First, any deductible income taxes are either allocated to the spouse who paid them, or divided in proportion to each spouse’s AGI when the relevant income tax being deducted was based on a joint return. Second, if the state required itemized deductions to be divided in proportion to each spouse’s AGI, the calculator does so. Third, if the state did not impose such a limitation, then all itemized deductions other than income taxes are divided between the spouses in order to make the taxable incomes of the two spouses as close to equal to each other as possible. Because spouses often had more discretion about how to divide itemized deductions between themselves than they did with regards to the standard deduction, it was sometimes the case that itemization could be optimal even when total itemized deductions were less than the standard deduction. As a result, calculations for couples filing separately choose itemization status based on tax minimization rather than on a comparison between the size of itemized and standard deductions.

In the case of federal income taxes deductible in states where separate filing was advantageous prior to 1948, if a married couple filed a joint return, their joint tax liability is divided up for purposes of deductibility against the state tax in proportion to what each spouse’s federal tax liability would have been if they had filed separately. This helps avoid notches that might otherwise occur when married taxpayers switch from separate to joint status on their federal returns. Similarly, if a married couple files separately at the federal level before 1948, and lives in a state where either joint or separate filing could be advantageous depending on the circumstances, and joint state tax liability is divided up between spouses for purposes of deduction against federal tax in proportion to what the state tax liability of each spouse would have been had they filed separately. In the case of a tax where it is always advantageous for married couples to file jointly, that tax is divided up among spouses for purposes of deductibility against tax at the other level of government in proportion to the AGI of each spouse.

- Adjustments (“above the line deductions”) are allocated between spouses in the following manner. Employment-related business expense and moving expense deductions are allocated in proportion to each spouse’s share of labor income (the allocation is held constant when computing marginal tax rates). The adjustment for one-half of social security taxes on self-employment income is allocated between spouses based on the amount of such tax calculated to apply to each spouse. The two-earner couple deduction, when allowed at the state level, was generally only allowed

to couples that filed jointly. The allocation of other adjustments between spouses is specified by the user in the input data set (**othadj1** and **othadj2**).

- In the federal income tax prior to 1948, it was generally advantageous for spouses to file separately when both spouses had income. For residents of non-community-property states, each spouse was required to report his or her “own” income and itemized deductions. In the eight “community property” states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington), any labor income, any capital income arising from assets acquired during the marriage, and any itemized deductions were considered to belong equally to each spouse. As a result, married couples living in community property states generally faced smaller federal income tax liabilities than similar couples in other states. In the federal income tax calculations prior to 1948, the calculator allocates the combined income and itemized deductions of a couple in a community property state 50% to each spouse, regardless of how the income is allocated in the input data set. From 1948 on, it would generally be advantageous for residents of all states to file jointly at the federal level.

To summarize, *IncTaxCalc* allows users to allocate each component of income between spouses in any manner. In cases where separate filing may be optimal for married couples, it then allocates deductions and exemptions between spouses based on tax minimization, subject to any constraints imposed by state or federal law, and then chooses joint or separate filing status in order to minimize the couple’s combined tax bills. This does not pose any particular problems with marginal rate notches. In *IncTaxCalc*, marginal tax rates are calculated by adding an increment to any variable in the input data set representing a specific component of income or deductions. Since the input data set contains separate variables for each type of income earned by each spouse, marginal tax rates on income will be calculated with respect to a change in a particular item of income for a particular spouse. This marginal tax rate with respect to an income item will only be affected by changes in the allocation of deductions between spouses in the small number of cases where it is advantageous for spouses to file separately, and where either the state requires that deductions be allocated in proportion to each spouse’s share of AGI, or where the spouses’ taxable incomes would otherwise be equal to each other (or where the difference between them was smaller than the increment used to calculate the marginal rate). But in those cases this does in fact accurately reflect the effective marginal tax rate on a particular spouse’s income. In the case of marginal tax rates with respect to deductions, the input data set only includes the aggregate amount of the deductible expense for the couple as a whole. The marginal tax rate here will be computed based on the assumption that any addition to deductible expenses will be allocated between spouses in accordance with tax minimization, subject to the constraints imposed by the tax law. In most cases, this means that when separate filing is advantageous, the marginal tax rate that is returned will represent the marginal tax rate of the higher-earning spouse. When it is possible for spouses filing separately to equalize their taxable incomes, then the marginal rate will be the un-weighted mean of the two spouses’ marginal rates, which is generally the same as each spouse’s individual marginal rate in that case.

## Notches and Other Sources of Strange Marginal Tax Rates

“Notches” are situations where a small change in income or deduction causes a very large change in tax liability. For example, a number of states operate tax credits or exemptions that are available to anyone with income below a certain level, and zero above that income level. Notches are problematic because they result in very large marginal tax rates that act as influential outliers in a regression analysis.

*IncTaxCalc* calculates marginal rates by adding a dollar increment to an item of income or deduction, and then dividing the change in tax liability by the increment. Users can choose the size and sign of the increment. Choosing a very small increment (say, \$0.10) will help limit the number of notches. A smaller increment reduces the probability that adding the increment will cause income to cross a threshold that produces the notch. All thresholds in the program are defined as integers, the calculator automatically rounds the initial dollar values of all income and deduction variables in the input data set to the nearest integer, and the program is written so that crossing a threshold requires moving to a new integer value. As a result, adding an increment that is less than \$1 to some component of income or deduction is very unlikely to cause a notch threshold to be crossed.

As an additional measure to avoid notches, users can select an optional alternative marginal tax rate calculation. If this option is chosen, and the initial marginal tax rate is greater in absolute value than some user-selected value, then the marginal tax rate will be computed a second time by subtracting an increment from the initial value. For those cases, the reported marginal rate will be the one where the maximum of the absolute value of overall marginal tax rate (**mtr**) and the absolute value of the federal marginal tax rate computed setting state income tax to zero (**mtrfns**) is smallest. See the discussion of **reverseMTR** in part II above.

Many notches are caused by federal or state credits or deductions that are a step function of income. In cases where the step function involves many relatively small steps, *IncTaxCalc* approximates the step function with a smooth linear function. For example, the calculator applies a smooth linear phase-down of the credit rate in the federal credit for child care expenses. While this reduces the accuracy of the tax liability calculation slightly, it has the advantage that it greatly reduces the likelihood that reported marginal tax rates will be distorted by notches, while at the same time incorporating the effects of the phase-out into the reported marginal rate in a reasonable fashion. In cases where the phase-out step function involves a small number of very large discreet jumps, so that it could not be well-approximated by a linear function, the calculator incorporates the step function directly. In those cases, the notch will not affect the marginal tax rate unless adding an increment to income or deductions causes one to cross a threshold in the step function. Such a notch can then be avoided by using the **reverseMTR** feature described in part II above. Internet *Taxsim* takes a roughly similar approach to this issue.

Interactions between the federal alternative minimum tax and other features of the tax code can also cause some strange marginal tax rates in some rare cases. One issue is that when federal credits are equal to or greater than federal tax liability before credits, the AMT can cause the marginal tax rate on income to be negative. This is because from 1987 on, AMT liability equaled the tentative alternative minimum tax minus tax liability before credits. Increasing income will increase tax liability before credits, and this in turn

will reduce AMT liability as long as the marginal AMT rate is less than the marginal ordinary tax rate. When credits are larger than federal tax liability before credits, then the AMT is the only source of tax liability, so higher income can thus reduce tax liability. This is a legitimate feature of the tax code, so the program does not undo this.

Interactions between the AMT and itemized deductions are another important source of complication in some relatively rare situations. If a taxpayer is subject to the AMT, then it is no longer true that choosing the larger of itemized deductions or the standard deduction will minimize tax liability. When taxpayers are subject to AMT, the calculator chooses itemization status based on tax liability minimization, which helps avoid some large but illegitimate notches that would otherwise occur. Things are even more complicated than that, however, because in some situations, it is optimal to itemize, but increasing itemized deductions beyond a certain point would begin to increase tax liability instead of decreasing it. This can occur, for example, in the situation described above where the taxpayer is subject to AMT and credits are greater than or equal to federal tax liability before credits. Since in that situation, increasing federal tax liability before credits can reduce overall tax liability, it can become optimal to reduce rather than increase itemized deductions. A similar situation can occur in a state tax that operates a minimum tax tied to the federal minimum tax. If federal tax liability is zero and itemized deductions are very large relative to AGI, then it is possible for an increase in itemized deductions to increase state tax liability without reducing federal tax liability. So once again, tax liability is not a strictly decreasing function of itemized deductions. When calculating marginal tax rates, the calculator currently deals with these situations as follows. If adding an increment to deductions would cause combined federal-state tax liability to increase, the taxpayer is assumed to voluntarily forgo the incremental increase in deduction. An alternative approach that would generally produce the same marginal tax rate, but would arguably produce a more precise estimate of tax liability, would be to solve for the optimal value of itemized deductions, and then always restrict itemized deductions to be less than that amount. The calculator currently does not attempt to solve this particular, extremely complicated, optimization problem that only applies to an extremely small number of taxpayers. It is not even clear whether this alternative approach would more accurately capture, since it is evident from tax return data that taxpayers who are in this situation often report itemized deductions that are larger than optimal.

### **Further details on selection of itemization status**

There are some situations where simply choosing the larger of itemized deductions or the standard deduction will not minimize combined federal and state tax liability. Being on the federal alternative minimum tax is one such situation. This can also be a problem when state itemization status is constrained in some way by federal itemization status (information on these constraints is contained in the **itemiz** variable described in part XIII below), or when there is a state AMT that is a percentage of the federal AMT (see **mintaxtype** = 5 below). To take one example, there are some states where state itemization status must be identical to federal itemization status, and where the state itemized deduction is equal to the federal itemized deduction less state income taxes. In that situation, there will be some taxpayers for whom federal itemized deductions exceed

the federal standard deduction, but for whom state itemized deductions are smaller than the state standard deduction. Thus, choosing to itemize at the federal level can force the taxpayer to take a sub-optimal itemization status at the state level. The cost of constraining state itemization might make it optimal to choose a federal itemization status that does not minimize federal taxes alone.

These complications are addressed in the tax calculator by choosing the combination of federal and state itemization statuses that minimizes combined federal-state tax liability, taking into account any constraints federal itemization imposes on state itemization. First, federal tax liability is computed twice, once for each federal itemization status, and the itemization status that minimizes combined federal and state tax liability is chosen. Next, if the taxpayer lives in a state where state itemization is constrained in some way by federal itemization status, or lives in a state where the state AMT is a percentage of federal AMT, state tax liability is also computed twice, once for each federal itemization status. (In other states, choosing the itemization status that minimizes state tax liability is all that is necessary to minimize combined federal-state liability, so the program does that.) The state tax liabilities computed under each of the federal itemization statuses are then fed back into the next iteration of the federal tax calculator in order to help determine the federal itemization status that minimizes combined federal-state liability. The program goes through four iterations of the federal and state calculators. The four iterations are then repeated after adding an increment to a variable to compute marginal tax rates, but in this set of iterations, itemization status is constrained to be the same as it was in the corresponding iteration from before the marginal tax rate increment was added.

## V. TESTING

The *IncTaxCalc* tax calculator has undergone several forms of checking and testing so far.

- 1) Federal and state tax law parameters in the *IncTaxState.csv* and *IncTaxFed.csv* files were initially entered and documented by research assistants, and then comprehensively checked and edited by another set of research assistants. All of the data was then checked against the original sources, over several months of full time work, by the author. In recent years, each state's parameters have been entered by a research assistant, checked and tested by the author, and then checked again by new research assistants the following year.
- 2) A second approach was to test the calculator on sample data constructed from the Statistics of Income individual income tax return cross-sectional file from a variety of years. This procedure often involved taking data from a year when an SOI file was available, adjusting the data for inflation, and then using it to test the calculator for a different year. Tests were run in this manner for all years covered by the calculator. The log files and estimates were then checked carefully for any errors or anomalies. Odd marginal or average tax rates often serve as a particularly good

indicator that something is wrong. Any instances of such anomalies were investigated, and any errors leading to these anomalies were fixed.

- 3) A third form of testing involved comparing federal tax liability estimates with actual values from individual income tax return data. For example, I used the March 2007 version of the tax calculator to compute taxes for all returns in the 1979-90 University of Michigan public use income tax return panel (excluding married filing separately and dependent returns). The correlation between computed and actual "tax generated" (**fdtxliab\_bc** in my calculator, or **FtaxNORM** in 1987) was 0.99972. The correlation between computed and actual final federal tax liability was 0.99797. A perfect match would be impossible because the public use data blurs or omits some variables to protect confidentiality. Brad Heim (then at the Treasury department) and I also did extensive testing of the March 2007 version of the tax calculator using Treasury panel data on individual income tax return data for years between 1979 and 2005. We generally found correlations between computed and actual federal tax liability in excess of 0.99.
- 4) A fourth form of testing is to compare estimates with those from the NBER Internet *Taxsim* model. I tested the January 2007 version of *IncTaxCalc* against version 8.0 of Internet *Taxsim* for the years 1979 through 2004 in the following manner. A test data set was derived from the 1985 IRS public use cross sectional data of individual income tax returns. A random sub-sample of about 10% of the returns was taken for each year 1979-2004, taxpayers were randomly assigned to states, and all values of dollar denominated variables were adjusted for inflation between 1985 and the appropriate year. Variables for *IncTaxCalc* that have no analogues in Internet *Taxsim* (including **miscdedlim**, **charg**, **fdcred**, **otaxpref**, **oamtadj**, and **avglaginc**) were set to zero. Other *IncTaxCalc* variables were combined together where necessary to create the 22 variables in the Internet *Taxsim* input file. Marginal tax rates were computed with respect to an increment to the primary earner's wage and salary income.

When this test was conducted, the following correlations were found between tax liabilities and marginal tax rates calculated by *IncTaxCalc* and *Taxsim*.

- Federal tax liability (**taxf**): 0.99420
- State tax liability (**taxs**): 0.97649
- Federal marginal tax rate (**mtrf**): 0.96426
- State marginal tax rate (**mtrf**): 0.94574

Because of the different methodologies, assumptions, and approximations used by the two calculators (described above), we should not expect perfect correlations. These correlations suggest that they still produce reasonably similar results, though.

## VI. INPUT DATA SET WITH USER-SUPPLIED TAXPAYER INFORMATION

The input data set supplied by the user contains information specific to individual taxpayers. Each row or record represents a taxpayer, and each column or variable represents a taxpayer characteristic such as year, income, age, etc. There are 74 required variables, specified below. If you do not have any information on some of the variables in your data, zero is always an acceptable value (missing values are not acceptable for any variable). Some items that generally receive similar treatment by the law (for example, many itemized deductions) can be combined together in a single variable with minimal loss of accuracy. In the case of a text file, the variables must be in order from left to right, while in a SAS data set they just need to be associated with the appropriate variable names. The only variables that may take negative values are **businc1**, **businc2**, **farminc1**, **farminc2**, **othcg1**, **othcg2**, **rentinc1**, **rentinc2**, **partscorp1**, **partscorp2**, **othinc1**, and **othinc2**. In those cases negative values should be limited to the maximum deductible amount (taking into account things like passive loss restrictions, limitations on capital loss deductions, etc.), as these limitations on losses are not computed endogenously by the program. In the variable list below, bold indicates the variable name, and italics indicate possible values for the variable.

### ID, YEAR, STATE

- id**                    Numeric case identification number.
- year**                    Four-digit calendar year when income was actually earned by taxpayer.
- fedyear**                Four-digit calendar year for applicable federal law.  
Note that for the years 1981 through 2004, adding 0.1 to **fedyear** will cause the calculator to use the federal tax law that would have applied in that year if the most recent major federal tax reform had not been enacted. So for example, if **fedyear** = 1987.1, the calculator uses the federal tax law that would have applied in 1987 if the Tax Reform Act of 1986 had not been enacted. Federal tax reforms enacted in 1981, 1982 (changes to minimum tax and AMT), 1983 (social security), 1986, 1990, 1993, 1997, 2001, and 2003 are counted as major federal tax reforms. In general, this is only done for the first year after the tax reform is enacted. Check the federal tax parameter spreadsheet (IncTaxFed.xls) for details on when this is available.
- stateyear**              Four-digit calendar year for applicable state law.
- fedyear** and **stateyear** are specified separately from **year** because the user may want to calculate, for example, future or past tax rates for a given taxpayer, and might want to use different years for federal and state (for example, because current law becomes fully phased-in in different years at the federal and state levels). Tax law for a particular calendar year represents the tax law applying to income received in that year. Because



state tax law has only been entered through 2007 so far, if **stateyear** is set to be larger than 2007, the calculator will not calculate a state income tax liability.

**state** Code for state of residence (postal or SOI).  
This can be the two-letter postal abbreviation for state of residence, lower case. In that case, abbreviations for all 50 states and *dc* are all valid entries, and the code for unknown state is *zz*. Alternatively, **statecode** can be the IRS Statistics of Income two-digit code number for each state, with zero serving as the missing value. The user must specify which type of state code is being used via the *statecodetype* parameter in the *IncTaxCalc* macro (see section II above).

## DEMOGRAPHIC INFORMATION

**filertype** Marital / filing status.  
*s* -- single  
*m* -- married (calculator determines separate or joint filing depending on which is advantageous).  
*h* -- head of household

**deps** Number of dependent exemptions (not including taxpayer or spouse).

**kids1** Number of dependents eligible for federal child care credit or deduction.  
Age limitations:  
1954-1963: <12  
1964-1971: <13  
1972-1988: <15  
1989-present: <13

**kids2** Number of dependents eligible for federal earned income credit.  
Age limitations:  
1975-84: <19 or full-time student  
1985-90: no age limit but must be dependent child  
1991-present: <19 or full-time student < 24  
Note: supplemental credit for child <1 which applied from 1991-93 is not currently incorporated in the calculator.

**kids3** Number of dependents eligible for federal child credit.  
Age limitation, 1998-present: <17.

**agenum** Number of age exemptions / deductions.  
*0* -- None  
*1* -- Either primary taxpayer or spouse is aged 65 or over, but not both.  
*2* -- Both primary taxpayer and spouse are  $\geq 65$

|              |  |
|--------------|--|
| <b>age</b>   | Age of primary taxpayer (0 if missing).<br>Used to compute eligibility for certain state tax preferences for the elderly, where eligibility age may differ from 65. If age is not available, agenum will be used to determine eligibility.   |
| <b>agesp</b> | Age of spouse (0 if missing). See age.   |
| <b>blind</b> | Are taxpayer or spouse blind? Enter 0 for no, 1 if one of taxpayer or spouse is blind, 2 if both taxpayer and spouse are blind. Note that this is only used to calculate federal exemptions (1948-1987) and the federal standard deduction (1987 to present). We have not collected data on state tax treatment regarding blindness. |

### INCOME AND ITS COMPONENTS

|                 |  |
|-----------------|--|
| <b>income</b>   | Broad measure of income.<br>The calculator uses this variable for only two purposes: (1) it serves as a denominator for calculating an average tax rate, and (2) it is used to calculate eligibility for certain state low-income credits where eligibility depends on a broader definition of income than AGI (e.g., the measure of income may include welfare benefits, etc.). Other than (2), this variable plays no role in the calculation of tax liabilities or rates; the measure of income used to calculate tax liability is built up from its individual components below. |
| <b>wagsal1</b>  | Wage and salary income, primary earner   |
| <b>wagsal2</b>  | Wage and salary income, spouse   |
| <b>businc1</b>  | Sole proprietorship (Schedule C) net income or loss, primary earner  |
| <b>businc2</b>  | Sole proprietorship (Schedule C) net income or loss, spouse  |
| <b>farminc1</b> | Farm net income or loss (Schedule F), primary earner   |
| <b>farminc2</b> | Farm net income or loss (Schedule F), spouse   |
| <b>ltcg1</b>    | Long-term capital gain, primary earner.<br>Include here the value of long-term capital gains that may be subject to preferential treatment (exclusions, lower rates, etc.). Include the full amount of gain, not just the part included in AGI. When tax treatment for gains depends on holding period, the calculator assumes that the treatment accorded to gains with the longest holding period specified in the law applies to these gains. Include only positive values here.  |

- ltcg2** Long-term capital gain, spouse.
- othcg1** Other capital gain or deductible loss, primary earner. Include here any capital gains not subject to preferential treatment, or deductible losses. Only include the deductible portion of any loss.
- othcg2** Other capital gain or deductible loss, spouse.
- div1** Total dividend income, primary earner. This is total gross dividend income received by primary earner. Starting in 2003, there is a distinction between “qualified” dividend income (which may be subject to lower tax rates in the federal income tax) and “non-qualified” dividends (which are taxed as ordinary income). The **div1** variable should include the sum of qualified and non-qualified dividends received by the primary earner. Note that if you choose to compute marginal tax rates with respect to **div1**, the calculator only adds an increment to **div1** and *not* to **qdiv1**, so the computed marginal tax rate will be the marginal tax rate on non-qualified dividends received by the primary earner. To compute the marginal tax rate on qualified dividends received by the primary earner, you need to compute the marginal tax rate with respect to **qdiv1**.
- div2** Total dividend income, spouse. This is total gross dividend income received by the spouse. Starting in 2003, there is a distinction between “qualified” dividend income (which may be subject to lower tax rates in the federal income tax) and “non-qualified” dividends (which are taxed as ordinary income). The **div2** variable should include the sum of qualified and non-qualified dividends received by the spouse. Note that if you choose to compute marginal tax rates with respect to **div2**, the calculator only adds an increment to **div2** and *not* to **qdiv2**, so the computed marginal tax rate will be the marginal tax rate on non-qualified dividends received by the primary earner. To compute the marginal tax rate on qualified dividends received by the primary earner, you need to compute the marginal tax rate with respect to **qdiv2**.
- qdiv1** Qualified dividend income, primary earner. Before 2003, this variable is ignored and can be set to zero. In 2003 and later years, this is the portion of dividends, received by primary earner, that are subject to low tax rates. Note that if you choose to compute marginal tax rates with respect to **qdiv1**, the calculator adds an increment to both **qdiv1** and **div1**, so it assumes that this is an equal increase in qualified dividends and total dividends, not an increase in qualified dividends holding total dividends constant (the latter would implicitly mean that non-qualified dividends declined by the same amount that qualified dividends increased).
- qdiv2** Qualified dividend income, spouse. Before 2003, this variable is ignored

and can be set to zero. In 2003 and later years, this is the portion of dividends, received by spouse, that are subject to low tax rates. Note that if you choose to compute marginal tax rates with respect to **qdiv2**, the calculator adds an increment to both **qdiv2** and **div2**, so it assumes that this is an equal increase in qualified dividends and total dividends, not an increase in qualified dividends holding total dividends constant (the latter would implicitly mean that non-qualified dividends declined by the same amount that qualified dividends increased).

|                   |   |
|-------------------|---|
| <b>int1</b>       | Interest income, primary earner.  |
| <b>int2</b>       | Interest income, spouse.  |
| <b>teint1</b>     | Federally tax-exempt interest income (on state and local bonds), primary earner. The calculator only uses this in computations of EITC and taxability of social security benefits. It is only available in tax return data starting in 1987.  |
| <b>teint2</b>     | Federally tax-exempt interest income, spouse.   |
| <b>pension1</b>   | Federally taxable pension income, primary earner.   |
| <b>pension2</b>   | Federally taxable pension income, spouse.   |
| <b>rentinc1</b>   | Net rental income or loss, primary earner (may be negative).  |
| <b>rentinc2</b>   | Net rental income or loss, spouse.  |
| <b>ui1</b>        | Unemployment compensation, primary earner.<br>Include gross amount; calculator determines the portion that is includable in AGI under federal law.  |
| <b>ui2</b>        | Unemployment compensation, spouse.  |
| <b>ssben1</b>     | Gross social security benefits, primary earner.<br>Note: even before social security benefits became taxable at the federal level in 1984, social security benefits can still play a role in state tax calculations in a small number of cases. A few states had retirement income exclusions or credits that depended in part on the value of social security benefits, and a tiny number of states taxed social security benefits even before 1984. |
| <b>ssben2</b>     | Gross social security benefits, spouse.   |
| <b>partscorp1</b> | Partnership and S-corporation income, primary earner.   |

Note: currently, this variable is used mainly in order to calculate tax liability in New Hampshire and Tennessee, where the tax was limited to interest and dividends (where dividends include distributions of profits from S-corporations and partnerships). The calculator does not yet capture any other differences between federal and state treatment of partnership and/or S-corporation income, except for reduced tax rates or exemptions pass-through entity income in Kansas and Ohio in recent years.

**partscorp2** Partnership and S-corporation income, spouse.

**othinc1** Other income or loss, primary earner.  
Include here any other income or loss in total (gross) income for federal tax purposes. Do not include state income tax refunds, since state income taxes are computed endogenously.

**othinc2** Other income or loss, spouse.

#### ADJUSTMENTS AND DEDUCTIONS

Note that the limitation of itemized deductions for people with AGI above certain thresholds (applicable at the federal level and in most states since 1991) is computed endogenously by the calculator. So in the variables below, report the gross value of itemized deductions before the limitation is applied. Also, in years when there is a zero bracket amount instead of a standard deduction (1977-86 at the federal level), report the full value of itemized deductions, not just the amount above the zero bracket amount.

**othadj1** Other federal adjustments to income, primary earner.  
This should include adjustments to income that are subtracted from gross income to get AGI on the federal return, except for the following: the two-earner couple deduction applying in 1982-86; moving expenses; unreimbursed employee business expenses; and one-half of social security taxes on self-employment income. The specific adjustments just mentioned are calculated endogenously based on other information available in the input data set. What's left in this variable are things like IRA contributions and the student loan interest deduction. The items in **othadj1** and **othadj2** are taken as given, not computed endogenously. States for which the variable **othadjsaf** is equal to 1 (see below) are assumed to have the same values for **othadj1** and **othadj2** as on the federal return, which is usually but not always accurate.

**othadj2** Other federal adjustments to income, spouse.

**charity** Charitable donations.

**charcg** Unrealized capital gains on donations of appreciated property.

This is included because the AMT at one time taxed these gains (from 1987-90 for tangible property, and from 1987-92 for intangible property), and because it may be useful for calculating marginal tax rates in studies of charitable giving. It is not generally available in any data set, but tax data does usually include information on the total value of non-cash contributions, which may be used to construct an imputed value. If the marginal tax rate is calculated with respect to **charcg**, it does so holding overall charity constant (so it essentially just returns the AMT marginal rate, or zero if AMT is not applicable).

- intpaid** Interest paid, other than investment interest.  
Only include interest that is deductible at the federal level – for instance, do not include consumer interest when it is not deductible, and include only the deductible portion in the years when its deductibility is being phased-out.
- invint** Investment interest paid.  
This is separated from other interest for purposes of calculating federal limitation on itemized deductions since 1991.
- stinctax** State income taxes paid (ignored if state is known)  
If state is known, the calculator ignores this variable and computes state income taxes endogenously. In that case, **stinctax** can be set to zero or any other number, and it won't affect anything (it cannot be set to missing, though – missing values are not allowed for any variable in the input data set). If state is set to the “unknown” value (*zz* or 0), then the calculator will include **stinctax** in federal itemized deductions, but will treat them as given, so that state income tax can affect federal tax liability, but not marginal tax rate. It is included because some data sets (e.g., public-use tax data) report state income tax deductions, but omit state of residence for some or all records.
- proptax** State and local property taxes paid.
- salestax** State and local sales taxes paid.
- taxnodetail** Total deductible state and local taxes, when detail by tax is unavailable. *Set this variable equal to zero if information on the particular taxes listed above is available.* This variable is used in situations where the data set only provides information on the total state and local taxes paid deduction, with no detail by type of tax. In those cases, the calculator will construct an estimated deduction for non-income taxes called **tax\_nonincome**, which will be set equal to **taxnodetail**, minus endogenously computed state income taxes. If **taxnodetail** is nonzero, the calculator will perform some extra iterations. Three iterations are run to determine the value of **tax\_nonincome**, then then **tax\_nonincome** is held constant for three more

iterations as the calculator computes the effects of cross-deductibility of state and federal taxes, etc. When the calculator is re-run to compute marginal rates, the value of **tax\_nonincome** is held constant at its value in the corresponding iteration of the first run. Caution: if **taxnodetail** > 0, **mtrfns**, **mtrsi**, **atrsi**, **taxfns**, and **taxsi** (described below) will not be computed correctly. All other output variables will be fine, however. Also note that if **taxnodetail** > 0, make sure to set **proptax**, **salestax** and **stinctax** to zero, otherwise there will be double-counting in the computation of deductions.

- medexp** Medical and dental expenses.  
Include the full amount of such expenses. The calculator endogenously applies the percentage of AGI floor in the federal personal income tax. States that allow medical expense deductions are assumed to follow federal provisions, which is almost always the case now but was not always so several decades ago.
- casualty** Casualty and theft losses  
Include the full amount of losses here. The calculator applies any percentage of AGI floors endogenously.
- movex** Deductible moving expenses.  
Calculator treats this as either an itemized deduction or as an adjustment, depending on the federal law for that year.
- busex** Unreimbursed employee business expenses.  
Calculator treats this as either an itemized deduction or as an adjustment, depending on the federal law for that year. Include full amount; calculator will incorporate 2% of AGI floor for 1987 and later.
- miscdedlim** Miscellaneous itemized deductions subject to 2% of AGI floor (instituted beginning 1987). Include full amount (other than unreimbursed employee business expenses). Calculator endogenously applies the 2% of AGI floor when applicable.
- omiscded** Other miscellaneous itemized deductions.

## CREDITS

- childcare** Expenses for child care.  
This is used to compute the federal credit for child care expenses (starting in 1976), or the itemized deduction for the same (1954-1975), as well as relevant state provisions.
- fdcred** Federal credits other than EITC, child credit, child care credit, and elderly

credit. EITC, child credit, child care credit and credit for elderly (i.e., retirement income credit) are computed endogenously by the tax calculator; other federal credits are included in this **fdcred** variable and are taken as given. Note that the calculator does not accurately capture the interaction between the foreign tax credit and the alternative minimum tax. This is unavoidable, because a correct specification of the interaction would require more information than is generally available even in income tax return data. For some applications, removing the value of the foreign tax credit from **fdcred** may be appropriate. If the goal of calculating tax liability is to compute the effect of income taxes on the individual's disposable income, then ignoring the foreign tax credit yields results that are closer to the conceptually preferred combined domestic and foreign tax liability anyway.

### INFORMATION FOR MINIMUM AND MAXIMUM TAXES

- otaxpref** Other tax preferences in base of federal minimum tax or AMT. Include here the value of any tax preference items that are added back into the base of minimum tax (1970-82) or the alternative minimum tax (1983-present), aside from capital gains exclusions, dividends exclusions, itemized deductions, standard deductions, and personal exemptions, which are computed endogenously based on other information already provided above.
- oamtadj** Other AMT adjustments. Include here the value of any AMT "adjustments" that are added back into the base of the AMT (1987-present), aside from itemized deductions, standard deductions, personal exemptions, and capital gains on charitable donations of appreciated property, and anything that is included in **otaxpref**, all of which are computed endogenously based on other information already provided above. These adjustments are separated out from **otaxpref** because tax return data contains information on both, and they are each treated differently by some state minimum taxes (e.g., NY). This variable is ignored prior to 1987. One exception to the above: if **fedyear** = 1981, then if **oamtadj** is non-zero, the calculator will assume that **oamtadj** contains information about the amount of **lctg** that was realized after June 9, 1981, and is therefore subject to the maximum tax rate of 20%. If **oamtadj** is greater than zero in 1981, the calculator assumes that **oamtadj** are gains that were realized after June 9, 1981 and thus are subject to the alternative 20% capital gains rate calculation. If **oamtadj** = -1 in 1981, the calculator assumes all of **lctg** was realized before June 9, 1981. If **oamtadj** = 0 in 1981, then the calculator will assume that all of **lctg** was realized after June 9, 1981. In all cases, the **lctg** variables should include all capital gains, regardless of when in the



year they were realized. In all cases, the calculator assumes that any marginal addition to **lctg** in 1981 occurs after June 9, 1981.

**avglaginc** Average lagged taxable income for income averaging computations. This variable is not relevant before 1964 nor after 1986 – enter zero for those years (if you enter some other number for those years, it will be ignored anyway). From 1984 to 1986, this variable should be the average of taxable income for the 3 preceding years. From 1964 to 1983, use the average from the 4 preceding years. If zero is entered for this variable, income averaging is ignored in the tax computations.

**psincome** Personal service income, used to compute the federal maximum tax on personal service income (1971-1981, also known as the maximum tax on earned income). If set to -1, this variable will be ignored and an estimate will be constructed from other variables in the input data set. This variable is not relevant for years outside of the 1971-1981 range, and can safely be set to zero in those years.

**psded** Deductions allowable against personal service income, used to compute the federal maximum tax on personal service income (1971-1981, also known as the maximum tax on earned income). This included items such as business expenses and moving expenses allocable to personal service income, contributions to IRA and Keogh plans, and some net operating losses. This variable is generally available in the SOI input files in the relevant years. If set to -1, this variable will be ignored and an estimate will be constructed from other variables available in the input data set (namely business expenses and moving expenses). For years outside of the 1971-1981 range, this variable is not relevant and is ignored by the calculator, so it can safely be set to zero in those years.

#### INFORMATION FOR CALCULATING CIRCUIT BREAKER CREDITS

The following two variables are used to calculate state "circuit breaker" credits for property taxes and rent. Home value is only rarely used to compute these credits, but rent payments are quite frequently a factor. If set to zero, the calculator will treat them as if they are really zero in the calculations. Note that the circuit breaker credit calculations can be suppressed by setting the **cbinclude** macro parameter to zero).

**rentpay** Annual rent payment (minus any government rent subsidies).

**homeval** Value of home.

#### VARIABLES NOT USED BY THE CALCULATOR, BUT WHICH ARE SOMETIMES USEFUL TO HAVE IN THE OUTPUT DATA SET

Finally, there are four variables that store information that is often useful to have in the output data set, but which play no role in the tax calculations performed in the SAS code. These were added because the Tax Policy Center finds it useful to have them in the input

and output data sets. If you don't need them, you can set them to zero or missing, and it will not have any negative consequences.

- depind** Indicator for whether this record represents a dependent filer for federal income tax purposes. The calculator currently does not compute taxes accurately for such returns.
- taxfiler** Indicator for whether this record represents an individual who filed a federal individual income tax return.
- incomealt** Alternative measure of income. This can be whatever measure of income the user prefers.
- wgt** Weight. This can be used to store a weighting variable (e.g., the inverse of the sampling probability).

## **VII. OUTPUT DATA SET**

The basic output data set contains the calculated tax liabilities and average and marginal tax rates for each taxpayer. Users can choose whether to produce a space-delimited text file or a temporary or permanent SAS dataset by setting the “outputformat” parameter in the *IncTaxCalc* macro appropriately (see above). The basic output file contains the variables listed below, in order. In the variable descriptions below, “incremental” means the difference between the combined federal and state income tax liability or rate, and what the federal tax liability or rate would be if there were no state income tax. “Bracket rate” means the marginal tax rate on taxable income in the taxpayer’s tax bracket under the normal tax calculation. Average tax rates are calculated as tax liability divided by the **income** variable supplied by the user in the input data set (if income is zero or negative, average tax rates are set to zero). All marginal rates (including social security marginal rate) are calculated with respect to a change in the component of income or deductions specified by the user. In the case of income, the marginal rate represents the increase in tax liability caused by adding a user-specified increment to that component of income, divided by the increment. In the case of a deduction, it represents the *decrease* in tax liability caused by adding a user-specified increment to that deduction, where both the decrease and the increment are expressed as positive numbers (in other words, the marginal rate is still reported as positive, even though it represents a reduction in tax liability). In the case of a charitable contribution of appreciated property, the marginal tax rate is just based on any increase in alternative minimum tax liability. Social security tax liability and rates include both employer and employee portions (or the full amount of the social security tax on self-employment income where applicable), and include both the OASDI and HI portions of the tax.

### TAXPAYER IDENTIFYING INFORMATION

- id** Numeric case id

|                  |   |
|------------------|---|
| <b>statename</b> | State of residence, lower case two-letter postal abbreviation         |
| <b>soi</b>       | Statistics of income state code                                       |
| <b>year</b>      | Year income was earned  |
| <b>stateyear</b> | Year of applicable state tax law (see next section for explanation)   |
| <b>fedyear</b>   | Year of applicable federal tax law (see next section for explanation) |

### TAX LIABILITIES

|              |  |
|--------------|--|
| <b>tax</b>   | Combined federal and state income tax liability  |
| <b>taxf</b>  | Federal income tax liability   |
| <b>taxs</b>  | State income tax liability   |
| <b>taxsi</b> | Incremental state income tax liability. That is, combined federal and state income tax liability ( <b>tax</b> ), minus what federal tax liability would be if there were no state income tax ( <b>taxfns</b> , defined below). Warning: <b>taxsi</b> is not computed correctly if <b>taxnodetail</b> >0 (see discussion of <b>mtrfns</b> below).   |
| <b>sstax</b> | Federal social security tax liability. This includes both OASDI and HI payroll taxes, and it includes both the employee and employer portions of the tax, as well as any self-employment OASDHI taxes. The self-employment portion of the tax can be recovered from the detailed output data set variables <b>FsstxliabSE1</b> and <b>FsstxliabSE1</b> . The employee or employer portion can be recovered by subtracting self-employment liability from <b>sstax</b> , and then dividing by 2 (except in 2011, when the calculation is more complicated). |

### MARGINAL TAX RATES

|               |  |
|---------------|--|
| <b>mtr</b>    | Combined federal and state marginal income tax rate. That is, increase in combined federal and state income tax liability caused by adding an increment to the variable specified in <b>mtrvar</b> , divided by the size of the increment. |
| <b>mtrf</b>   | Federal marginal income tax rate. That is, increase in federal income tax liability caused by adding an increment to the variable specified in <b>mtrvar</b> , divided by the increment.   |
| <b>mtrfns</b> | Federal marginal income tax rate ( <b>mtrf</b> ) that would apply if there were no   |

state income tax. [Warning: if the input data set on taxpayer characteristics does not break out state tax liability into its component parts (income tax, property tax, and sales tax), but rather combines them all into the **taxnodetail** variable, then **mtrfns** is not computed correctly. In that case, **mtrfns** is computed holding state tax liability constant at the value specified in **taxnodetail**, but the presence of state income tax can affect **mtrfns** by moving the taxpayer across federal tax brackets, to the extent state income tax is included in **taxnodetail**.]

- mtrfb** Federal marginal income tax bracket rate. That is, the statutory marginal tax rate applying to the taxpayer's ordinary federal taxable income, from the federal tax tables, not including the effects of any phase-outs, credits, alternative taxes, minimum or maximum taxes, special capital gains tax computations, victory tax, defense tax, deductibility of federal income tax from state taxable income, etc. For 1913-1945 and 1969-1970, **mtrfb** includes both the effects of normal tax and surtax.
- mtrfbsp** Federal marginal income tax bracket rate on spouse (equals **mtrfb** if no spouse, or if spouses file jointly)
- mtrs** State marginal income tax rate. That is, increase in state income tax liability caused by adding an increment to the variable specified in **mtrvar**, divided by the increment.
- mtrsb** State marginal income tax bracket rate. That is, That is, the statutory marginal tax rate applying to the taxpayer's ordinary state taxable income, from the state tax tables, not including the effects of any phase-outs, credits, alternative taxes, minimum or maximum taxes, special capital gains tax computations, deductibility of state tax from the federal taxable income, etc.
- mtrsbsp** State marginal income tax bracket rate on spouse (equals **mtrsb** if no spouse)
- mtrsi** Incremental state marginal tax rate. That is, the combined federal and state marginal tax rate (**mtr**), less what the federal marginal tax rate would be if there were no state income tax (**mtrfns**). Caution: because of complicated interactions between federal and state taxes, **mtrsi** can sometimes be quite large for completely legitimate reasons. For example, if the marginal tax rate is being calculated with respect to a component of itemized deductions such as charitable giving, and the presence of a state income tax causes the taxpayer to switch from non-itemizing to itemizing, **mtrsi** could equal the combined federal and state marginal tax rates. Large negative values for **mtrsi** can occur whenever adding the federal deduction for state income taxes moves the taxpayer across federal tax

brackets, or when it moves the taxpayer from federally taxable to federally nontaxable status. For example, in many years there was an alternative capital gains tax computation in the federal income tax, where tax liability equaled income tax on taxable income excluding capital gains, plus a low tax rate times the amount of capital gains. In that case, a large federal deduction for state income taxes would frequently push the taxpayer from a high marginal federal tax rate to a low marginal federal tax rate on income other than capital gains. Large negative values of **mtrsi** are also common when the value of “other federal credits” (**fdcred**) is large. When **fdcred** is large, a small change in taxable income, such as that caused by the addition of a deduction for state income tax, can rapidly shift the taxpayer from having a high marginal tax rate to having a marginal tax rate of zero (which occurs at the threshold where tax liability before the credit drops below the value of the credit). [Warning: **mtrsi** is not computed correctly if **taxnodetail**>0; see discussion of **mtrfns** above.]

**ssmtr** Federal marginal social security tax rate. Includes both employer and employee portions of the tax, self-employment payroll taxes, as well as any payroll tax for Medicare.

#### AVERAGE TAX RATES

**atr** Combined federal state average tax rate. Computed as combined federal and state income tax liability (**tax**), divided by **income**. This is set to zero if **income** is zero or negative.

**atrf** Federal average tax rate. Computed as federal income tax liability (**taxf**) divided by **income**. This is set to zero if **income** is zero or negative.

**atrs** State average tax rate. Computed as state income tax liability (**taxs**) divided by **income**. This is set to zero if **income** is zero or negative.

**atrsi** Incremental state average tax rate. Computed as combined federal and state average tax rate (**atr**) minus what the federal average tax rate would be if there were no state income tax. [Warning: **atrsi** is not computed correctly if **taxnodetail**>0; see discussion of **mtrfns** above].

**ssatr** Federal social security average tax rate. Includes both employer and employee portions of the tax, self-employment payroll taxes, as well as any payroll taxes for Medicare.

#### OPTIONAL DETAIL VARIABLES

Alternatively, the user can choose to produce a detailed output data set containing the following variables, which provide details on how taxes were calculated (this is specified

at the end of the program). There will be two versions of each of these variables reported – one version has a “\_1” suffix, indicating it is the value for the first iteration (before adding an increment to calculate marginal tax rates). The second version has a “\_2” suffix indicating it is the value for the second iteration (after adding the increment). In addition to these, the detailed output data set also includes the values of the input variables, and the values of the variables from the basic output data set listed above.

A note on separate filing: for some variables, the detailed output provides information on the value of the variable for each spouse if the couple were to file separately. The values of these variables are set to zero for unmarried taxpayers or in states or federal years when separate filing is generally disadvantageous (so that the calculator always assumes joint filing). In cases where filing separately minimizes tax burden, the value of a variable for the return as a whole will be equal to the sum of the values for each spouse. In cases where filing jointly minimizes tax burden, that will not necessarily be the case.

Note to research assistants on how to add a variable to the detailed output data set. In some cases you may want to add another variable that is computed by IncTaxCalc.sas to the detailed output data set. In order to do that, add the variable and a description of it in an appropriate place in the list of variables immediately below, and then in IncTaxCalc.sas, you will need to add the \_1 and \_2 versions of the variable (see two paragraphs above) in the following locations: (1) in “%macro detail1”, you will need to define a version of the variable with a \_1 at the end of the variable name; (2) in “%macro detail2” you will need to define a version of the variable with a \_2 at the end of the variable name; (3) in “%macro detail3” you will need to define a version of the variable with a \_2 at the end of the variable name; in “%macro DetailNoMTR” you will need to define a version of the variable with a \_2 at the end of the variable name that is set equal to the missing value code (.); in “%macro Keeper1” you will need to include both the \_1 and \_2 versions of the variable in the “keep” statement; in “%macro TaxDetail” you will need to include both the \_1 and \_2 versions of the variable in the “put” statement.

|                  |  |
|------------------|--|
| <b>increment</b> | Dollar value of increment used to calculate marginal tax rates   |
| <b>iteration</b> | This equals 2 if marginal tax rates were calculated by adding an increment, and equals 3 if the program calculated them once based on adding an increment and once based on subtracting an increment, and reported the results for the version with the smaller marginal rate in absolute value. |
| <b>taxf</b>      | Total federal income tax liability   |
| <b>taxfns</b>    | Total federal income tax liability if there were no state income tax. [Warning: not computed correctly if <b>taxnodetail</b> > 0; see discussion of <b>mtrfns</b> above.]  |
| <b>taxs</b>      | Total state income tax liability   |

|                  |  |
|------------------|--|
| <b>taxsFDED</b>  | Value of state tax income tax liability used to compute federal itemized deductions. This may differ slightly from <b>taxs</b> because in some cases it was calculated one iteration earlier, but in that case the difference should be small. Note that it may also differ from <b>taxs</b> because <b>taxsFDED</b> represents the state tax liability that would apply if the taxpayer were to itemize on the federal return, which may have implications for state tax liability, whereas <b>taxs</b> is computed using the optimal state itemization status given any constraints that may be imposed by federal itemization status. |
| <b>Fagi</b>      | Federal AGI  |
| <b>Fssagi</b>    | Social security benefits included in federal AGI   |
| <b>Fti</b>       | Federal taxable income   |
| <b>Fti1</b>      | Federal taxable income of primary taxpayer couple were to file separately. Always set to zero if not married, and in all years from 1948 on.   |
| <b>Fti2</b>      | Federal taxable income of spouse if couple were to file separately. Always set to zero if not married, and in all years from 1948 on.  |
| <b>Fsepfiler</b> | Indicator for married filing separately status for federal return (always zero if not married and from 1948 on).   |
| <b>Fexempt</b>   | Value of federal personal exemptions   |
| <b>Fstded</b>    | Value of federal standard deduction  |
| <b>Fitemded</b>  | Value of federal itemized deductions before limitation   |
| <b>Fitemizer</b> | Indicator for federal itemization status (1=itemizer, 0=not itemizer)  |
| <b>Fitemlost</b> | Federal itemized deductions lost to limitation   |
| <b>Fidmaxlim</b> | Indicator for maximum itemized deduction limitation. That is, <b>Fidmaxlim</b> equals 1 if <b>Fitemlost</b> is equal to 80% of unprotected itemized deductions (the 80% is gradually reduced over the phase-out period).   |

|                    |   |
|--------------------|---|
| <b>FtaxNORM</b>    | Federal tax liability, “normal” calculation (before other provisions listed below, which are applied sequentially). This is generally the initial tax liability computation arrived at by applying the tax rates and brackets to taxable income.        |
| <b>FtaxMAXEI</b>   | Federal income tax liability after applying maximum tax on earned income  |
| <b>FtaxALTCG</b>   | Federal income tax liability after applying any alternative capital gains computation.  |
| <b>FtaxINCAVG</b>  | Federal income tax liability after applying income averaging.   |
| <b>FmtrMEI</b>     | Federal marginal tax rate after applying maximum tax on earned income.  |
| <b>Fdtxliab_bc</b> | Federal income tax liability after above provisions, but before credits and minimum taxes.  |
| <b>FtaxMIN</b>     | Federal minimum tax liability.  |
| <b>Famt</b>        | Federal alternative minimum tax liability.  |
| <b>Famtpref</b>    | Federal AMT preferences.  |
| <b>Famti</b>       | Federal alternative minimum taxable income (calculated before AMT exemptions).  |
| <b>Famtexempt</b>  | Allowable federal AMT exemption.  |
| <b>Famtiae</b>     | <b>Famti</b> less allowable AMT exemption.  |
| <b>FamtiaeEXCG</b> | <b>Famtiae</b> minus capital gains and/or dividends subject to special computation.   |
| <b>Ftamt</b>       | Tentative federal AMT (AMT before subtracting income tax liability).  |
| <b>Famt</b>        | Increase in total tax liability caused by federal AMT (i.e., <b>Ftamt</b> minus federal tax liability computed before the AMT).   |
| <b>Fkcarecred</b>  | Gross federal credit for child care expenses. This is the full amount reported on Form 2441 before applying any limitations that apply to the amount carried over to Form 1040. Some of this may not be usable due to non-refundability or limitations. |



|                     |   |
|---------------------|---|
| <b>Feic</b>         | Federal earned income credit.   |
| <b>Fkidcred</b>     | Usable federal child credit, non-refundable portion.  |
| <b>Fkidcredref</b>  | Usable federal child credit, refundable portion.  |
| <b>Feldcred</b>     | Federal credit for elderly  |
| <b>Fsstdliab</b>    | Federal social security and Medicare payroll tax liability (including self-employment tax, and including both employer and employee portions). Same as <b>sstax</b> in the basic output data set. |
| <b>FsstdliabSE1</b> | Federal social security and medicare self-employment tax, primary earner.   |
| <b>FsstdliabSE2</b> | Federal social security and medicare self-employment tax, spouse.   |
| <b>agi</b>          | State adjusted gross income.  |
| <b>agi1</b>         | State adjusted gross income, primary taxpayer if couple were to file separately.  |
| <b>agi2</b>         | State adjusted gross income, spouse if couple were to file separately.  |
| <b>ssagi</b>        | Social security benefits included in state adjusted gross income.   |
| <b>Sti</b>          | State taxable income.   |
| <b>Sti1</b>         | State taxable income, primary taxpayer, if couple were to file separately.  |
| <b>Sti2</b>         | State taxable income, spouse, if couple were to file separately.  |
| <b>Ssepfiler</b>    | Indicator for married filing separately status for state return.  |
| <b>exempt</b>       | Value of state personal exemptions.   |
| <b>exempt1</b>      | Value of state personal exemptions for primary taxpayer if couple were to file separately.  |
| <b>exempt2</b>      | Value of state personal exemptions for spouse if couple were to file separately.  |
| <b>stded</b>        | Value of state standard deduction (combined value for spouses if filing separately).  |

|                   |  |
|-------------------|--|
| <b>itemded</b>    | Value of state itemized deductions. (Note that in a few cases, in states that do not have itemized deductions, this variable will include other kinds of deductions, for example the social security tax deduction in Massachusetts, an extra exemption amount that could be taken in lieu of a credit in Ohio, or property tax deductions in New Jersey and Indiana). |
| <b>itemded1</b>   | Value of state itemized deductions for primary taxpayer if couple were to file separately.   |
| <b>itemded2</b>   | Value of state itemized deductions for spouse if couple were to file separately.   |
| <b>itemizer_s</b> | Indicator for state itemization status.  |
| <b>retexamt</b>   | State retirement income exclusion.   |
| <b>lowexamt</b>   | State low-income exemption.  |
| <b>miscex</b>     | State miscellaneous exemption.   |
| <b>StaxNORM</b>   | State income tax liability, "normal" calculation, before other provisions below. This is generally the initial tax liability determined by applying standard rates and brackets to taxable income.   |
| <b>sptxliab</b>   | State "special" tax liability, 1st special tax.  |
| <b>sptxliab2</b>  | State "special" tax liability, 2nd special tax.  |
| <b>StaxALTCG</b>  | State tax liability after alternative capital gains computation.   |
| <b>StaxASP</b>    | State tax liability after special tax and alternative capital gains tax computations.  |
| <b>StaxAMIN</b>   | State tax liability after minimum tax. Note that minimum tax may be incorporated at different points in the tax calculation in different states, depending on the value of <b>mintaxapp</b> . If <b>mintaxapp=4</b> or <b>5</b> , the minimum tax is not reflected in <b>StaxAMIN</b> , but rather first appears in <b>StaxAX</b> .                                    |
| <b>StaxAMIN1</b>  | <b>StaxAMIN</b> for primary taxpayer if couple were to file separately.  |
| <b>StaxAMIN2</b>  | <b>StaxAMIN</b> for spouse if couple were to file separately.  |

|                   |   |
|-------------------|---|
| <b>StaxMIN</b>    | State minimum tax liability (amount added to tax liability).  |
| <b>gencred</b>    | Value of general state tax credits.   |
| <b>gencred1</b>   | Value of <b>gencred</b> for primary taxpayer if couple were to file separately.   |
| <b>gencred2</b>   | Value of <b>gencred</b> for spouse if couple were to file separately.   |
| <b>retcred</b>    | Value of state retirement credit.   |
| <b>retcredref</b> | Value of refundable state retirement credit.  |
| <b>lowcred</b>    | Value of state low-income credit.   |
| <b>lowcredref</b> | Value of refundable state low-income credit.  |
| <b>marcred</b>    | Credit for joint filers to reduce marriage penalty.   |
| <b>kcarecred</b>  | Value of state child care credit. This is the gross value of the sum of all applicable state child care credits, before applying any limits intended to make part or all of the credit(s) non-refundable (e.g., limiting the credit to be no more than state tax liability). Refundability rules for state child care credits are applied in the calculator after the computation of <b>kcarecred</b> , in the computation of the variable <b>StaxAGC</b> (State income tax after credits other than EITC). |
| <b>kcarecred1</b> | Value of <b>kcarecred</b> for primary taxpayer if couple were to file separately.   |
| <b>kcarecred2</b> | Value of <b>kcarecred</b> for spouse if couple were to file separately.   |
| <b>StaxAGC</b>    | State tax liability after all credits except EITC and circuit breakers, but before any "extra" taxes.   |
| <b>StaxAGC1</b>   | StaxAGC for primary taxpayer if couple were to file separately.   |
| <b>StaxAGC2</b>   | StaxAGC for spouse if couple were to file separately.   |
| <b>xtaxs</b>      | "Extra" state tax liability.  |
| <b>xcredit</b>    | "Extra" state tax credit.   |
| <b>xcredit1</b>   | Value of <b>xcredit</b> for primary taxpayer if couple were to file   |

|                      |  |
|----------------------|--|
|                      | separately.  |
| <b>xcredit2</b>      | Value of <b>xcredit</b> for spouse if couple were to file separately.  |
| <b>StaxAX</b>        | State tax liability after extra taxes and credits except EITC and circuit breakers.                                  |
| <b>StaxAX1</b>       | StaxAX for primary taxpayer if couple were to file separately.   |
| <b>StaxAX2</b>       | StaxAX for spouse if couple were to file separately.   |
| <b>eicstateref</b>   | Refundable portion of state earned income credit.  |
| <b>eicstatenoref</b> | Non-refundable portion of state earned income credit.  |
| <b>propcred</b>      | State circuit breaker credit for property taxes or rent.   |
| <b>localtax</b>      | Local income tax liability.  |
| <b>Ftaxtype</b>      | Type of federal tax (see description of federal parameters below).   |
| <b>taxtype</b>       | Type of state tax (see description of state parameters below).   |
| <b>Fchlimbind</b>    | Is charitable deduction larger than the maximum percentage of AGI allowed at the federal level?<br>0 = No<br>1 = Yes |

**chlimbind** Is charitable deduction larger than the maximum percentage of AGI allowed at the state level?  
0 = No  
1 = Yes, and no carryovers allowed  
2 = Yes, and carryovers allowed

## VIII. DATA SET WITH STATE TAX LAW PARAMETERS (IncTaxState.csv)

The following is the variable list for IncTaxState.csv. These variables contain the information about how the state personal income tax laws work. Note that each possible state / year / filing status combination from 1900 through 2015 is a separate record. No records are included for state-year combinations where a state personal income tax did not apply.

The coding allows for up to four tax or credit systems to be operated in parallel, which was sometimes necessary for states with particularly complicated tax systems. The first set of variables describes the ordinary tax system. Next, up to two "special taxes" (indicated by variables beginning with "sp") may be specified. The "special tax" feature can accommodate fairly simple additional taxes, for example when capital gains are taxed at a different rate than other income. Special taxes can have at most one tax rate and a single exemption. Finally, the "extra tax" provision at the end (indicated by variables beginning with "x") allows for a more complicated additional tax or credit which may have multiple tax brackets, different exclusions, deductions, and exemptions than the ordinary tax, etc. This was useful for coding in the features of optional maximum taxes, certain complicated credits, surtaxes on particular types of income, etc. State tax liability generally equals the sum of the ordinary tax, special taxes, and extra taxes, where credits enter negatively (appropriate adjustments to this are made for maximum and minimum taxes, etc.). In addition to these, there are also separate sets of variables for features such as retirement income exclusions and credits, low income exemptions and credits, and minimum taxes.

Also note that in cases where we coded a state tax as being a percentage of federal income or a function of federal taxable income (see **taxtype** and **base** below) almost all other state variables are set to zero, even though they may apply in the federal tax. In those cases, the necessary information is derived from the federal variables, and most state variables are ignored.

**Bold** indicates variable name. *Italics* indicate possible values for the variable.

### STATE, YEAR AND FILING STATUS

**statename** State of residence, lower-case two-letter postal abbreviation.

**stateyear** Tax year to which state law applies.

|                  |   |
|------------------|---|
| <b>filertype</b> | Filing status to which this information pertains.<br><i>s</i> -- Single<br><i>m</i> -- Married<br><i>h</i> -- Head of household   |
| <b>soi</b>       | IRS Statistics of Income division state code (two-digit)  |
| <b>statekey</b>  | An index variable equal to: <b>stateyear</b> *1000 + <b>soi</b> *10 + (1 if head of household, 2 if married, 3 if single). This is used as a SAS “index” for the data set, to facilitate the use of the “table lookup” approach to merging data, using the “key=” feature of the “set” statement. |

#### TYPE OF TAX AND DEFINITION OF TAX BASE

**taxtype** Type of income tax. Note that if **taxtype** is *fedtab* or some variation of *pctfed*, then all other state variables are ignored, and thus can be set to zero. The exception is that for the *pctfed* type taxes, if any of the variables in section labeled “general credits” below are non-zero, they will not be ignored by the calculator. In addition, **pctfelder** will not be ignored if **taxtype** = *pctfed4*. If **taxtype** is *none* or *cbonly* then all other state variables are ignored and can be set to zero (or *none* in the case of character variables). See also **xtaxtype** = *fedtab2*.

*none* -- State does not have a personal income tax nor a circuit breaker, or no data is available.

*pctinc* -- Tax liability is a function some measure of income.

*pctfed* -- Tax liability is a percentage of federal tax liability after credits.

*pctfed2* -- Same as *pctfed*, except that base is federal tax liability recalculated to disallow deduction for state income taxes.

*pctfed3* -- Tax liability is a percentage of federal tax liability after credits, but does not allow refundable credits.

*pctfed4* -- Tax liability is a percentage of federal tax liability before credits (but including minimum tax and alternative minimum tax liability).

*cbonly* -- State does not have a personal income tax, but does have a circuit-breaker property tax credit.

*fedtab* -- Louisiana, 1975-1979. During this period, the Louisiana legislature produced tables that indicated the Louisiana state tax liability

that corresponded to each federal tax liability for each filing status and each number of exemptions. The law did not explain the underlying logic that was used to construct the tables. In order to deal with this, for each filing status and number of exemptions, we used data from the tables to estimate a regression where Louisiana tax as a percentage of federal tax was the dependent variable, and the explanatory variables were an intercept and a 4-knot spline in log federal tax liability, where the knots in the spline were chosen by graphing the relationship and selecting the values of the knots at obvious inflection points. The R-squareds for each regression were in excess of 0.99. This enabled us to closely approximate the tables with twelve parameters for each filing-status / exemption combination. In the state tax parameter data set, we recorded the parameters needed to approximate the tax in the variables: **b6-b26**, **r6-r26**, **xb1-xb14**, **xr1-xr14**, and the **cb** and **xcb** variables. All other variables are ignored. The code below indicates how each variable is used; **exemptions** is the number of exemptions (including age exemptions); **taxs** is state tax liability, and **taxf\_S** is federal tax liability. [The data used to construct these variables are in the spreadsheets LouisianaTaxTables1975-1976.xls and LouisianaTaxTables1977-1982.xls]

*Taxtype = fedtab: Single with 1 exemption, or head of household or married with 2 exemptions:*

```

if taxf_S <= b6 then taxs=0 ;
else taxs = min(taxf_S, b11)*(max(0, r6
+ r7 *log(min(taxf_S, b11))
+ r8 *max(0, log(min(taxf_S, b11))-log( b7 ))
+ r9 *max(0, log(min(taxf_S, b11))-log( b8 ))
+ r10 *max(0, log(min(taxf_S, b11))-log( b9 ))
+ r11 *max(0, log(min( b11 , taxf_S))-log( b10 )))/100)
+ ( r26 / 100)*max(0,taxf_S - b11 ) ;

```

*Taxtype = fedtab: Single with 2 or more exemptions, or head of household or married with 3 exemptions.*

```

if taxf_S <= b12 then taxs=0 ;
else taxs = min(taxf_S, b17)*(max(0, r12
+ r13 *log(min(taxf_S, b17))
+ r14 *max(0, log(min(taxf_S, b17))-log( b13 ))
+ r15 *max(0, log(min(taxf_S, b17))-log( b14 ))
+ r16 *max(0, log(min(taxf_S, b17))-log( b15 ))
+ r17 *max(0, log(min( b17 , taxf_S))-log( b16 )))/100)
+ ( r26 / 100)*max(0,taxf_S - b17 ) ;

```

*Taxtype = fedtab: Head of household or married with 4 exemptions.*

```

if taxf_S <= b18 then taxs=0 ;
else taxs = min(taxf_S, b23)*(max(0, r18
+ r19 *log(min(taxf_S, b23))

```

```

+ r20 *max(0, log(min(taxf_S, b23))-log( b19 ))
+ r21 *max(0, log(min(taxf_S, b23))-log( b20 ))
+ r22 *max(0, log(min(taxf_S, b23))-log( b21 ))
+ r23 *max(0, log(min( b23 , taxf_S))-log( b22 ))/100)
+ ( r26 / 100)*max(0,taxf_S - b23 ) ;

```

**Taxtype =fedtab:** *Head of household or married with 5 exemptions.*

```

if taxf_S <= xb1 then taxes=0 ;
else taxes = min(taxf_S, xb6)*(max(0, xr1
+ xr2 *log(min(taxf_S, xb6))
+ xr3*max(0, log(min(taxf_S, xb6))-log( xb2 ))
+ xr4*max(0, log(min(taxf_S, xb6))-log( xb3 ))
+ xr5*max(0, log(min(taxf_S, xb6))-log( xb4 ))
+ xr6*max(0, log(min( xb6 , taxf_S))-log( xb5 )))/100)
+ ( r26 / 100)*max(0,taxf_S - xb6 ) ;

```

**Taxtype =fedtab:** *Head of household or married with 6 exemptions.*

```

if taxf_S <= xb7 then taxes=0 ;
else taxes = min(taxf_S, xb12)*(max(0, xr7
+ xr8 *log(min(taxf_S, xb12))
+ xr9*max(0, log(min(taxf_S, xb12))-log( xb8 ))
+ xr10*max(0, log(min(taxf_S, xb12))-log( xb9 ))
+ xr11*max(0, log(min(taxf_S, xb12))-log( xb10 ))
+ xr12*max(0, log(min( xb12 , taxf_S))-log( xb11 )))/100)
+ ( r26 / 100)*max(0,taxf_S - xb12 ) ;

```

**Taxtype =fedtab:** *Head of household or married with 7 or more exemptions.*

```

if taxf_S <= cbthresh1 then taxes=0 ;
else taxes = min(taxf_S, cbpct1)*(max(0, xcbthresh1
+ xcbthresh2*log(min(taxf_S, cbpct1))
+ xcbthresh3*max(0, log(min(taxf_S, cbpct1))-log( cbthresh2 ))
+ xcbthresh4*max(0, log(min(taxf_S, cbpct1))-log( cbthresh3 ))
+ xcbthresh5*max(0, log(min(taxf_S, cbpct1))-log( cbthresh4 ))
+ xcbpct1 *max(0, log(min( cbpct1 , taxf_S))-log( cbthresh5 )))/100)
+ ( r26 / 100)*max(0,taxf_S - cbpct1 ) ;

```

**base**

Starting point for calculating tax base. Possible values:

*none* – State does not have a personal income tax

*gi* -- Tax base calculation starts with a measure of gross income, from which various exclusions, adjustments, deductions, and exemptions are then subtracted.



*fti* -- Tax calculation starts with federal taxable income, except that state income tax is assumed not to be deductible from itself unless **sitted** = 1 (see below). If **base** = *fti* then all state variables having to do with exclusions, adjustments, and deductions except for **sitted** and **itemiz** are ignored and can be set to zero. Some states for which we coded **base** = *fti* allowed credits, extra exemptions, or provisions coded in the sets of variables listed under **retex**, **low**, and **misc** below, so these variables are not ignored by the program. Any exemptions that are coded in will represent the extra amount on top of the federal exemptions. Note that there were a large number of states that started the tax calculation process with federal taxable income, but that we coded as starting with gross income and then coded in the appropriate deductions, exemptions, etc. to achieve the same result. Currently the only states coded as **base** = *fti* are Alaska (1964-1979), North Dakota (1991-2000), and Vermont (2001). Also note that the program code for **base** = *fti* is not set up to deal with states where it can be advantageous for married couples to file separately, so those sorts of state should not be coded as **base** = *fti*.

*fdtxliab* -- Tax calculation starts with federal tax liability (see **taxtype** for further information on exactly how).

*cg* -- Tax base starts with capital gains only.

*div* -- Tax base starts with dividends only.

*di* -- Tax base starts with dividends and interest only. Note that in New Hampshire and Tennessee, this also includes partnership and S-corporation income.

*dcbg* -- Tax base starts with dividends and capital gains only.

*dcbgi* -- Tax base starts with dividends, capital gains, and interest only.

**othadjsaf** Are the adjustments subtracted from gross income to get to adjusted gross income, and treatment of unemployment insurance benefits, generally similar to those in the federal income tax? This is set equal to 1 for all states that define their own taxable income by starting with federal adjusted gross income or federal taxable income, and is also set equal to 1 for any state that generally has similar adjustments to the federal income tax even if not every detail of the treatment of adjustments or unemployment insurance is identical to federal treatment – this is just meant to be a rough approximation. States with **othadjsaf** = 0 are assumed to disallow all adjustments not specified elsewhere in the state income tax parameter variables, and are assumed not to tax unemployment insurance benefits.

0 -- No

1 -- Yes

### TREATMENT OF MARRIED COUPLES

See section above on “Joint versus separate filing and division of income and deductions between spouses” for details on how the choice between joint and separate filing for married couples is addressed by the calculator. Filing separately is usually advantageous when **multbrk**=0, **sepdis**=0, and **bracknum**>1. Note that in many states where **multbrk** = 0, spouses are effectively allowed to file separately on the same return (sometimes called a “combined return”), in which case they gain the key advantage of filing separately, which is having each spouse run his or her own taxable income through the tax bracket and rate structure separately to compute tax liability, before adding up their tax liabilities on the combined return. In those states, whenever we refer to “married filing separately” we are referring to filing separately on the same return (“combined return”), even though there might both a “combined return” option and a “married filing separately” option with different rules. In the event that the rules differ depending on whether the spouses file separately on the same return or separately on different returns, we use the rules for spouses filing separately on the same return (combined return).

**multbrk** Are there multiple sets of brackets for different marital / filing statuses?  
0 – no. (There is one set of brackets for all. Note that Arkansas should be coded as **multbrk**=0 during the years when **xtaxtype** = *lowtab1*, *lowtab2*, or *lowtab3*, despite the fact that the low tax tables have multiple sets of brackets for differing filing statuses, because it is still nonetheless often advantageous for spouses to file separately due to the fact that the tax calculation for people with incomes too high to use the low-income tables involves a single set of brackets for all filing statuses.)

1 – yes. (There are different brackets for different filing statuses. Among other states, this includes all community property states, which have always effectively had tax brackets twice as large for married couples as they do for singles. It also includes any state where the brackets for married filing separately are different than those for married filing jointly such that filing separately is generally disadvantageous, as in WV 1987-present for example).

**comprop** Community property state?  
This does not affect the state calculations (the effects of community property state status are already incorporated into the bracket structure). But it does affect federal tax calculations before 1948.

0 -- no

1 -- yes

**sepdis** Indicator for a state that has graduated rates and one set of brackets for all

filers (**multbrk** = 0 and there is more than one tax rate), but which either disallows separate filing, or makes married filing separately disadvantageous, usually by requiring state filing status to be the same as federal. If **multbrk** = 1 or if there is just one tax rate, then **sepdis** is ignored by the SAS code and should be set to zero, regardless of whether or not the state disallows separate filing or requires state filing status to be same as federal. If **multbrk** = 0 and there is more than one tax rate, then **sepdis** should be set equal to one whenever the state disallows separate filing *and* whenever the state requires filing to be the same as federal (even if separate filing is allowed by the state), because it is usually highly disadvantageous to choose married filing separate status in the federal income tax (except in cases where **sepdis** must be set to 2 – see below).

For North Dakota 2001-2008, there were two alternative taxes, one with multiple brackets for different filing statuses and one without. Separate filing was disallowed for the second tax even though it would be advantageous, so we set **sepdis** = 1.

Note that the Missouri income tax instructions say that state filing status must be the same as federal. But Missouri couples who file a joint return for the federal income tax are allowed to submit a “combined” return for state income tax. The “combined” return has two columns, one for each spouse’s income, and tax is computed separately for each spouse and then added together, which is mathematically equivalent to what would happen if they filed separately. So in Missouri, **sepdis** = 0.

The variable **sepdis** is ignored by the tax calculator if **filertype** does not equal “m” (i.e., **sepdis** is ignored for unmarried taxpayers). Despite this, we’ve been following the convention of setting **sepdis** to the same value for all filing statuses, using the value that applies for married taxpayers.

0 – Separate filing is generally disadvantageous; *or* separate filing is advantageous, allowed, and filing status is *not* required to be same as federal. . This is the correct code under *any* of the following conditions: the state has different brackets for different filing statuses (**multbrk** =1); the state has a flat marginal rate structure (that is, there is only one tax rate); or the state has the same graduated bracket structure for all filing statuses (**multbrk** = 0) and there is neither a provision to disallow filing separately *nor* a provision requiring filing status to be same as federal.

1 -- State has one set of graduated brackets for all filing statuses (**multbrk** = 0 and more than one tax rate), but disallows filing separately or makes it disadvantageous (e.g. by requiring filing status to be same as federal) . (But see possible exception below in **sepdis** = 2).

2 – One set of brackets for all filing statuses, separate filing is disallowed or disadvantageous, but separate calculations of AGI or tax liability for

each spouse are still necessary in order to compute a special credit for married couples. So far (through 2013), this only applies if **mardedtype** = 5 or **mardedtype** = 7. (Ohio 1973-present, Virginia 2000-present). In those cases, separate filing was disadvantageous because state filing status generally had to be the same as federal, but we still need to go through separate calculations of AGI or tax liability for each spouse in order to compute the credit specified in **mardedtype**. Those separate computations will only happen if **sepdis** = 0 or **sepdis** = 2, and we don't want **sepdis** = 0 in this case because state filing status has to be the same as federal.

**mardedtype** Type of special deduction or credit for married couples. Note: the calculator program ignores this variable, and any other variables mentioned below that are called upon by the **mardedtype** code (e.g., **mardedlim**), if **filertype** does not equal "m."

0 -- None

1 -- Allows equivalent of federal two-earner deduction (applies 1982-1986 only, and only if filing jointly)

2 -- Lower-earning spouse's AGI is exempt up to a maximum amount contained in **mardedlim**. Applies in MD in recent years, where same filing status as federal is required.

3 -- Credit that is a % of lower-earning spouse's earned income. Percentage is contained in **mardedpct**, and dollar limit for credit is contained in **mardedlim**. Applies in SC, WI; in both cases married couples file jointly.

4 -- Minnesota 2002- . If couple's taxable income is above threshold for the 2nd bracket of the ordinary tax (**b2**), tax is computed on earned income (wages and salaries, self employment income, pensions, and taxable social security) of lower-earning spouse using brackets for single person, and then to that is added tax computed using single brackets applied to couple's taxable income less earned income of lower-earning spouse. **Mardedlim** contains minimum earned income of lower-earning spouse necessary to qualify, and **mardedpct** contains minimum combined taxable income needed to qualify. Rates and brackets for singles are contained in the first few "extra" tax brackets and rates (**xbracknum**, **xb1-xb4**, and **xr1-xr4**). Note that starting in 2013 **xb11-xb14** and **xr11-xr14** are used for a Minnesota child care credit, but the value of **xbracknum** causes those parameters to be ignored when calculating the provision described in **mardedtype**=4.

5 -- Virginia 2000- present. Credit against tax liability. The basic idea is to provide a credit equal to the difference between state tax liability on the

couple's combined taxable income, and what tax liability would be if taxes were computed separately on the taxable income of each spouse (with some modifications to the definition of taxable income), and with the credit capped at the value **mardedlim**. Let  $Sti1 = \min(\text{larger of two spouse's AGI less retexamt1 less adult and age exemptions for that spouse, } Sti/2)$ , where  $Sti$  is combined state taxable income of the couple, and  $retexamt1$  is the retirement income exclusion. Let  $Sti2 = \min(\text{smaller of two spouses' AGI-retexamt1-(adult and age exemptions for that spouse), } Sti/2)$ .  $Credit = \min[\text{mardedlim, max}(0, \text{StaxNORM} - \text{tax}(Sti1)+\text{tax}(Sti2))]$ , where  $\text{tax}(\cdot)$  is tax liability as a function of  $\cdot$  calculated using the standard tax brackets and rates, and  $\text{StaxNORM}$  is the state tax liability on the combined taxable incomes of the couple. Joint taxable income of couple must be greater than **mardedpct** to be eligible for credit. When **mardedtype** = 5, **sepdis** must be coded as 2. This is necessary because the calculator needs to compute taxable incomes and tax liabilities separately for each spouse in order to compute the credit, which will only happen if **sepdis** = 0 or **sepdis** = 2, and **sepdis** = 0 is not correct because Virginia filing status had to be the same as on the federal return, which would generally make filing separately disadvantageous.

6 – Minnesota 1999-2001. The credit is provided in a table. Key parameters of this table are stored in **xb1-xb10** (see below), which are not otherwise being used for those years in Minnesota. Earned income is wages and salaries and self-employment income. The parameters stored in **xb1-xb10** are:

- xb1: minimum earned income of lower-earning spouse to qualify
- xb2: minimum combined taxable income for 1<sup>st</sup> credit schedule
- xb3: combined taxable income where 2<sup>nd</sup> credit schedule begins to apply
- xb4: 1<sup>st</sup> credit schedule, earned income needed to get maximum credit
- xb5: 1<sup>st</sup> credit schedule, minimum credit
- xb6: 1<sup>st</sup> credit schedule, maximum credit
- xb7: 2<sup>nd</sup> credit schedule, minimum earned income to get credit
- xb8: 2<sup>nd</sup> credit schedule, earned income needed to get maximum credit
- xb9: 2<sup>nd</sup> credit schedule, minimum credit
- xb10: 2<sup>nd</sup> credit schedule, maximum credit

7 – (Ohio, 1973-present). Credit is a percentage of state tax liability, where the percentage depends on the size of the couple's state taxable income. The maximum allowable credit is contained in **xagicrmax** (if **xagicrmax**=0, there is no limitation on the credit). A couple is only eligible for the credit if each spouse has federal AGI (less interest, dividends, royalties, rents, federally taxable social security, and capital gains) greater than **mardedlim**. The income categories and percentages are coded into **xbracknum**, **xb1-xb14**, and **xr1-xr14**. So for example, if taxable income is greater than **xb1** but less than **xb2**, the credit is **xr1** percent of state income tax liability, and so forth. When **mardedtype** = 7,

**sepdis** must be coded as 2. This is necessary because computing the credit requires computing the AGI of each spouse separately, which will only happen if **sepdis** = 0 or **sepdis** = 2, and **sepdis** = 0 is not correct because Ohio filing status had to be the same as on the federal return, which would generally make filing separately disadvantageous.

9 – (Iowa, 1979-present). It is generally advantageous for married couples to file separately in Iowa, but unlike most states, if spouses file separately each spouse gets a standard deduction that is less than half of the standard deduction for a joint return. Each spouse filing separately gets a standard deduction equal to that for a single filer, which is coded into **mardedlim**.

10 – (North Dakota, 2007 – present). This is a non-refundable credit for two-earner married couples filing jointly (called the “marriage credit”), roughly similar to the Minnesota credit, but must be coded differently because the “x” variables were already used for an alternative maximum tax that existed 2001 through 2008. The basic idea is to split up the taxable income of the spouses and calculate tax on each separately using the tax brackets for single taxpayers, and then provide a credit equal to the difference between that and ordinary joint tax liability, up to a limit. In order to calculate this, for married taxpayers we store the tax brackets for single taxpayers in the range **b11-b26** (so for example, **b11** for married couples should be the same as **b1** for single taxpayers, etc.). The tax rates are the same for singles and married filing jointly, so we don’t need to do anything special with those, and **bracknum** should still be the number of brackets for married filing jointly (although note that if the number of brackets for single filers is different, there will have to be a change to the SAS code). Earned income of each spouse is defined as wage and salary income plus self-employment income plus taxable social security benefits and pension income. Take the earned income of the lower-earning spouse, subtract **mardedpct** (this is the standard deduction for a single filer plus one personal exemption), and run the result through the brackets and rates for a single filer. Then take the remainder of the couple’s combined taxable income (after subtracting off lower-earning spouse’s earned income less **mardedpct**) and run that through the brackets and rates for a single filer. Add the two tax liabilities together. The credit is the smaller of the amount by which ordinary joint tax liability exceeds the sum of the two tax liabilities computed using brackets and rates for single filers, and **mardedlim**, but not less than zero. Note that the “marriage credit worksheet” for ND also lists two income thresholds below which the credit should not be calculated, but these are not stored in the data set because the other information above is sufficient to calculate the credit accurately (it will just be calculated as zero if the relevant income measure is below the threshold).

11 – Tennessee, 1976 - . For the exclusion for dividends and interest for the elderly that is coded into the **retex** variables (**retextype** = 13), the exclusion given to spouses that choose to file separately is equal to that given to singles, and is different than half of the amount given to joint filers. The exclusion given to each spouse that chooses to file separately (that is, the amount given to single filers) is stored in **mardedlim** for **filertype** = “m” only. If filing separately, each spouse must be **retexage** or above to claim the exclusion. For separate filers, the exclusion is phased out if AGI is larger than **mardedlim**.

- mardedlim** Unless otherwise specified, dollar limit on two-earner couple deduction or credit.
- mardedpct** Unless otherwise specified, percentage used in computing two-earner couple deduction.

### EXCLUSIONS

Note that we only count exclusions applying generally to all long-term capital gains or all dividends or all otherwise taxable interest. For example, a narrowly targeted capital gains exclusion that only applies to small business property will be ignored. If non-zero values are included for both the percentage exclusion and the dollar exclusion amount for a particular type of income, the calculator applies the sum of the exclusions (so for example, if **cgexpct** = 60 and **cgexamt** = 2500, then the exclusion will be the smaller of **lctg** or  $60\% * \text{lctg} + \$2,500$ ). In cases where there are both percentage and dollar exclusions that work differently than this, they must be coded in using other variables – see for example the documentation for **sptx**, **sptx2**, and **xtaxtype**.

- cgexpct** Percentage of long-term capital gains excluded from AGI.  
Note: if **cgexpct** = 100, then it is assumed to apply to both **lctg** and **othcg**. This was generally the case; when **cgexpct** = 100, it generally meant either that capital gains and losses of all types had no tax consequences, or that capital gains of all types were taxed under an alternative regime specified in **sptx**, **sptx2**, or **xtaxtype**. If **cgexpct** is any other number than 100, the calculator assumes that it applies only to **lctg**.

In Hawaii in 1987, there was a 55% exclusion for capital gains until 3/31/87; calculator applies this to all gains that year.

In Arizona starting in 2013, there was an exclusion for a portion of capital gains on assets purchased in 2012 and later years. In the data used with our tax calculator, we generally don't know the date of purchase for assets producing realized capital gains, so we are currently ignoring this provision.

In Arkansas, for tax year 2015, 50% of capital gains realized during January were excluded, and then 45% of capital gains realized during the rest of the year were excluded. We coded **cgexpct** as 45 for 2015 in Arkansas. For tax year 2016, 45% of capital gains were excluded for the first half of the year and 50% were excluded for the rest of the year. In this case we split the difference and go with 47.5 percent.

- cgexamt** Dollar amount of long-term capital gains excluded from AGI.
- divexpct** Percentage of dividends excluded from AGI.
- divexamt** Dollar amount of dividends excluded from AGI.
- intexpct** Percentage of interest income excluded from AGI.
- intexamt** Dollar amount of interest income excluded from AGI.  
(Note that in Oklahoma 1987-2013 there was an exemption for “interest received from a bank, credit union or savings and loan association located in Oklahoma” of \$100 or \$200 depending on filing status; we assume that at least that much of the taxpayer’s interest income qualified).
- diexamt** Dollar amount of dividends plus interest excluded from AGI.

#### PERSONAL EXEMPTIONS

- expercap** Dollar value of per capita personal exemption.  
In other words, there is one of these for each family member. For North Carolina in 1995 – 2013, see **miscexctype** = 14, which affects the meaning of **expercap** in that case. For Louisiana, see **exlim** = 2. Note that South Carolina allows an extra exemption for each child under age 6, but we currently ignore this because data used with the tax calculator usually does not include age of children. In Ohio starting in 2014, the value of the personal exemption is different depending on AGI. We code the personal exemption applying to people with the highest levels of AGI in **expercap**, and code the additions to the personal exemption for people in the lower AGI categories using **lowtype** = 31.
- exreturn** Dollar value of any “per return” exemption.  
Usually, either there was a per capita exemption, as above, or there was an exemption amount for the return as a whole that depended on filing status (coded here in **exreturn**), plus separate exemptions for dependents. One approach or the other was used. For Louisiana, see **exlim** = 2.



- ex\_dep** Dollar value of exemption for each dependent.  
Note that “dependent” does not include spouse. Also note that **ex\_dep** should be zero if there is a “per capita” exemption, unless there is an additional exemption amount added on top of what the dependent already receives from the per capita exemption; otherwise, there will be double-counting. (For Alabama since 2007, see documentation for **lowtype** = 24 for information on how to code **ex\_dep**).
- ex\_age** Dollar value of age exemption.  
This is an extra exemption for each taxpayer and/or spouse aged 65 or over, and is added to any other applicable exemptions described above.
- pctex** Percentage exemption.  
This is an exemption that is a percentage of AGI.
- exlim** Indicator for limitations on exemptions. In most cases, this involves a phase-out of exemptions for returns with income above some threshold. Note that in some cases where the value of personal exemptions is different for people of different income levels, we use other sets of variables besides **exlim** to handle things – for instance, in Ohio since 2014 we use a combination of **expercap** and the **low** variables.

0 – No limitation

1 -- State follows federal personal exemption phase-out which applied 1991 through 2009 and then again in 2013 and later years. Use this only if the limitation on state personal exemptions is exactly the same as the federal limitation on personal exemptions for the same year.

2 – State only allows exemptions to be deducted against the lowest tax brackets (e.g., Louisiana 1982-present). For example, suppose the standard tax brackets are 2% on taxable income between \$0 and \$12,500, 4% on taxable income between \$12,500 and \$25,000, and 6% on taxable income above \$25,000, and there is a \$4,500 exemption. Consider someone with \$50,000 of income before exemptions. In most states, you would subtract the \$4,500 exemption from \$50,000, leaving \$45,500 of taxable income. The person would then owe tax of  $2\% * 12500 + 4\% * (25000 - 12500) + 6\% * (45500 - 25000) = \$1,980$ . Thus, if the exemption worked the way it does in most states, that exemption would reduce the tax bill by  $\$4,500 * 6\%$  for this particular taxpayer, that is, it is deducted against the highest tax rate the taxpayer faces. But in Louisiana, the exemption is deducted against the lowest tax bracket, not the highest tax bracket. So in Louisiana, the tax on that taxpayer is  $2\% * (12500 - 4500) + 4\% * (25000 - 12500) + 6\% * (50000 - 25000) = \$2,160$ . The exemption reduces tax liability by  $\$4,500 * 2\%$  instead of  $\$4,500 * 6\%$ . In order to deal with this in the tax calculator, we create an initial zero-tax-rate tax bracket by setting

**r1** equal to zero, and setting **b2** equal to the size of the initial zero-tax-rate-bracket for a taxpayer with no dependents and no one aged 65 or above. The value of **b2** will equal the exemption for the taxpayer (and spouse if married), or the exemption for taxpayer (and spouse if married) plus the standard deduction, or the credit for taxpayer (and spouse if married) divided by the tax rate in the first tax bracket, depending on the year. Only the dependent and age exemptions are coded in to the exemption variables (**ex\_dep** and **ex\_age**). Setting **exlim** = 2 will cause the dependent and age exemptions to be added to the top of the zero-rate bracket. All other exemption variables (**exreturn** and **experc**) should be set to zero, since they are already taken into account in the initial zero rate tax bracket.

3 – When state AGI exceeds a threshold equal to two times **exreturn**, exemptions are phased out at a rate of \$1 for every \$1 of AGI above the threshold. (Connecticut, 1992 – present).

4 – Personal exemption is phased-down as federal AGI increases, using a step function. Information about the phase-out is contained in the variables **xb8-xb13** and **xr8-xr13**. The following table indicates the exemption allowed per person for each range of AGI:

| If AGI is                           | Exemption is  |
|-------------------------------------|---------------|
| < <b>xb8</b>                        | <b>experc</b> |
| between <b>xb8</b> and <b>xb9</b>   | <b>xr8</b>    |
| between <b>xb9</b> and <b>xb10</b>  | <b>xr9</b>    |
| between <b>xb10</b> and <b>xb11</b> | <b>xr10</b>   |
| between <b>xb11</b> and <b>xb12</b> | <b>xr11</b>   |
| between <b>xb12</b> and <b>xb13</b> | <b>xr12</b>   |
| above <b>xb13</b>                   | <b>xr13</b>   |

Note that with **exlim** = 4, there is also an extra exemption for the elderly (**ex\_age**) that is not phased out with income. (Maryland 2008 - 2011). See also documentation for **xtaxtype** = *cbex*.

5 – Limitation on personal exemptions similar to the one that applied at the federal level 1991 through 2009 and 2013 - , except that it either applies in a year when the federal personal exemption limitation did not apply (Rhode Island, 2010), or has different AGI thresholds than the federal limitation (Minnesota 2011 - ), or both (Hawaii 2009 - , DC 2015 - ). This is implemented by coding **sptx2** as *exlim*, coding the AGI threshold at which the phaseout begins in **sptxex2**, and coding the percentage of the value of personal exemptions lost for every dollar of AGI above **sptxex2** in **sptxrate2**. State AGI is used in the formula. The phase-out works like the regular federal personal exemption phase-out that applied in the federal income tax 1991 through 2005 and 2013 – (see **Fexlim**=2), *not* the partially phased-out version that applied in the federal income tax 2006 through 2009 (**Fexlim** = 3, 4). The one exception is Hawaii in 2009, where

the amount of personal exemption lost is multiplied by  $1/3^{\text{rd}}$ , as in **Fexlim** = 4. That Hawaii 2009 exception is hard-coded in the SAS code for **exlim**=5. See also documentation for **sptx2** = **exlim**.

6 – Personal exemption is phased-down as state AGI increases. Applies in Rhode Island 2011 – present. In Rhode Island during this period, both personal exemptions and the standard deduction were phased out in a similar manner, and we use **sptx2** = *sdexlimri*, **sptxex2**, and **sptxrate2** to code the parameters of both. For personal exemptions, the total value of personal exemptions is phased out between the AGI levels **sptxex2** and **sptxex2+sptxrate2**. In the instructions, the phase-out is done with a step-function, but we approximate it with a smooth phaseout rather than steps because of the small range of phaseout.

7 – Personal exemption is phased-down as federal AGI increases, using a step function. Information about the phase-out is contained in the variables **xb8-xb12** and **xr8-xr12**. The following table indicates the exemption allowed per person for each range of AGI:

| 2If AGI is                          | Exemption is    |
|-------------------------------------|-----------------|
| < <b>xb8</b>                        | <b>Expercap</b> |
| between <b>xb8</b> and <b>xb9</b>   | <b>xr8</b>      |
| between <b>xb9</b> and <b>xb10</b>  | <b>xr9</b>      |
| between <b>xb10</b> and <b>xb11</b> | <b>xr10</b>     |
| between <b>xb11</b> and <b>xb12</b> | <b>xr11</b>     |
| above <b>xb12</b>                   | <b>xr12</b>     |

Note that with **exlim** = 7, there is also an extra exemption for the elderly (**ex\_age**) that is not phased out with income. (Maryland 2012 - ). See also documentation for **xtaxtype** = *cbex*.

8 – Personal exemption limitation applying in Illinois, 2017 - . If federal AGI exceeds **sptxex**, then no personal exemption is allowed. See **sptx** = *exlimil*.

#### **exprorat**

Prorated exemption.

If this variable = 1, it means that the value of any exemptions calculated based on the exemption variables listed above must then be multiplied by the ratio of income taxable by this state to federal AGI, to determine the amount of exemption that may actually be used. This sometimes applied in states that only taxed a limited portion of income, such as dividends and interest.

0 -- Not applicable

1 -- Applicable

## STANDARD DEDUCTION

For **filertype** = “m” (married couples), the values of the standard deduction variables are those allowed on joint returns. See **stdallocc** for how this is divided among spouses if they file separately (see also **married** = 9 for a special case).

- minstded** Value of minimum standard deduction.  
In some cases, the standard deduction was a percentage of AGI, subject to minimum and maximum dollar limits. If the standard deduction is not a percentage of income, but rather is just some fixed dollar amount, then **minstded** is irrelevant and will generally be set to zero. It is very rare for states to have a non-zero value of **minstded** now; it was more commonly used from 1964 through 1976 when the federal income tax had a standard deduction that worked like this.
- maxstded** Value of maximum standard deduction.  
If standard deduction is always just a single number for a given filing status, it is contained in **maxstded**, and **minstded** is set to zero.
- minstded\_d** Dollar addition to minimum standard deduction for each dependent.
- maxstded\_d** Dollar addition to maximum standard deduction for each dependent.
- minstded\_a** Dollar addition to minimum standard deduction for each person aged 65 or over.
- maxstded\_a** Dollar addition to maximum standard deduction for each person aged 65 or over.
- pctstded** Percentage of AGI that is standard deduction.  
  
*0* -- Percentage standard deduction and minimum standard deductions are not applicable.  
  
*Any other number* -- Standard deduction is this percentage of AGI, but standard deduction cannot be lower than **minstded** nor higher than **maxstded**.
- zba** Dollar value of zero bracket amount.  
This is a standard deduction that is incorporated into the bracket structure (there is an initial bracket with a zero percent tax rate). In the federal income tax from 1979 through 1986, the federal income tax replaced the

standard deduction with a “zero bracket amount.” So for example, if the zero bracket for a particular filing status was \$5,000, then the first tax bracket would be for the portion of income between \$0 and \$5,000, and a zero percent tax rate would be applied to that income. Then, if the taxpayer had itemized deductions in excess of the zero bracket amount, then only the amount in excess of the zero bracket amount could be deducted. So for example, if someone had \$12,000 in itemized deductions and the zero bracket amount was \$5,000, the person could claim \$12,000 - \$5,000 = \$7,000 in itemized deductions (since they already effectively got \$5,000 of that deduction through the zero bracket amount). A number of states followed the federal income tax during 1979-1986 and used a zero bracket amount instead of a standard deduction, and in rare cases (such as Louisiana), a state may still use a zero bracket amount in its income tax after 1986. In that case, the initial zero-rate bracket is coded into the bracket structure (in **b1** and **r1** below). When **zba** > 0, it means that only itemized deductions in excess of **zba** may be deducted.

#### PHASE-OUT OF STANDARD DEDUCTION

There are four instances where standard deductions are gradually phased out with income: Alabama (since 2007), Nebraska (1993-2005), Wisconsin (since 1986), and Maine (since 2016). Information on how the phase-out works is contained in the variables **dpthresh1**, **dpthresh2**, **dprate1**, and **dprate2**, together with the other standard deduction variables listed above. If **dpthresh2** = 0 and **dprate1** > 0 (Alabama, Nebraska, married and single in Wisconsin), then for every dollar of AGI above **dpthresh1**, **dprate1** cents of standard deduction are lost until the value of the standard deduction drops to **minstded** (which is zero in Nebraska and Wisconsin, but non-zero in Alabama). In Nebraska, the relevant form reports the increase in tax liability for each dollar of AGI above the threshold, so it is necessary to convert this to the equivalent value of **dprate1**. If **dpthresh2** > 0 and **dprate1** > 0 (head of household in Wisconsin), then for every dollar of AGI between **dpthresh1** and **dpthresh2**, **dprate1** cents of standard deduction is lost, and then for every dollar of AGI above **dpthresh2**, **dprate2** cents of standard deduction is lost until the standard deduction is reduced to zero. Note that all of the parameters of the standard deduction phase-out in Wisconsin can be found for the most recent year only in a place on the Wisconsin department of revenue web site set up for software developers < <http://www.revenue.wi.gov/taxpro/develop.html> >, and can be derived from the law in other years. If **dpthresh1** > 0, **dpthresh2** > 0, and **dprate1** = 0, then the standard deduction is smoothly phased down to zero between state AGI value **dpthresh1** and state AGI value **dpthresh2** (this applies in Maine starting in 2016).

**dpthresh1** AGI threshold where phase-out of standard deduction starts.

**dpthresh2** 2<sup>nd</sup> AGI threshold used in calculation of standard deduction phase-out. Only applies in Wisconsin, since 1986, and Maine, since 2016; set this equal to zero for Alabama and Nebraska. In Maine, the standard deduction is smoothly phased down to zero between state AGI value **dpthresh1** and state AGI value **dpthresh2**. In Wisconsin, phase-outs are

pretty simple for single and married people, but complicated for a head of household. In 2000, for example, a single person loses 12 cents of standard deduction for every dollar of income above \$10,380, until the standard deduction is reduced to zero. But a head of household loses 22.515 cents of standard deduction for every dollar of income above \$10,380, up to the income level where the head of household standard deduction is just equal to the single standard deduction. That income level equals \$30,350 in 2000 (that's **dpthresh2**). Then, for every dollar of income above \$30,350 (**dpthresh2**), the head of household loses 12 cents of standard deduction, until the standard deduction is reduced to zero. In Wisconsin, **dpthresh2** is not reported in the tax instructions or the law (but it is available for the most recent year through the web site mentioned above). The value of **dpthresh2** in Wisconsin can be calculated for any year by setting the formulas that determine the standard deductions for singles and heads of household equal to each other, substituting in known values, and then solving for **dpthresh2**. Y is income, a S indicates value for singles, and an H indicates values for heads of household.

$$\text{maxstded}_{\text{S}} - (\text{dprate1}_{\text{S}}/100)*(Y - \text{dpthresh1}) = \text{maxstded}_{\text{H}} - (\text{dprate1}_{\text{H}}/100)*(Y - \text{dpthresh1})$$

Solve for Y to get:

$$Y = \text{dpthresh2} = \frac{\{\text{maxstded}_{\text{H}} - \text{maxstded}_{\text{S}} + [(\text{dprate1}_{\text{H}} - \text{dprate1}_{\text{S}})/100]*\text{dpthresh1}\}}{[(\text{dprate1}_{\text{H}} - \text{dprate1}_{\text{S}})/100]}$$

- dprate1** Phase-out rate for standard deduction (percent). For each dollar of AGI above **dpthresh1**, standard deduction is reduced by **dprate1** cents. For Alabama, calculate this as:  $[(\text{maxstded} - \text{minstded})/(\text{AGI range over which phase-down occurs})]*100$ . Set this equal to zero in Maine.
- dprate2** 2<sup>nd</sup> phase-out rate for standard deduction (percent). For each dollar of AGI above **dpthresh2**, standard deduction is reduced by **dprate2** cents. Set this equal to zero in Maine.

### GENERAL CREDITS

Note: all of the credits in this section are non-refundable. Any refundable credits will be coded in subsequent sections on retirement income exclusions or credits, low-income exemptions or credits, miscellaneous exemptions or credits, or earned income credits.

- crpercap** Dollar value of per capita credit.  
In other words, one of these for each family member.  
In Oregon 2007-2012, the per capita credit is partially phased out with income. To deal with this, we coded the part that was not phased out in **crpercap**, and we coded the portion of the credit that could be phased out in the **low** variables – see **lowtype** = 4. Starting in 2013, the design of Oregon’s credit changed, so that it is coded entirely using the **low** variables (again with **lowtype** = 4), and **crpercap** is set to zero. The per capita credit introduced in Utah in 2008 is coded using the method described in **xtaxtype** = *utahcred*, not in **crpercap**.
- crreturn** Dollar value of “per return” credit.  
Same idea as **exreturn** above, but a credit.  
[Note: in Idaho through 2007, there is both a per capita “grocery” credit and a filing fee, known in recent years as the “permanent building fund” tax. For Idaho, **crreturn** represents the value of the grocery credit for taxpayer and spouse minus the filing fee; grocery credits for dependents are coded separately. Starting in 2008 this is moved to **lowtype**=26 and **miscex**type= ]
- cred\_dep** Dollar amount of credit per dependent.  
Same idea as **ex\_dep** above, but a credit.
- cred\_age** Dollar value of age credit.  
This is an additional credit for each taxpayer and/or spouse aged 65 or over. Note that in Ohio since 1973, the credit is basically a per-return credit for the elderly. We handle Ohio by coding half of the credit amount in **cred\_age** for married couples, and it is hard-coded into SAS that in Ohio, a married couple gets twice the credit amount reported in **cred\_age** as long as at least one spouse is aged 65 or above. In Ohio starting in 2015 in Ohio, **cred\_age** is phased-out for people with Ohio taxable income above **sptxex** (see **sptx** = *agephaseoh*).
- crphthresh** AGI threshold where phase-out of any of the credits coded into **crpercap**, **crreturn**, **cred\_dep**, and **cred\_age** starts. If credits are not phased out, this is set to zero. If credits are phased-out above certain income levels, the exact nature of the phase-out, and which credits it applies to, is determined by the value of **crphrate** below.
- crphrate** Phase-out rate for credits.  
If credits are not phased out, then both **crphthresh** and **crphrate** are set to zero.  
If **crphrate** is greater than zero, then for each dollar of AGI above **crphthresh**, the sum total value of the credits coded into **crpercap**, **crreturn**, **cred\_dep**, and **cred\_age** is reduced by **crphrate** cents times the

number of credits. “Number of credits” is the sum of the following: number of people eligible for the per capita credit (if **crpercap**>0); 1 if **crreturn** > 0; number of dependents if **cred\_dep** > 0, and number of elderly people if **cred\_age** > 0. This type of phase-out applied in California, 1991 – present, and Nebraska 1993-2005.

If **crphthresh** is greater than zero, but **crphrate** is zero, then taxpayers lose the full value of the credits coded into **crpercap** if *taxable* income is greater than **crphthresh**, but do not lose **crreturn**, **cred\_dep**, or **cred\_age** (if applicable). This applies in Ohio 2013 - . Starting in 2015, **cred\_age** is phased out for people with taxable income above **sptxex** (see **sptx** = *agephaseoh*).

## ITEMIZED DEDUCTIONS

**itemiz** Are itemized deductions allowed, and if so, are they constrained in any way by federal itemization status?

0 -- State does not have itemized deductions, generally (or tax is a percentage of federal tax liability so that this variable is ignored and state itemization status is effectively the same as federal, or state has a credit in lieu of itemized deductions as in Wisconsin).

1 --State has itemized deductions and itemization decision is completely independent of federal decision.

2 -- State has itemized deductions and state itemization status must be the same as federal.

3 -- If itemizing on the federal return, taxpayer may choose to itemize or to take the standard deduction on the state return. If taking the standard deduction on the federal return, the taxpayer must do the same on the state return. (Note that in Louisiana in recent years, the taxpayer gets a deduction equal to the Louisiana standard deduction, which differs from the federal standard deduction, plus a percentage of the amount by which federal itemized deductions exceed the Louisiana standard deduction. To get this right, **itemiz** must be coded as 3 – the difference between Louisiana and federal standard deductions can create situations where the taxpayer itemizes on the federal return but the itemized deductions are not providing any benefit on the Louisiana return. Also note that in Colorado, the tax calculation starts with federal taxable income, and then there is a “state addback” which adds to federal taxable income the smaller of the federal deduction for state income taxes, and the amount by which federal itemized deductions exceed the federal standard deduction, whichever is



smaller. See for example instructions for line 2 in the 2013 CO income tax instructions. This has the same effect as **itemiz=3**, since the loss of the deduction for state income taxes is the only reason someone from Colorado might choose to take the standard deduction on the state return when itemizing on the federal return, so we code Colorado as **itemiz=3** when this provision is in effect.)

4 -- State itemization status must be the same as federal. State itemized deductions are calculated by subtracting some or all of state income taxes (and sales taxes in 2004 and later years) from federal itemized deductions, but this subtraction cannot reduce state itemized deductions below the state standard deduction. (MN 1987 – present, NC 1989 – 2011, SC 1985 – present, VT 2009 - present).

5 -- If taking the standard deduction on the federal return, taxpayer may choose to take the standard deduction or to itemize on the state return. If itemizing on the federal return, the taxpayer must itemize on the state return as well.

#### **charded**

Deduction for charity. Note that this only applies to very general charitable deductions. Deductions or credits that are limited to, say, contributions to educational institutions, are not included. (Note: see **sptx = charcred** for a non-itemizer credit for charitable giving applying in NC).

0 -- No deduction for charity

1 -- Charitable contributions are deductible for itemizers. Applies to all taxpayers only if there is no standard deduction (e.g., MA 2001).

2 -- Itemized deduction for charity, and non-itemizer deduction that is the same as federal.

3 = Itemized deduction for charity, and non-itemizer deduction that is the same as the 1984 federal non-itemizer deduction.

4 = Itemized deduction for charity, and a deduction for people who did not itemize on their *federal* returns equal to 50% of charitable contributions in excess of \$500 (MN, 1999-present).

5 = Itemized deduction for charity. In addition, if taking the standard deduction on the federal and state returns, taxpayer can take a non-itemizer deduction for charitable contributions that exceed \$500. (CO, 2001, 2005 - present. Note that in CO, whether the non-itemizer deduction is allowed each year depends on the state fiscal situation; a regulation is promulgated each year stating whether the deduction will be allowed in that year or not.).

#### **chlim**

Maximum charitable deduction as a percentage of AGI.

The calculator imposes this limit when it is binding. Note that in a few cases a state defined the limit as a percentage of some measure of income close to but not quite the same as AGI, but we have not coded information on these minor differences into the data. The calculator only incorporates

the overall limit on charitable contributions as a percentage of AGI, and not the lower limits that apply to particular types of donation such as non-cash. So in recent years, any state that follows federal law with regards to charity should be coded as **chlim** = 50. The calculator's detailed output files provide information on whether the limit was binding in the variable **chlimbind**, which is set equal to zero if the charity limit is not binding at the state level, 1 if the charity limit is binding at the state level and carryover of donations in excess of the limit are not allowed, and 2 if the charity limit is binding at the state level and carryovers are allowed. We currently assume that if **chlim**<50, **itemiz**<2, and the state is not California, then carryovers of excess deductions are not allowed. We know this to be accurate from 1979 on, but have not yet checked carefully for earlier years.

Note that New York imposed new limits on itemized deductions and charitable deductions starting in 2009, but this should not affect the coding of **chlim**. It is handled in **itemlim** instead (see **itemlim** = 3 and **itemlim** = 4).

#### **sitded**

Are state and local income taxes allowed as itemized deductions?

*0* – No. However, local income taxes may be deductible – if so, this will be reflected in the value of **localtype**. For example, in Kentucky, **sitded** = 0, but the **localtype** code of 4 makes local income taxes deductible from the state income tax. In addition, if a state disallows itemized deductions for the state's own income tax, but allows itemized deductions for other states' income taxes, we still code **sitded** as zero, because the calculator currently assumes that all state income tax reported in itemized deductions are from the state of residence.

*1* – Yes

*Any number larger than 1* – State and local income taxes are allowed as itemized deductions, but the deductible amount is limited to be no larger than the value of **sitded**. So far this only applies in Vermont 2009-2014, which was a case where **itemiz**=4 and **itemlim**=1. Note that if another state takes this approach at some point, it will require modifying the SAS code for any value of **itemlim** or **itemiz** that applies to that state.

Note that when the federal income tax allows an itemized deduction for the larger of state income taxes or state sales taxes (starting in 2004), the program assumes that states with **sitded**=1 also allow the larger of the two taxes to be deducted, and assumes that states with **sitded**=0 do not allow either tax to be deducted. The first assumption is almost always accurate, with rare exceptions (for example, Hawaii allowed deduction of state and local income tax but not state and local sales tax through 2015, but this is

unlikely to matter much since state and local income tax will be larger than state and local sales tax for almost any itemizer in Hawaii). The second assumption is sometimes inaccurate -- some states allow a deduction for sales taxes if sales taxes are deducted at the federal level. Taxpayers who are not on the AMT and who live in a state with an income tax would generally want to take the state income tax deduction rather than the state sales tax deduction, as the former is almost always larger and federal marginal tax rates are generally higher than state marginal tax rates. In those cases, ignoring this issue usually makes no difference. However, some taxpayers who are on the federal AMT might find it advantageous to claim the state sales tax deduction on the federal return (despite the fact that it will be disallowed by the AMT), so that they can claim it on the state return. We currently ignore this complication, because getting this completely right would require doubling the number of iterations used to calculate federal and state taxes. Federal and state tax liabilities would have to be calculated first with the income tax deduction and then with the sales tax deduction, and the choice between the two would depend on which led to the lower combined federal-state tax liability. Failing to do this probably comes at a small cost in terms of accuracy, but has large advantages in terms of the speed and simplicity of the program.

Starting in 2011, Hawaii disallowed the itemized deduction for the larger of state and local income taxes or state and local sales taxes for people with AGI above certain thresholds. In that case, code **sitded** = 1, as the elimination of state and local income and sales tax deductions for high-income people is handled by **itemlim** = 22 and **xtaxtype** = *itemlim22*.

**intded**

Are interest payments deductible?

0 -- No

1 -- Yes

Note: definition of deductible interest is assumed to be the same as federal, which is almost always accurate.

**propded**

Is a property tax deduction allowed?

0 – No. Note that there are some cases (Indiana 1993 - present, Massachusetts 1990 - present, and New Jersey 1985-1990 and 1996 – present), where **propded** is coded zero, but where there is a special deduction for property taxes or rent allowed under certain circumstances which is coded into the variables with names starting with **cb** and/or **xcb**. See **cbtype** = 10, 15, 38, 39, and 40 through 42 details on how those work.

1 – Yes, but not if standard deduction is taken

2 – Yes, and if standard deduction is taken, there is a non-itemizer deduction for property taxes that is the same as the federal provision (applicable 2008 – 2009; see **Fnipropmax**).

- saleded** Is a deduction for retail sales taxes allowed?  
*0* -- No  
*1* -- Yes  
 (Note: in situations where the state only allows a deduction for the larger of state sales taxes and state income taxes, or situations where the state allows a deduction for sales taxes only if a deduction for sales taxes is taken in lieu of a deduction for income taxes on the federal return, set **saleded** to zero. See discussion of **sitded** above for how this is addressed in the calculator).
- medded** Is a medical expense deduction allowed?  
 If yes, details (e.g., limited to expenses beyond a certain percentage of AGI) are assumed to be the same as federal. In fact, historically states occasionally used different rules for medical expense deductions (e.g., a different percentage of AGI), but we have not yet incorporated this level of detail into the calculator.  
*0* -- No  
*1* -- Yes
- dedfed** Is the federal income tax deductible in the ordinary personal income tax?  
  
*0* -- No  
 In rare cases, it may be deductible in an optional maximum tax coded into the extra tax section below (e.g., Minnesota, Kansas, and Arizona for a small number of years during the 1980s or early 1990s)  
  
*1* -- Yes
- limfdtype** Type of limitation on deductibility of federal income tax:  
 Let  $fdtxliab$  = federal income tax liability.  
  
*0* -- There is no limitation on deductibility, or federal income tax is not deductible.  
  
*1* -- Basic limitation:  
 If **limfdpct** = 0, then deduction =  $\min(fdtxliab, \mathbf{limfdamt})$ , where  $fdtxliab$  is federal tax liability after credits.  
 If **limfdamt** = 0, then deduction =  $(\mathbf{limfdpct}/100)*fdtxliab$ .  
 If both **limfdamt** and **limfdpct** are greater than zero, then deduction =  $\min[(\mathbf{limfdpct}/100)*fdtxliab, \mathbf{limfdamt}]$   
  
*2* -- Deduction =  
 if  $fdtxliab \leq \mathbf{limfdamt}$ , deduction =  $\min(fdtxliab, \mathbf{limfdamt})$ . Otherwise  
 deduction =  $\min(\mathbf{limfdamt2}, \mathbf{limfdamt} + (\mathbf{limfdpct}/100)*fdtxliab - \mathbf{limfdamt})$ .

3 – Deduction is limited to federal taxes attributable to income taxable under this state tax (for example, Massachusetts at one time only allowed deductions for federal income tax on labor and business income).

4 – Deduction is limited to 3% of “net income” (Wisconsin, 1941-61). Net income is AGI less itemized deductions other than federal income tax and charitable contributions.

5 – Arizona 1987-1989. If **limfdamt2** > 0 then deduction is:  $\min(\mathbf{limfdamt2}, \max((\mathbf{limfdpct}/100)*\mathbf{fdtxliab}, \mathbf{limfdamt}))$ . If **limfdamt2**=0 then deduction =  $\max((\mathbf{limfdpct}/100)*\mathbf{fdtxliab}, \mathbf{limfdamt})$ .

6 – Oregon, 2009 - present. Deduction =  $\min(\mathbf{fdtxliab}, \mathbf{cap})$ , where **fdtxliab** is federal tax liability after credits. *Cap* is **limfdamt** for federal AGI below **limfdamt2**, and then *cap* is gradually phased down to zero as federal AGI rises from **limfdamt2** to **limfdpct**. If federal AGI is greater than **limfdpct** then no deduction for federal income tax is allowed.

- limfdamt** Dollar value of limit on deductibility of federal income tax. For married couples, this is the amount for a joint return; married filing separately is assumed to have a limit of half this amount.  
0 -- Not applicable.  
Amount > 0 – Dollar limit
- limfdamt2** Dollar value of second limit on deductibility of federal income tax. For married couples, this is the amount for a joint return; married filing separately is assumed to have a limit of half this amount.  
0 = Not applicable.  
Amount > 0 – Dollar limit.
- limfdpct** Percentage limit on deductibility of federal income tax.  
0 = Percentage limit not applicable.  
Amount > 0 -- Percentage
- asdfed** Can taxpayers take the deduction for federal income taxes in addition to the standard deduction? (Note that this applies to both the normal tax and the "extra" tax, so that **asdfed** may be 1 even if **dedfed**=0).  
0 -- No  
1 -- Yes
- sstxded** Is the federal Social Security payroll tax deductible?  
0 – No  
1 – Yes. (Employee portion of Social Security and Medicare taxes and self-employment tax are deductible)

*Amount > 1* – Same as 1, but there is a dollar limit to the deduction. The amount recorded in **sstxded** is the limit per taxpayer and/or spouse (in other words, each spouse can deduct his or her own social security tax up to the limit). Note that in Missouri, the instructions list a dollar limit for social security payroll tax, but that is simply the maximum amount it is possible to pay, so Missouri can be coded **sstxded** = 1.

**itemlim** Limitation on itemized deductions (if any).

0 -- No limitation on itemized deductions.

1 -- Limitation on itemized deductions is the same as the one that applies in the federal income tax in that year (The federal itemized deduction limitation applied from 1991 through 2009 or from 2013 on, and is coded into **Fidphthresh** and **Fidphrate**), except for possibly having a different AGI threshold at which the limitation begins relative to the federal law (in which case the state's AGI threshold will be coded in **idphthresh**; if **idphthresh** = 0 and **itemlim** = 1, then the Federal AGI threshold applicable that year will be used). If the state income tax is deductible from itself (i.e., if **sitded** = 1), then this works just like the federal itemization deduction limitation, except that the thresholds might differ as noted above. On the other hand, if state income tax is not deductible from itself (i.e., if **sitded** = 0), then the calculator assumes that only that portion of state income taxes that are actually deductible at the federal level (after any limitation) are subtracted from federal itemized deductions to determine state itemized deductions. If **itemlim** = 1 and **sitded** = 0, the calculator starts with the value of federal itemized deductions after limitation, and then subtracts from that the value of state and local income tax deductions multiplied by the ratio of (federal itemized deductions after limitation – protected federal itemized deductions not subject to federal limitation)/(gross value of unprotected federal itemized deductions subject to federal limitation before applying the limitation). This matches how this works in most states that disallow deductions for state and local income taxes, but note that some states in this category handle this differently – see for example **itemlim** = 2 below for another approach used by some states. Note that if a state implements an itemized deduction limitation like this in a year when the federal limitation did not apply (2010-2012), then a different code for **itemlim** must be used.

2 -- Limitation on itemized deductions similar to the one that applied in the federal income tax in that year (i.e., the federal itemized deduction limitation that applied from 1991 through 2009 and from 2013 on and is coded into **Fidphthresh** and **Fidphrate**), but with unusual treatment of federal itemized deduction for state income taxes.. Use this code if state income tax is not deductible from itself, but the full amount of state income taxes are subtracted from federal itemized deductions to determine

state itemized deductions. (Missouri 1991-1992, Minnesota 1991-2009). Note that if a state implements an itemized deduction limitation like this in a year when the federal limitation did not apply (2010-2012), then a different code for **itemlim** must be used. See **itemlim=23** for Minnesota 2011 - .

3 – Itemized deduction limitation applying in New York in 2009. Itemized deductions are limited based on state AGI.

If AGI is less than **xb10**, the taxpayer can deduct 100 percent of itemized deductions.

If AGI is greater than **xb10** but not more than **xb11**, then the taxpayer loses the following percentage of itemized deductions:  $\mathbf{xr10} * [\min(\max(0, \text{AGI} - \mathbf{xb10}), 50000) / 50000]$ .

If AGI is more than **xb11** but not more than **xb12**, then the taxpayer loses the following percentage of itemized deductions:  $\mathbf{xr10} + \mathbf{xr10} * [\min(\max(0, \text{AGI} - \mathbf{xb11}), 50000) / 50000]$ .

If AGI is more than **xb12** but not more than **xb13**, then the taxpayer loses **xr11** percent of itemized deductions.

If AGI is more than **xb13**, then the only itemized deduction allowed is **xr11** percent of charitable contributions.

4 -- Itemized deduction limitation applying in New York in 2010 and later years. Itemized deductions are limited based on state AGI.

If AGI is less than **xb10**, the taxpayer can deduct 100 percent of itemized deductions.

If AGI is greater than **xb10** but not more than **xb11**, then the taxpayer loses the following percentage of itemized deductions:  $\mathbf{xr10} * [\min(\max(0, \text{AGI} - \mathbf{xb10}), 50000) / 50000]$ .

If AGI is more than **xb11** but not more than **xb12**, then the taxpayer loses the following percentage of itemized deductions:  $\mathbf{xr10} + \mathbf{xr10} * [\min(\max(0, \text{AGI} - \mathbf{xb11}), 50000) / 50000]$ .

If AGI is more than **xb12** but not more than **xb13**, then the taxpayer loses **xr11** percent of itemized deductions.

If AGI is more than **xb13** but not more than **xb14**, then the only itemized deduction allowed is **xr11** percent of charitable contributions.

If AGI is more than **xb14**, then the only itemized deduction is **xr12** percent of charitable contributions.

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5 -- Itemized deduction limitation applying in California 1991 – 1999.

Thresholds are different than federal, and are recorded in **idphthresh**. For taxpayers with federal AGI below **idphthresh**, there is no limitation imposed on itemized deductions. For taxpayers with federal AGI above the thresholds in **idphthresh**, state itemized deductions are equal to allowable federal itemized deductions (after federal limitation), minus the full amount of state and local income tax deduction. So this is similar to

**itemlim** = 2, except that taxpayers with federal AGI below **idphthresh** are exempt from the itemized deduction limitation.

6 -- Itemized deduction limitation applying in California 2000 - . Thresholds are different than federal, and are recorded in **idphthresh**. For taxpayers with federal AGI below **idphthresh**, there is no limitation imposed on itemized deductions. For taxpayers with federal AGI above the thresholds in **idphthresh**, the state limitation on itemized deductions works like the federal limitation, except that the AGI thresholds are different (recorded in **idphthresh**), and the amount of unprotected itemized deductions that are lost is the smaller of 80% of unprotected itemized deductions and 6% of the amount by which federal AGI exceeds the state-specific AGI thresholds (as opposed to the 3% that applied most years at the federal level).

7 – Itemized deduction limitation applying in North Carolina in 2014. The only allowable itemized deductions are mortgage interest (which we approximate with **intpaid**), real estate property taxes (which we approximate with **proptax**), and charitable contributions. Note that no deduction for investment interest is allowed. In addition, the sum of the itemized deductions for mortgage interest and real estate property taxes is capped at **idphthresh** dollars. Deductions for charitable contributions are not subject to a cap. Set **intded** = 1 (despite the fact that investment interest is not deductible; the SAS code for **itemlim** = 7 will take care of this), and set **propded** and **charded** = 1.

8 – North Carolina, 2015 - . This works the same as **itemlim**=7, except that the same deduction for medical and dental expenses that is allowed in the federal income tax is also allowed in the state income tax. The medical and dental expense deduction is *not* subject to the cap recorded in **idphthresh**.

11 – Itemized deduction limitation applying in DC starting in 2011. Itemized deductions aside from medical dental expenses, deduction for investment interest, and casualty and theft loss deductions, are reduced by 5 percent of the amount by which state AGI exceeds the threshold in **idphthresh**. Note that the threshold for married couples filing separately is half of **idphthresh**; the SAS code automatically implements this, so enter the full amount of the threshold (e.g., 200000 in 2011) in **idphthresh** for **filertype** = *m*. In 2013, when the federal limitation on itemized deductions is reintroduced, the DC itemized deduction limitation calculation apparently starts with federal itemized deductions after applying the federal limitation on them, and after subtracting out the full value of state and local income and/or sales taxes reported on the federal Schedule A (with no adjustment for the fact that the federal limitation on itemized deductions took some of these away). The SAS code deals with



this appropriately. Note that SAS code for *itemlim* = 11 assumes state income tax is not deductible from itself, since this was the case in DC when we coded this.

20—Itemized deduction limitation that is similar to the one that applied in the federal income tax 1991 through 2005 and 2013 - , when **Fidphrate** equaled 3, except that it applies in a year when the federal itemized deduction limitation is not in effect. Code the AGI threshold at which the itemized deduction phase-out begins in **idphthresh**. Treatment of itemized deduction for state and local income taxes is similar to that in **itemlim** = 1. Applied in Rhode Island 2010, Minnesota 2011-2012.

21 – Itemized deduction limitation applying in Hawaii in 2006 and 2007. Same as **itemlim** = 1, except that the limitation is calculated as if **Fidphrate** = 1 (when at the federal level **Fidphrate** equaled 2). Also note that Hawaii used a different AGI threshold than the federal one.

22 – Itemized deduction limitation applying in Hawaii from 2011 to the present (including both 2011-2012 when there was no federal itemized deduction limitation, and from 2013 on, when the federal limitation was restored, but the Hawaii kept using a limitation following **itemlim**=22). Elements of this provision are coded into the **xtaxtype** variables. If **itemlim**=22, set **xtaxtype** = *itemlim22*, and **xb1** and **xb2** will also be used. For people with federal AGI below **xb1**, this works the same as the federal itemized deduction limitation that applied 1991-2005, when **Fidphrate** was 3, except that the AGI threshold at which the limitation on itemized deductions that is similar to the federal one begins to apply must be coded into **idphthresh**. In addition, for taxpayers with federal AGI above **xb1**, no deduction for state and local income taxes or sales taxes is allowed. (See for example Worksheet A-2 in the 2011 Hawaii income tax instructions.) Moreover, if federal AGI is above **xb1** and if **xb2** is greater than zero, then the total allowable itemized deduction is capped at **xb2**. If **xb2** is zero, then no cap is imposed on itemized deductions (this was the case in 2016 and later years). If an itemized deduction for state and local income taxes (or the larger of that and state and local sales taxes) is allowed for taxpayers with federal AGI below **xb1**, then set **sitted** = 1.

23 – Similar to **itemlim** = 2, except that the AGI threshold at which the limitation begins to apply can be different than the one that applies at the federal level, and it can apply in a year when there is no federal limitation on itemized deductions (such as 2010-2012). The applicable AGI threshold must be coded into **idphthresh**. This code applies a limitation similar to what would happen at the federal level 1991-2009, or from 2013 on, if **Fidphrate** = 3 and **Fidphthresh** were set to **idphthresh**. Applies in Minnesota in 2011 and later years. There is a provision to ensure that this limitation does not reduce the value of the itemized deduction below the

value of the standard deduction (there was already a provision to make sure the subtraction of state and local income or sales tax did not reduce the itemized deduction below the standard deduction).

24 – Reduces certain itemized deductions by a percentage (Kansas, 2013 - 2015). The calculation uses **xr1** to determine the percent reduction. For Kansas, the state itemized deduction = charity +  $[1 - (\mathbf{xr1}/100)] * [\text{federal itemized deduction after limitation} - (\text{portion of state income tax that is effectively deductible at federal level; see } \mathbf{itemlim}=1) - \text{charity}]$ . Starting in 2014, gambling losses are also completely disallowed as a state itemized deduction, but we do not account for this because there is no variable for gambling losses in our input data set. When this is in effect, **xtaxtype** should be set to *itemlim24*.

25 -- Itemized deduction limitation in effect in Kansas starting in 2015. Itemizers lose **xr1** percent of propded and intded from their itemized deductions. When this is in effect, **xtaxtype** should be set to *itemlim25*.

26 – Itemized deduction limitation applying in Vermont starting in 2015. Itemized deductions equal federal itemized deductions after limitation, minus the portion of state and local income taxes deducted on the federal return after limitation (as in **itemlim**=1 when **sitted** = 0), minus the amount by which federal itemized deductions aside from medical and dental expenses, charity (deductible amount after federal limitation), and state and local income taxes exceeds 2.5 times the federal standard deduction.

27 – Itemized deduction limitation applying in Maine 2013 - 2015. Works the same as **itemlim** = 1, except that in addition, itemized deductions besides the medical expense deduction are capped at a dollar amount equal to **sptxex**. After applying the cap to non-medical itemized deductions, medical deductions are then added back in to compute allowable state itemized deductions. See also **sptx** = *itemlim27*. The part that works like **itemlim**=1 is implemented in the **itemlim**=1 part of the SAS code, and the rest is implemented in the section of the SAS code for **itemlim**=27 and **itemlim**=28.

28 – Itemized deduction limitation applying in Maine 2016 - . Works the same as **itemlim** = 27, except that the itemized deduction amount computed after applying the limitations in **itemlim** = 27 is then smoothly phased down to zero between state AGI level **sptxex2** and and state AGI level **sptxrate2**. See also **sptx** = *itemlim28*, and **sptx2** = *itemlim28*. The part that works like **itemlim**=1 is implemented in the **itemlim**=1 part of the SAS code, and the rest is implemented in the section of the SAS code for **itemlim**=27 and **itemlim**=28. Note that while medical expense deductions are exempt from the dollar cap specified in **sptxex**, they are not

exempt from the income-related phase-out specified using **sptx2**, **sptxex2**, and **sptxrate2**.

50 -- Same as 1, except that in addition, allowable itemized deductions are reduced to  $(\text{itemlim}/100) \times (\text{federal itemized deductions after federal limitation} - \text{zba})$ . Applies in Louisiana, 2000-2001.

57.5 -- Same as 1, except that in addition, allowable itemized deductions are reduced to  $(\text{itemlim}/100) \times (\text{federal itemized deductions after federal limitation} - \text{zba})$ . Applies in Louisiana 2002, 2007.

65 -- Same as 1, except that in addition, allowable itemized deductions are reduced to  $(\text{itemlim}/100) \times (\text{federal itemized deductions after federal limitation} - \text{zba})$ . Applies in Louisiana 2008.

**icredrate** Percentage rate for itemized deduction credit. This applies where itemized deductions are not actually a deduction, but rather a credit equal to a flat percentage rate times the amount by which certain itemized deductions exceed the state standard deduction. This applies only in Wisconsin starting in 1986. Which itemized deductions are allowable for purposes of the credit are determined by the indicator variables for each type of itemized deduction above.

**idphthresh** This is usually the AGI threshold where itemized deduction limitation starts, for states that operate an itemized deduction limitation that works the same way as the federal one, but with different thresholds (e.g., Hawaii, California). This should be set to zero if the AGI thresholds at which the state itemized deduction limitation starts are the same as the federal thresholds. In some cases, **idphthresh** has a different meaning which is defined in the documentation for **itemlim**.

#### RETIREMENT INCOME EXCLUSIONS AND CREDITS

Meaning of variables **retex**, **retph1**, and **retph2** can depend on the value of **retex**type (see **retex**type for details). If phase-outs or phase-ins involve discreet jumps or notches, these are smoothed (phase-out is assumed to proceed at a constant rate between thresholds). Measure of income used to determine phase-outs is usually adjusted gross income or some close variant. Unless otherwise specified, the calculator assumes state AGI is used to determine phase-outs. Unless otherwise specified, phase-outs for separate filers are based on combined AGI in the case of a married couple. **Research assistants, please pay attention to this: Unless otherwise specified, the amount reported for retex for a married couple is the maximum amount available to the couple as a whole if both are eligible (if only one is eligible, for example due to age, then the default behavior is for the calculator to give them half of retex, unless otherwise**

specified below). So for example, if the state has an exclusion for pension income that excludes up to \$20,000 of pension income for each spouse, then **retex** should be coded as \$40,000. In some cases, states provide different tax treatment for different types of pensions. For instance, in several states, maximum pension exclusion amounts are different for government employee pensions relative to private pensions, and in one case (Alabama), exclusions are different for defined benefit versus defined contribution pensions. Because the data sets used with the tax calculator generally do not indicate the type of pension, we have not attempted to incorporate this level of detail into the calculator. In cases where tax treatment differs depending on type of pension, we use the treatment accorded to private defined benefit pensions.

**retextype** Type of retirement income exclusion or credit:

0 -- 100% of pension income excluded.

1 -- No special exclusion for pensions or any other retirement income. Note: this is the default. In cases where the state tax base only includes certain components of income like dividends or capital gains, (e.g., **base** = **cg**), set **retextype** = 1. Special exclusions should only be coded into **retextype** if the initial base of the tax is defined so as to include pensions or other retirement income in the first place.

2 -- Exclusion of pension income up to a dollar limit.

3 -- Exclusion applies to pensions, interest, dividends, rental income, and taxable social security benefits.

4 -- Maximum exclusion applies to pensions and social security combined.

5 -- Social security is subtracted from exclusion to obtain maximum pension exclusion.

6 -- Exclusion applies to all AGI.

7 -- Exclusion applies to all AGI, but social security is subtracted from maximum exclusion amount.

8 -- Pension credit that is phased in with size of pension; **retex** contains maximum credit amount, **retph1** has level of pension at which credit is fully phased-in, and **retph2** has level of pension income at which credit starts to phase in. Applies in Ohio 1983 - present. In addition, if **sptx** = *agephaseoh*, then taxpayers with state taxable income greater than **sptx** are ineligible for the credit (this phase-out applies in Ohio starting in 2015).

9 -- Exclusion applies to pensions, dividends, capital gains, interest, and rental income. (DE 1999 - ).

10 -- Refundable credit.

11 -- Limited pension exclusion. Exclude a percentage of pension income, up to a dollar limit. Dollar limit of gross pension income to which the percentage can be applied is contained in **retex**, and percentage is contained in **retph1**. (e.g., Kentucky).

12 -- Non-refundable credit.

13 -- Exclusion for dividends and interest equal to **retex**, phased out based on total income (phase-out thresholds are in **retph1** and **retph2** as usual). Married couples filing a joint return receive this exclusion as long as at least one spouse is aged **retexage** or above. If a married couple files separately, the exclusion available to each spouse is not half of **retex**, but rather is the amount for single filers, which is stored in **mardedlim** Tennessee, 1976 - .

14 -- Limited pension exclusion that works the same as **retex** type=2, except with some special features applicable in Arkansas 1985-present. In this case, if the pension exclusion is taken, the taxpayer cannot make use of the general age credit (**cred\_age**), the working taxpayer tax credit (see **lowtype = 18**), or the low-income tax tables (see **xtaxtype = lowtab1**, **lowtab2**, and **lowtab3**). This applies in Arkansas, 1985-present. In the SAS code, it is implemented in the extra tax section where **xtaxtype = lowtab1**, **lowtab2**, and **lowtab3** are coded. The SAS code automatically figures out which set of tax provisions -- the pension exclusion, or the combination of the general age credit, working taxpayer tax credit, and low-income tables -- is more advantageous to the taxpayer, and only applies the most advantageous set of provisions.

15 -- Oregon 1991 -- present (although see 2<sup>nd</sup> paragraph below). This coding scheme allows for the choice of one out of two possible credits. The first option is the “elderly and disabled” credit, which is a percentage of the federal credit for the elderly and disabled, and is in Oregon Annotated Statutes Section 316.087. The percentage of the federal credit used in the state credit is **pctfdeldcr**. This elderly and disabled credit seems to have been eliminated starting in 2016 (see next paragraph below), at which point the second credit described below is the only choice. The second option is a non-refundable state “retirement income credit,” and is in Oregon Annotated Statutes Section 316.157. To qualify for the retirement income credit, social security benefits must fall below a social security benefit threshold (stored in **retex**) and household income must fall below an income threshold (stored in **retph2**). Household

income is defined as federal AGI, less any social security benefits included in federal AGI, plus certain excluded forms of income (such as tax exempt interest), with adjustments that limit allowable losses in each of several categories (capital losses, business losses, farm losses, rent losses) to \$1,000 each. The retirement income credit is worth 9% of the lesser of (i) pension income or (ii) (**retex** - social security benefits) – max(household income – **retph1**, 0). In the calculation above, federal pension income is excluded from pension income, but this is ignored by the calculator because data sets used with the calculator usually do not provide such information. The Oregon tax instructions call **retph1** the “household income base.” When both credit options are available, the calculator automatically picks the most advantageous of the options.

Starting in 2015, information on both credits was moved out of the regular individual income tax instructions, with an itemized list of state credits claimed moving to Oregon Schedule OR-ASC, and instructions on how to calculate each credit moving to the Oregon Individual Income Tax Guide (Publication 17 or 171/2 depending on the year). Note that a 2009 Oregon session law (2009 Ore. ALS 913) specified that a large number of tax credits would “sunset” in future years, and included the statements “A credit may not be claimed under ORS 316.157 for tax years beginning on or after January 1, 2014,” “A credit may not be claimed under ORS 316.087 for tax years beginning on or after January 1, 2016,” and “Any tax credit enacted by the legislative assembly on or after the effective date of this 2009 act shall apply for a maximum of six tax years beginning with the initial tax year for which the credit is applicable, unless the legislative assembly expressly provides for another period of applicability.” The intention seems to be to make all tax credits expire unless the legislature periodically enacts new laws to extend them. In addition, a note at the end of section 316.157 says “A credit may not be claimed under ORS 316.157 for tax years beginning on or after January 1, 2014. Note: Section 36, chapter 913, Oregon Laws 2009, provides: Sec. 36,” and a note at the end of section 316.087 says “A credit may not be claimed under ORS 316.087 for tax years beginning on or after January 1, 2016. Note: Section 40, chapter 913, Oregon Laws 2009, provides: Sec. 40.” Based on the Oregon Individual Income Tax Guide, it appears that the elderly and disabled credit in section 316.087 was indeed allowed to sunset (i.e. it was eliminated) starting in 2016. We handle this by setting **pctfdeldcred** = 0 starting in 2016. It appears that subsequent legislation must have extended the retirement income credit so that it still applied at least through 2017 and possibly in future years. Research assistants should make sure to download a copy of the Oregon Individual Income Tax Guide and check carefully to see whether either or both of these credits continue to apply in future years.

*16* -- Tax credit that is a percentage of tax liability for elderly, decreasing from 100% of tax liability to 0% of tax liability over phase-out range.

With this type of credit, **retph1** and **retph2** refer to phase-out thresholds defined in terms of tax liability, not income. Note that **retex** represents income limit for eligibility. (Vermont 1971-1991; note that this is in the part of the SAS code for **taxtype** = “pctfed”).

17 – Utah 1988-2007. Exclusion applying to all AGI. Exclusion equals  $\max(0, \text{retex} - .5 * \max(0, \text{agi} - \text{retph1}))$ . Set **retph2** equal to zero in the tax parameter data set – it will be calculated by the program using the rule described above. Starting in 1994, the measure of income used to compute the phase-out is **agi** plus tax-exempt interest.

18 – Virginia 2004-present. There is an exclusion equal to **retex** for those with age  $\geq \text{retexage}$ . The exclusion is phased-out with income for those born on Jan. 1, 1939 or later, and is not phased-out with income for those born before Jan. 1, 1939. The exclusion is phased-out at a rate of \$1 for every \$1 of AGI above **retph1**. Leave **retph2** = 0, the program calculates the appropriate value for that based on the rules above. For married couple filing separately where both qualify, the exclusion is calculated as for a joint filer, and then divided by two and given equally to each spouse. Those taking the low income credit are not eligible for any age deduction (those who are eligible for the low income credit would always be better off selecting that). Measure of AGI used to compute phase-out subtracts off any taxable social security benefits. If married filing separately, phase-out is based on joint AGI. Each spouse born before 1939 gets half of **retex** deduction; spouse born in 1939 gets half of **retex** subject to phase-out.

19 – Same as 2, except **retph2** represents the AGI threshold at which the phase-out of the pension exclusion ends only in the case where the pension is larger than **retex**. If the pension is smaller than **retex**, then the end of the phase-out range is actually **retph1 + pension**. In addition, in Missouri, the pension exclusions for each spouse are added together, and then allocated to each spouse in proportion to their AGI. (Missouri 1999 - present).

20 – Montana, 1991-present. Same as 2, except that if married filing separately, the phase-out is computed using the AGI of each spouse separately (rather than using the spouse’s combined AGI). Effectively, for a married couple, the combined income level at which the exclusion begins to phase out can be up to twice as large if filing separately than if filing jointly. In addition, the phase-out income range is half as wide for married filing separately as for married filing jointly. For married couples, the amount recorded for **retph1** applies to both joint and separate, and the amount recorded as **retph2** is the amount for joint filers. Note that because of a very narrow phase-out range, this feature can be a source of

very high state marginal income tax rates, but these high rates are a legitimate feature of the law.

21 – Utah, 2008 – present. Non-refundable credit for the elderly that is phased-out with income. Maximum possible credit before phase-out is **retex**. Must be aged **retexage** or above to receive credit; if married and only one spouse is aged **retexage** or above, then maximum credit is half of **retex**. Income used to compute phase-out is AGI plus non-taxable interest (**teint**). Credit is reduced by **retph2** percent of the amount by which income exceeds **retph1**, until it reaches zero. As of 2017, there was only one tax rate in Utah, so the calculator assumes married couples file jointly; the SAS code for this provision will have to change if married filing separately becomes advantageous in Utah.

22- West Virginia, 1980-present. Exemption for the elderly equal to the smaller of **retex** and total income (not AGI). For married filing jointly, each spouse is eligible for an exemption of the smaller of **retex** and that spouse's own total income. The exemptions for the two spouses are then added together and subtracted from their joint income. So unlike most other states, the amount entered in **retex** is the amount for each spouse separately, not for two spouses combined. There are adjustments to the allowable exemption for specific sources of income (e.g., it is reduced by the amount of government bond interest included in federal AGI but excluded from state AGI), though most data sets do not contain sufficiently detailed information to make these calculations, so the calculator ignores them. See West Virginia Schedule M for additional details. There is no phase out for higher incomes.

23 – Exclusion of pension income up to a dollar limit recorded in **retex**, which only applies to those born before 1946. In the case of a joint return, this is determined by the date of birth of the older spouse. People born in 1946 and later years benefit from the provision described in **sptx = agededmi** instead. This applies in Michigan starting in 2012.

24 – Retirement income exclusion applying in Georgia 1989 – present. Retirement income is defined as: up to \$4,000 of earned income, plus income from pensions, dividends, capital gains, interest, rent and royalty income, partnership and S-corporation income, and **othinc**. A married couple gets an exclusion of up to **retex** if both spouses are aged **retexage** or older, or ½ of **retex** if only one is **retexage** or older. Note that starting in 2012, the exclusion amount is increased for people aged 65 and above -- this is handled using **miscex** = 22. In that case, the maximum exclusion if unmarried is **retex + miscexamt**, and for married couples the maximum exclusion is **retex\*(number of spouses aged retexage or older divided by two) + miscexamt \* (number of spouses aged 65 or above)**. The extra exclusion available due to **miscexamt** calculated in the **retex**



part of the SAS code and is recorded in **retexamt** in the detailed output dataset.

- retex** Usually, maximum retirement income exclusion or credit. For married couples, this is the amount if both spouses qualify; half of this amount applies if only one spouse qualifies.
- retph1** Usually, AGI threshold at which phase-out of retirement income exclusion or credit begins. (May be used for other things if so specified in **retex** above).
- retph2** Usually, AGI threshold at which phase-out of retirement income exclusion or credit ends. (May be used for other things if so specified in **retex** above).
- retexage** Minimum age to qualify for retirement income exclusion or credit (in years).
- pctfdeldcr** Percentage of federal credit for elderly and disabled (previously known as retirement income credit) allowed by state.
- ssbentx** Tax treatment of social security benefits
- 0* -- Social security benefits are 100% excluded.
- 1* -- Treatment same as current federal law. (Note that Montana is currently coded this way. In Montana, the portion of social security benefits subject to taxes is the same as federal except that the formula is slightly different for married couples who are filing separately, which is generally advantageous in Montana. I may need to create a new coding scheme for this.)
- 2* -- Social security benefits are fully taxable.
- 3* -- Social security benefits are taxed based on pre-1994 federal law (i.e., up to 50% rather than up to 85% of benefits are taxable). This is only applicable if it is 1994 or later; before 1994, states that follow federal are coded as **ssbentx** = *1*. [Note: **ssbentx** is currently coded 3 for Minnesota 1994-2008. In fact, it should be coded as 1 starting in 1997. For 1994-1996, it looks like taxpayers could take the larger of an adjustment similar to **ssbentx** = 1, and the provision coded into the **retex** variables, but not both at the same time. The relevant provisions are on Schedule M1-R, and can be found in Section 290.0802 of the Minnesota Code. I need to modify the coding scheme for this.]

4 -- Same as 3, except that in addition a percentage of the social security benefits that would otherwise be included in AGI are non-taxable (applies in Iowa 2007 through 2013). The percentage is 32% in 2007-2008, 43% in 2009, 55% in 2010, 67% in 2011, and 77% in 2012, 89 percent in 2013, and 100% in 2014 and later years (at which point **ssbentx** can be coded as 0). [Note to self: I still need to modify the SAS code for **ssbentx** = 4 to account for this for 2009 through 2012. This will have implications for the SAS code for **lowtype** = 14 and **xtaxtype** = *maxtax* too.]

5 – Adjustment to taxable social security benefits applying in CT in 1998. Social security benefits included in state adjusted gross income are equal to:  
Federal social security benefits in AGI – (Federal soc. sec. benefits in AGI - .5\*min((**ssben**/2 + **Fagi** + **teint** – **Fssb1**)/2, **ssben**/2).

6 . Adjustment to taxable social security benefits applying in CT in 1999. Same as **ssbentx** = 5, except if AGI < 50,000 for single filers and <60,000 for married and head of household filers, social security benefits are completely excluded.

7 – Adjustment to taxable social security benefits applying in CT from 2000 to the present. If federal AGI is less than 50,000 for single filers or 60,000 for married and head of household filers, then social security benefits are tax exempt. If federal AGI is above this limit, then taxable social security benefits are equal to the federal taxable SS benefits minus the difference between total social security benefits and 25% of the smaller of social security benefits and the combination of federal AGI, tax-exempt interest income, and 50% of social security benefits minus **Fssb1**. For the law, see CT Public Act 00-174.

11 = Same as 1, except that all social security is exempt if federal AGI is \$50,000 or less (Kansas 2007).

12 = Same as 1, except that all social security is exempt if federal AGI is \$75,000 or less (Kansas 2008 - ?).

13 – Social security benefits are 100% excluded, except that if a taxpayer is born in 1952 or later (using year of birth of the older spouse in case of a joint return), and is aged 67 or above (which first occurs in 2019), then if the deduction described in **sptx** = *agededmi* is taken, then treatment of social security benefits is the same as federal law. (Michigan, 2012 – present. Note that in the SAS code this is implemented in the code for **sptx** = *agededmi*, which is in the section of code that implements the provisions described in the **retex** variables. Also note that because taxpayers born in 1952 or later do not turn 67 until 2019, this provision will not appear on the tax forms and instructions until then, assuming the law is not changed

or repealed before then. The law is laid out in [Michigan Annotated Statutes Section 206.40, subsections 1\(f\)\(iii\) and \(9\)\(e\)](#)).

14 – Exclusion of social security benefits for low-income people applying in Nebraska starting in 2015. Social security benefits are included in state AGI in the same way as under the federal income tax, except that social security benefits are completely excluded from state AGI if federal AGI is less than **sptxex**. See also **sptx** = *ssnbentxne*.

### LOW-INCOME EXEMPTIONS OR CREDITS

Meaning of variables **low**, **lowdepamt**, **loweldamt**, **lowph1** and **lowph2** may depend on the value of **lowtype** (see **lowtype** for details). If phase-outs or phase-ins involve discreet jumps or notches, these are smoothed (phase-out is assumed to proceed at a constant rate between thresholds). Measure of income used to determine phase-outs is usually adjusted gross income or some close variant; unless otherwise specified, the calculator assumes state AGI is used to determine phase-outs. Note that some low income exemptions or credits are coded in using other sets of variables such as **miscex** or **xtax**, rather than the **low** variables (this is the case, for example, with the Arkansas low-income tax tables).

**lowtype**      Type of low-income exemption or credit:

0 -- Nothing

1 -- Exemption

2 -- Non-refundable credit. Per-return amount of credit is in **low**, per-dependent amount of credit, if any, is in **lowdepamt**.

3 -- Refundable credit [Note: in New Mexico, the “low-income tax rebate” applying 1972-present is currently coded in using this approach, but this is an oversimplification. There has always been a maximum credit amount, and in the early years the income level at which the credit was completely phased out differed depending on the number of exemptions. In addition, the credit first increases with income and then decreases. I’ll need to create a new coding scheme to make this more accurate.]

4 -- Per capita non-refundable credit. (Note: in Oregon from 2007 through 2012, there was a credit that is partially phased-out; this is dealt with through a combination of **crpercap** and the **low** variables. See the documentation for **crpercap** for information on that).

5 -- Pension and social security exclusion

6 -- Maximum tax (e.g., Massachusetts since 1987). Alternative maximum tax is zero below threshold, x% of (AGI-threshold) above the threshold. The base threshold is in **lowph1**, and the threshold is increased by **lowphdep** times the number of dependents. The x% is in **low**. Maximum AGI to which provision applies is a multiple of the initial threshold; the multiple (1.75 in the case of MA) is contained in **lowph2**. This is called the “limited income credit” in the Massachusetts tax forms and instructions, and is in Chapter 62, Section 5 of the Massachusetts Code.

7 – Non-refundable per capita credit plus age credit (applies in Georgia). Nonrefundable credit equals **low**×(the number of people in the tax unit including taxpayer, spouse, and dependents, plus the number of people in the tax unit who are aged 65 or above). Set **lowdepamt** and **loweldamt** to zero – the amount of the credit for elderly people is already factored into **low**. Credits are gradually phased out for incomes between **lowph1** and **lowph2**.

8 -- Refundable per capita credit (Hawaii in recent years; Kansas food sales tax refund 1977-85, Vermont sales tax credit 1969-1973). Eligibility phased out for AGI between **lowph1** and **lowph2**. Taxpayer must be older than **lowminage** to qualify. Per capita credit amount is in **low**.

9 -- Special earned income credit not related to federal law. Available only if earned income is > 80% of gross income, and there is at least one dependent under 18. Credit equals **low** % of (**lowph2** – total federal income), where total federal income is AGI plus adjustments. Applies in Indiana since 1997.

10 -- Exclude all labor income (up to threshold amount) if AGI is less than threshold. (Threshold is in **lowph1**). MD 1989-1997; WV 1996-2006. In MD, labor income must be below the threshold as well, and the exclusion for separate filers was calculated based on joint income (so as long as the couple’s whole earned income was below the threshold, then each spouse’s earned income was wholly exempt). In WV, filing separately was disadvantageous during the relevant period.

11 -- Credit that is a % of labor income; eligible if AGI is below threshold. Percentage is in **low**, and threshold is recorded in **lowph1** and **lowph2** (they should be identical). Increase in threshold for each dependent is in **lowphdep**. (Maryland 1998 – present).

12 -- Credit equal to **low** percent of tax liability (before minimum taxes), phased-out using the thresholds defined in **lowph1**, **lowph2**, **lowphdep**, and **loweldamt**. In this coding scheme, **loweldamt** has an unusual meaning – it is an extra addition to **lowphdep** for the first dependent (this

is relevant in PA 1974-1993). Used in: CA 1985-1991; CT 1995-present (called the “personal tax credit,” shown in Table C of 2007 instructions, and table E of the 2011-2014 instructions); PA 1975-present (called the “tax forgiveness credit” in PA); WI 1998-2013 (called the “working families tax credit” in WI); WV 2007-present (called the “family tax credit” in WV). Note that an increase in the Wisconsin standard deduction in 2014 rendered the “working families tax credit” irrelevant for all taxpayers in Wisconsin except for married couples filing separately. Since married filing separately was generally disadvantageous in Wisconsin, the calculator assumes this filing status was not used there, so we treat this as an elimination of the credit. In CA, the credit is not allowed if taxpayer is subject to state minimum tax. In CA before 1987, the calculator sets the value of this credit to zero if **mtrvar** = **lctg1** or **lctg2**, because during this period, adding long-term capital gains to someone who previously had none would put the return on the minimum tax, eliminating the credit, and creating a large notch. Note that in Pennsylvania, the phase-out range is extremely narrow. Smoothing the credit reduction over the phase-out range would cause very high state marginal tax rates, so in this particular case, we instead round the percentage used to compute the credit to the nearest 10% (which is how the actual credit is implemented in Pennsylvania). This produces large notches at the boundary points, but has no effect on marginal rates in between the boundary points. The notches are avoided if **ReverseMTR** is set to 1 when running the tax calculator. For similar reasons, the percentage used to compute the California low-income credit is rounded to the nearest 20% (as specified in the law – see for example CA Annotated Statutes 1988 Section 17069).

*13* -- No-tax floor equal to federal filing threshold defined by standard deduction and personal exemption. A “no-tax floor” defines an income threshold below which there is no state income tax liability; if income is above that floor, then state income tax liability is computed according to ordinary income tax procedures (as a result, this often causes a “notch.”). It is often implemented as a credit equal to state income tax liability for those with incomes below the threshold. Note that in DC, this is called the “low income credit,” and taxpayers cannot take the low income credit and the DC earned income credit at the same time; the SAS code for **lowtype**=13 performs a special calculation for DC so that only the more advantageous credit is taken. (DC 1987-present, LA 1999-present, MD 1969-1988, OK 1983-1987). Note that if **lowtype** = 13, all the other variables starting with “**low**” are set to zero – the SAS code determines the federal filing threshold defined by the standard deduction and personal exemption using the applicable federal tax parameters, so they do not need to be re-entered here.

*14* – Iowa 1973 – present. No-tax floor equal to **low**, plus **loweldamt** if at least one spouse is aged **lowminage**. That is, people with AGI below the

no-tax floor pay no income tax. In addition, if AGI is above the floor, the tax cannot reduce after-tax income below floor. In Iowa, if **ssbentx** does not equal 3, AGI is re-calculated using **ssbentx** = 3 for the purposes of this provision. The no-tax floor is clearly stated in the Iowa tax instructions; the provision that tax cannot reduce after-tax income below the floor is stated clearly in the Iowa Annotated Statutes Section 422.5, although it is not clear where this is implemented on the tax form. In the SAS code, **lowtype** = 14 is implemented immediately after **taxs** is computed. (Note: I still need to modify the SAS code for this to deal with changes in how **ssbentx** = 3 works for 2009 and 2010).

15 -- Exemption, plus there is also a no-tax floor equal to federal filing threshold (e.g., both 1 and 13 apply). Phase-out and minimum age apply only to the exemption (OK 1988-present).

16 – Non-refundable child credit equal to a fixed dollar amount (contained in **lowdepamt**) per child eligible federal child credit, for people with AGI below the phase-out threshold **lowph1**. (North Carolina, 2002 – 2013).

17 -- Refundable credit that is phased-in, getting larger with higher incomes. Minimum credit (given to anyone below the first threshold) is in **low**. Maximum credit for single and head of household is in **lowdepamt**, and maximum credit for married is in **loweldamt** (there was nowhere else to put them). Anyone with AGI above the second threshold gets the maximum amount, and the credit is gradually phased in between the thresholds. Applies in Colorado since 1997.

18 – Arkansas “working taxpayer tax credit,” 1998-2002. If gross income (**income**) < **lowph1**, then credit = **low** % of employee portion of OASDI tax. If gross income  $\geq$  **lowph1**, then credit = **lowdepamt** % of employee portion of OASDI tax on the first **lowph2** dollars of taxable income. For married couples, a single credit is calculated based on the couple’s total combined income. This credit may not be taken if the low-income tax tables are used (see **xtaxtype** = *lowtab1*, *lowtab2*, and *lowtab3*). The law indicates that the working taxpayer credit is already incorporated in the low-income tables, which apparently accounts for the minor change in parameter values for the **xtaxtype** = *lowtab2* variables starting in 1998. This credit may not be used at the same time as the pension exclusion (see **retexotype** = 14). Credit is non-refundable.

19 – Low-income allowance used in Wisconsin during 1970s and 1980s. A minimum standard deduction that starts at \$2600 single, \$3450 if single and elderly, \$4000 married, \$4800 if married and one spouse  $\geq$  65, and \$5700 if married and both spouses  $\geq$  65. Add \$800 for each dependent. Starts to phase out at incomes of \$3200 (single), \$4200 (single and  $\geq$  65), and \$5200 (married), \$6200 (married, one spouse  $\geq$  65), and \$7200

(married, both spouses  $\geq 65$ ). Adult portion phases down to a minimum of \$1300 at an income level of \$3600 (single), \$4900 (single  $\geq 65$ ), \$6400 (married), \$7900 (married, one spouse  $\geq 65$ ), and \$9700 (married, both spouses  $\geq 65$ ). Dependent deduction phases down to zero between incomes of \$5000 and \$12,000 for all taxpayers. The adult portion of the minimum standard deduction must be taken in lieu of the regular standard deduction, but the dependent portion can be taken in addition to the regular standard deduction. Must choose between this and standard deduction. At end of phase-out range, low-income allowance is \$1300 with no dependents or age 65 exemptions, and \$400 (half of **lowdepamt**) higher than that for each dependent or age 65 exemption. Above top phase-out amount, use regular standard deduction. Add **lowphdep** to top of phase-out range (and \$150 to the \$1300 low-income allowance at this point) if *both* spouses are over age 65.

20 – No state tax liability after non-refundable credits if federal tax liability before credits plus federal AMT liability is zero. (Nebraska 1987-present).

21 – Kansas food sales tax refund, 1986-97. Refundable credit amount equals **low**, plus **lowdepamt** times the number of people in the household other than the head. Taxpayer must either be older than **lowminage**, or must have at least one dependent child under age 18, in order to qualify. Phased-out with **income** between **lowph1** and **lowph2**.

22 – Kansas “food sales tax refund,” 1998-99. Refundable per capita credit equal to amount in **low**. Taxpayer must either be older than **lowminage**, or must have at least one dependent child under age 18, in order to qualify. If **income** is less than **lowph1**, credit amount = **low**. If **income** is between **lowph1** and **lowph2**, credit amount = **low** / 2 (approximately – it sometimes about \$1 different than **low** / 2; the calculator just assumes **low** / 2).

23 – Kansas “food sales tax refund,” 2000-present. Same as 22, but one extra credit is granted to head of household, subject to the same phase-out rules as above.

24 -- Increase in dependent exemption value for taxpayers with AGI below certain thresholds (Alabama starting in 2007). The standard dependent exemption available to all taxpayers is stored in **ex\_dep** (see above). The additional amount of dependent exemption given to taxpayers with AGI below **lowph1** is stored in **low**, and the additional amount of dependent exemption given to taxpayers with AGI between **lowph1** and **lowph2** is stored in **lowdepamt**. For example, in Alabama in 2007, the dependent exemption is \$1,000 if  $AGI < \$20,000$ , \$500 if  $\$20,000 \leq AGI < \$100,000$ , and \$300 if  $AGI \geq \$100,000$ . In this case

**ex\_dep** = 300, **low** = \$700, **lowdepamt** = \$200, **lowph1** = 20000, and **lowph2** = 100000.

25 – Non-refundable credit that is the smaller of a fixed amount per person or a fixed amount per return, with different phase-out thresholds for each family size (Arizona 1998 – present). The credit is equal to the smaller of **low**, or **lowdepamt** times the number of people (taxpayer, spouse, and dependents) on the tax return. Other **low** variables are ignored. The credit is only available to taxpayers with incomes below thresholds specified in the **xb** variables. The income level at which the credit is eliminated is: **xb1** for 0 or 1 dependent; **xb2** for 2 dependents; **xb3** for 3 dependents; **xb4** for 4 dependents; and **xb5** for 5 or more dependents.

26 – Idaho “grocery credit” 2008-2014. If state *taxable* income is less than **lowph1**, there is a per capita refundable credit equal to **low** per exemption. If state taxable income is greater than or equal to **lowph1**, there is a per capita refundable credit equal to **lowdepamt** (note the change from the usual meaning of **lowdepamt**). In either case, there is an additional refundable credit equal to **loweldamt** for each of taxpayer and spouse that is aged **lowminage** or above. (The “permanent building fund” tax is then subtracted from this credit – see **miscexctype** = 19). The **lowph2** variable is not used and can be set to zero. Prior to 2008, a simpler version of the grocery credit and permanent building fund tax was coded into the variables starting with “**cr**.” In 2015 and later years, the grocery credit is coded into the **crpercap** and **cred\_age** variables, and the permanent building fund tax is coded using **miscexctype** = 19.

27 – Ohio, 1983-1988, choice between extra per capita exemption, or extra non-refundable per capita credit. The value of the per capita exemption is stored in **low**, and the value of the per capita credit is stored in **lowdepamt**. [The calculator addresses this by treating the extra exemption as itemized deduction, and then choosing itemization status based on whether or not the credit reduces tax liability by more than the exemption.]

28 – Exemption equal to the amount specified in **low**, where eligibility is limited to taxpayers with state *taxable income* less than **lowph1** (which should be set equal to **lowph2**). Maine, 1997-2012 (technically called a credit equal to tax liability, but exemption has the same effect).

29 – Non-refundable per capita credit. To qualify, taxpayer must either be **lowminage** or older, or must have at least one dependent child under age 18 (approximated in the calculator by **kids3** > 0). Also, dependents aged 18 or older are not eligible for the credit; the total credit equals **low** times the number of people on the return eligible for federal personal exemptions, excluding dependents aged 18 or over. Credit is phased-out



over the range of federal AGI between **lowph1** and **lowph2**. (Kansas Food Sales Tax Credit, 2013 - ).

30 – Non-refundable child credit applying in North Carolina, 2014 - . For returns with AGI less than **lowph1**, the credit is **low** times the number of children eligible for the federal child credit. For returns with AGI between **lowph1** and **lowph2**, the credit is **lowdepamt** times the number of children eligible for the federal child credit. Returns with AGI above **lowph2** are not eligible for the credit.

31 – Increase in the personal exemption for low-income taxpayers applying in Ohio 2014 - . The personal exemption for returns with AGI above **lowph2** is **experscap**. The personal exemption for returns with AGI between **lowph1** and **lowph2** is **experscap + low**. The personal exemption for returns with AGI below **lowph1** is **experscap + lowdepamt**. So when looking at the Ohio tax instructions, **lowdepamt** is the difference between the personal exemption for people in the lowest AGI category and the personal exemption for people in the highest AGI category, and **low** is the difference between the personal exemption for people in the middle AGI category and the personal exemption for people in the highest AGI category.

|                  |  |
|------------------|--|
| <b>low</b>       | Usually, amount of low-income exemption or credit.   |
| <b>lowdepamt</b> | Usually, amount of additional low-income exemption or credit, per dependent.   |
| <b>loweldamt</b> | Usually, amount of additional exemption or credit, per person aged 65 or over.   |
| <b>lowph1</b>    | Usually, AGI level at which phase-out begins.  |
| <b>lowph2</b>    | Usually, AGI level at which phase-out ends. If the provision involves a "cliff" (that is, the full value of the provision is allowed below an income threshold, and nothing is allowed above the income threshold), this is handled by setting <b>lowph1 = lowph2</b> . A provision that phases-in as income increases can be handled by setting <b>lowph2</b> as the income level at which the phase-in begins, and <b>lowph1</b> as the income level at which the phase-in ends. |
| <b>lowphdep</b>  | Increase in phase-out income thresholds for each dependent. If initial threshold ( <b>lowph1</b> ) is zero, then this only applies to the top threshold; otherwise, it applies to both.  |
| <b>lowminage</b> | Minimum eligibility age for low-income credit or exemption.  |

## MISCELLANEOUS ADDITIONAL EXEMPTION, EXCLUSION, OR CREDIT

**miscex***type* Type of miscellaneous additional exemption, exclusion, or credit: Note that, unless otherwise specified below, the amount coded for **miscexamt** for married couples is assumed to be available to each spouse (in which case effectively the amount available to the couple as a whole is twice as large as the amount reported).

0 -- None

1 -- Interest exclusion, age 65 or over.

2 -- Exclusion of interest, dividends, and capital gains, minus pension exclusion, age 65 or over. (Michigan, 1997 – 2011).

3 -- Extra exclusion for pensions and social security for those aged 65 or over, above and beyond what is coded in for all ages in the **retex** variables.

4 -- Pension exclusion for those under age 60

5 -- Exclusion for pensions for those under age 65 (e.g. Utah 1973-1987, SC 1997-present). In Utah only, taxable social security benefits also counted as pension income. In SC there is also a larger exclusion for pensions for those aged 65 and above, but this is subtracted dollar-for-dollar from the exclusion for overall income for people aged 65 or above recorded in the **retex**, so it can safely be ignored.

6 -- Utah 1988-2007. Exclusion for pensions and taxable social security benefits for those under age 65. Maximum possible exclusion per spouse is in **miscexamt**. Exclusion equals  $\max(0, \min(\mathbf{miscexamt}, \mathbf{retinc1}) * (\mathbf{agex} < 65) + \min(\mathbf{miscexamt}, \mathbf{retinc2}) * (\mathbf{agespx} < 65) - .5 * \max(0, \mathbf{agi-retph1}))$ , where **agex** is age of taxpayer, **agespx** is age of spouse, **retinc1** is pension income and taxable social security income of taxpayer, and **retinc2** is pension income and taxable social security income of spouse. Starting in 1994, the measure of income used to calculate the phase-out is **agi** plus tax-exempt interest.

7 -- Refundable per capita credit, no phase-out.

8 -- Oklahoma “Sales Tax Credit,” 1990 – present. Refundable per capita credit allowed if income is below a threshold. Credit amount is in **miscexamt**. The income thresholds can vary depending on age and number of dependents, and are stored in the **sptx** variables. Income threshold is **sptxrate** if taxpayer is aged 65 or above, or if the taxpayer has

at least one dependent. The income threshold for others is stored in **sptxex** (see documentation for **sptx** = misc8).

9 -- Extra exemption for first dependent only. In Arizona's income tax instructions, this can be found in the "personal exemption chart" as the difference between the exemption amounts for "Married filing joint return... and claiming no dependents" and "Married filing joint return... and claiming at least one dependent."

10 -- Refundable credit for those with income below \$5000. Amount in **miscexamt** is for dependent; credit for taxpayer and spouse are half of that amount, each. (Massachusetts 1966-86).

11 -- Exclusion for AGI for those aged 62-64; subtract social security to get allowable exclusion (VA, 1991-94).

12 -- Same as 11, but social security no longer subtracted from exclusion (VA, 1995-2003).

13 -- No tax floor. Floor is **miscexamt** for single, double that for head of household and married. This only removes ordinary tax, not minimum taxes. (California, 1974-1984).

14 -- Extra personal exemption for people with AGI below **lowph1**. (NC, 1995-2013). The personal exemption is **experecap** for people with AGI above **lowph1**, and **experecap** + **miscexamt** for people with AGI below **lowph1**. In the instructions for the NC income tax, the amounts for **experecap** and **experecap+miscexamt** are not reported directly; rather, the tax form starts with the federal personal exemption, and then the instructions report the amounts to subtract from the federal personal exemption to get to **experecap** and **experecap+miscexamt**.

15 -- Extra personal exemption for each of taxpayer and spouse aged 65 or over, if AGI is less than \$40,000. Amount of exemption per person is in **miscexamt**. (Indiana starting 1999).

16 -- One extra personal exemption equal to **experecap** for a head of household (Kansas).

17 -- Virginia, 2004-2005. Special grandfathered age deduction equal to **miscexamt** for people born in certain years. In 2004, the deduction applies to those born in 1940 and 1941; in 2005, it applies to those born in 1941. Those taking the low income credit are not eligible for any age deduction (those who are eligible for the low income credit would always be better off selecting that).

18 -- Exclude all labor income (up to threshold amount) if AGI is less than threshold. Threshold is in **miscexamt**. Note that in this case, in contrast to the usual practice for **miscexamt**, the amount coded for **miscexamt** for filertype = "m" is the threshold applicable to the couple's joint income (e.g., 10000 in 2013), not an amount that is available to each spouse separately. West Virginia's low-income exclusion is moved here starting in 2007 to make way in the "low" variables for a new family credit.

19 – Idaho “permanent building fund” tax starting in 2008. This is a lump-sum tax amount per return. Amount of tax is in **miscexamt**. People who are not required to file an Idaho return (that is, people with gross income less than the sum of the standard deduction and adult exemptions) are exempt from the permanent building fund tax. Before 2008 this was netted out of the grocery credit coded in **crreturn**. From 2008 to 2014 the grocery credit is in **lowtype** = 26, and the permanent building fund tax is here. Starting in 2015 the grocery credit moves to the **crpercap** and **cred\_age** variables, but the permanent building fund continues to be implemented with **miscexage** = 19. (In the SAS code, **miscexage** = 19 is still implemented as a net reduction in the grocery credit when **lowtype** = 26, and as a net reduction in general credits otherwise).

20 – Non-refundable credit for pension income and taxable social security benefits, Utah 2008 – present. This credit is only available to taxpayer or spouse aged below **retexage** who was born before January 1, 1953. The credit before phase-out is equal to **xr2** percent of pension income or **miscexamt**, whichever is smaller. The income measure used for computing the phase-out is AGI plus tax-exempt interest (**teint**). The credit is reduced by **retph2** percent of the amount by which AGI exceeds **retph1**, until the credit is reduced to zero. When the SAS code was written for this, there was only one tax rate in Utah, so the calculator assumes married couples file jointly; the SAS code for this provision will have to change if married filing separately becomes advantageous in Utah. 2017 was the first year when everyone born before January 1, 1953 would turn 65, so this effectively eliminated this credit starting in 2017.

21 -- Exclusion of interest, dividends, and capital gains, minus pension exclusion coded into **retex** variables; only applies to those born before 1946. In the case of a joint return, this is determined by the date of birth of the older spouse. (Michigan 2012 – present. In Michigan, people born in 1946 and later years benefit from the provision described in **sptx** = *agededmi* instead).

22 – Increase in the retirement income exclusion coded in **retexage**=24 for people aged 65 and above, applying in Georgia from 2012 on. The retirement income exclusion for people aged 62-64 is coded into the **retex** variables, and this is just the increase in the maximum exclusion amount

allowed for each taxpayer (and spouse) aged 65 or above. Retirement income is defined as up to \$4,000 of earned income, plus income from pensions, dividends, capital gains, interest, rent and royalty income, partnership and S-corporation income, and **othinc**. In that case, the maximum exclusion if unmarried is **retex** + **miscexamt**, and for married couples the maximum exclusion is **retex**\*(number of spouses aged **retexage** or older divided by two) + **miscexamt** \* (number of spouses aged 65 or above). The extra exclusion available due to **miscexamt** is calculated in the **retex** part of the SAS code, and is recorded in **retexamt** in the detailed output dataset.

23 – Non-refundable credit applying in Ohio 2005 – present. If state taxable income is less than \$10,000, the credit is **miscexamt**. Those with taxable income above \$10,000 are ineligible for the credit.

24 – New York “Family Tax Relief Credit,” 2014 - 2016. Refundable credit of **miscexamt**. To be eligible, state AGI must be between **xb7** and **xb8**, return must claim at least one child under age 17 as a dependent, and state tax liability after credits (including both non-refundable and refundable credits such as EIC and circuit breaker) must be zero or greater. For the 2014 tax year, eligibility was actually based on a prior year’s state AGI, but the calculator computes it as if it were based on 2014 state AGI. In years after 2014 eligibility is based on same-year state AGI. In the SAS code, this is calculated after **taxs** is initially calculated, and then again in the circuit breaker section. Its value is added into **gencred**.

25 -- No tax floor applying in Ohio since 2017. It exempts anyone with state taxable income below **miscexamt** from tax. When income rises above **miscexamt**, then the first **miscexamt** dollars of taxable income become subject to tax, so there is a notch. The income tax table for Ohio treats this as an initial tax bracket topping out at **miscexamt** that has a zero percent rate, but then imposes tax liability on people in higher tax brackets that includes some tax on taxable income in the first bracket. The zero percent rate for people with income below **miscexamt** is implemented through **miscexctype** = 25, and then **r1** should be coded so that people with the rate that effectively applies to taxable income in the first bracket for people with taxable incomes above **miscexctype**. So for example, in 2017,  $r1 = \$79.08/\$10,650 = 0.743\%$ .

**miscexamt** Usually, maximum amount of miscellaneous additional exemption, exclusion, or credit. Note that the amount coded for **miscexamt** for married couples is assumed to be available to each spouse (so effectively the amount available to the couple as a whole is twice as large as the amount reported).

## EARNED INCOME CREDIT TIED TO FEDERAL PROVISIONS

**eicypestate** Type of state earned income credit. [Note: **mintaxapp**=3 only works correctly with **eicypestate**=0 or 1; if eicypestate changes to a different value for Iowa (where **mintaxapp**=3) then the SAS code for **eicypestate** will have to change.]

0 -- State credit is a percentage of federal credit and refundable; **eicstate1** contains percentage of federal earned income credit; **eicypestate** also equals zero if there is no state earned income credit (in which case **eicstate1** will also be zero).

1 -- State credit is a percentage of federal credit, but non-refundable; **eicstate1** contains percentage of federal EITC (e.g., Iowa before 2007).

2 – (Maryland) State credit is a percentage of federal credit, and is partly refundable; **eicstate1** contains percentage of federal credit that is non-refundable. If non-refundable EIC is greater than state tax liability before credits (**StaxAMIN**), refundable credit is **eicstate2** % of federal EIC, minus **StaxAMIN**.

Non-refundable EIC (**eicstatenoref**) = (**eicstate1**/100)\***Feic**

Refundable EIC:

if **eicstatenoref**>=**StaxAMIN** then

**eicstateref** = max(0,(**eicstate2**/100)\***Feic** - **StaxAMIN**) ;

else **eicstateref**=0 ;

3 -- State credit is a percentage of federal credit, and refundable, but limited to people with incomes below amount specified in **eicstate2** (e.g., New Jersey through 2006).

4 – Wisconsin. State credit is a percentage of federal credit, but percentage depends on number of qualifying children; **eicstate1** contains percentage for 1 child, **eicstate2** contains percentage for 2 children, and **eicstate3** contains percentage for 3 or more children.

5 -- (Rhode Island, 2003 - 2014). State credit is a percentage of federal credit, and is partly refundable; **eicstate1** contains percentage of federal credit that is non-refundable. Refundable portion is:  
(**eicstate2**/100)\*max(0,(**eicstate1**/100)\***Feic**-**StaxAX**),  
where **StaxAX** is state income tax after other credits. (Does not currently work with separate filing, which is irrelevant in RI; need to change SAS code if separate filing becomes advantageous in RI).

6 – Minnesota, refundable EIC, 1998 – 2013. This involves a lot of parameters, and the “extra tax” variables are already used for the marriage credit, so some parameters for the Minnesota earned income credit are

stored in unused brackets and rates for the ordinary tax. For a taxpayer with no children, the state EIC is just **eicstate1** % of the federal credit. For a taxpayer with one child, credit is **r10**% of earned income between \$0 and \$ **b10** of earned income, plus **r11**% of earned income between \$ **b11** and \$ **b12** of earned income, minus **r12**% of the amount by which  $\max(\text{AGI}, \text{earned income})$  exceeds \$ **b13**. For a taxpayer with two or more children, credit is **r20**% of earned income between \$0 and \$ **b20** of earned income, plus **r21**% of earned income between \$ **b21** and \$ **b22** of earned income, minus **r22**% of the amount by which  $\max(\text{AGI}, \text{earned income})$  exceeds \$ **b23**. All of these parameters can be found by looking at the Minnesota tax form web site, listed under “Working Family Credit Table algorithms,” and then comparing the parameters there with the federal parameters for the same year. Taxpayer must be eligible for federal EIC in order to qualify for Minnesota EIC.

7 – Virginia non-refundable EIC starting 2006. EIC is **eicstate1** % of federal credit, and non-refundable, but cannot take EIC and the credit coded in the **low** variables at the same time.

8 – Illinois 2003-2006. EIC is refundable for taxpayers with an eligible child (**kids2** > 0), non-refundable if not. EIC is **eicstate1**% of federal credit.

9 – Indiana 2011 – present. State EIC is **eicstate1** percent of what the federal EIC *would* be if the following three federal EIC provisions did not apply: the extra EIC for taxpayers with 3 or more qualifying children; the marriage penalty relief which makes the various federal EIC phase-out thresholds higher for married taxpayers than for unmarried taxpayers; and the protection of the EIC from the alternative minimum tax (this last bit is implemented by subtracting **eicstate1** percent of federal AMT liability from the state EIC). In addition to the value of **eicstate1**, the one additional piece of information needed, which is coded in to **eicstate2**, is the increase in EIC phase-out thresholds for married taxpayers relative to unmarried taxpayers in the federal EIC in that year. This can be computed from the data in the federal tax parameters spreadsheet as the value of **Feic2bend2** for **filertype** = m minus the value of **Feic2bend2** for **filertype** = s for the tax year in question. So for example, in 2011, **eicstate2** = 5080. The value of **eicstate2** is indexed for inflation each year.

10 – New York (1996 on). State EIC is **eicstate1** percent of federal earned income credit, reduced by the smaller of tax calculated before credits and the low income credit (in NY case the NY Household credit). In the calculation, the EIC could be a negative credit (i.e., add to liability) and thus reduces the value of the household credit. The combination will always result in a lower tax liability than from the tables. [NLF 8/5/14]

*11* – Minnesota, refundable EIC, 2014 - . This involves a lot of parameters, and the “extra tax” variables are already used for the marriage credit, so some parameters for the Minnesota earned income credit are stored in unused brackets and rates for the ordinary tax. For a taxpayer with no children, the credit is **r10** % of the first \$ **b10** of earned income, minus **r11** % of the amount by which max(AGI, earned income) exceeds \$ **b11**. For a taxpayer with one child, credit is **r12**% of earned income between \$0 and \$ **b12** of earned income, minus **r13** % of the amount by which max(AGI, earned income) exceeds \$ **b13**. For a taxpayer with two or more children, credit is **r14** % of earned income between \$0 and \$ **b14** of earned income, minus **r15**% of the amount by which max(AGI, earned income) exceeds \$ **b15**. Note that **b11**, **b13**, and **b15** will be different for married couples relative to others. Set **eicstate1**, **eicstate2**, and **eicstate3** to zero. All of these parameters can be found by looking at the Minnesota tax form web site, listed under “Working Family Credit Table algorithms.” Taxpayer must be eligible for federal EIC in order to qualify for Minnesota EIC.

*12* – Non-refundable EIC applying in Ohio 2013 - . If state taxable income is **eicstate2** or below, then state EIC is **eicstate1** percent of the federal EIC but is not refundable. If state taxable income is greater than **eicstate2**, then the state EIC is the smaller of **eicstate1** percent of the federal EIC, and **eicstate3** percent “of the tax otherwise due after deducting all other credits that precede the credit except for the joint filing credit.”

*13* – Same as 0, except that if state AGI is less than federal AGI, the state earned income credit is the federal earned income credit multiplied by the ratio of state AGI to federal AGI (Oklahoma, 2002 - ).

*14* – Refundable EIC in applying California 2015- .

For families with three or more children, the credit is equal to **xr6**% of min(**xb12**, earned income) minus **xr7**% of (max(AGI, earnedinc) – **xb13**), all multiplied by **xr14**%. If **fagi** > **xb12**, the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

For families with two children, the credit is equal to **xr12**% of min(**xb12**, earned income) minus **xr13**% (max(AGI, earnedinc) – **xb13**), all multiplied by **xr14**%. If **fagi** > **xb12**, the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

For families with one child, the credit is equal to **xr10**% of min(**xb10**, earned income) minus **xr11**% (max(AGI, earnedinc) – **xb11**), all multiplied by **xr14**%. If **fagi** > **xb10**, the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.



For families with no children, the credit is equal to **xr8%** of  $\min(\mathbf{xb8}, \text{earned income})$  minus **xr9%** ( $\max(\text{AGI}, \text{earnedinc}) - \mathbf{xb9}$ ), all multiplied by **xr14%**. If **fagi** > **xb8**, the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

Notes for finding variables:

The variables **xb8**, **xb10**, and **xb12** are the earned income amounts at which the maximum credit is received (i.e., the end of the phase-in range), also known as “the earned income amount,” for taxpayers with two or more children, no children, and one child, respectively.

The variables **xb9**, **xb11**, and **xb13** are the income amounts above which the EIC starts to phase out, also known as “the phaseout amount,” for taxpayers with two or more children, no children, and one child, respectively. Initially the end of the phase-in range was the same as the start of the phase-out range, so there is no “plateau” like there is in the federal EIC, but this could change in the future, so we coded these into separate parameters.

The variables **xr6**, **xr8**, **xr10**, and **xr12** are the percentage phase-in rates for the credit (also known as “the credit percentage”) for taxpayers with two or more children, no children, one child, and two children respectively.

The variables **xr7**, **xr9**, **xr11**, and **xr13** are the phase-out percentages for taxpayers with two or more children, no children, one child, and two children respectively. Again, they so far happened to be the same as the corresponding phase-in rates, but this could change in the future so we coded them as separate parameters.

**xr14** is the “earned income tax credit adjustment factor” referred to in (2)(B) of section 17052 of the California Revenue and Taxation Code. The earned income tax credit adjustment factor can change each year. It was 85% in 2015 and 2016.

Prior to 2017, self-employment income was not included in the definition of earned income used to compute the credit. Self-employment income was included in the definition of earned income starting in 2017.

A taxpayer is ineligible for the California Earned Income Credit if investment income exceeds **Feiciilim** (this works the same as the analogous federal provision).

Starting in 2017, part (m) of section 17052 of the California Statutes modifies the credit in certain circumstances. If the credit computed according to the rules described above is below a certain amount, then the credit is recomputed using different values for the credit percentage, phaseout percentage, earned income amount, and phase-out amount than those described above. To deal with this, we use the variables **b16** through **b25** and **r18** through **r25**. (Note that **bracknum** should continue to refer just to the number of brackets for the ordinary California income tax computation, and should not count brackets from the EITC). The calculations described below only apply if the credit computed using the rules described above is less than  $\mathbf{b16} * (\mathbf{xr14} / 0.85)$  for taxpayers

without a qualifying child, or if it is less than  $b17 * (xr14 / 0.85)$  for taxpayers with one or more qualifying children.

For families with three or more children, the credit is equal to  $r18\%$  of  $\min(b18, \text{earned income})$  minus  $r19\%$  of  $(\max(\text{AGI}, \text{earnedinc}) - b19)$ , all multiplied by  $xr14\%$ . If  $fagi > b18$ , the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

For families with two children, the credit is equal to  $r24\%$  of  $\min(b24, \text{earned income})$  minus  $r25\%$   $(\max(\text{AGI}, \text{earnedinc}) - b25)$ , all multiplied by  $xr14\%$ . If  $fagi > b24$ , the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

For families with one child, the credit is equal to  $r22\%$  of  $\min(b22, \text{earned income})$  minus  $r23\%$   $(\max(\text{AGI}, \text{earnedinc}) - b23)$ , all multiplied by  $xr14\%$ . If  $fagi > b22$ , the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

For families with no children, the credit is equal to  $r20\%$  of  $\min(b20, \text{earned income})$  minus  $r21\%$   $(\max(\text{AGI}, \text{earnedinc}) - b21)$ , all multiplied by  $xr14\%$ . If  $fagi > b20$ , the calculation above is completed using AGI as well as earned income, and the smaller EIC is taken.

The variables **b18**, **b20**, **b22**, and **b24** are the earned income amounts at which the maximum credit is received (i.e., the end of the phase-in range), also known as “the earned income amount,” for taxpayers with two or more children, no children, one child, and two children respectively.

The variables **b19**, **b21**, **b23**, and **b25** are the income amounts above which the EIC starts to phase out, also known as “the phaseout amount,” for taxpayers with two or more children, no children, one child, and two children respectively. Initially the end of the phase-in range was the same as the start of the phase-out range, so there is no “plateau” like there is in the federal EIC, but this could change in the future, so we coded these into separate parameters.

The variables **r18**, **r20**, **r22**, and **r24** are the percentage phase-in rates for the credit (also known as “the credit percentage”), for taxpayers with two or more children, no children, one child, and two children respectively.

The variables **r19**, **r21**, **r23**, and **r25** are the phase-out percentages for taxpayers with two or more children, no children, one child, and two children respectively. In this case, the phaseout percentages are different than the credit percentages.

The California EITC is in California Revenue and Tax Code Section 17052. That section is difficult to understand, because it largely just states the various modifications to the relevant sections of the federal Internal Revenue Code that enable one to compute the California EIC. It does make clear what the values of **xr6-xr13** are, though.

The values of **xb8** through **xb13** and **b17** through **b25** applying in each year are adjusted for inflation. The values of **xb8** through **xb13** can

be found in “Step 6” of the California Earned Income Tax Credit instructions (Instructions for Form FTB 3514), which we are saving on Google Drive (e.g., CA INC 2016 EITC INST.pdf). It is not clear where we will find the inflation-adjusted values of **b17** through **b25** in future years, but the law specifies that they are adjusted in the same manner as the tax brackets, so one could approximate by growing each of these dollar amounts at the same percentage rate as the tax brackets grew at from one year to the next.

We originally found the adjustment factor (**xr14**) for 2015 in a state budget document available, here:

[http://www.dof.ca.gov/budget/historical\\_budget\\_Publications/2015-16/summary\\_veto.pdf](http://www.dof.ca.gov/budget/historical_budget_Publications/2015-16/summary_veto.pdf)

This is saved on Google Drive at:

...GoogleDrive\TaxLaw\StateByState\CA\IncomeTax\Laws\CA INC 2015 EITC-Description.PDF

For other years, one can infer the adjustment factor based on the other parameters noted above and the maximum credit amounts. One can find the maximum credit amounts by searching through the look-up tables in the instructions. More conveniently, the California Franchise Tax Board provides information on the California Earned Income Tax Credit, including maximum credit amounts here:

<https://www.ftb.ca.gov/individuals/faq/net/900.shtml>

The 2015 and 2016 versions of that page are available on Google Drive here:

...\GoogleDrive\TaxLaw\StateByState\CA\IncomeTax\Laws\CA INC 2016 EITC Franchise Tax Board Description.PDF

So for example, in 2016, the California Franchise Tax Board lists the maximum allowable credit for a taxpayer with 3 or more qualifying children as \$2,706. This is approximately equal to  $45\% * 7081 * 85\%$ , where 0.45 is the phase-in rate (**xr6**), 7081 is the earned income level where the phase-in ends (**xb12**), and 85% is the adjustment factor (**xr14**). It doesn't work out exactly right (it is off by about \$2) because the \$2,706 is the maximum amount listed in the look-up table in the CA EITC instructions, which approximates the credit amount implied by the formula by calculating it at the midpoint of a narrow income range.

Set **eicstate1**, **eicstate2**, and **eicstate3** to 0.

15 – DC, 2017 - . For taxpayers with a qualifying child, state EITC is just **eicstate1** percent of the federal EITC. For taxpayers *without* a qualifying child, the state EITC is computed as follows. If earned income is less than **xb1**, then the state EITC is **xr1** percent of earned income. Otherwise, if the larger of federal AGI and earned income is less than **xb2**, then the state EITC is **xr1** percent of **xb1**. Otherwise, if the larger of federal AGI and earned income is less than **xb3**, then state EITC is **xr1** percent of **xb1**, minus **xr2** percent of the amount by which the larger of federal AGI and earned income exceeds **xb2**. If the larger of federal AGI and earned

income is greater than **xb3**, then state EITC is zero. See Worksheet for Filers without a Qualifying Child” in the instructions for the DC Income Tax. See also **xtaxtype** = eitcdc.

**eicstate1** State earned income credit as a percentage of federal EITC, unless otherwise specified in **eicypestate**. Note that in Colorado, the EITC pops in and out of existence from year to year depending on whether there is a budget surplus or not – check Colorado Form 104CR to see if the EITC is in effect for any particular year.

**eicstate2** See **eicypestate**

**eicstate3** See **eicypestate**

### TAX BRACKETS AND RATES FOR ORDINARY TAX

Note that some of the variables **b1-b26** and **r1-r26** may occasionally used to be store information for other provisions (see, for example, documentation for **mardedtype** = 10 which applies in North Dakota, and **eicypstate** = 14, the California earned income tax credit). Also, in some cases, a state may have an initial tax bracket with a zero percent tax rate – see documentation for **exlim** = 2 for Louisiana. Sometimes states implement special additional taxes or surtaxes that we incorporate directly into the bracket and rate structure. An example is the California “mental health services tax” which raises tax rates on millionaires by one percentage point – make sure to check for this when you update the brackets and rates.

Starting in 2016, Arkansas implemented a very complicated bracket and rate structure that includes several “notches” with big discrete increases in tax liability occurring at the borders of certain tax brackets. In this case, we incorporate the first notch directly into the calculator by applying the high implicit marginal tax rate that applies over a single dollar range of income, but smooth out the second set of notches over the approximately \$5,000 range of income at which they apply. To see how to code this Arkansas scheme, see the spreadsheet available at (GoogleDrive\StateModel\NotesOnComplicatedStateProvisions\ar\Arkansas-Post-2015-Tax-Brackets.xlsx).

In Missouri in recent years, there has been an initial tax bracket of \$100 in which the tax rate is zero, but as soon as taxable income rises above \$100, the whole first \$100 of taxable income is subject to tax at the rate in the second tax bracket, creating a notch. To approximate this, we ignore this initial \$100 tax bracket, and code it in as if the tax rate in the second tax bracket (recently, 1.5%) applies from the first dollar of taxable income.

**bracknum** Number of tax brackets for taxpayer of this filing status.  
So, for example, if tax liability is 5 percent of the first \$10,000 of taxable income, plus 7 percent of taxable income between \$10,000 and \$20,000, plus 9 percent of taxable income above \$20,000, **bracknum** is 3.

**b1-b26** An array of 26 variables representing the dollar value at the bottom of each tax bracket. For example, **b1** gives the bottom of the first tax bracket (this should always be zero, even if the first tax rate **r1** is zero), **b2** gives the bottom of the second tax bracket, etc. Any brackets beyond **bracknum** are ignored and can thus be coded as zero.

**r1-r26** An array of 26 variables representing the percentage marginal tax rate in each tax bracket. For example, **r1** is the percentage rate in the lowest tax bracket, **r2** is the percentage rate in the 2<sup>nd</sup> tax bracket, etc. Any rates beyond **bracknum** are ignored and can thus be coded as zero.

### SPECIAL TAXES

**sptx** Type of special tax, special credit, or other special provision.  
Notes: the particular components of income that are subject to a special tax rate below will also be subject to the ordinary tax on top of that unless an exclusion is specified in the ordinary tax (using the exclusion variables listed above). This **sptx** feature was usually used to code relatively simple special taxes where there was a single tax rate and at most a single exemption per filing status. More complicated additional taxes are coded using the variables starting with “x” later on in the variable list. Possible values for **sptx** include:

*none* – No special tax.

*cgtax* – Capital gains are taxed at a special rate.

*dtax* -- Dividends are taxed at a special rate.

*ditax* – Dividends and interest are taxed at a special rate.

*dcgtax* – Dividends and capital gains are taxed at a special rate.

*dcgitax* – Dividends, interest, and capital gains are taxed at a special rate.

*dltax* -- Dividends and labor income are taxed at a special rate.

*cgmax1* -- Alternative maximum tax on capital gains. Pay smaller of regular tax, and regular tax recomputed without capital gains, plus **sptxrate** rate times capital gains. (HI 1958-1981).

*cgmax2* -- Alternative maximum tax on capital gains, where any gains taxed below the maximum rate already continue to be taxed at those below-maximum rates. Any gains that would otherwise be taxed at a rate

above **sptxrate** are taxed at **sptxrate**. This code currently only works correctly if the first tax rate which exceeds **sptxrate** is **r5**, **r6**, or **r7**, which was sufficient to get things right through 2008. When the data is updated for future years, care should be taken to check whether the first tax rate that exceeds **sptxrate** is outside the range **r5** – **r7**, in which case the SAS code will need to be modified. (AR 1991-1998, HI 1987-present).

*cgexmd* -- Capital gains exclusion applicable in Maryland in 1991.

Percentage exclusion for long-term gains =

For single or HoH: if AGI < \$50,000:  $\min(7500, .3\text{LTCG})$ ;

if AGI > \$50,000:  $\max(\min(.3\text{CG}, 7500) - .5(\text{AGI} - 50000), 0)$

For married: if AGI < \$100,000:  $\min(15000, .3\text{CG})$ ;

if AGI > \$100,000:  $\max(\min(.3\text{CG}, 15000) - .5(\text{AGI} - 100000), 0)$

*maxpctfd* -- Alternative maximum tax that is a percentage of federal tax liability, which is defined as (**Fdtxliab\_bc** + **FtaxMIN** + **Famt**)

Examples: UT and NM in 1950s, ND 1981-2000.

*vtmax* -- Alternative maximum tax applying in Vermont, 1969-1974.

Regular tax was 28.75% of federal tax liability.

Actual tax =  $V - \max(T + V - T(\text{TI} + V^*), -(\text{sptxrate}/100) * (\text{AGI} + \text{cgex}), 0)$ ,

where V=ordinary VT tax liability, T=ordinary federal liability, T(.) is federal tax function, V\* is any VT state income tax liability deducted on federal return, AGI is federal AGI, and cgex is capital gains excluded at the federal level.

*cgexmax* – Exclusion for long term capital gains (**ltcg**) equal to the larger of **sptxex** and  $(\text{sptxrate}/100) * \text{ltcg}$ . New Mexico, 2003 - .

*cgexmax2* – Limit on exclusion for long-term capital gains (**ltcg**) applying in Vermont starting in 2008. Excluded capital gains are the smaller of **cgexpct** percent of **ltcg**, or **sptxrate** percent of federal taxable income.

Note that in 2009, Vermont changed the treatment of long-term capital gains from **sptx** = *cgexmax2*, **sptxrate** = 40, **cgexpct** = 40 and **cgexamt** = 0 to **sptx** = *none*, **sptxrate** = 0, **cgexpct** = 0 and **cgexamt** = 2500 for long term gains realized July 1, 2009 or later. For tax year 2009 in Vermont, the calculator applies the pre-July 1 law to all of **ltcg**.

*kidcred* – Refundable credit equal to **sptxrate** percent of the federal child credit. There is also a minimum credit amount equal to **sptxex** per child if **Fagi** < **Fkidctresh**. (The credit is only allowed for children aged 4 or above, but that provision is ignored for now). New York starting in 2006 (“Empire State Child Credit”).

*diothcgtax* – Dividends, interest, and **othcg** are taxed at **sptxrate**.

*masstax* – If **othcg**  $\geq 0$ , (**div** + **int**) is taxed at **r1** percent, and **othcg** taxed at **sptxrate** percent. If **othcg**  $< 0$ , (**div** + **int** + **othcg**) is taxed at **r1** percent. (Massachusetts, 1999-present).

*cgcred* – Non-refundable credit equal to **sptxrate** percent of capital gains. Enter a positive number for **sptxrate**, the program converts it into a credit (it is treated as a negative special tax liability). (Montana, 2005 – present).

*charcred* -- Non-itemizer credit for charitable giving. For people who do not itemize on their federal returns (state itemization status is required to be the same as Federal), there is a non-refundable credit equal to **sptxrate** percent of the amount by which charitable contributions exceed **sptxex** percent of AGI. The calculator includes this credit in **gencred** (North Carolina, 1997 – 2013).

*misc8* – The **sptxex** and **sptxrate** variables are used to store information needed to compute the credit described in **miscex** = 8 (see the documentation for that).

*maxtax* – An alternative maximum tax equal to **sptxrate** percent of federal AGI. Taxpayer pays the smaller of this, or tax liability after AMT, special capital gains computations, and all credits except for circuit breaker credit and earned income credit. Circuit breaker credit and earned income credit are the only credits that can be used under either tax. (This is called the “alternative flat tax” in RI, 2006-present).

*ueitax* – “Unearned income tax,” New York 1987-1988. “Unearned income” is defined here is AGI less labor income and removing all capital gains and losses. If AGI is less than **sptxex**, the taxpayer is exempt from the tax. If AGI is more than twice **sptxex**, then the tax is **sptxrate** percent of unearned income. The percentage rate gradually phases in from zero to **sptxrate** for AGI between **sptxex** and twice **sptxex**.

*pcwi78* – Special property tax / rent credit applying in Wisconsin in 1978. The credit is refundable and is equal to 10 percent of property taxes paid, with a minimum credit of **sptxex** and a maximum credit of **sptxrate**. Renters receive the minimum credit recorded in **sptxex**. The tax calculator applies this credit regardless of the value of **cbinclude**. It is included in the value of **lowcredref**, and included in that part of the SAS code.

*pcwi* – Property tax and rent credit applying in Wisconsin 1979-1998 and 2000 – present. The credit is non-refundable and equals **sptxrate** percent of property taxes or rent constituting property taxes (up to a limit). 25 percent of rent is considered to constitute property taxes (the figure is 20 percent if rent includes heat, but the calculator makes no distinction between rent including and not including heat, so the calculator assumes that property taxes are 25 percent to the full value of **rentpay**). The

maximum amount property taxes and rent constituting property taxes that can be used in calculation of the credit is recorded in **sptxex**. If **sptxex** = 0, then there is no limit. The tax calculator applies this credit regardless of the value of **cbinclude**. It is included in the value of **gencred**, and included in that part of the SAS code. This credit was originally called the “property tax and rent credit” and was in section 71.53 of the Wisconsin Annotated Statutes starting in 1979. Since 1986 it has been called the “Renter’s and Homeowner’s School Property Tax Credit,” and appears in section 71.07, subsection (9), of the Wisconsin Annotated Statutes. Note that there is also a separate circuit breaker property tax credit in Wisconsin, called the “homestead credit”; that is coded into the circuit-breaker variables (see documentation for **cbtype** = 24).

*agededmi* – Deduction for older taxpayers applying in Michigan in 2012 and later years. The deduction policy varies depending on year of birth and age. In the case of joint returns, the applicable policy depends on the year of birth and age of the older spouse. For those born before 1946, the provisions described in **retextype** = 23 and **miscextype** = 21 apply, and the provisions described in **sptx** = *agededmi* do not apply. For those born in 1946 and later years, the provisions described in **retextype** = 23 and **miscextype** = 21 do not apply, and the provisions described in **sptx** = *agededmi* do apply. For those born in 1946 through 1952 who have not yet reached age 67, there is a deduction equal to the smaller of pension income and **sptxex**. For those born in 1946 through 1952 who are aged 67 or older, there is a deduction equal to **sptxex** that does not depend on the amount of pension income. For those born after 1952 who are aged 67 or older, there is a deduction equal to **sptxex** that does not depend on the amount of pension income, but if that deduction is taken, the taxpayer (and spouse if applicable) loses his or her Michigan personal exemption, and no longer gets a deduction for the portion of social security benefits included in federal AGI. The SAS code for **sptx** = *agededmi* is in the section which implements the provisions described in the **retex** variables, and the value of the resulting deduction is recorded in **retexamt** in the output dataset. The SAS code implements the disallowance of personal exemption and exclusion for social security benefits for those who take this deduction and who are born in 1952 and later years by reducing the value of the deduction (**retexamt**) by the value of personal exemption and social security exclusion lost (without reducing **retexamt** below zero), and leaving the personal exemption and social security exclusion intact. It is difficult to work out all the details of this provision from the forms and instructions, so reading the law (Michigan annotated statutes section 206-30) is helpful.

*autocred* – Credit for Indiana in 2012 is automatic for taxpayers who filed timely in 2011 and 2012 (which we assume) and whose tax after EITC



(and other credits) is greater than zero. **sptex** is the amount of the credit which is refundable.

*cgexar* – Capital gains exclusion applying in Arkansas 2014 - . The portion of the value of capital gains that is below **sptex** is subject to tax, although the percentage of those capital gains specified in **cgexpct** is excluded from taxable income. The portion of the value of capital gains that is above **sptex** is completely excluded from taxation. (Note that this is spelled out on the Arkansas capital gains schedule AR1000D, and in section 26-51-815 of the Arkansas statutes, but the exclusion of capital gains above **sptex** is not always mentioned in the main Arkansas income tax instruction booklet).

*agephaseoh* – Phase-out of senior citizen’s credit and retirement income credit in Ohio. Taxpayers with state taxable income (which in Ohio is equal to state AGI less exemptions) greater than **sptex** are ineligible for the credits coded into **cred\_age** and **retextype** = 8. Set **sptxrate** to zero. This applies in Ohio starting in 2015.

*sbentxne* – Exclusion of social security benefits applying in Nebraska starting in 2015. If federal AGI is less than **sptex** then social security benefits are completely excluded from state AGI. Otherwise, social security benefits are included in state AGI in the same manner as they are included in federal AGI under the federal income tax. See also **sbentx** = 14. Set **sptxrate** = 0.

*itemlim27* – Itemized deductions aside from medical expenses are capped at the dollar value stored in **sptex**. See **itemlim** = 27. Maine, 2013 - 2015.

*itemlim28* – Itemized deductions aside from medical expenses are capped at the dollar value stored in **sptex**. In addition, itemized deductions (after applying cap to non-medical itemized deductions and then adding back in medical expense deductions) are smoothly phased down to zero between state AGI level **sptex2** and state AGI level **sptxrate2**. See also **sptx2** = *itemlim28* and **itemlim** = 28. Maine, 2016 - .

*exlimil* – Personal exemption limitation applying in Illinois, 2017 - . If federal AGI exceeds **sptex**, then no personal exemption is allowed. See also **exlim** = 8.

## **sptex**

Usually, exemption for special tax. (But see **sptx** for exceptions). Note that in Massachusetts, the value of **sptex** (set to zero in the IncTaxState data set) is determined in the SAS code as the value of exemptions determined by the variables with names beginning with **ex** that have not been used up to offset ordinary tax liability.

**sptxrate** Usually, rate for special tax (percent). (But see **sptx** for exceptions).

**sptx2** Second special tax, special credit, or other special provision. Can be *ditax*, *cgtax*, *surtax*, *surtax2*, *surtax3*, *lctgtax*, *exlim*, or *mintax7*.. The first two have the same meaning as for *sptx*. The others are defined below.

*surtax* – A special surtax that phases out the benefits of marginal tax rates below the taxpayers’ highest marginal tax rate for people with adjusted gross income above a certain level (**sptxex2**), applying in NY 2006-2008. The surtax gradually phases in between AGI of **sptxex2** and AGI of **sptxrate2**. The SAS code for **sptx2** = *surtax* assumes the top rate is **r5**; starting in 2009, the number of tax brackets in NY increased, which necessitates a switch to **sptx2** = *surtax2* for 2009 and later years (see below). If **agi** > **sptxex2**, then the surtax makes **StaxNORM** =

$$\text{StaxNORM} + \max(0, (\mathbf{r5}/100) * \mathbf{sti} - \text{StaxNORM}) * \min(1, \max(0, (\mathbf{agi} - \mathbf{sptxex2}) / (\mathbf{sptxrate2} - \mathbf{sptxex2})))$$

*surtax2* – A special surtax (recapture) that phases out the benefits of marginal tax rates below the taxpayer’s highest marginal tax rate for people with adjusted gross income above a certain level (**sptxex2**), applying in NY starting 2009-2011. The surtax gradually phases in between AGI of **sptxex2** and AGI of **sptxrate2**. The surtax is different from the one in **sptx2** = *surtax* because rates were added above the previous top rate 2009-2011.

*surtax3* – Similar to *surtax2*, but with subtle differences (reflecting a new tax rate added in the middle of the bracket structure starting in 2012), which requires different SAS code. See *surtax2* above for how to code the state tax parameters in the spreadsheet. This is the provision that is implemented, for example, in the “tax computation worksheets” on pp. 57-59 the instructions for 2013 NY form IT-201-I. Applies in New York 2012 - present.

*lctgtax* – **lctg** is taxed at **sptxrate2**. (MA 1995 - present). Note that in MA, long-term gains were taxed at different rates depending on holding period; **sptxrate2** is the rate applying to the longest holding period.

*exlim* – The variables **sptxex2** and **sptxrate2** are used to record variables used in the provision described in **exlim** = 5, which is a limitation on personal exemptions similar to the one that applied at the federal level 1991 through 2005, except that it applies in a year when the federal personal exemption limitation did not apply (Rhode Island 2010, Minnesota 2011 - , Hawaii 2009 - , DC 2015 - ). This is implemented by coding **sptx2** as *exlim*, coding the AGI threshold at which the personal

exemption phase-out begins in **sptxex2**, and coding the percentage of the value of personal exemptions lost for every additional dollar of AGI above the threshold in **sptxrate2**. In Rhode Island in 2010, **sptxrate2** is 0.008, just as in the federal personal exemption phase-out that applied 1991-2005 and 2013 - present. The SAS code for this refers to **exlim=5** but not to **sptx2=exlim**. We just code **sptx2=exlim** when **exlim=5** so that it will be easier to figure out what **sptxex2** and **sptxrate2** refer to.

*mintax7* – Minimum tax exemption phase-out applying in Iowa 2013 - . The minimum tax exemption is reduced by 25 percent of the amount that alternative minimum taxable income exceeds the threshold recorded in **sptxex2**. Set **sptxrate2** = 0. The Iowa minimum tax also had an exemption phase-out before 2013, but during that time the thresholds were the same as federal, so this **sptx2** = *mintax7* was not needed. See **mintaxtype** = 7.

*cbmi* – “Alternate Property Tax Credit for Renters Age 65 and Older” applying in Michigan 1982 - present. Taxpayers aged **cbage** or over can choose the larger of the circuit breaker credit coded into the **cb** variables, or a credit equal to the amount by which rent exceeds **sptxrate2** percent of the measure of income defined in **cbincdef**, up to a maximum credit of **cbmaxcr1**.

*sdexlimri* -- Phase-outs of standard deductions and personal exemptions applying in Rhode Island starting in 2011. Both the standard deduction and the sum of personal exemptions are gradually phased down to zero over a range of adjusted gross income between **sptxex2** and **sptxex2+sptxrate2**. See also **exlim** = 6.

*nobiz* – Exclusion of business, passthrough, rent/royalty, and farm income. Use **sptxrate2** = 100 for full exemption (KS 2013 on) or set percentage (Ohio 2013 50%, 2014 75%). Use **sptxex2** for amount of exclusion (Ohio).

*nobiz2* – Exclusion of business, passthrough, rent/royalty, farm income and interest and dividend income (OH2015-) Use **sptxrate2** = set percentage of exclusion (Ohio 2013 50%, 2014 75%). Use **sptxex2** for amount of exclusion (Ohio). Hardcoded for number of brackets (in Ohio, the top rate becomes the 5<sup>th</sup> bracket) to cut off tax amount. Misses a small amount of tax (top rate 2.969 instead of 3%).

*nefedmax* – Maximum tax related to federal tax liability applying in Nebraska since 2004. Taxpayers are eligible for this if state AGI exceeds federal AGI by less than **sptxex2**, in which case, compare: (a) federal income tax liability after alternative minimum tax but before federal credits; and (b) state income tax liability after alternative minimum tax

and non-refundable state income tax credits but before refundable state income tax credits. If (a) is smaller than (b), then replace (b) with (a).

*itemlim28* – Itemized deduction limitation applying in Maine since 2016. See **sptx** = 28 for details.

**sptxex2** This is usually the exemption for the special tax specified in **sptx2**, but may have a different meaning depending on the value of **sptx2**. For example, it is the first threshold for **sptx2** = *surtax*, *surtax2*, or *surtax3*. Note that in Massachusetts, the value of **sptxex2** (set to zero in the IncTaxState data set) is determined in the SAS code as the value of exemptions determined by the variables with names beginning with **ex** that have not been used up to offset ordinary tax liability, less **sptxex**. If **sptx2** = *exlim*, then this is the AGI threshold at which the phase out of personal exemptions begins. If **sptx2** = *sdexlimri*, this is the AGI at which standard deductions and personal exemptions start to be phased out. If **sptx2** = *nobiz*, **sptxex2** refers to the maximum exclusion.

**sptxrate2** This is usually the rate for the special tax specified in **sptx2**, but may have a different meaning depending on the value of **sptx2**. For example, it is the second threshold for **sptx2** = *surtax*, or *surtax2*, or *surtax3*) Or, it is the percentage of value of personal exemptions lost for each additional dollar of AGI above **sptxex2** if **sptx2** = *exlim*. If **sptx2** = *sdexlimri*, this is the width of the AGI range over which standard deductions and personal exemptions are phased out. If **sptx2** = *nobiz*, **sptxrate2** refers to the percent of business income excluded.

### EXTRA TAX

Note: A \* indicates that the variable has the same meaning and possible values as its counterpart in the ordinary tax (i.e., the variable with the same name except without an “x” at the beginning). These cases are noted where applicable elsewhere in the documentation.

**xtaxtype** Type of extra state tax or credit. Possible values:

*none* – No extra tax is applicable.

*paratax* -- Parallel tax on some measure of income. Starting income measure is defined in **xbase**, then exclusions, deductions, and exemptions specified in rest of the variables for the tax are subtracted.

Note that in recent years, this is used to code the Connecticut “3% Tax Rate Phase-Out Add-Back” and the “Tax Recapture.” For example, in the 2011 CT income tax instructions, these can be found in table C and table D on p. 48, but the tables don’t illustrate the underlying principles. To

understand that, you need to look at the law. Also, look in the following directory:

...\GoogleDrive\StateModel\NotesOnComplicatedStateProvisions\ct\  
CT\_3pct\_PhaseOutAddBack\_and\_TaxRecapture.xlsx

The spreadsheet available there contains two separate worksheets, one for 2011-2014, and one for 2015 and later years, which calculates the parameters we need to code into the **xb**, **xr**, and **xbracknum** variables. Look at the formulas inside the cells in that spreadsheet, and also look at Tables C and D of the appropriate year's CT income tax instructions, and p. 3 (the "What's New" section) of the 2015 CT income tax instructions, to better understand how the relevant provisions work and how we calculated the relevant parameters. If any of these provisions change, create a new worksheet in the spreadsheet described above to work out the new parameters. The idea behind these provisions is to gradually phase-out the benefits of certain tax provisions (such as the fact that marginal tax rates in the lower tax brackets are lower than the top tax rate) over certain ranges of income. The provisions are mathematically equivalent to increasing the marginal tax rate on gross income by a certain percentage over certain income ranges. Thus, we replicate the provisions by treating them as an additional tax with a bracket and rate structure that we back out from the information provided in the income tax instructions. Answers to prior research assistants' questions on this can also be helpful.

*paracred* -- Tax credit based on some measure of income (e.g., Wisconsin 1961). Produces a positive (or zero) amount, which is then subtracted from ordinary tax liability.

*maxtax* -- Optional maximum tax. Taxpayer can choose between this tax and the ordinary tax. (IA 1988-present, KS 1989-1991, MN 1985-86, ND 2001-2008, OK 1979-2005, OR 1939-1943, UT 2007- ). In North Dakota during 2001 through 2008, the "xtax" was called the "optional method tax" and was filed on Form ND-2 (this was eliminated in 2009). In Iowa 1988-present the maximum tax is called the "alternate tax." Treatment of separate filing differs by state and is hard-coded. Currently,, among cases with a maxtax, the calculator only allows separate filing in Iowa and Oregon. In Iowa, for separate filers the alternate tax must be calculated based on the couple's joint income, and then allocated to each spouse in proportion to AGI. In Oregon, the maximum tax was calculated separately for each spouse. (Note: I still need to modify the SAS code for this to deal with changes in how **ssbentx** = 3 works for 2009 and 2010).

*liabtax* -- Tax on ordinary state tax liability after credits (e.g., Kentucky in 1950s).

*liabcred* -- Credit that is a percentage of tax liability after credits (e.g., California '69)

*dagi* -- Tax on dividends where rate depends on AGI (e.g., Connecticut in 1970s).

*diagi* -- Tax on dividends and interest where rate depends on AGI (e.g., Connecticut in 1970s and 1980s)

*agicred* – Credit that is a percentage of tax liability, where the percentage depends on AGI. Includes brackets, where bracket amount depends on AGI and rate is percentage of tax liability that is forgiven. Also allows exemptions (in which case the credit is a function of AGI less exemptions). Credit cannot exceed **xagicrmax**. In general, this credit is a percentage of tax liability before any minimum taxes. In the case of CT, this is taken care of through the **mintaxapp** variable. In the case of CA, it is taken care of in the code for **xtaxtype=agicred**.

*mintax* -- Minimum tax. In all cases, most details of operation of state minimum taxes, alternative minimum taxes, and taxes on tax preferences are included below in the separate section on minimum taxes tied to federal law (see documentation for **mintaxtype**). The one exception occurs when there are a large number of brackets and rates in the minimum tax (e.g., California 1975-86). In that case, **xbase = mintax**, and the exemptions, brackets, and rates of the minimum tax are contained in the variables for the “extra tax.” The rest of the details about such a tax are in the minimum tax variables.

*cgmax5* – Works the same as federal **Fxtax = cgmax5**, but with different rates (state rates and brackets are in **xb1-xb2** and **xr1-xr2**). (RI 2001 - ).

*lowtab1* -- Special low-income table applicable in Arkansas, 1973-1990. This is an alternative to the regular tax calculation. The only “extra tax” variables that matter for this are **xtaxtype**, **xb1**, **xb2**, and **xex\_dep**, **xcrreturn**, and **xcred\_dep**. All other “extra tax” variables are ignored. If **income < (xb1 + min(deps, 2)\*xex\_dep)**, then tax liability is zero. If **income = (xb2 + min(deps, 2)\*xex\_dep)**, then tax liability equals **xcrreturn + min(deps, 2)\*xcred\_dep**. Tax liability gradually phases in between these two thresholds, with changes at AGI increments of \$10 (this is incorporated in the SAS code to prevent enormous marginal tax rates). If **income > (xb2 + min(deps, 2)\*xex\_dep)**, then taxpayer is not eligible for the special low-income table. Married taxpayers must file jointly to use the low-income table. If the special low-income tax table is used, then the retirement income exclusion may not be used, and no credits can be taken.

*lowtab2* -- Special low-income tax table applicable in Arkansas, 1991-2006. The only “extra tax” variables that matter for this are **xtaxtype**,

**xbracknum**, **xb1** through **xb6**, and **xr1** through **xr6**. All other “extra tax” variables are ignored. If AGI is less than **xb1**, then tax is zero.

If **xbracknum** = 4, then tax liability is as follows. For AGI between **xb1** and **xb2**, tax gradually increases from **xr1** to **xr2**. For AGI between **xb3** and **xb4**, tax gradually increases from **xr3** to **xr4**. People with AGI above **xr4** are ineligible for the low-income tax table.

If **xbracknum** = 6, then tax liability is as follows. For AGI between **xb1** and **xb2**, tax gradually increases from **xr1** to **xr2**. For AGI between **xb3** and **xb4**, tax gradually increases from **xr3** to **xr4**. For AGI between **xb5** and **xb6**, tax gradually increases from **xr5** to **xr6**. People with AGI above **xr6** are ineligible for the low-income tax table.

Married taxpayers must file jointly to use the low-income table. The retirement income exclusion and the working taxpayer credit (**lowtype**=18) may not be used with the special low-income tax table. The per-return credit, elderly credit, and dependent credit can still be used with the special low-income tax table (they are subtracted out after finding tax on the low-income table). During this period the special low-income tax tables were published directly in the law and instructions, without any explanation of the logic underlying them. Our coding scheme captures the major non-linear aspects of the tables, and then smoothes between them.

*lowtab3* -- Special low-income tax table applicable in Arkansas, 2007-present. The only “extra tax” variables that matter for this are **xtaxtype**, **xb1**, **xb2**, **xb3**, and **xb4**. All other “extra tax” variables are ignored. Married taxpayers must file jointly to use the low-income table. The underlying logic of the low-income tax table is as follows. First, calculate tax by applying regular tax table to AGI less standard deduction. Then apply a special non-refundable credit equal to 100% of tax liability if AGI is below an exempt amount **xb1+xb3**. The value of **xb3** is zero for singles, married couples with fewer than 2 dependents, heads of household with fewer than 2 dependents, and all heads of household in years before 2011. For those with incomes above the exempt amount defined by **xb1 + xb3**, there is effectively a credit that starts at 80 percent of the amount of ordinary tax that would be imposed on someone with a taxable income equal to the exempt amount defined above less the standard deduction. The credit is then phased out in a linear fashion as AGI rises, until the credit is completely phased out at an income of **xb2 + xb4**. The value of **xb4** is zero for singles, married couples with fewer than 2 dependents, heads of household with fewer than 2 dependents, and all heads of household in years before 2011. In the instructions for the low-income tax tables, **xb1** refers to the top of the initial AGI range where “your tax is 0” for singles, heads of household (before 2011), heads of household with fewer than 2 dependents (in 2011 and later years), and married couples with fewer than 2 dependents. The top of the initial AGI range where “your tax is 0” for married couples with 2 or more dependents, and for heads of household with 2 or more dependents in 2011 and later years, is

**xb1 + xb3.** In the low-income tax tables, the highest income amount listed in the table (and the amount “X” in the note at the bottom of the table that says “Above \$X use Standard or Itemized Deductions and Regular Tax Table”) is **xb2** for singles, heads of household before 2011, heads of household with fewer than 2 dependents in 2011 and later years, and married couples with fewer than 2 dependents, and is **xb2 + xb4** for heads of household with 2 or more dependents in 2011 and later years, and for married couples with 2 or more dependents. The retirement income exclusion may not be used in conjunction with the special low-income tax table. The per-return credit, elderly credit, and dependent credit can still be used with the special low-income tax table (they are subtracted out after finding tax on the low-income table). The logic of the special low-income table during this period is spelled out in Section 26-51-301 of the Arkansas Annotated Statutes.

*maxei* -- Maximum tax on personal service income (NY 1978-1986).  
 Personal service taxable income (PSTI) = [(Personal service income - deductions) / AGI]\*(State taxable income) - (tax preferences as defined under state minimum tax). Personal service income is essentially wages and salaries and business income, and deductions are business expenses and moving expenses. There is a non-refundable credit equal to the tax calculated by applying the extra tax brackets and rates to PSTI. The resulting credit is stored in the variable **xcredit**.

*liabcred2* -- Credit that is a percentage of tax liability after general credits but before credit for child and dependent care expenses. The percentage phases down with AGI from 100% to 0%, and the starting and ending thresholds depend on family size. (Actually, “modified” AGI is used, but this is ignored because the main modification depends on tax exempt municipal bond interest). Family size is defined as taxpayer plus spouse plus **kids2**. Starting and ending thresholds for one-person families are in **xb1** and **xb2**, respectively. Thresholds for two-person families are in **xb3** and **xb4**. Thresholds for three-person families are in **xb5** and **xb6**. Thresholds for families with four or more members are in **xb7** and **xb8**. Other extra tax variables are not used and can be set to zero. In the detailed output data, the value of this credit is in **xcredit**. (Kentucky starting in 2005).

*lowexempt* – An extra exemption equal to **xexpercap** times the number of family members, phased-out with **agi**. If **agi > xb1**, then the exemption equals:  
 $(1+(\text{filertype}=\text{m}))+\text{deps})*\max(0, \text{xexpercap} - (\text{xr1}/100)*(\text{agi}-\text{xb1}))$ .  
 All other extra tax variables are ignored and can be set to zero. In SAS code, this is in the section where **lowexamt** is defined, and it is included in **lowexamt**. New Mexico starting in 2006.



*cb* – “x” variables are used to store information used to calculate a circuit-breaker property tax credit. See documentation for **cbtype** for further information.

*cbex* – **xb1-xb6**, **xr1-xr6**, and **xbracknum** are used to store information used to calculate a circuit breaker property tax credit. The number of brackets used for the circuit breaker credit should be stored in **xbracknum**. See documentation for **cbtype** = 14 for further information on that. In addition, **xb8-xb13** and **xr8-xr13** (2008-2011) or **xb8-xb12** and **xr8-xr12** (2012 - ) are used to store information used to calculate a phase-down of personal exemptions. See documentation for **exlim** = 4 and **exlim** = 7 for further information on that (Maryland, 2008 - ).

*marded* – “x” variables are used to store information used to calculate a special marital deduction or credit. See documentation for **mardedtype** for an explanation.

*mardedkc* -- “x” variables are used to store information used to calculate a both a special marital deduction or credit, *and* a credit for child and dependent care expenses. See documentation for **mardedtype** and **kidcaretype** = 30 for an explanation. Applies in MN (2013 - ).

*low* – “x” variables are used to store information used to calculate a special low-income credit or exemption. See documentation for **lowtype** for an explanation.

*mintax2* – **xb1** and **xb2** are used to help calculate the state’s alternative minimum tax. See **mintaxtype** = 3 for explanation. Other “x” variables are ignored. Note that in California, where **xtaxtype** = *mintax2* is used, when **eictypestate** = 14, we use **xb8-xb13** and **xr6-xr14** for various parameters of the state earned income credit (see documentation for **eictypestate** = 14).

*kidcare* – “x” variables are used to store information used to calculate a credit or deduction for child care expenses. (NY 2001 – 2008, OR 1997 - ). See **kidcaretype** for an explanation.

*lowcred* – Refundable per-return tax credit. Credit starts at **xcrreturn**, and is gradually phased-out with AGI between AGI levels **xb1** and **xb2**. The only “x” variables used are **xtaxtype**, **xcrreturn**, **xb1**, and **xb2**; all other “x” variables are ignored. (Hawaii, 2007 only, called “credit for general income tax”).

*utahcred* – Non-refundable credit that is related to federal personal exemption and standard deduction or itemized deductions, and is phased out with income. Applies in Utah starting in 2008. To calculate the

credit, first multiply federal personal exemptions (after federal phase-out) by (**xr1**/100). To that, add the federal standard deduction (if the taxpayer did not itemize on the federal return), or federal itemized deductions (after federal limitation) less the portion of state income tax that was deducted on the federal return (if the taxpayer did itemize on the federal return). The value of the federal standard deduction included in this calculation includes any federal property tax deduction for non-itemizers. Multiply the total by (**xr2**/100) to get the credit before phase-out. If AGI > **xb1**, then reduce the credit by (**xr3**/100) times the amount by which AGI exceeds **xb1**, but do not reduce the credit below zero. (The tax calculator output for this variable is stored in **gencred**, and the calculation is in the **gencred** section of the program). All other “x” variables are ignored by the calculator. The standard deduction, personal exemption, and itemized deduction variables in the ordinary state tax (e.g., **experscap**, etc.) should be set to zero in this case, as the credit for those things is calculated entirely using the information in the x variables. However, **itemiz** should still be coded to reflect any restrictions imposed on the calculation of the credit by federal itemization status; as of 2008, the state credit calculation required the taxpayer to use itemized deductions if itemizing on the federal return and standard deduction if not itemizing on the federal return. Note that **xr2** is also used to compute the credit specified in **miscexctype** = 20 in Utah.

*nmrebate* – Special one-time refundable tax credit in New Mexico, 2005, based on income and number of exemptions. The credit phases down with AGI between thresholds **xr1** and **xr2**. Those with AGI below **xr1** get the maximum credit, those with AGI above **xr2** get the minimum credit, and credit gradually phases down for those with AGI between **xr1** and **xr2**. Maximum and minimum credit amounts depend on number of exemptions, and are stored in the following variables.

|                       |            |            |            |             |             |             |
|-----------------------|------------|------------|------------|-------------|-------------|-------------|
| Number of exemptions: | 1          | 2          | 3          | 4           | 5           | >=6         |
| Maximum credit:       | <b>xb1</b> | <b>xb2</b> | <b>xb3</b> | <b>xb4</b>  | <b>xb5</b>  | <b>xb6</b>  |
| Minimum credit:       | <b>xb7</b> | <b>xb8</b> | <b>xb9</b> | <b>xb10</b> | <b>xb11</b> | <b>xb12</b> |

The resulting credit is stored in **lowcredref**. (Source: 2005 N.M. ALS 3).

*fedtab2* – Louisiana, 1980-1982. During this period, there were two alternative tax computations. The first option is was based on taxable income, and calculator computes this tax based on the the variables for an ordinary state income tax (**taxtype** = pctinc). The section option was an alternative maximum tax that was based on tables produced by the Louisiana legislature. The tables indicated the Louisiana state tax liability that corresponded to each federal tax liability for each filing status and each number of exemptions. The law did not explain the underlying logic that was used to construct the tables. Taxpayers paid the larger of the first tax, or 70 percent of the second tax (the 70 is stored in **xr14**). The second

tax works exactly the same as **taxtype** = *fedtab*, and the exact same procedure and variables were used to code it in, so see documentation for **taxtype** = *fedtab* for details. The only difference is that the resulting tax is stored in **xtaxs**, not **taxs**. Note that **xtaxs** is the amount before multiplying by 70 percent. The variable **taxs** will then be set to the smaller of the ordinary tax or 70 percent of **xtaxs**.

*itemlim22* – Limitation on itemized deduction applying in Hawaii 2011 and later years. See the documentation for **itemlim** = 22 for an explanation. Note that if **xtaxtype** = *itemlim22*, then all variables between **xbase** and **xr14**, except for **xb1** and **xb2**, are ignored and should be set to 0 (or to *none* in the case of **xbase**).

*wistr99* – Wisconsin sales tax rebate applying in 1999. Described in Wisconsin Session Laws, October 1999 Special Session, Act 10, Section 4. This was a refundable rebate of sales taxes that was an increasing function of state AGI. The dollar value of the rebate is **xr1** if AGI is between **xb1** and **xb2**, **xr2** if AGI is between **xb2** and **xb3**, and so forth up to **xr6** for those with AGI above **xb6**. The variable **xbracknum** must also be set to 6. All other variables between **xtaxtype** and **xr14** are ignored by the calculator. (The rebate was paid out in 1999 based on 1998 AGI, but the calculator computes it as if it depends on 1999 AGI). This is included in the value of **lowcredref** and is calculated in that part of the SAS code.

*itemlim24* – Itemized deduction limitation applying in Kansas, 2013-2014. See **itemlim** = 24. The only variable used is **xr1** (which is the percentage reduction in itemized deductions).

*itemlim25* – Itemized deduction limitation applying in Kansas, 2015 - . See **itemlim** = 25. The only variable used is **xr1** (which is the percentage reduction in **propded** and **intded** itemized deductions).

*kcitem* – **xb1-xb6** are available to be used for a child care credit (see **kidcaretype** = 23), and **xb10-xb14** and **xr10-xr14** are available to be used for parameters of an itemized deduction limitation (**itemlim** = 3 or 4). Not all of the variables noted above are necessarily used for those purposes in all years. This applies in New York from 2009 through 2013.

*kcitemmsc* – **xb1-xb6** are available to be used for a child care credit (see **kidcaretype** = 23), **xb7** and **xb8** are available to be used for another credit specified in **miscexctype** = 24, and **xb10-xb14** and **xr10-xr14** are available to be used for parameters of an itemized deduction limitation (**itemlim** = 3 or 4). Not all of the variables noted above are necessarily used for those purposes in all years. This applies in New York in 2014 and later years.

*cbnh* – **xbracknum**, **xb1** – **xb5**, and **xr1** – **xr5** contain variables used in the calculation of a property tax credit used in New Hampshire. See **cbtype** = 50.

*rstfair* – “Sales tax fairness credit” applying in Maine starting in 2016. This is a refundable credit for low-income people that is phased out with income, using a broad measure of income (which we approximate by using the variable **income**). The size of the credit depends on the total number of personal exemptions claimed on one’s federal income tax return (note this will have to change starting in 2018, since the federal personal exemption was eliminated, but we are not sure how it will change yet). The base credit amount is **xb1** for a return with one exemption, **xb2** for a return with two exemptions, **xb3** for a return with three exemptions, and **xb4** for a return with four exemptions. The credit is equal to the base credit amount if **income** is below **xb5**. If income is **xb5** or above, the taxpayer loses **xb6** dollars of credit for every additional \$100 of income above **xb5**, until the credit is reduced to zero. Note that the base credit amount and the threshold where the phase-out begins (**xb1** through **xb5**) are all indexed for inflation, but the amount of credit lost per \$100 of income above the threshold (**xb6**) is not indexed for inflation. The values of **xb1** through **xb5** can be found in the Maine individual income tax instructions in the section containing Schedule PTFC/STFC (e.g., in the table on p. 16 in the 2017 Maine individual income tax instructions). The value of **xb6** can be found in the law (Maine Annotated Statutes Title 36, Part 8, Chapter 822, 36 M.R.S. § 5213-A). In the law, the dollars of credit lost as income rises above threshold **xb5** are expressed per \$500 of income, or per \$750 of income, or per \$1000 of income, so that needs to be translated to the amount lost per \$100 of income (at least for 2016 and 2017, this came out to \$2 of credit lost per \$100 of income for all three filing statuses). All other **xtax** variables aside from **xb1** through **xb6** are ignored, and can be set to 0 or *none* depending on the type of variable. This credit is computed in the section of the SAS code with the low income credits (i.e. the section using the **low** variables).

*eitcdc* – Some of the **xb** and **xr** variables are used to store parameters of the DC EITC, 2017 - . See *eictypestate* = 15.

#### **xbase**

Base of extra tax. (See **base** for further details).

If **xtaxtype** takes on any of the following values: *paratax*, *paracred*, *maxtax*, *liabcred*, *liabtax*, *agicred*, *dagi*, *diagi*, then **xbase** indicates the base that forms the starting point of the tax or credit calculation. It is analogous **base** in the regular tax. If **xtaxtype** takes on any other value besides those mentioned above, then **xbase** is ignored by the calculator and is generally set to *none*. (Occasionally in cases where the value of **xbase** doesn’t matter, we have assigned the same value to **xbase** as to

**xtaxtype**, but this has no effect). Values used for *xbase* when it matters include:

*gi* – Gross income. (Note that if the base of the extra tax is AGI, **xbase** is usually coded as *gi*, and then **xosa1st** is coded as 1 if the adjustments used to compute AGI in the regular tax are allowed.)  
*cg* – Capital gains

*div* – Dividends

*di* – Dividends and interest

*dgc* – Dividends and capital gains

*dsgi* – Dividends, interest, and capital gains

*fbi* – Federal taxable income

*agiced* – Adjusted gross income, used only for **xtaxtype** = *agiced*.

*liabcred* – State tax liability (specifically **StaxAGC**), used only with **xtaxtype** = *liabcred*.

*liabtax* -- State tax liability (specifically **StaxAGC**), used only with **xtaxtype** = *liabtax*.

*none*, or other value that is the same as **xtaxtype** – either there is no extra tax / credit, or the value of **xbase** is ignored by the calculator and so does not matter.

**xosa1st** Are other features not specified below the same as in the 1<sup>st</sup> (ordinary) tax?  
*0* -- No, none of the other features apply  
*1* – Yes, all of the other features apply. If **xosa1st** = 1, then adjustments subtracted from gross income to get to AGI, and deductions and credits governed by the **retex**, **low**, and **miscex** variables, are all assumed to apply in the extra tax. [Hard-coded exceptions: in the Utah and Iowa versions of **xtaxtype** = **maxtax**, the **retex**, **low**, and **misex** deductions are not allowed (although credits are), and in Iowa if **ssbentx** > 3, income for the **maxtax** is re-calculated using **ssbentx**=3.]

**xcgexpct** \*  
**xdivexamt** \* [Note: this is hard-coded to apply to both dividends and interest in OK in 1981. Otherwise it just applies to dividends.]  
**xdivexpct** \*  
**xintexpct** \*  
**xexpercap** \*

|                  |  |
|------------------|--|
| <b>xexreturn</b> | *  |
| <b>xex_dep</b>   | *  |
| <b>xex_age</b>   | *  |
| <b>xpctex</b>    | *  |
| <b>xnotaxflr</b> | Value of no-tax floor for extra tax. If AGI is below this floor, no tax is charged; above this floor, full amount of tax is charged.   |
| <b>xminstded</b> | *  |
| <b>xmaxstded</b> | *  |
| <b>xpctstded</b> | *  |
| <b>xcrpercap</b> | *  |
| <b>xcrreturn</b> | *  |
| <b>xcred_dep</b> | *  |
| <b>xcred_age</b> | *  |
| <b>xagicrmax</b> | Maximum allowable AGI-related credit. If zero, no limit applies. (Only applicable if <b>xbase</b> = <i>agicred</i> , or <b>mardedtype</b> =7).   |
| <b>xcharded</b>  | *  |
| <b>xchlim</b>    | *  |
| <b>xdedfed</b>   | *  |
| <b>xintded</b>   | *  |
|                  | Note: if <b>xintded</b> = 1, then other itemized deductions not specified for this extra tax are the same as in the first (ordinary) tax.  |
| <b>xsitded</b>   | *  |
| <b>xitemlim</b>  | Indicator for whether state follows federal limitation on itemized deductions (which applied 1991-present at the federal level).<br><br>0 = Federal itemized deduction limitation does not apply.<br><br>1 = Yes. If state income tax is not deductible from itself, then only that portion of state income taxes that are actually deductible at the federal level (after any limitation) are subtracted from federal itemized deductions to determine state itemized deductions. |
| <b>xbracknum</b> | *  |
| <b>xb1-xb14</b>  | *  |
| <b>xr1-xr14</b>  | *  |

Note: **xbracknum**, **xb1-xb14**, and **xr1-xr14** are sometimes used to store the bracket and rate structure for the “extra” tax in a way that is analogous to **bracknum**, **b1-b26**, and **r1-r26**, but in many cases **xbracknum**, **xb1-xb14**, and **xr1-xr14** are used to represent very

different things than brackets and rates. See the documentation for **xtaxtype** for an explanation of exactly how each of **xbracknum**, **xb1-xb14**, and **xr1-xr14** are used.

#### MINIMUM TAXES TIED TO FEDERAL LAW

Note: state minimum taxes and alternative minimum taxes are tied very closely to federal law, but sometimes adopt a slightly different base than the federal base. Any major differences between state and federal AMT tax bases are incorporated directly into the programming and are not reflected in the state tax law parameter data, but are noted below.

Abbreviations used in explanations of variables:

AMTI = federal alternative minimum taxable income.

TAMT = federal tentative alternative minimum tax (before subtracting normal tax liability).

AMT = federal alternative minimum tax liability (after subtracting normal tax liability).

AMTEX = exemption for federal alternative minimum tax.

mintax = federal minimum tax

**mintaxtype** Type of minimum tax

*0* – None

*1* -- Addition to tax = percentage of federal tax preference income in excess of **mintaxex**. During 1978-82, include the tax preferences from both the federal minimum tax and the AMT. From 1983 on, include AMT tax preferences but not adjustments. Base is re-calculated to deal with differences between federal and state in capital gains exclusions and deductibility of state income tax. New York 1970-2013, California before 1975.

*2* -- Addition to tax = liability from applying graduated rate structure to federal tax preference income in excess of exemptions. Brackets, rates, and exemptions are stored in **xb1-xb15**, **xr1-xr15**, **xbracknum**, and **xexreturn**. Tax preference income means same thing as in 1. (CA 1975-1986).

*3* -- Addition to tax =  $[(\text{mintaxrate}/100) * (\text{AMTI} - \text{AMTEX})]$  - ordinary state income tax liability. (CA 1987-present, CO 1987-present, MN 1985-present, WI 1987-present). Note that in California since 1987, the AMT exemption and the income level at which it begins to phase out are different than federal. These are contained in **xb1** and **xb2**, respectively. There are some other state-specific idiosyncracies in this type of tax that are incorporated directly into the SAS code, and need to be checked when the state tax data is updated. Wisconsin allows a subtraction from AMTI for its special capital gains exclusion. Colorado allows a subtraction from AMTI for its retirement income exclusion. Minnesota's calculation only allows charitable contributions to the extent they exceed 1.3% of AGI (in

2002) or 1% of AGI (2003-2005; unlimited charitable deduction was restored starting in 2006). Minnesota also removes appreciation on charitable donations from AMTI during the years it was included in federal AMTI. From 1993 through 2002, California added capital gains on charitable donations of appreciated property to federal AMTI (they were included in both federal and CA AMTI 1987-1992). California also allows a deduction for up to \$1 million of self-employment and closely-held business income.

4 -- Addition to tax =  $[(\text{mintaxrate}/100)*\text{TAMT}]$  - ordinary state income tax liability. (CT 1992, ME 1991-present, RI 2001-2002, VT 2001, WV 1983-present).

5 -- Addition to tax =  $[(\text{mintaxrate}/100)*(\text{AMT}+\text{mintax})]$ . (IA 1982-1984, MN 1977-1984, NE 1987-2013, WI 1986). For purposes of computing this state minimum tax, AMT and minimum tax (mintax) are re-calculated to account for differences between federal and state taxable income – for instance, differences in capital gains exclusions or deductibility of state income tax from the normal tax. In Minnesota and Wisconsin, itemization status used to compute the minimum tax is same as federal. For other states, itemization status can be different than federal for purposes of computing the minimum tax, but currently the code is only set up to handle such situations when **itemiz** <= 3, and to handle separate filing when **itemiz** <= 2 (which was sufficient to deal with Nebraska and Iowa).

6 -- Addition to tax =  $\min[(\text{mintaxrate}/100)*\text{TAMT}, (\text{mintaxex}/100)*\text{AMTI}]$  - ordinary state income tax liability. (CT 1993-present).

7 – Iowa 1985-present. Addition to tax =  $[(\text{mintaxrate}/100)*(\text{AMTI} - \text{mintaxex})]$  - ordinary state income tax liability (IA 1985-present). AMTI is not identical to federal; it is recalculated based on state itemization decision, and state income tax is not a preference item (since it is not deductible from the ordinary Iowa income tax). Standard deductions and personal exemptions are not added back into AMTI either. The SAS code for this currently only works correctly if **mintaxapp**=3 (which it has throughout the history of this provision in Iowa). A note relevant for updating the data: this particular kind of state AMT requires the state itemization decision to be deferred until after **taxs** has been computed under each itemization status, which led to a variety of fixes that work given Iowa's particular tax features through 2008, but not necessarily under other tax features. As a result, if complicated new features (for example, an alternative capital gains tax computation or **sptx**) are added to the Iowa income tax after 2008, care must be taken throughout the SAS code to make them work correctly with **mintaxtype**=7. From 1988



through 2012 the Iowa minimum tax exemption was reduced by 25 percent of the amount that alternative minimum taxable income (AMTI) exceeded the federal thresholds at which the AMT exemptions started to phase-out (**Famtexth**). That is hard-coded in the SAS code for **mintaxtype=7**. Starting in 2013, the AMT exemption phase-out in Iowa still works the same way as before, except that the threshold of AMTI at which the phase-out begins is de-coupled from the federal threshold (the federal threshold was indexed for inflation starting in 2013, but Iowa did not follow suit). So starting in 2013, we start coding the Iowa exemption phase-out thresholds into the “**sptx2**” variables. In 2013 and later years, set **sptx2 = mintax7**, set **sptxex2** equal to the level of AMTI at which the exemption starts to phase out, and set **sptxrate2 = 0**.

8 – Rhode Island. Addition to tax =  $(\text{mintaxrate}/100) * (\text{TAMT recalculated with different exemptions}) - \text{ordinary state income tax liability}$ . The exemptions work the same way as in the federal AMT (including phase-out), but the maximum exemption values are contained in **mintaxex**. (RI 2003-present). Note that **mintaxrate** is not necessarily reported directly on the RI AMT form – rather, the RI AMT form reports rates that are to be multiplied by AMTI less exemptions. **Mintaxrate** is found by dividing the rates reported on the RI AMT form into the rates applying over the same income ranges in the federal AMT. (So for example, if over a certain income range, the RI rate is 6.5% and the federal rate is 26%, and  $6.5 / 26 = 25\%$ , so **mintaxrate = 25**). This version of state AMT also allows for an alternative capital gains tax calculation in the AMT that is similar to that in the federal AMT, but with different maximum rates, which is implemented if **xtaxtype** is set equal to **cgmax5**, as it is in RI starting in 2001.

9 – Maine. Addition to tax =  $(\text{mintaxrate}/100) * (\text{TAMT recalculated with different exemptions and some adjustments}) - \text{ordinary state income tax liability}$ . The exemptions work the same way as in the federal AMT (including phase-out), but the maximum exemption values are contained in **mintaxex**. In addition, any social security benefits included in AGI at the federal level, and any pension income excluded at the state level, are subtracted from the measure of AMTI used to recalculate TAMT. (Maine 2003- ). Note that the Maine instructions do not report **mintaxrate** directly, but rather report the rates that apply to different ranges of Maine alternative minimum taxable income (AMTI). For example, in 2008, the Maine AMT is 7% of AMTI below \$175,000, and 7.6% of AMTI above \$175,000. This is equivalent to 27% of the federal AMT tax rates on the same ranges of AMTI (7% Maine rate / 26% federal rate = 27%, and 7.6% Maine rate / 28% federal rate = 27%). So in 2008 **mintaxrate = 27**, because the Maine AMT is essentially 27% of what the federal tentative alternative minimum tax would be on Maine AMTI.

10 -- Addition to tax = [(**mintaxrate**/100)\*AMT] - ordinary state income tax liability. (WV 1983-2009).

**mintaxrate** Rate of minimum tax, percent

**mintaxex** Exemption for state income tax

**mintaxapp** Where does the minimum tax apply? This variable is basically about what measure of tax liability is compared to the minimum tax when computing minimum tax liability.

0 – No minimum tax.

1 – Applies to normal tax before credits, but after any “special” taxes (**sptx** and **sptx2**). So the minimum tax is generally either computed as tentative minimum tax minus normal tax before credits, or is simply added to normal tax before credits and then after that credits are subtracted. This is the most common approach.

2 – Minimum tax is calculated after extra tax and all credits (including earned income credit). Tax liability after all credits is used in the formula for computing the minimum tax. (New York, 1970-present).

3 – Iowa 1985-present. Minimum tax applies after all other taxes and credits, including non-refundable earned income credit. However, refundable earned income credit (which starts in 2007), is subtracted off *after* computing the minimum tax. The minimum tax is computed as tentative minimum tax less tax liability after maximum tax and all credits except refundable EIC. This minimum tax can affect the optimality of itemizing and of filing a separate versus joint return, so in the SAS code those decisions are not finalized until after a tentative value of final tax liability after credits but before minimum tax (**taxs**) is computed.

4 – Minimum tax applies after **agicred** and **lowcred** but before other credits (CT, 1992 – present; SAS code for this is not set up for separate filing, since it is not advantageous in CT).

5 – Minimum tax applies after low-income credit and itemized deduction credit, but before EITC, married couple credit, and homestead credit (WI, 1986-present; SAS code for this is not set up for separate filing, since it is not advantageous in WI).

#### STATE CREDITS OR DEDUCTIONS FOR CHILD CARE

General comments: In the documentation for state credits or deductions for child care below, whenever we use the generic term “income” when describing credits or

deductions that are phased out as income rises, the exact definition of “income” used to compute phase-outs, which is usually state or federal AGI, is defined in the variable **kcincome** below, and is called **kcinc** in the SAS code. Age limits for qualifying dependents are assumed to be the same as in the federal law. The documentation on state child care credits and deductions below sometimes refers to variables that are computed by the SAS code: **Fkcaareded**, which is the amount of federal expenses eligible for deduction or credit (computed in all years where a federal deduction or credit for child care expenses exists); and **Fkcarecred**, which is the amount of the federal credit for child care expenses before applying any limitations related to federal tax liability (computed in all years when there is a federal credit). Deductions have codes below 11, and credits have codes of 11 or above, with the exception that 28 involves both a credit and a deduction..

**kidcaretype** Type of child care credit or deduction

0 – None

1 – Itemized deduction, definition of eligible expenses same as current federal law.

2 – Above-the-line deduction, definition of eligible expenses same as current federal law.

3 – Itemized deduction, definition of eligible expenses and phase-out with income operate the same as the deduction that applied in the federal income tax 1972-1975 (see **Fkcaretype** = 3). Maximum deduction is \$2400 for one child, \$3600 for 2, or \$4800 for 3 or more. Deduction is phased out with income for all filing statuses. Full deduction available if income < \$18,000; deduction reduced by 50 cents for each dollar of income above \$18,000. (Numerous states in 1976; SC 1976-1984; Montana 1976 – present).

4 – Massachusetts above-the-line deduction. Choice of deduction for eligible federal expenses or alternative deduction of **kc1** (one kid) or **kc2** (two or more kids), even if there are no dependent care expenses. Maximum allowable child care expenses increase above federal level, in **kc3** (1 kid) and **kc4** (2 or more kids) starting in 2001. There is also an addition to the personal exemption for a working spouse 1967-86. Extra exemption is min(**kc5**, lower-earning spouse’s earnings), plus an additional exemption of **kc6** if those earnings are below **kc5**.

5 – Itemized deduction. Maximum total deduction for 1, 2, and 3 or more kids are in **kc1**, **kc2**, **kc3**. Income at which phase-out begins is in **kc4**, income at which phase-out ends is in **kc5**. If **kc5** is zero, then **kc6** has cents of deduction lost per dollar of income above bottom threshold (AZ 1954-89, KY 1976-89, MD 1964-66, NY 1956-60, OK 1962-70).

6 – Itemized deduction. Each spouse must have income below **kc1** + dependent exemptions. Maximum deduction is earnings of lower-earning spouse. (GA 1954-70).

7 – Itemized deduction, not phased out with income. Maximum eligible expenses are in **kc1** (1 kid) and **kc2** (2 kids). (NC 1975-80)

8 – Wisconsin (2011 – present). Above-the-line deduction for child and dependent care expenses eligible for federal child care credit (as in federal credit, expenses must be less than lower-earning spouse’s earned income). The deduction is capped at **kc1** for one qualifying dependent, or **kc2** for two or more qualifying dependents.

11 – Credit, percentage of federal credit. Percentage is in **kc1**. **kc2** contains information on allocation of credit between spouses in cases where separate state returns are filed. If **kc2** = 0, credit can be allocated however spouses choose. If **kc2** = 1, then only lower-earning spouse can take the credit. If **kc2** = 2, then credit must be divided between spouses in proportion to each spouse’s share of combined AGI. In a state where filing a joint return is advantageous for married couples – i.e., **multbrk** = 1 or **sepdis** = 1 – this generally does not matter, so set **kc2**=0. (AR 1977 - , CA 1987 - 1990, DC 1978 - , DE 1987 - , GA 1977 - , HI 1977 - , IA 1977 - 1989, KS 1988 – 2012, KY 1990 - , LA 1979 – 1985, ME 1980 – 2000, NE 1989 – 1997, NY 1977 – 1995, OK 1976 – 2007, OR 1977 – 1990, RI 2001 – , VT 2001 – 2002). Note that in Oklahoma, the credit is multiplied by ratio of state AGI to federal AGI.

12 –Credit, percentage of federal credit, where the percentage is phased down with income. Percentage for those with income below the phase-out range is in **kc1**, percentage for those with income above the phase-out range is zero, income at the beginning of the phase-out range is **kc3**, and income at the end of the phase-out range is **kc4**. The percentage is gradually phased down from **kc1** to **kc2** between incomes **kc3** and **kc4** (some states such as California have a step-function phaseout, which we approximate with a smooth phase-out). So note that in parameter file, **kc2** is the lowest percentage applied to child care expenses *before* becoming ineligible for credit. (For a similar credit where percentage is greater than zero when income is above **kc4**, see **kidcaretype**=33). Maximum eligible expenses for 1 kid and 2 or more kids are in **kc5** and **kc6** (both are zero if same as federal). Note that in some states (e.g. CA 1977-82), the credit was expressed as a percentage of child care expenses but federal credit was a flat percentage (20%) for all taxpayers during that time, so we convert it to the equivalent percentage of the federal credit and put that in **kc1**. Applies in CA (1977-82), CO (1997-2013), IA (1990 - ), KS (1978 – 1987), OH (1988 – 1992), and OR (1991 - 1996). Note that Colorado also

offered an alternative of a fixed credit per child under age 5 in some years, but we ignore this.

*13* – Credit, percentage of eligible expenses. Percentage is in **kc1**. Maximum eligible expenses are **kc2-kc4** for 1-3 kids. If maximum eligible expenses are the same as federal, **kc2-kc4** are set to zero and the calculator applies the current federal limits. Note that the SC instructions list a maximum possible credit, but this has so far just been **kc1** percent of the maximum federal limits on eligible expenses, so as long as that is still true, the maximum credits are already imposed by the calculator and don't need to be coded in separately. (GA 1982-86, SC 1984 - ).

*14* –Credit, percentage of federal expenses, phased down with income. Percentage below phase-out range is in **kc1**, percentage above phase-out range is in **kc2**, income at bottom of phase-out range is **kc3**, and income at top of phase-out range is **kc4**. Maximum eligible expenses are in **kc5-kc6** for 1-2 kids (all zero if same as federal). (CA 1983-1986, HI 1985 - , NC 1994 – 2013). Note that in North Carolina, the values of **kc1** and **kc2** are different for kids under the age of 7 and kids aged 7 and older, and we use the values applying to kids under the age of 7.

*15* – Percentage of federal credit up to a dollar maximum. State credit is **kc1** percent of the federal credit, up to dollar maximum in **kc2**. This applies in Louisiana, 1986-2002. It is part of what is called the “special allowable credit” on the Louisiana Schedule A. The dollar maximum **kc2** actually applies to the sum of the childcare credit and a credit that is equal to **pcfdeldcr** percent of the federal retirement income credit; this is implemented in the SAS code by adjusting to the value of the state child care credit to ensure that the sum of the two credits is no greater than **kc2**.

*16* – If income is **kc1** or below then credit is **kc4** percent of the federal credit, and is refundable. Else if income is **kc2** or below, then the state credit is **kc5** percent of the federal credit, and is non-refundable. Else if income **kc3** or below, then the state credit is **kc6** percent of the federal credit and non-refundable. Else if income is **kc3** or above, the state credit is the smaller of **kc6** percent of the federal credit or \$25 and is non-refundable. (Louisiana 2003 – present).

*17* – Two child care credits applying in Colorado starting in 2014 (see Colorado Form DR 0347). The first one works just like **kidcaretype** = *12*, with limits on child care expenses that are the same as federal, so that **kc5** and **kc6** are not needed for that credit. So the first credit is a percentage of federal credit, with the percentage phased down with income. Percentage for those with income below the phase-out range is in **kc1**, percentage for those with income above the phase-out range is zero, income at the beginning of the phase-out range is **kc3**, and income at the end of the

phase-out range is **kc4**. The percentage is gradually phased down from **kc1** to **kc2** between incomes **kc3** and **kc4**. So note that in parameter file, **kc2** is the lowest percentage applied to child care expenses *before* becoming ineligible for credit. The second credit is a “Low Income Child Care Expenses Credit” (bottom part of Form DR 0347 and Section 39-22-119.5 of the Colorado Statutes). To be eligible for this second credit, the taxpayer must be ineligible for the first credit because federal tax liability before credits plus AMT are zero (making the federal child care credit after limitation zero – see **kcfedlimit** = 2), and federal AGI must be less than **kc3**. If so, the credit is **kc5** percent of child care expenses eligible for the federal credit, except that the maximum allowable credit is **kc6** dollars if there is one eligible child, or **kc6\*2** dollars if there are two or more eligible children. Refundability of both credits is governed by the value of **kidcareref**. Section 39-22-119.5 originally said that the part of the credit that we coded into **kc5** and **kc6** would apply through the end of 2016 and then expire, but then it was amended in 2017 to specify that the credit would either be extended for 2017 through 2019, or for 2018 through 2020, depending on the budget situation. Based on the absence of information on this part of the credit on the 2017 child care credit form, and <<http://www.coloradoceca.org/news/2017-child-care-tax-credit-update-6-23-17>>, it appears that the budget situation was such that the latter happened, so that the credit in **kc5** and **kc6** did not apply in 2017 but will apply in 2018 through 2020. So for 2017 we’ve set **kc5** and **kc6** to zero, but unless something else changes, in 2018 **kc5** and **kc6** will revert to their 2016 values.

18 -- State credit is a percentage of the federal credit, refundable up to a maximum, and then non-refundable beyond that. The percentage is **kc1**, and the maximum refundable credit is **kc2**. (Maine, 2001 - ) Note that technically, the percentage recorded in **kc1** is the percentage that applies to “quality” child care expenses; other child care expenses get a smaller percentage. Since we have no data on whether any particular child care expenses qualify as “quality” under Maine law, the calculator assumes all child care expenses are quality.

19 – Minnesota 1977-2012 and 2014 - 2016. The credit is equal to the smaller of **kc1** percent of the federal child care credit (note that **kc1** is 100% from 1981 through 2012 and 2014 - 2016, during which time that percentage was redundant and so did not show up on the form), or a maximum credit amount which is phased down gradually from **kc2** (if there is one qualifying child) or **kc3** (if there are 2 or more qualifying children) to zero between incomes **kc4** and **kc5** (if there is one qualifying child) or between incomes of **kc4** and **kc6** (if there are two or more qualifying children). People with income above **kc5** (if there is one qualifying child) or **kc6** (if there are two or more qualifying children) are

not eligible for the credit. In 2013 Minnesota's child care credit was different and is coded as **kidcaretype** = 30.

20 – Credit is a percentage of the federal credit, phased down with income. Percentage below phase-out range is in **kc1**, and percentage above phase-out range is **kc2**. Income at the bottom of phase-out range is **kc3**, and income at top of phase-out range is **kc4**. The percentage is gradually phased down from **kc1** to **kc2** between incomes **kc3** and **kc4**. The credit is refundable if AGI is below **kc4**, and is non-refundable otherwise. (Nebraska, 1998 - ).

21 – New Mexico 1981(?) – present. Credit is **kc1** percent of expenses. Maximum allowable expenses are in **kc2**, **kc3**, and **kc4** for 1 kid, 2 kids, or 3 or more kids, respectively. Subtract off federal credit actually used. Only available if income is below **kc5**.

22 – New York, 1996-2000. Percentage of federal credit = **kc1** + **kc2**\*min(**kc3**, max(0, **kc4**-income))/**kc5**. [Note: these parameters are not apparent in the tax form instructions; they are laid out in the NY annotated statutes, section 606(c).]

23 – New York, 2001-present. Same as 22, but if income > **kc6**, then **kc1**-**kc5** are contained in **xb1**-**xb5**. [Note: these parameters are not apparent in the tax form instructions; they are laid out in the NY annotated statutes, section 606(c).] [A note for next year's RAs: starting in tax year 2018, there will be an additional multiplier used to calculate the Child and Dependent Care Credit. The relevant section of the NY annotated statutes is 606 (c) (a-1). The table image from LexisNexis is saved in NY/Income Tax/Laws/NY INC 2018 AS CREDITS TABLE.]

24 – Two-tier credit. **kc1**% of federal credit if income < **kc2**, **kc3**% of federal credit if income < **kc4**, zero above **kc4**. (Ohio 1993-present).

25 – Oregon 1976. Credit is **kc1**% of expenses. Maximum eligible expenses for 1-3 kids are in **kc2**-**kc4**. Lose **kc6** cents of credit per dollar of income above **kc5**.

26 – Oregon 1997-2015. Taxpayer can take both of two credits. First credit is **kc1**% of child and dependent care expenses that are eligible for the federal credit, phased down to **kc2**% between federal taxable income levels **kc3** and **kc4**, and is non-refundable (**kidcareref** refers to first credit). The second credit (Working Family Child Care Credit) is refundable (in 2003 and later years only), and its parameters are in **xb1**-**xb5**. Credit is **xb1**% of gross qualified child care expense (**childcare**, which can be larger than the amount eligible for the federal credit, as no

limits are applied). Phase out starts at an income of **xb2** + **xb3**\*(household size – 1). The credit is fully phased out at an income level approximately 1.25 times the initial phase-out threshold. Note that the value of **xb3** is not exactly the same for each increment in household size due to rounding error (the table in the instructions rounds everything to the nearest \$50), so we use a rough average value rounded to the nearest \$25. The 1.25 figure is not precisely right either due rounding error, but the calculator approximates by making the end of the phase-out threshold 1.25 times the beginning. To qualify for the Working Family Child Care Credit, household earned income must be greater than **xb4**, and the sum of interest, dividend, and capital gain income must be less than **xb5**. The variable **kidcareref** should be coded as 0 in all years, as the refundability of the working family child care credit starting in 2003 is hard-coded into the SAS code for **kidcaretype=26**.

27 – Vermont 2003-present. Refundable **kc1**% of federal credit if income  $\leq$  **kc3**. If income  $>$  **kc3**, non-refundable **kc2**% of federal credit.

28 – Maryland, 2000-present. Above-the-line deduction for child care expenses, definition of eligible expenses same as current federal law (same as **kidcaretype** = 2). In addition, there is a credit equal to a percentage of the federal child care credit that phases out as income increases. The credit is **kc1** percent of the federal credit if income is below **kc3**, and is zero if income is above **kc4**. The percentage phases down fairly smoothly from **kc1** to **kc2** between income levels **kc3** and **kc4** (the credit works exactly the same as **kidcaretype=12**, so the SAS code for the credit part of this is in with **kidcaretype=12**).

29 – Oklahoma (2008 - ). There is a non-refundable credit equal to the greater of **kc1** percent of the federal credit for child and dependent care expenses, and **kc2** percent of the federal child tax credit. Returns with income greater than **kc3** are ineligible for the credit. Credit is multiplied by the ratio of state AGI to federal AGI.

30 – Minnesota (2013). Similar to **kidcaretype** = 19, which applied in Minnesota before and after 2013, except the value of the federal child care credit is replaced in the formula for calculating the state credit with what the federal child care credit would have been if the federal law applying prior to 2003 still applied. We use the variables **xb11-xb14** and **xr13-xr14** to contain the key parameters for the pre-2003 federal child care credit. The credit is the smaller of the following: (a) a maximum credit amount which is phased down gradually from **kc2** (if there is one qualifying child) or **kc3** (if there are 2 or more qualifying children) to zero between household incomes **kc4** and **kc5** (if there is one qualifying child) or between household incomes of **kc4** and **kc6** (if there are two or more qualifying children); (b) **kc1** percent of what the federal credit would have been



under pre-2003 law (where **kc1** has been 100% in recent years and so does not show up on the form). The federal credit under pre-2003 law is equal to a percentage of the minimum of: (1) child and dependent care expenses; (2) earned income of the lower-earning spouse; (3) the amount coded into **xb11** (if one qualifying child) or **xb12** (if two qualifying children). The percentage applied to this amount is **xr13** if federal AGI is below **xb13**, **xr14** if federal AGI is above **xb14**, and gradually phases down from **xr13** to **xr14** as federal AGI increases from **xb13** to **xb14**. The household income measure used to phase-down the maximum allowable credit (**kc2** or **kc3**) is determined by the value of **kcincome**, whereas the use of federal AGI to compute what the federal child care credit would have been under pre-2003 law is hardcoded into the SAS code for **kidcaretype** = 30 and is not affected by the value of **kcincome**.

31 – Oregon “Working Family Household and Dependent Care Credit” (2016 - ). A refundable credit for child and dependent care expenses. Eligible expenses for the credit are equal to the smaller of actual expenses, **kc5** (if one qualifying dependent) or **kc6** (if two or more qualifying dependents), and earned income of lower-earning spouse. The credit is equal to a percentage of eligible expenses. The percentage varies with a measure of income (defined in **kcincome**) and also varies slightly with the age of the youngest eligible dependent. Since the tax calculator input data set does not allow for information on exact age of youngest child, we use the percentages applying to a household where the youngest eligible dependent is under 3 years. The percentage increases from **kc1** percent at 0% of the federal poverty threshold to **kc2** percent at 100% of the federal poverty threshold, and then gradually declines back to 0% at 300% of the federal poverty threshold. We record 300% of the federal poverty threshold for a two-person household in **kc3**, and the increase in the federal poverty threshold for each additional household member (up to a maximum of 8) in **kc4**. The calculator works the rest out using that information. Due to rounding error, the incremental increase in the poverty threshold for each additional household member is not always exactly the same, so in that case we approximate by using the most common increment for **kc4**. The percentages can be found in Oregon Annotated Statutes Section 315.264, although the table of percentages is easier to read in the session laws (Oregon Laws 2015 Chapter 701, and Oregon Laws 2017 Chapter 638). The Oregon Individual Income Tax Guide (Publication 17) lists the AGI limits (300% of the federal poverty threshold) in its section on the Working Family Household and Dependent Care Credit, and we use that information to code in **kc3** and **kc4**.

32 – Minnesota, 2017 - . For taxpayers with federal AGI below **kc4**, the credit is equal to **kc1** percent of the federal child care credit (note that **kc1** has so far always been 100%, so the percentage was redundant and so does not show up on the form). If federal AGI is above **kc4**, then the credit is

the smaller of **kc1** percent of the federal child care credit and a maximum credit which starts out as **kc2** (if there is one qualifying child) or **kc3** (if there are 2 or more qualifying children). This maximum credit amount is then phased down to zero between incomes **kc4** and **kc5** (if there is one qualifying child) or between incomes of **kc4** and **kc6** (if there are two or more qualifying children). To determine the values of **kc5** and **kc6**, you need to divide the maximum credit amount by the percentage of (federal AGI – **kc4**) that is subtracted in computing the credit, and then add it to **kc4** (e.g., in 2017,  $kc5 = kc4 + kc2/5\% = 50000 + 600/0.05 = 62000$ ). People with income above **kc5** (if there is one qualifying child) or **kc6** (if there are two or more qualifying children) are not eligible for the credit.

33 –Credit, percentage of federal credit, where the percentage is phased down with income, and percentage above phase-out range is greater than zero. Percentage for those with income below the phase-out range is in **kc1**, percentage for those with income above the phase-out range is **kc2**, income at the beginning of the phase-out range is **kc3**, and income at the end of the phase-out range is **kc4**. The percentage is gradually phased down from **kc1** to **kc2** between incomes **kc3** and **kc4** (some states such as California have a step-function phaseout, which we approximate with a smooth phase-out). This differs from **kidcaretype=12**; in **kidcaretype=33**, **kc2** stores the applicable percentage for people with incomes above **kc4**, whereas in **kidcaretype=12**, the applicable percentage is zero for people with income above **kc4**. Maximum eligible expenses for 1 kid and 2 or more kids are in **kc5** and **kc6** (both are zero if same as federal). Applied in California 1985-1986, 1991-1992.

- kidcareref** Is the child care credit refundable? (Note: in some cases the state child care credit is refundable for some taxpayers but not for others. In those cases, that information will be incorporated into **kidcaretype**, which will supersede **kidcareref**).
- 0 – no  
1 -- yes
- kc1-kc6** Parameters of state child care credit or deduction. The meaning of each of these is determined by **kidcaretype**.
- kcincome** Definition of income used for computing state-specific phase-outs of state credit or deduction for child care expenses.
- 0 – Not applicable. There is no state credit or deduction for child care expenses, or there is no state-specific phase-out that depends on income. Note that if the state credit is just a function of the federal credit, and the

state-specific function does not depend on income, then **kcincome** will generally be coded as zero, even though the federal credit is a function of federal AGI. The **kcincome** variable is only used in cases where there are further state-specific calculations that depend on some measure of income, beyond those that were already done on the federal child care credit form.

1 – State adjusted gross income.

2 – Federal adjusted gross income.

3 – Broader measure of income than AGI (in this case the calculator uses the **income** variable in the taxpayer input data set). Note that in Minnesota this only governs the measure of “household income” used to phase-down the maximum allowable credit; it does not affect the measure of income used to compute what the federal child care credit would have been under pre-2003 law, which is hard-coded to be federal AGI in the SAS code for **kidcaretype** = 30.

4 – The credit coded in the **kc** variables is phased out based on federal taxable income, and the credit coded in the **xb** variables is phased out based on federal AGI. Applies in Oregon 1997 - . The use of federal AGI for the phase-out of the credit coded in the **xb** variables is hard-coded in the SAS code for **kidcaretype** = 26, so the measure of income used to phase-out the **xb** credit changes, we’ll need to change the SAS code for **kidcaretype** = 26.

5 – The phase-out of the credit, if any, is based on federal AGI. In addition, the credit must be multiplied by the ratio of state AGI to federal AGI. This applies in Oklahoma 1976 – present (where **kidcaretype** = 11 from 1976 through 2007 and 29 from 2008 through present). Also note that in Oklahoma, the retirement income exclusion that is coded into **retex** variables is subtracted out *before* computing state **agi**. The calculator subtracts out the **retex** exclusion *after* computing the **agi** variable, we adjust for this in the SAS code wherever the OK child care credit is computed. The only part of this that is controlled by the value of **kcincome** is the use of federal AGI to phase-out the credit – all other issues discussed here are hard-coded in the SAS code for **kidcaretype** = 29, and in **kidcaretype** = 11 if **statename** = “ok”.

6 -- Federal AGI or state AGI, whichever is larger. (Oregon, 2016 - ).

**kcfedlimit** In cases where the state credit or deduction for child care expenses is a function of the federal credit for child care expenses (for example, **kidcaretype** = 11, 12, 15-20, 22-24, 27-29, 33), this variable indicates whether the state credit is a function of the gross federal credit calculated *before* any limitations, or to the federal credit calculated *after* limitations

applicable in the federal income tax. The relevant limitations are as follows. From 1987 through 1997, the amount of the credit was limited to be no larger than the amount by which federal tax liability before credits exceeded tentative alternative minimum tax. From 1998 through 2001, the credit was limited to be no larger than federal tax liability before credits. In 2002 and later years, the credit was limited to be no larger than the sum of federal tax liability before credits and AMT. For example, in 2014, the value of federal credit for child care expenses *before* limitations was reported on line 9 of federal Form 2441, and the value *after* limitations was reported on line 11 of federal Form 2441, and (The foreign tax credit also plays some role in the limitation but we ignore this).

*0* – Not applicable. This is the correct code in the following situations. First, zero is the correct code when there is no state credit for child care expenses. Second, zero is the correct code when the state child care credit is not a function of the federal credit for child care expenses. Third, zero is the correct code in all years before 1987, because in those years the limitations on the federal credit for child care expenses described above did not exist.

*1* – The state credit is a function of the federal credit for child care expenses calculated *before* applicable federal limitations are applied.

*2* – The state credit is a function of the federal credit for child care expenses calculated *after* applicable federal limitations are applied.

*3* – The state credit is calculated as in **kcfedlimit** = 1 if income  $\leq$  **kc4**, and is calculated as in **kcfedlimit** = 2 if income  $>$  **kc4**. This applies in Nebraska since 1998 (**kidcaretype** = 20).

*4* – The state credit is calculated as in **kcfedlimit** = 1 if income  $\leq$  **kc1**, and is calculated as in **kcfedlimit** = 2 if income  $>$  **kc1**. This applies in Louisiana starting in 2006 (**kidcaretype**=16). The applicable rules when income  $\leq$  **kc1** are in the “Louisiana Refundable Child Care Credit Worksheet” – the relation to the federal credit is not immediately obvious in that worksheet, but the worksheet has the effect of replicating **kcfedlimit** = 1.

#### ALLOCATION OF DEDUCTIONS, EXEMPTIONS AND CREDITS BETWEEN SPOUSES WHEN FILING SEPARATELY

Note: in general, if one spouse chose to itemize deductions instead of taking the standard deduction, then both were required to do so, so the calculator assumes this unless otherwise specified. Also note that in many states, spouses are allowed to file separately

on the same return (sometimes called a “combined return”), or separately on different returns. In the event that the rules differ depending on whether the spouses file separately on the same return or separately on different returns, we use the rules for spouses filing separately on the same return (combined return). The calculator ignores the variables **itemalloc**, **stdalloc**, **exalloc**, and **credalloc** if the taxpayer is unmarried (**filertype** = h or **filertype** = m), but in the state tax parameter data set we follow the convention of coding in the married taxpayer values of these particular variables for both married and unmarried **filertypes**. Also note that of the variables with names ending in “**alloc**” will be set to zero for states where “married filing separately” is not allowed or not advantageous. Filing separately is generally not advantageous for married couples if **multbrk** = 1, or **sepdis** = 1, or **bracknum** = 1. Read sections of documentation entitled “Joint versus separate filing and division of income and deductions between spouses” and “Treatment of Married Couples” for further information.

**Important: do not attempt to update itemalloc, stdalloc, or credalloc until you’ve read the paragraph immediately above!**

**itemalloc** Allocation of itemized deductions between spouses

*0* – Filing separately not allowed or not advantageous; or there are no itemized deductions; or each spouse must report his or her “own” deductions; or itemized deductions may be allocated between spouses in any way they choose. In latter two cases, any deduction for federal income tax usually must be allocated by % of AGI, but otherwise deductions are fairly fungible.

*1* – Must be allocated in proportion to spouse’s share of AGI

**stdalloc** Allocation of standard deduction between spouses filing separately

*0* – Filing separately not allowed or not advantageous; or each spouse filing separately gets 50% of maximum standard deduction for a joint return, or percentage of AGI.

*1* – Each spouse filing separately gets full value of maximum standard deduction for a joint return, or percentage of AGI

*2* – Standard deduction can be allocated any way the spouses choose

*3* – Allocated in proportion to spouse’s share of AGI

*4* – Standard deduction can be allocated in any way the spouses choose, except it can’t exceed **pctstded** percent of each separate taxpayer’s AGI.

**exalloc** Allocation of exemptions between spouses filing separately

0 – Not applicable because there are no exemptions, or because filing separately is not allowed or not advantageous; or same as federal treatment. Same as federal treatment means that adult exemptions for the whole return can be divided in any way they choose; adult per capita exemptions and age exemptions must go to the adult to whom they relate; and dependent exemptions must be taken by the adult providing over half of support.

1 – Adult exemptions must go to the adult to whom they relate; dependent exemptions can be divided between spouses filing separately in any way they choose.

2 – Adult exemptions divided equally between spouses. Dependent exemptions to adult providing over half of support.

3 – Allocated in proportion to spouse's share of AGI

4 – All exemptions can be divided in any way the spouses choose

5 – Joint filing not allowed. Spouse gets 2/3rds of adult exemption and all dependent exemptions, other spouse gets 1/3<sup>rd</sup> of adult exemption. Spouses can choose who gets what. (North Carolina, 1927-1988)

6 -- Adult exemptions divided equally between spouses. Dependent exemptions to adult providing over half of support. Adult exemption reduced by \$300 if filing separately (North Dakota 1967-88).

7 – Spouses must file separately, each one gets half of exemption listed for married couples (New Hampshire 1923-1980).

**credalloc** Allocation of credits between spouses filing separately

0 – Not applicable because separate filing is not allowed or is not advantageous for married couples, or separate spouse tax liabilities are combined before applying credits.

1 – Credits must be allocated separately to each spouse. Adult credits go to the adult to whom they relate, and dependent credits can be allocated in any way desired.

2 – Credits must be allocated separately to each spouse. Adult credits go to the adult to whom they relate, and dependent credits go to the spouse providing more than half of the support. Note that this is the case when credits must be allocated based on the definition of dependent used in the federal Internal Revenue Code, since that assigns the dependent to the person who provides more than half of the support. (We assume

**credalloc** = 2 for Iowa because section 422.12 of the Iowa code says “Dependent’ has the same meaning as provided by the Internal Revenue Code,” but the instructions for Iowa tax forms are not clear about this.)

3 – Adult credits divided equally between spouses filing separately, dependent credits go to spouse providing more than half of the support.

#### CIRCUIT BREAKER PROPERTY TAX CREDITS

(The initial draft of the documentation for circuit breaker property tax credits was written by Rosemary Smith).

**NOTE TO RESEARCH ASSISTANTS, THIS IS VERY IMPORTANT!!! CIRCUIT BREAKER PROPERTY TAX CREDITS ARE CODED INTO THE CALCULATOR BASED ON *THE YEAR OF INCOME USED TO CALCULATE THE CREDIT*. SO FOR EXAMPLE IF THE PROPERTY TAX CREDIT FORM SAYS “2007,” BUT 2006 HOUSEHOLD INCOME IS USED TO COMPUTE THE CREDIT, THEN IGNORE THE “2007” ALTOGETHER – THE FORM IS ABOUT THE CREDIT FOR 2006 FOR PURPOSES OF THE TAX CALCULATOR. FOR EVERY SINGLE STATE PROPERTY TAX CREDIT FORM, YOU MUST CAREFULLY CHECK WHAT YEAR’S INCOME IS USED TO COMPUTE THE CREDIT, AND THEN NAME THE FILE BASED ON THAT YEAR, SAVE IT IN THE FOLDER APPROPRIATE FOR THAT YEAR, AND SAVE IT IN THE APPROPRIATE FOLDER FOR THAT YEAR!**

In general, variables for circuit breaker property tax credits are divided into three sections: (1) those that apply to all eligible taxpayers; (2) those that apply to people at or above the age specified in the variable **cbage**; and (3) those that apply to the people below the age specified in **cbage**. Variables in groups (1) and (2) all start with “**cb**” and variables in group (3) start with “**xcb**”. Note, however, that specific variables may be used for different purposes than usual in some cases; if so, this will be made clear in the description of **cbtype** below.

In the documentation below, when the word “income” is not in bold, it is a generic term for income, which is defined more specifically in the variable **cbincdef** (the specific measure of income used to calculate property tax credits is called **cbincome** in the program). When in bold, **income** refers to the variable in the taxpayer input data set. Unless otherwise indicated, a percentage of rent, **cbrente**, is considered equivalent to property taxes, (**xcbrente** for those below **cbage**) and the term “property tax” is meant to include both property taxes paid directly, and rent counted as equivalent to property tax.

In general, phase-ins and phase-outs that operate in a “step function” pattern have been smoothed and approximated.

In addition to credits for property taxes and/or rent which are coded here, many states also operate “homestead exemption” programs which exempt some portion of property value from property taxes, often with larger exemptions for the elderly or disabled. We are not incorporating any homestead exemptions into the income tax calculator. I did have a research assistant collect data on homestead exemptions a few

years ago, and hope to update that data and do something with it one of these days, but I do not intend to incorporate it into the income tax calculator.

### Circuit breaker variables applying to all eligible taxpayers

**cbtype** Type of circuit breaker property tax credit.

*0* – State does not have a circuit breaker property tax credit.

*1* – General category that captures many states. [California 1967-1976 and 1981-1997, Colorado, Iowa 1973-1974 and 1982-present, Kansas 1973-2007, Maine 1971-1988 and 2013, Michigan, Minnesota 1967-1974, Missouri, Nevada 1973-1974, Oklahoma, Pennsylvania 1971-1979 and 1991-present, Vermont 1969-1972, Nevada]. Some other states (e.g. North Dakota, among others) that have values for **cbtype** other than 1 have at least one circuit breaker credit that makes substantial use of the **cbtype** = 1 coding scheme, so understanding how **cbtype** = 1 works is a prerequisite to understanding many of the other varieties of circuit breaker.

Regardless of age, if **cbmaxhome** > 0, then property tax on value of home greater than **cbmaxhome** is not eligible for credit (an exception is KS starting in 2007 and MI starting in 2012, where no credit at all is received if market home value is greater than **cbmaxhome** – note that in MI, market value of home is usually twice the “taxable value” which is referred to on the tax forms; see **cbmaxhome** for further info). If **cbmaxrent** > 0, then rent greater than **cbmaxrent** is not eligible for credit. If **cbmaxcr2**>0, property tax (or rent equivalent to property tax) above **cbmaxcr2** is set to equal **cbmaxcr2** when calculating the credit.

For people equal to or above **cbage**, credit is equal to **cbpct1** of property taxes above a percentage of income floor. Credit is capped at a maximum of **cbmaxcr1** if **cbmaxcr1** > 0. Credit is phased-out starting at income **cbthresh1** and ending at income **cbthresh2**. The percentage of income floor starts at **cbfloor1** and rises to **cbfloor2** – it phases in starting at income **cbthresh3** and ending at income **cbthresh4**. A percentage **cbrente**q of rent is considered equivalent to property tax.

For people below **cbage**, credit is equal to **xcbpct1** of property taxes above a percentage of income floor. Credit is capped at a maximum of **xcbmaxcr1** if **xcbmaxcr1** > 0. Credit is phased-out starting at income **xcbthresh1** and ending at income **xcbthresh2**. The percentage of income floor starts at **xcbfloor1** and rises to **xcbfloor2** – it phases in starting at income **xcbthresh3** and ending at income **xcbthresh4**. A percentage **xcbrente**q of rent is considered equivalent to property tax.

Note that in Iowa, there is a credit for the non-elderly that works similarly to that for the elderly, but it is only paid out if the legislature chooses to appropriate funds for it for a particular year. Since we have no



information on whether that happens, we've chosen to ignore the non-elderly credit in Iowa.

Also note that in Colorado, the form to apply for the property tax credit also includes an application for a rebate of home heating expenses. We have not incorporated the rebate of home heating expenses into the tax calculator, just the property tax credit. The value of **cbmaxcr1** in Colorado is set equal to the maximum property tax rebate, not the maximum of the sum of the property tax rebate and the rebate for home heating expenses.

In Michigan starting in 2012, the phase-out of the circuit breaker credit for elderly taxpayers follows a complicated non-linear pattern, gradually phasing down between incomes of \$21,000 and \$30,000, hitting a plateau between incomes of \$30,000 and \$41,000, and then phasing out the rest of the credit between incomes of \$41,000 and \$50,000. We approximate this with a smooth linear phase-out between incomes of \$21,000 and \$50,000.

Note that as an alternative to the credit coded in **cbtype** = 1, Michigan has since 1982 also offered an "Alternate Property Tax Credit for Renters Age 65 and Older." We code this into the variables **sptx2** and **sptxrate2**. See **sptx2** = *cbmi* for details.

2 – [Arizona]. Works the same as 1 except that when **cbthresh5**>0, if **homeval** exceeds **cbthresh5** then no credit at all is received. Also, from 1977 on, there is no fixed percentage that is assumed to be property tax for renters; rather, the landlord reports actual property tax payment to tenant. Given that data on this is generally unavailable, we set **cbrenteq**=25 during these years.

3 – [Arkansas, Connecticut 1973-1984, Idaho, New York, Oregon 1971-1972]. Works the same as 1, except that credit does not phase-out between incomes **cbthresh1** and **cbthresh2**. Instead, maximum credit does. Maximum credit starts at **cbmaxcr1** and falls to **cbmaxcr2**, starting to phase-out at income **cbthresh1** and ending at income **cbthresh2**. The credit is eliminated above income **cbthresh5**. For people aged under **cbage**, the same system applies except values are in the **x-variables**. Also, if **cbmaxhome**>0 and **homeval** exceeds **cbmaxhome** or if **cbmaxrent**>0 and **rentpay** exceeds **cbmaxrent**, no credit at all is received.

4 – California [1977-1980], Missouri [2008 – present]. Works the same as **cbtype** = 1 except that values in the **xcb**-variables apply to renters rather than to people under **cbage**. Both renters and homeowners must be **cbage** or above to be eligible. The variables with names beginning with "cb," with the exceptions of **cbage** and **cbmaxrent**, only apply to homeowners. The percentage of rent that is considered equivalent to property tax is coded into **xcbrenteq**, and the SAS code ignores **cbrenteq**, but in the state

tax parameters spreadsheet we recorded **cbrenteq** to be the same as **xcbrenteq** just to avoid confusion.

5 – Connecticut [1985-present]. Property tax credits for renters and homeowners aged **cbage** or above are described in this paragraph. For renters, **cbrenteq** percent of rent is considered equivalent to property tax. The credit for renters is equal to **cbpct1** percent of property tax above percent of income floor **cbfloor1**. Credit for renters must be between maximum credit **cbmaxcr1** and minimum credit **cbmaxcr2**. The maximum credit values for renters are phased-down between incomes **cbthresh1** and **cbthresh2**. Credit for renters is eliminated for those with income above **cbthresh2**. For homeowners, credit is equal to **cbpct2** percent of property tax, phased-down between incomes **cbthresh1** and **cbthresh2**. Homeowner's credit must be between maximum credit **cbthresh3** and minimum credit **cbthresh4** which are also phased down between incomes **cbthresh1** and **cbthresh2**. Homeowners with income above **cbthresh2** receive no credit.

The credits for the elderly described in the paragraph above are computed directly by the revenue department, and property tax bills are adjusted accordingly. There is only limited information available about these credits on the revenue department web site because taxpayers do not need to compute the credits themselves. As a result, it will be especially important to check the law when updating the parameters for this credit. In recent years the credits for the elderly could be found in the Connecticut Statutes at Title 12 (Taxation), Chapter 204a, Section 12-170aa (homeowners) and Section 12-170e (renters).

The law specifies that **cbthresh1** and **cbthresh2** are to be adjusted for inflation each year, and the numbers written into the law for renters and homeowners (in sections 12-170e and 12-170aa, respectively) were written into the law in different years. As of 2011, the values of **cbthresh1** and **cbthresh2** written into the law for the renter's credit (section 12-170e) were from 1987, and the values of **cbthresh1** and **cbthresh2** written into the law for the homeowner's credit were from 1998. Once you adjust each of these for inflation in the years since each was written into the law, the values of **cbthresh1** and **cbthresh2** are the same for homeowners and renters. In addition, the maximum income at which people are eligible for either credit is identical to **cbthresh2** once you adjust for inflation. The inflation-adjusted values for **cbthresh2** can be found in instructions for these credits on the revenue department web site. The online instructions do not list the inflation-adjusted value **cbthresh1**, but are published in a letter that can be obtained via a phone call or e-mail to the Connecticut Office of Policy and Management (as of 2011, the contact person was Patrick Sullivan, 860-418-6406, [patrick.j.sullivan@ct.gov](mailto:patrick.j.sullivan@ct.gov)). We have the 2010 version of the letter, for example, stored as "CT INC 2010 CB PARAMETERS.pdf".

In addition, for people of all ages, there is also a credit available starting in 1996 in the **xcb** variables that works the same as **cbtype = 1** except there is a minimum credit of **xcbmaxcr2**. The credit for people of all ages is in the instructions for the regular income tax. As of 2010 it could be found in the Connecticut Statutes at Title 12 (Taxation), Chapter 229 (Income Tax), Section 12-704c.

6 – DC [1975 – present], Montana [1981 – present], South Dakota [1976 – present], Utah [1977-1981], West Virginia [1971-2000]. Works the same as 1, except that percent of property tax eligible for credit falls from **cbpct1** to **cbpct2** between incomes **cbthresh1** and **cbthresh2**. Credit is eliminated for people with income above **cbthresh5**. Same system applies to those under **cbage** in the **x-variables**. If **homeval**>0 and **cbmaxhome**>0, then if **homeval** exceeds **cbmaxhome** no credit at all is received. Percent of rent equivalent to property tax is **cbrenteq**.

If **xcbpct1** is set to zero, then there is no special credit for people under age **cbage**. But in that case if **xcbmaxcr1** > 0 then there is instead a credit for homeowners of all ages that is simply the smaller of **xcbmaxcr1** and the homeowner's property tax bill. When **xcbpct1** is zero, then all other "**xcb**" variables except for **xcbmaxcr1** are ignored. (This last provision applies in Montana in 2007).

Note that the values of **cbthresh3** and **cbthresh4** are a bit difficult to figure out for Montana. Here is an example that clarifies where they came from in 2007. See Montana Form 2EC for 2007 (I have this saved under the name "MT INC 2007 CB FORM.pdf"). The **cbthresh3** = 8300 comes from adding the standard exclusion, 6300, to the first bracket threshold (2000) from the Household Income Reduction table (2000). The **cbthresh4** = 18300 comes from adding the standard exclusion, 6300, to the last bracket threshold (12000) from the Household Income Reduction Table.

Also note that in Montana only, the percentage of property tax eligible for the credit gradually phases down from **cbpct2** to zero between income levels **cbthresh2** and **cbthresh5**. [I still need to modify the SAS code to make this happen, and need to look through the old forms and laws to figure out how long this feature has been in effect.]

Note that in DC, since 1977, unlike other states with **cbtype=6**, the percentage of property tax eligible for the credit is *not* phased-down with income for those aged **cbage** or above – the phase-down of that percentage only applies to those aged *below* **cbage** (coded into the **xcb** variables) which is why we need to use **cbtype=6**. For those aged **cbage** or above, we deal with this by setting both **cbpct1** and **cbpct2** to 100, and setting both **cbthresh1** and **cbthresh2** equal to **cbthresh3**. As is typical with **cbtype=6** (and **cbtype=1**), in DC, **cbthresh3** represents the income below which the lowest percentage of income floor applies, and **cbthresh4** represents the income at the top of the income range for the highest percentage of income floor, and **cbthresh5** represents the highest level of

income at which someone can be eligible for the credit, which so far has happened to be the same as **cbthresh4**.

Finally, note that DC also has a “homestead deduction” and a “lower-income long-term homeowner credit.” We ignore these. The “homestead deduction” is an example of a homestead exemption, and in general we do not incorporate these into the income tax calculator. The “lower-income long-term homeowner credit” is a credit that is only available to people who have owned their home for at least 7 years, and provides a credit for the amount by which the property tax bill increase across two consecutive years exceeds some percentage (e.g., 5 percent from 2011 to 2012). We ignore this because we generally will not have the information necessary to calculate such a credit. The property tax credit that we do take into account in DC is the one that is included directly in the income tax forms and instructions.

Note that in Montana starting in 1996, in the circuit breaker instructions **cbthresh3** and **cbthresh4** are defined in terms of gross household income less a “standard exclusion” (which was \$6,300 from 1996 through at least 2015) – see instructions for “Household Income Reduction Table” and lines 1 through 3 of the “Household Income” section of the form. The values we record for **cbthresh3** and **cbthresh4** are the amounts at the beginning and end of the “Household Income Reduction Table plus the standard exclusion, so that **cbthresh3** and **cbthresh4** are defined with respect to gross household income (line 1 of the form) instead of with respect to household income after subtracting standard exclusion.

7 – Hawaii [1977 - present]. If income exceeds **cbthresh1** or if **rentpay** is less than **cbmaxrent**, no credit at all is received. Otherwise, credit is equal to the sum **cbmaxcr1** plus an additional **cbmaxcr2** for each qualified exemption. These exemptions are: spouse aged over **cbage** and each dependent (**deps**). Credit does not apply to homeowners. Same system applies to those under **cbage** but values are in the **xcb**. There’s actually only one credit applying to people of all ages, and the credit is **cbmaxcr2** times the number of exemptions; but there are extra exemptions for people aged 65 or above, and we deal with that by coding the amount that a single filer or couple would receive if aged 65 or above into **cbmaxcr1**, the amount that a single filer or couple would receive if under age 65 into **xcbmaxcr1**, and the amount per dependent in **cbmaxcr2** and **xcbmaxcr2**.

8 – Illinois [1975-present]. A percentage **cbpct1** of the portion of property tax above percent of income **cbfloor1** is potentially eligible for credit. The maximum credit starts at **cbmaxcr1** when income is \$0, and then phases down smoothly to **cbmaxcr2** at income **cbthresh1**. The credit is eliminated above incomes **cbthresh2** (for <3 person household) or

**cbthresh3** (for  $\geq 3$  person household). Percent of rent equivalent to property tax is **cbrente**. In years when the legislature does not appropriate sufficient funds to fund the full credit, **cbfloor2** percent of the credit is lost (see below). Applies to people aged **cbage** or older.

The Illinois circuit breaker described here is in Chapter 320, Section 25, of the Illinois code. In 2010 and 2011, the Illinois legislature only appropriated enough funds to pay half of this credit, and then in 2012 it did not appropriate any funds for the credit at all, despite the fact that it is still in the Illinois code. In 2010 and 2011, we address this by coding in the credit the same way it was before, except that in addition we set **cbfloor2** equal to 50. The variable **cbfloor2** now represents the percentage of the credit that is lost due to inadequate legislative appropriations. In 2012 through at least 2015, the IL legislature did not appropriate enough funds to finance this credit at all. According to the web site of the Illinois department of aging (saved here: "...Google Drive\TaxLaw\StateByState\IL\IncomeTax\Laws\IL INC 2013 CB ELIMINATED.pdf"), "Effective July 1, 2012, Illinois Cares Rx was terminated and the Circuit Breaker Property Tax Relief Grant was eliminated due to the lack of funding," which makes the elimination sound final. However, the circuit breaker law is still on the books in Chapter 320, Section 25. So each year, we should check to see if the program has been reinstated. **In 2012 and later years, we keep cbtype coded as 8 and keep the other cb parameters the same as they were in 2011, except that we set cbfloor2 equal to 100 so that the credit coded into the variables with names beginning with cb is eliminated.** This is intended to signal that the provision is still in the Illinois code and could come back at some point in the future.

In addition, there is also a non-refundable "homeowners property tax credit" against income tax equal to **xcbpct1** percent of property tax, available to homeowners of all ages. As of 2018, this is still in effect and has not been affected by the defunding of the circuit breaker credit described above, so it is important to keep coding this in. The "**xcb**" variables are otherwise not used for **cbtype** = 8. Because the homeowners property tax credit is more like an alternative to an itemized deduction, the calculator applies it regardless of the value of **cbinclude**; it is included in the value of **gencred** and calculated in that part of the SAS code. [Chapter 35, Article 2, Section 208 of Illinois Code, starting 1991.] Starting in 2017, taxpayers with federal AGI above **xcbthresh1** are ineligible for this credit.

9 – Illinois [1972-1974]. As with 8, maximum credit starts at **cbmaxcr1** when income is \$0, and then phases down smoothly to **cbmaxcr2** at income **cbthresh1**. The credit is eliminated above **cbthresh2**. The portion **cbthresh3** of income faces percent of income floor **cbfloor1** while the remainder of income faces percent of income floor **cbfloor2**. Percent

of rent equivalent to property tax is **cbrente***q*. Applies to people aged **cbage** or older.

*10* – Indiana [1973 - present]. For people aged **cbage** or above, there can be a credit coded into the **cb** variables that works the same as *I*. In addition, there is available to all taxpayers an above-the-line deduction for all property taxes up to a maximum deduction of **xcbmaxcr1** for renters and **xcbmaxcr2** for homeowners. For renters, the property tax equivalent for this deduction is **xcbrente***q*. The **cb** part of the credit (for people above **cbage**) was eliminated starting in 1982.

*11* – Iowa [1975-1981], Colorado [2014 – present]. Works the same as *I* except that those with income below **cbthresh5** have a minimum credit of **cbmaxcr1**.

Note that in Colorado, the circuit breaker form and instructions report the value of **cbthresh2** but not **cbthresh1**. Both **cbthresh1** and **cbthresh2** are adjusted annually for inflation. Assuming no changes in law, the inflation-adjusted value of **cbthresh1** can be found by multiplying the prior year value of **cbthresh1** by the ratio of this year's value of **cbthresh2** to the prior year value of **cbthresh2**, and then rounding to the nearest dollar. All other parameters can be found in the law (Colorado Annotated Statutes section 39-31-101).

*12* – Kansas [1970-1972], Maryland [1975-76], Wisconsin [1964-1972]. For those aged above **cbage**, credit is equal to the sum of a percent of property tax above various percentage of income floors up to maximum credit **cbmaxcr1** (if **cbmaxcr1**>0). The percent of property tax falls from **cbpct1** to **cbpct2** between incomes **cbthresh1** and **cbthresh2**. Where **cbthresh5**>0, credit is eliminated when income rises above **cbthresh5**. The percentage of income floor is determined by a method similar to ordinary tax brackets, for example 0% of income below \$500, plus 3% of income between \$500 and \$1,000, plus 6% of income between \$1,000 and \$1,500, etc. The brackets and rates are contained in **xb1-xb14** and **xr1-xr14**. Where **cbmaxcr2**>0, property tax above **cbmaxcr2** is set to equal **cbmaxcr2**. Percent of rent equivalent to property tax is **cbrente***q*.

*13* – Maine [1989-2012] Credit for people at or above **cbage** works the same as *I*, except they can take the larger of that credit and the credit calculated for people under **cbage** described below.

The credit for people under **cbage** works as follows. Income must be less than or equal to **xcbthresh1** to qualify for credit. Maximum credit is **xcbmaxcr1**. Where **xcbmaxcr2**>0, property tax above **xcbmaxcr2** is set to equal **cbmaxr2**. No credit is received for property tax below **xcbfloor1** percent of income. For that portion of property tax which is more than **xcbfloor1** percent of income but less than or equal to **xcbfloor2** percent of income, credit is equal to **xcbpct1** percent of that portion of

property tax. For that portion of property tax which is more than **xcbfloor2** percent of income, credit is equal **xcbpct2** percent of that portion of property tax. Percent of rent equivalent to property tax is **cbrente**.

*14* – Maryland [1979-present]. For both homeowners and renters, the credit is equal to property tax (or **cbrente** percent of rent for renters) in excess of a percentage of income floor. To understand the logic of the provision, you need to look at the law (see Maryland Code, Tax – Property, Sections 9-102 and 9-104). For renters, the floor is calculated similarly to *12* above, using bracket and rate structure in **xb1-xb6**, **xr1-xr6**, and **xbracknum**. The brackets used to construct the floor for homeowners sometimes matched up with those for renters, but the rates were sometimes lower or higher for homeowners than for renters, and sometimes there are different numbers of brackets for homeowners and renters. Given the way we’ve coded this in, the variable **xbracknum** should be set equal to the maximum number of brackets used for either homeowners or renters (so for example, if there are 3 brackets for renters and 5 brackets for homeowners, **xbracknum** should be 5). The variables **xcbthresh1-xcbthresh5** contain the amounts by which the rates for homeowners are lower than the rates for renters in each bracket. Thus, for homeowners, the rate in the first bracket is **xr1-xcbthresh1**, the rate in second bracket is **xr2-xcbthresh2**, and so forth, up through all five brackets. From 2006 to 2014 there were fewer brackets for homeowners than for renters. We addressed this by setting the **xcbthresh** variables to get the rate right in each income range. Starting in 2015 there were 3 brackets for renters and 5 brackets for homeowners, and the rates in the top two brackets for homeowners were higher than the top rate for renters. We handle this by making **xb1 – xb5** the brackets for homeowners (noting that **xb1** through **xb3** are identical for homeowners and renters, with **xb4** and **xb5** corresponding to the additional brackets for homeowners that don’t apply to renters), making **xr3**, **xr4**, and **xr5** identical and equal to the top rate for renters, and making **xcbthresh4** and **xcbthresh5** negative numbers (allowing the rates to be higher for homeowners than renters in those income ranges).

The maximum credit is **cbmaxcr1** for rent and **cbmaxcr2** for property tax (if either is set to zero, then there is no limit). Percent of rent considered equivalent to property tax is **cbrente**.

For homeowners, only **homeval** up to **cbmaxhome** is eligible for credit. If **cbfloor4** > 0, then the homeowner’s property tax credit is only available to people with income below **cbfloor4** (this has been the case since 2006). For homeowners there are no age restrictions (so **cbage** refers only to renters).

For renters to qualify, they must either be **cbage** or above, *or* starting in 1993, they must have at least one dependent child (**kids2** ≥ 1) *and* income must be below the poverty threshold from the year before

income used to compute the credit was earned (so for example, we code the “2007” credit in year 2006, because that is when the income used to compute the credit was earned, and we use the 2005 poverty thresholds, because those 2005 thresholds are compared to 2006 income to determine eligibility). Poverty thresholds are stored in the following variables for Maryland (threshold for single-person household is not needed because such households are ineligible for the credit).

|                                |           |           |           |           |        |        |          |          |
|--------------------------------|-----------|-----------|-----------|-----------|--------|--------|----------|----------|
| Household size                 | 2         | 3         | 4         | 5         | 6      | 7      | 8        | 9        |
| Poverty threshold in variable: | cbthresh2 | cbthresh3 | cbthresh4 | cbthresh5 | cbpct1 | cbpct2 | cbfloor1 | cbfloor2 |

We record these poverty thresholds in the rows for all filing statuses (even though a single renter under age 60 with no dependents would be ineligible). Historical values for the official poverty thresholds can be found at:

<<https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html>>.

For 1993-2007 we used the official US government poverty thresholds available at the URL above (thresholds on the MD instructions involve some rounding, which we ignored). For years after 2007 we have used the thresholds listed in the instructions for the Maryland renters’ tax credit application.

*15* – Massachusetts [1980 - present]. For people aged **cbage** or above, this works the same as *1*. In addition, there is available to all taxpayers an above-the-line deduction for **xcbpct1** percent of rent. If **xcbmaxr1**>0, the maximum available deduction is **xcbmaxcr1** (this is implemented in the program earlier, right after state itemized deductions, and applies even if **cbinclude** is set to zero).

*16* – Minnesota [1990-present].

Credit for property taxes and rent above a percentage of income floor, multiplied by a percentage, and subject to a maximum credit limit, all of which change with income. Parameters for homeowners are in the **cb** variables, and parameters for renters are in the **xcb** variables. For homeowners, credit works as follows. The percentage of income floor gradually rises from **cbfloor1** to **cbfloor2** percent of income, over the income range \$0 to **cbthresh1** (that is, **cbthresh1** is the income level at which the maximum percentage of income floor kicks in). Taxpayers then get a credit equal to property taxes in excess of the percentage of income floor, multiplied by a percentage that gradually falls from **cbpct1** to **cbpct2** as income rises from \$0 to **cbthresh2** (that is, **cbthresh2** is the income level at which minimum percentage kicks in). Note that the instructions and law report a “copay” that is 100 – **cbpct1** at an income of \$0 and 100 – **cbpct2** at an income above **cbthresh2** (that is, the



percentage of property tax above the percentage of income floor that the taxpayer must pay). In the law and tax instructions, **cbfloor** and **cbpct** percentages don't actually start declining until somewhere above \$0 of income, but our approximation starts the phase-down at \$0 of income nonetheless. The credit is limited to a maximum amount that is **cbmaxcr1** for incomes below **cbthresh3**, and then gradually declines from **cbmaxcr1** to **cbmaxcr2** between incomes **cbthresh3** and **cbthresh4**. No credit is allowed for people with incomes above **cbthresh4**. For renters, the variables beginning with **xcb** have exactly analogous meanings to the corresponding variables beginning with **cb**. In addition **xcbrente** indicates the percentage of rent that is considered equivalent to property taxes. Up through 1996, there was actually no percentage applied to rent to estimate property taxes; landlords were supposed to report the actual property tax payments on the apartment to the tenant. Since we don't have that data, we use 18 percent as a rough approximation. In 2013 only, the credit computed in the manner described above is increased by **cbthresh5** percent for homeowners, and by **xcbthresh5** percent for renters. For 1997 and later years, the exact value of **xcbrente** is specified in the law (Minnesota Statutes Section 290A.03, Subdivision 11. Also note that Minnesota Laws 2010, First Special Session chapter 1, article 13, section 4, subdivision 2 reduced **xcbrente** from 19 to 15 for 2009 only). Also note that **cbincval1**, **cbincval2**, **cbfloor3**, and **cbfloor4** are used to compute the measure of income used to calculate the credit – see **cbincdef** = 8 below for details. The **cbmaxhome** and **cbmaxrent** variables are not used. Various parameters were indexed for inflation starting in 1994, and we estimated the inflation adjustments for the years between 1994-2006 (homeowners) and 1994-2005 (renters).

*18* – New Mexico [1978 - present]. Works the same as *1*, except that **cbfloor1-3** are fixed values instead of percentages of income. The floor starts at **cbfloor1** and is phased-in in two possible stages; first it rises to **cbfloor2** starting at income **cbthresh3** and ending at income **cbthresh4**. Then it rises from **cbfloor2** to **cbfloor3** starting at income **cbthresh4** and ending at income **cbthresh5**.

*19* – Oregon [1973-2015]. People aged above **cbage** can take the larger of the two credits computed below. Up until 1990, people aged under **cbage** were eligible to receive credit #2; afterwards they were not eligible for any credit.

1: Credit for rent only. Credit equals  
 $\max(\min(\text{rentpay}, \text{cbmaxrent}) - (\text{cbfloor1}/100) * \text{cbincome}, 0)$ .  
 Only those with income below **cbthresh1** qualify.

2: Credit is equal to property tax up to maximum **xcbmaxcr1** for **rentpay**>0 and **xcbmaxcr2** for **homeval**>0. The maxima are phased-out smoothly starting at income **xcbthresh1** and ending at

income **xcbthresh2**. The law (Section 310.635) specifies that the renters' credit is a function of "rent constituting property tax," but does not specify what percentage of rent constitutes property tax. The credit is computed by the tax authorities, and apparently it is based on the actual property tax remitted on the rental property. Since we generally will not have such information, we approximate by setting "rent constituting property tax" at 17 percent of rent. This is recorded in **xcbrente**. (**cbmaxhome** and **cbmaxrent** do not apply). Starting in 1997 this credit is only available to renters, and this is addressed by setting **xcbmaxcr2** = 0.

Other **cb** and **xcb** parameters not mentioned above are ignored by the SAS code.

Starting in 2016, the credit was replaced with an "elderly rental assistance fund" under which "The Housing and Community Services Department shall provide funds to assist very low income elderly persons to defray the cost of rental housing through programs administered by the department." (Oregon Annotated Statutes Section 458.375). There is no longer a credit for property taxes on rent. We code this as **cbtype** = 0.

Note: the Oregon circuit breaker coding scheme needs some revisions going back to the 1970s. See  
C:\Bakija\IncTaxCalc\RA2008\CBremainingQuestions\ToDo\  
OR\_CB\_LauAug4th08.doc

20 – Pennsylvania [1980-1990]. Works the same as 1 except that variables **cbthresh3-4** and **cbfloor1** do not determine percentages of income floor. Instead, they determine a fixed value received in addition to credit. Fixed value is equal to **cbfloor1** and is phased-out smoothly, starting at income **cbthresh3** and ending at income **cbthresh4**.

21 – Rhode Island [1977 – present]. Works the same as 1, except that if income is greater than **cbthresh4**, percentage of income floor is equal to **cbfloor3**. Note that in 2005 and earlier years, people under **cbage** were able to receive a partial credit; the regular credit amount was multiplied by a ratio of the amount of funds left over from the amount appropriated after paying the elderly to the amount necessary to fully fund the credit for people under **cbage**. We have been unable to find any information on what this ratio was from year-to-year (the RI tax authority must have just applied the ratio when calculating the credit for people, without making any public pronouncement about it, as far as we can tell). So through 2005, we assume that people under **cbage** receive no credit. From 2006 through 2013, the full credit became available to people of all ages (**cbage**

= 0), so this was no longer an issue. Starting in 2014, **cbage** became 65 again, the full credit was available to people at or above **cbage**, and no credit was allowed to people below **cbage**.

22 – Utah [1982-present]. A percentage **cbpct1** of the portion of property tax is potentially eligible for credit. The maximum credit falls from **cbmaxcr1** to **cbmaxcr2** between incomes **cbthresh1** and **cbthresh2**. Credit is eliminated above **cbthresh2**. For renters, the same system applies in the **x-variables** except that the percentage of rent that is considered to be equivalent to property tax falls from **xcbrente** to **xcbpct1**, starting at income **xcbthresh1** and ending at income **xcbthresh2**.

23 – Vermont [1973-present]. The credit is equal to the amount of property tax (or **cbrente** percent of rent) that exceeds a percentage of income floor, where the percentage is different depending on the bracket into which one's income falls. We use the **xb** and **xr** variables to store the brackets and percentages. For people with income between **xb1** and **xb2**, the percentage is **xr1**; for people with income between **xb2** and **xb3**, the percentage is **xr2**, etc. The total number of brackets is recorded in **xbracknum**. If **cbthresh1** > 0, then anyone with income above **cbthresh1** is ineligible; if **cbthresh1**=0, then people of all incomes are eligible.

If **cbmaxcr1** > 0, **cbmaxcr2** = 0, and **xcbmaxcr1** = 0, which applied 1973-1985, 1991-1994, and 2006-2012, then the maximum total combined property tax and rent credit allowable is **cbmaxcr1**. If **cbmaxcr1** > 0, **cbmaxcr2** > 0, and **xcbmaxcr1** = 0 (which applied 1995-1996), then the maximum allowable combined property tax and rent credit is **cbmaxcr1** for those with income below **cbmaxcr2**, and is reduced by **cbpct2** percent of the amount by which income exceeds **cbmaxcr2**, so that the credit is completely eliminated at an income level of **cbmaxcr2** + **cbmaxcr1** / (**cbpct2** / 100). If **cbmaxcr1** = 0, there is no limitation on the maximum allowable credit (this applied 1997-2005). If **cbmaxcr1** > 0, **cbmaxcr2** = 0, and **xcbmaxcr1** > 0, which applies in 2012 and later years, then the maximum renter's credit is **xcbmaxcr1**, and the maximum combined property tax and renter's credit is **cbmaxcr1**.

In recent years, the renter's credit is called the "Renter Rebate" and has its own form and instructions (Vermont Form PR-141). The property tax credit that we've coded in has been called "Additional Adjustment for Claimants With Household Income of \$47,000 or Less," or "Homeowner Property Tax Rebate Claim for Household Income of \$47,000 or less," and the instructions for how to calculate it were in the instructions for the regular income tax in 2008 and various years before then. Starting in 2009 the formula for the credit for homeowners is no longer spelled out in the forms or instructions so you need to look at the law. As of 2015, the law governing the homeowner's credit computation was in Section 6066(a)(3)

of the Vermont Code, and the law governing the renter's credit computation was in Section 6066(b) of the Vermont Code. The limits (**cbmaxcr1** and **xcbmaxcr1**) have been in Section 6067 in recent years. The value of **cbrenteq** is called the "rental adjustment" and is reported on Form LC-142, the "Landlord's Certificate," and is also specified in Section 6061, subdivision (7), of the Vermont Code.

In addition to the credits described above, there is now an "Education Property Tax Adjustment," which we are ignoring. This other credit is for people with incomes above **cbthresh1**, and it is also described in Section 6066. It depends on one's locality and is related to school finance equalization. Since we do not have information on one's locality, we have not coded in the "Education Property Tax Adjustment." There were also some years where payment of credits to people below a certain age was contingent on the budget situation; due to lack of information, we ignore this and assume all ages are eligible for the full credit.

24 – Wisconsin [1973-present]. Works the same as 1 except that in calculating the percent of income floor, first subtract **cbthresh3** from income (negative income set equal to zero). Also, starting in 2017, taxpayers under age 62 must have earned income greater than zero to qualify for the credit (this last provision is hard-coded in SAS rather than parameterized in the spreadsheet, so if it changes we'll need to change the SAS code). Note that since 1978 there has also been another credit for property taxes (and rent constituting property taxes) in Wisconsin that is available to taxpayers of all income levels (in recent years it has been called the "Renter's and Homeowner's School Property Tax Credit"); see documentation for **sptx = pcwi78** for the credit that applied in 1978 and **sptx = pcwi** for that credit that applied 1979 – present.

25 – Wyoming [1975-2015; "inactive" starting in 2016 – see final paragraph below for explanation]. A refund meant to offset the burdens of property tax, sales tax, and utility bills for low-income people, which does not actually depend on the amount of property tax, sales tax, or utility bills paid. For people aged **cbage** or above, credit equals **cbmaxcr1** for those with income below **cbthresh1**, and then the credit is gradually phased out between incomes **cbthresh1** and **cbthresh2**. This credit for the elderly has been in effect since 1975, and is currently in Section 39-11-109 of Wyoming code, and was previously in Sections 39-6-701 and 39-6-702. We have no information on how the credit worked 1975-1984; it is first described in ACIR in 1985, where it indicates the credit began in 1975. We currently assume the credit 1975-84 was the same as in 1985. People with assets, aside from their home, greater than a certain level are ineligible for this first credit, but we ignore this asset test. Starting in 2008, the amount of this credit is reduced by the amount of the other credit described below. The provision in the previous sentence was adopted in Wyoming Session Laws 2008 Chapter 110, and as of 2015 was in Section

39-11-109(c)(viii) of the 2015 Wyoming Code, and is hard-coded into the SAS code for **cotype** = 25 for when **stateyear** ≥ 2008.

There is a second credit, for property taxes paid by people of all ages, that has existed since 1996. It is most recently in Section 39-13-109(c) of the Wyoming Code, and was previously in Section 39-3-401. This second credit coded into the “**xcb**” variables

In 1996-2002, the second credit worked as follows. For people with income below the poverty threshold, the credit is **xcbpct1** percent of property tax, up to a maximum credit of **xcbmaxcr1**. The percentage gradually phases down to **xcbpct2**, and the maximum credit gradually phases down to **xcbmaxcr2**, for incomes between the poverty threshold and **xbfloor1** times the poverty threshold. If income is above **xbthresh1** times the poverty threshold, then the taxpayer is ineligible for the credit. The poverty thresholds for each household size are stored in the “**xb**” variables, where **xb1** is the threshold for a one-person household, **xb2** is the threshold for a two-person household, etc., through **xb9**, which is the threshold for a household with 9 or more people.

Starting in 2003, the **xcb** credit is now just **xcbpct1** of property taxes, and anyone with income below **xbthresh1** is eligible; those with income above **xbthresh1** are ineligible for the credit. This credit is still in Section 39-13-109(c) of the Wyoming code. The **xb** variables and other **xcb** variables are no longer used. In 2003-2006, **xbthresh1** is 50% of the median household income for the state. In 2007, **xbthresh1** is 2/3rds of the median household income for the state, and starting in 2008 **xbthresh1** is 3/4ths of the median household income for the state. In all cases, **xbthresh1** should actually be based on the larger of the median for state and for the county, but we simply use the state value. This credit also involves an asset test, and is limited to a maximum of one-half of the median residential property tax in the taxpayer’s county; we ignore both of those complications due to lack of data. For the years 2003 through 2007, 3/4ths of median household income for the state of Wyoming was obtained by contacting the Economic Analysis Division in Wyoming. For the years 2008 through 2013, 3/4ths of median household income for WY was obtained from the brochure on property tax relief programs in WY (which we found via Google search on the term “Current Property Tax Refund/Credit/Deferral Programs in Wyoming”). See for example WY INC 2013 CB BROCHURE.pdf on Google Drive. Median household income by state based on the American Community Survey can be found here <<http://www.census.gov/hhes/www/income/data/statemedian/>>, and is close to what the brochures say, but the brochure is the preferred source.

Note that starting in 1997, there is an additional credit in Section 39-13-109(d) of the Wyoming code, that depends on assessed value of the home and local millage rate, and is only available to people who own homes with extremely small assessed values. We have ignored that credit because it seems more like a homestead exemption than a circuit-breaker

credit, and because the data sets used with the calculator generally lack the information necessary to compute it.

Starting in 2016, all of the Wyoming property tax relief programs that are coded in using **cbtype** = 25 and described above became “inactive” because the legislature did not appropriate funds for them. As a result, starting in 2016, as long as these property tax relief programs are inactive, we still code **cbtype** = 25, but set all other variables with names starting with **cb** and **xcb** equal to zero. We keep **cbtype** = 25 as a reminder to check each year for whether the programs became active again through legislative appropriations.

26 – Maryland [1977-78]. Same as 12 above, but there is also a credit for those aged < **cbage**, equal to ½ of the credit for those >= **cbage**.

27 – West Virginia [2003 - present]. Starting in 2003, there is a credit for the elderly coded into the “**cb**” variables. In recent years this has been called the “Senior Citizen Tax Credit for property tax paid.” Eligible if age >= **cbage** and income is below 150% of federal poverty guideline, which is equal to **cbthresh1** + **cbthresh2**\*(household size - 1). Credit is equal to the property tax on the portion of **homeval** between **cbthresh3** and **cbthresh4**. Note that the instructions for the credit list the thresholds underlying **cbthresh3** and **cbthresh4** in terms of the *assessed* value of the home. As of 2007 the “assessed” value a home in WV was 60% of the market value – see for example: <[http://www.wvaco.org/index.php?option=com\\_content&task=view&id=91&Itemid=54](http://www.wvaco.org/index.php?option=com_content&task=view&id=91&Itemid=54)>. To find **cbthresh3** and **cbthresh4**, which are expressed in terms of market value, you need to divide the amounts reported in the instructions by 60%.

Starting in 2008, there is a new refundable credit for people of all ages coded into the **xcb** variables, and implemented through the income tax. It has most recently been called the “Homestead Excess Property Tax Credit.” The credit is equal to property taxes in excess of **xcbfloor1** percent of income, up to a maximum credit of **xcbmaxcr1**. If **xcbmaxcr2** = 0, then taxpayers may take the larger of this credit or the elderly credit described in the first paragraph, but not both (this applied 2008 – 2011). If **xcbmaxcr2** = 1, which applied starting in 2012, then both credits (the one coded into the **cb** variables and the one coded into the **xcb** variables) can be taken at the same time, but the Senior Citizen Tax Credit is subtracted from the property tax bill in the formula to compute the Homestead Excess Property Tax Credit. So in other words, starting in 2012, the credit is equal to property taxes (less Senior Citizen Tax Credit) in excess of **xcbfloor1** percent of income, up to a maximum credit of **xcbmaxcr1**. Also starting in 2012, eligibility for this credit requires that federal AGI be less than 300 percent of the federal poverty line, which is **cbthresh1** + **cbthresh2**\*(household size - 1). If **xcbthresh** is set to zero (as it should be

in years before 2012), then people of all income levels are eligible for this credit.

Starting in 2009, there is also a property tax deferral option for elderly taxpayers who faced an increase in property tax bill that exceeded \$300. If this option is taken, neither of the other two options above can be taken. We are currently ignoring this because data used with the tax calculator is unlikely to indicate who potentially faced, but did not pay, an increased property tax assessment from one year to the next. Also, the WV instructions indicate that less than 1% of households who are eligible for any of these credits will find the deferral option to be most advantageous.

28 – California [1998 – 2007, not 2008-2010, possibly later years depending on funding]. Same as **cbtype** = 1, except the “**xcb**” variables do not refer to a credit available to those younger than **cbage**. Rather, the “**xcb**” variables are the parameters of a non-refundable renter’s credit. If **proptax** = 0 and **rentpay** >0, there is a non-refundable credit of **xcbmaxcr1** regardless of age. According to <<http://www.ftb.ca.gov/forms/misc/1041.pdf>>, “The state budget for fiscal years 2008/2009 and 2009/2010 did not include funding for the Homeowner and Renter Assistance Program. Since there was no funding for this program, FTB did not process or pay claims for these fiscal years.” The credit is still included in the California Statutes (Sections 20541 through 20544) but it appears to have been de-funded, at least temporarily.

29 – Minnesota [1975-1976]. Credit is equal to property taxes in excess of a percentage of income floor. The **cb** variables are for those aged **cbage** or above, and the **xcb** variables are for those under age **cbage**. The percentage of income floor rises from **cbfloor1** to **cbfloor2** percent of income between incomes **cbthresh3** and **cbthresh4**. The maximum allowable credit declines from **cbmaxcr1** to **cbmaxcr2** between incomes **cbthresh1** and **cbthresh2**. Percentage of rent equivalent to property tax is in **cbrente**. Exactly analogous parameters applying to those under age **cbage** are in the **xcb** variables. (The fact that the maximum credit limits are \$200 higher for the elderly is derived from ACIR).

30 – Minnesota [1977-82]. For all ages, initial credit is calculated as 100% of property taxes (or **cbrente** percent of rent) above a percentage of income floor, up to an initial maximum credit limit. The percentage of income floor increases from **cbfloor1** percent of income to **cbfloor2** percent of income between incomes **cbthresh3** and **cbthresh4**. The initial maximum allowable credit declines from **cbmaxcr1** to **cbmaxcr2** between incomes **cbthresh1** and **cbthresh2**. To this amount, add additional credit equal to a percentage of property tax (or rent equivalent) in excess of the sum of the percentage of income floor and the initial maximum credit amount. For taxpayers aged **cbage** or above, the additional credit is

calculated as follows. The applicable percentage is **cbpct1**, and the overall credit (sum of initial credit and additional credit) is limited to an amount that declines from **cbfloor3** to **cbfloor4** between incomes **xcbthresh3** and **xcbthresh4**. For taxpayers aged below **cbage**, the additional credit is calculated as follows. The applicable percentage is **xcbpct1**, and the overall credit (sum of initial credit and additional credit) is limited to an amount that declines from **xcbmaxcr1** to **xcbmaxcr2** between incomes **xcbthresh1** and **xcbthresh2**.

31 – Minnesota [1983-1984]. For all ages, initial credit is equal to property taxes (or **cbrente**q percent of rent) in excess of a percentage of income floor, up to a maximum limit. The floor gradually increases from **cbfloor1** percent of income to **cbfloor2** percent of income between incomes **cbthresh3** and **cbthresh4**. The maximum initial credit is the smaller of an amount equal to the percentage of income floor, and a maximum limit that declines from **cbmaxcr1** to **cbmaxcr2** between incomes **cbthresh1** and **cbthresh2**. To this is added an additional credit that is a percentage of property tax and rent equivalent in excess of the sum of the percentage of income floor and the maximum initial credit. The percentage declines from **cbpct1** to **cbpct2** between incomes **xcbthresh1** and **xcbthresh2** (for taxpayers aged below **cbage** ) or between incomes **xcbthresh3** and **xcbthresh4** (for taxpayers aged **cbage** or above). The overall maximum credit (applied to the sum of the initial credit and the additional credit) is limited to an amount that declines from **xcbmaxcr1** to **xcbmaxcr2** between incomes **xcbfloor1** and **xcbfloor2**. No credit at all is allowed for anyone with an income above **xcbfloor2**. Note that we approximate **cbrente**q to be 18%, because the law specifies that there was actually no percentage applied to rent to estimate property taxes; landlords were supposed to report the actual property tax payments on the apartment to the tenant, but we don't have data on that.

32 – Minnesota [1985-1989]. First, calculate the amount by which property taxes (or **cbrente**q percent of rent) exceed a percentage of income floor. For those aged **cbage** and above, the floor increases from **cbfloor1** percent of income to **cbfloor2** percent of income between incomes **cbthresh3** and **cbthresh4**. For those aged under **cbage**, the floor increases from **xcbfloor1** to **xcbfloor2** between incomes **cbthresh3** and **cbthresh4** (note that **cbage** is zero except in 1987). Multiply the result by a percentage that declines from **cbpct1** to **cbpct2** between incomes **cbthresh1** and **cbthresh2**. The result is then limited to a maximum credit amount that declines from **cbmaxcr1** to **cbmaxcr2** between incomes **xcbthresh1** and **xcbthresh2**. Credit is zero if income is greater than **xcbthresh2**. Note that we approximate **cbrente**q to be 18%, because the law specifies that there was actually no percentage applied to rent to estimate property taxes; landlords were supposed to report the actual property tax payments on the apartment to the tenant, but we don't have



data on that. Also note that **cbincval1**, **cbincval2**, **cbfloor3**, and **cbfloor4** are used to compute the measure of income used to calculate the credit – see **cbincdef** = 8 below for details.

33 – North Dakota (1973 - present). First, there is a credit for elderly renters (aged **cbage** above) that is coded into the “**cb**” variables and works exactly the same as **cbtype**=1. Note, however, that this credit is not available to homeowners (thus, parameters pertaining only to homeowners such as **cbmaxhome** should be set to zero). This credit is described in Section 57-02-08.1 of the ND Annotated Statutes, which is the most reliable source of information, since availability of online forms and instructions for this is spotty. The most recent year for which we could find the application for the renters’ credit was 2012, but the 2013 credit is described in the law and in the CB BROCHURE document. The CB BROCHURE document explains things pretty clearly but does not always make it clear which years it applies to, so be careful and check the law. In the same section of the law (57-02-08.1), and in the CB BROCHURE document, there is also described a “homestead credit” for elderly homeowners. However, the homestead credit is actually a reduction in the assessed value of the property for low-income elderly households for purposes of computing the property tax. As such, it is more like a homestead exemption, which we are *not* coding into the tax calculator (as it will generally already be reflected in the property tax liability data contained in any dataset used with the tax calculator). The forms for the homestead credit are stored in North Dakota’s “HomesteadExemption” directory on Google Drive, but have no implications for coding the income tax calculator. Finally, in 2007 and 2008 only, there was a credit called the “Residential and agricultural property income tax credit” (ND Statutes Section 57-38-01.29, and ND schedule PT and form ND-3). This was a non-refundable credit against the income tax and is available to people of all ages. It was equal to **xcbpct1** percent of property tax up to a maximum credit of **xcbmaxcr1**. The SAS program adds this new property tax credit into **gencred** and computes it regardless of the value of **cbinclude**.

34 – Kansas (2008 – present). There are two credits. The first credit (called the “Homestead Refund” in Kansas and contained in chapter 79, article 45 of the KS Code) is coded into the variables with names beginning with “**cb**,” is available to anyone aged **cbage** or above (**cbage** was 55 in Kansas last we checked), and works the same way as the credit that is coded into the **cb** variables when **cbtype** = 1, using the same coding scheme as that. The second credit (called “Property Tax Relief for Low Income Seniors” and contained in section 79-32,263 of the KS Code, newly introduced in 2008) is coded into the **xcb** variables, and is only available to homeowners aged 65 and above (renters are not eligible for the second credit, and thus there is no rent equivalent of property tax for the second credit). Those eligible for both credits cannot take both at the

same time; rather they must choose one or the other. The second credit is a refundable credit equal to **xcbpct1** percent of property taxes, and only those with income below **xcbthresh1** are eligible for this second credit. The definition of income used to determine eligibility for the second credit differs from that used for computing the first credit in that the income measure for the second credit includes 100% of social security benefits instead of 50%. Unlike the first credit, there is no cap on the amount of property taxes that are eligible for the second credit, which is one reason why the second credit can be larger than the first credit. For the second credit, **xcbpct1** and **xcbthresh1** are the only variables with names beginning with **xcb** that matter. All other variables with names beginning with **xcb** can be set to zero. In Kansas from 2008-2012, just as with **cbtype=1** in KS in 2007, the first credit is disallowed entirely if market home value exceeds **cbmaxhome**. Starting in 2013, **cbmaxhome** starts to apply to both credits instead of just the first one, and the rent credit is eliminated (the latter is handled by setting **cbrenteq** to zero).

35 – (Pennsylvania 2006 – present).

For *homeowners* equal to or above **cbage**, credit is to the smaller of property tax liability, and a maximum credit that phases down with income. The maximum allowable credit is: **cbfloor1** if income is below **cbthresh1**; **cbfloor2** if income is between **cbthresh1** and **cbthresh2**; **cbfloor3** if income is between **cbthresh2** and **cbthresh3**; **cbfloor4** if income is between **cbthresh3** and **cbthresh4**, and zero if income is above **cbthresh4**.

For renters equal to or above **cbage**, the credit works the same as for homeowners, with property tax liability approximated by **cbrenteq** percent of rent paid, except that renters with income above **cbthresh2** get no credit at all.

The variables **cbref**, **cbform**, and **cbincdef** have the standard meanings, and all other circuit-breaker variables aside from the ones mentioned above are ignored and can be set to zero.

36 – “Property tax fairness credit” applicable in Maine 2014 - . If the return has 2 or fewer personal exemptions, then income must no more than **cbthresh1** in order to qualify for the credit. If the return has more than 2 personal exemptions, then income must be no more than **cbthresh2** to qualify for the credit. Percentage of rent that is considered equivalent to property tax is in **cbrenteq**. The sum of property tax and **cbrenteq** percent of rent that is potentially eligible for the credit is limited by a “maximum benefit base” of **cbthresh3** (if 2 or fewer personal exemptions) or **cbthresh4** (if more than 2 personal exemptions) – the “benefit base” that is potentially eligible for the credit is the minimum of property tax + **cbrenteq** percent of rent and the “maximum benefit base.” The credit is then **cbpct1** percent of the amount by which the “benefit base” exceeds **cbfloor1** percent of income. The maximum allowable credit is **cbmaxcr1**

if age is greater than or equal to **cbage**, or **cbmaxcr2** if age is less than **cbage**. The variables **cbref**, **cbform**, and **cbincdef** have the standard meanings, and all other variables starting with **cb** or **xcb** are ignored.

[Note: Jim Pappas contributed to writing the documentation for values of **cbtype** from 37 through 42 applying in New Jersey.]

37 – New Jersey [1976 – 1984].

“Homestead credit for tenant.” [Applied in years 1976 through 1989]. This program was created by chapter 47 of 1976 NJ public law. The section of the law that defines the amount is appears C. 54A:2-3 NJ Annotated Statutes.

1985-1989 Credit for renters below **cbage** is a fixed dollar amount **cbmaxcr1**. Credit for renters aged **cbage** or above is a fixed dollar amount **cbmaxcr1+ cbmaxcr2**. The credit does not depend on amount of rent paid.

38 – New Jersey [1985 - 1989].

The “homestead credit for tenant” described in **cbtype** = 37 continues to apply throughout this period.

In addition, the new “deduction for property taxes,” “tenant’s deduction,” and “homestead tax refund” were introduced starting in 1985, and applied in this incarnation from 1985 through 1989. This program was created by chapter 304 of 1985 NJ public law. Sections 54A:3A-3, 54A:3A-4, 54A:3A-6, and 54A:3A-8 of the NJ Annotated Statutes define the amount of the deduction and/or credit.

The deduction for property taxes (54A:3A-3) worked as follows. For homeowners with taxable income (computed before this deduction) that is not over **cbthresh2**, the deduction is  $\max(\mathbf{cbfloor1}, \mathbf{proptax})$ . For homeowners with taxable income that is over **cbthresh2** but not over **cbthresh3**, the deduction is  $\max(\mathbf{cbfloor2}, \mathbf{proptax})$ . For homeowners with taxable income that is over **cbthresh3**, the deduction is  $\max(\mathbf{cbfloor3}, \mathbf{proptax})$ .

The tenant’s deduction (54A:3A-4) worked as follows. For renters with taxable income (computed before this deduction) that is not over **cbthresh2**, the deduction is  $\max[\mathbf{xcbthresh1}, (\mathbf{xcbrente}q/100)*\mathbf{rentpay}]$ . For renters with taxable income that is over **cbthresh2** but not over **cbthresh3**, the deduction is  $\max[\mathbf{xcbthresh2}, (\mathbf{xcbrente}q/100)*\mathbf{rentpay}]$ . For renters with taxable income that is over **cbthresh3**, the deduction is  $\max[\mathbf{xcbthresh2}, (\mathbf{xcbrente}q/100)*\mathbf{rentpay}]$ .

If both **rentpay** and **proptax** are greater than zero (i.e., if the person rented for part of the year in NJ and owned a home for part of the year in NJ), then the taxpayer cannot claim either the deduction for property taxes or the tenant’s deduction described above. Instead, such a taxpayer is entitled to a deduction that is simply **proptax** +  $(\mathbf{xcbrente}q/100)*\mathbf{rentpay}$ , with no minimum credit. (C. 54A:3A-5 b).

For both homeowners and renters, if the allowable deduction for property taxes or tenant's deduction reduces taxable income below zero, then the amount by which the deduction exceeds taxable income (before the deduction) is multiplied by the initial income tax rate ( $r1/100$ ) and is provided as a refundable credit (54A:3A-6).

In the special case of anyone "who is not required to file a return under the 'New Jersey Gross Income Tax Act,' N.J. S. 54A:1-1", which means anyone whose gross income is less than **lowph1** (see **lowtype=1**, and NJ income tax instructions from 1978 and 1995), a fixed dollar amount of refundable credit is provided. In that case, the credit is  $\min(\text{proptax}, \text{xcbmaxcr1}) + \min((\text{xcbrente}q/100)*\text{rentpay}, \text{xcbmaxcr2})$ . Note that **xcbmaxcr1** is equal to  $(r1/100)*\text{cbfloor1}$ , and **xcbmaxcr2** is equal to  $(r1/100)*\text{xcbthresh1}$ , so people with gross income below the filing threshold defined by **lowph1** are effectively given the refundable credit that would apply if their taxable income before property tax deduction were zero; this will cause a notch as gross income passes **lowph1**. This provision is described in section 54A:3A-8.

The homestead credit for tenant portion of the credit (i.e., the part that already existed in **cbtype = 37**) is included in **propcred** and coded in the part of the SAS code that calculates circuit breakers. The SAS code for the rest of the provisions described here in **cbtype = 38** ("deduction for property taxes," "tenant's deduction," and "homestead tax refund") is located in "Deduction for property tax and rent in NJ 1985-1989", which is directly above the definition of **Sti**, and is implemented regardless of the choice of value for **cbinclude**. There are also later references to **cbtype=38** in the **lowcred** section of the SAS code to ensure **lowcredref** does not return to zero.

Provisions applying in NJ 1985-1989 that the calculator ignores:

A program called the "Tenants' Property Tax Rebate" is defined by chapter 210 of 1981 NJ public law. The section of the law that defines the size of the benefit appears in C.48:2-29.31 of NJ Annotated Statutes. The program was started in 1976, and is still in effect today. This program, which is not included in the calculator due to lack of information, requires some landlords of rental property to pass on property tax savings to their tenants. More information on his program can be found on Google Drive at "...\\Google Drive\\TaxLaw\\ StateByState\\NJ\\IncomeTax\\Laws\\ NJ INC CB Tenants' Rebate Summary.pdf".

39 – New Jersey [1990-1995].

The provisions applying in NJ before 1990, described above in **cbtype = 37** and **cbtype = 38**, were eliminated and replaced by the new credit described below.

A new "Homestead Property Tax Rebate" was introduced in 1990, and this version of it applied through 2002, after which it changed enough that a new coding scheme was required. It was created in chapter 61 of 1990 NJ public law. The section of the session law that defines the amount

of the credit appears at [\*3] and [\*4]. Changes to the credit that began to apply in 1991 are detailed in New Jersey Division of Taxation Technical Bulletin TB – 14 issued 7-2-92 (available on Google Drive as “NJ INC 1991 TECHNICAL BULLETIN.pdf”). The values of **cbpct1** and **cbpct2** were changed in 2001 and 2002 by laws passed in response to the budget situation. Parameter values can be found in the instructions for NJ income tax form HR-1040 for most years. For example, the instructions for HR-1040 in 1998 include the parameter values that applied for 1991 through 1998.

(Note values are prorated to take into account how much time taxpayer spent renting and how much time they spent owning a home)

Credit for homeowners:

*For all returns in 1990; and for those at or above **cbage** for 1991-2002:* Below income **cbthresh1**, credit is equal to the portion of the property tax above **cbfloor1** percent of gross income, subject to a minimum credit of  $\min(\mathbf{cbpct1}, \mathbf{proptax})$  and a maximum credit of **cbmaxcr1**. For income between **cbthresh1** and **cbthresh2**, the credit is  $\min(\mathbf{cbpct1}, \mathbf{proptax})$ . For income between **cbthresh2** and **cbthresh3**, the credit is  $\min(\mathbf{cbpct2}, \mathbf{proptax})$ . For those with incomes above **cbthresh3**, the credit is eliminated.

*For those aged below **cbage** for 1991-2002:* Credit is equal to the minimum of property tax and **cbmaxcr2**. For those with income above **cbthresh4**, credit is eliminated.

Credit for renters:

*For people of all ages in 1990, and for people aged at or above **cbage** for 1991-2002:* For people with income below **xcbthresh1**, credit is equal to the portion of the property tax above **xcbfloor1** percent of gross income, up to a maximum credit of **xcbmaxcr1**, with a minimum credit of  $\min[\mathbf{xcbpct1}, (\mathbf{xcbrenteq}/100)*\mathbf{rentpay}]$ . For people with income between **xcbthresh1** and **xcbthresh2**, the credit is  $\min[\mathbf{xcbpct1}, (\mathbf{xcbrenteq}/100)*\mathbf{rentpay}]$ . For people with income between **xcbthresh2** and **xcbthresh3**, the credit is  $\min[\mathbf{xcbpct2}, (\mathbf{xcbrenteq}/100)*\mathbf{rentpay}]$ . For those with incomes above **xcbthresh3**, the credit is eliminated.

*For people aged below **cbage** for 1991-2002:* Credit is equal to the minimum of  $(\mathbf{xcbrenteq}/100)*\mathbf{rentpay}$  and **xcbmaxcr2**. If income is above **xcbthresh4**, credit is eliminated.

Note: Language explicitly stating that the credit cannot exceed the amount of property tax was added in 2004. The calculator assumes that this 2004 change was just a clarification, and that the credit was also limited to be no more than the amount of property tax before 2004, since prior to 2004 the description of the credit as a property tax “rebate” seems to imply that it cannot exceed the value of property tax paid. The added language, which defines the rebate to be “not more than the amount of property taxes actually paid,” can be found in C.54:4-8.59 of NJ annotated statutes, and in chapter 40 of 2004 NJ public laws, the latter of which we have at .../Google Drive/TaxLaw/StateByState/NJ/IncomeTax/Laws/NJ INC 2004 SL CB.PDF.

40 – New Jersey [1996-2002].

The “Homestead Property Tax Rebate” described in **cbtype=39** continued to apply throughout this period.

In addition, the following new “Property Tax Deduction / Credit Program” was introduced starting in 1996 and continues to apply through the present. This program was created by chapter 60 of 1996 NJ public law, and is included in Title 54A, Chapter 3A of the New Jersey Annotated Statutes. Filers who have **income** over **xcbthresh5** or who are **cbage** or above can choose either of the following (but not both): a deduction from taxable income; or a refundable credit of fixed value **cbincval2**. The deduction from taxable income is equal to  $(\text{cbincval1}/100) * \min[\text{proptax} + (\text{xcbrente}q/100) * \text{rentpay}, \text{cbmaxhome}]$ , where **cbmaxhome** is used to record the maximum amount of property tax and rental equivalent of property tax that is eligible for the deduction. The most pertinent sections of the law are Section 54A:3A-17, which defines the size of the deduction for homeowners; Section 54A:3A-18, which defines the size of the deduction for renters; Section 54A:3A-20 which defines the amount of the credit. NJ income tax instructions call this provision the “Property Tax Deduction.” This provision is also described in some detail in the instructions for the NJ income tax (see, for example, instructions for lines 37a, 37b, 38, and 49 on the 2015 NJ individual income tax form and instructions). The “property tax deduction / credit” provisions are addressed in the SAS code in the sections on itemized deductions and miscellaneous credits, and are implemented regardless of the choice of value for **cbinclude**. We implement the choice of credit or deduction by treating the NJ property tax deduction as an itemized deduction, only allowing

non-itemizers to take the credit, and then choosing the status that minimizes tax liability.

41 – New Jersey [2003-2005].

The “Property Tax Deduction / Credit Program” described in **cbtype** = 40 continued to apply throughout this period. Note that the rules concerning those who both own and rent during one year are different in 2003 vs 2004/2005. In 2003, the credits are prorated to the amount of time spent renting and the amount of time spent owning a home. In 2004 and 2005, a person’s credit will correspond to wherever a person resides as of October 1<sup>st</sup> of that year. To approximate this, we say that if **proptax**  $\geq$   $(\text{xcbrente}q/100) * \text{rentpay}$ , then the taxpayer gets the homeowner’s credit, and we’ll treat **proptax** +  $(\text{xcbrente}q/100) * \text{rentpay}$  as an approximation of the property tax paid that year. If **proptax**  $<$   $(\text{xcbrente}q/100) * \text{rentpay}$  then the taxpayer gets the renters credit, which will be based on  $(\text{xcbrente}q/100) * \text{rentpay}$ .

In addition, starting in 2003, the “Homestead Property Tax Rebate” described in **cbtype**=39 was revised enough to require a new coding scheme, which applies in 2003 through 2005. The new version of the “Homestead Property Tax Rebate” was created by chapter 40 of 2004 NJ public law in sections [\*4] and [\*5]. C.54:4-8.59 of NJ Annotated Statutes defines the amount of the credit. Some parameters of the credit were supposed to receive automatic cost-of-living adjustments in years after 2003, but subsequent NJ budget bills suspended the cost-of-living adjustments for everyone, and imposed lower temporary caps on the credits for people under age **cbage** in 2004 and 2005. Changes for tax year 2004 are in chapter 132 of 2005 NJ public law, and the changes for tax year 2005 are in chapter 45 of 2006 NJ public law. The new “Homestead Property Tax Rebate” had the following components:

Credit for homeowners:

*Aged at or above **cbage**:* Credit is equal to the portion of property tax above **cbfloor1** percent of gross income, but the credit must be within minimum and maximum credit values. Below income **cbthresh1**, the minimum credit is  $\min(\text{cbmaxcr1}, \text{proptax})$  and the maximum credit is **cbmaxcr2**. Between incomes **cbthresh1** and **cbthresh2**, minimum credit is  $\min(\text{cbfloor2}, \text{proptax})$  and maximum credit is **cbfloor3**. Between incomes **cbthresh2** and

**cbthresh3**, the credit simply equals  $\min(\mathbf{cbfloor4}, \mathbf{proptax})$ . Above income **cbthresh3**, credit is eliminated.

Aged below **cbage**:

Credit is equal to the portion of property tax above **cbfloor1** percent of gross income, but the credit must be within minimum and maximum credit values. Below income **cbthresh2**, minimum credit is  $\min(\mathbf{cbfloor2}, \mathbf{proptax})$  and maximum credit is **cbfloor3**. Between incomes **cbthresh2** and **cbthresh3**, the credit simply equals  $\min(\mathbf{cbfloor4}, \mathbf{proptax})$ . Above income **cbthresh3**, credit is eliminated.

In 2004 and 2005, the credit for those aged below **cbage** is subject to temporary lower caps. In these two years: for those with income that does not exceed **cbthresh1**, the maximum credit is **xb1**; for those with income between **cbthresh1** and **cbthresh2** the maximum credit is **xb2**; and for those with income between **cbthresh2** and **cbthresh3** the maximum credit is **xb3**.

Credit for renters:

Aged at or above **cbage**:

For people with income below **xcbthresh1**, the credit is equal to a fixed dollar amount **xcbfloor2**, to the portion of the property tax above **xcbfloor1** percent of gross income, but this combined sum is subject to a maximum credit value of **xcbmaxcr1**, and a minimum credit of  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For people with income between **xcbthresh1** and **xcbthresh2**, the credit is  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For income between **xcbthresh2** and **xcbthresh3**, the credit is  $\min(\mathbf{xcbpct2}, \mathbf{proptax})$ . For those with incomes above **xcbthresh3**, the credit is eliminated. Percent of rent equivalent to property tax is **xcbrenteq**.

Aged below **cbage**:

Credit is equal to the minimum of property tax and **xcbmaxcr2**. If income is above **xcbthresh4**, credit is eliminated.

42 – New Jersey [2006-present].

The “Property Tax Deduction / Credit Program” described in **cbtype** = 40 (with modifications on rules for people who are renters part



of the year and homeowners part of the year described in **cbtype** = 41) continued to apply throughout this period. Make sure to go back and read the documentation for **cbtype** = 40 and **cbtype** = 41 and find the appropriate section of the law that is referenced there (Title 54A Ch. 3A of the NJ Code, especially Sections 54A:3A-17, 54A:3A-18, and Section 54A:3A-20), download it and save it, and code in the parameters described there. Also see the relevant portions of the NJ individual income tax instructions. In 2009 *only*, there are some special income restrictions imposed on this “Property Tax Deduction / Credit Program” for people under **cbage** taking the deduction. In 2009 only, those aged under **cbage** with gross income over **xb2** cannot claim a deduction, and those under **cbage** with gross income over **xb1** but under **xb2** can claim a deduction of at most **xb3**.

Starting in 2006, the “Homestead Property Tax Rebate” described in **cbtype** = 41 was replaced by a “Homestead Rebate Program.” This version of the “Homestead Rebate Program” has continued to apply through the present, but has been subjected to frequent temporary amendments in various budget bills since its introduction. The basic framework of the current “Homestead Rebate Program” was introduced in Chapter 62 of 2007 NJ public law and began to apply in tax year 2006. The section of the law that defines the size of the credit appears in Title 54, Subtitle 2, Chapter 4, Article 3, Section 59 of the NJ Annotated Statutes, which is numbered 54:4-8.59 in the NJ Code numbering scheme, but note that the credit actually defined in that section of the law almost never applied, since it was subsequently almost always temporarily amended by a budget law. Note that when downloading the latest version of this section of the law from Lexis-Nexis as a PDF, two critical tables in section 54:4-8.59 will not automatically be included – you will need to click on the two instances of “Click here to view image,” save the PDFs of the tables, and insert them into the PDF with the law. Alternatively, you can save the section of the law and tables as Word documents, which makes it easier to insert the tables in the appropriate location, and then save the resulting document as a PDF. **Note that the credit described in section 54:4-8.59 is almost always superseded by NJ budget laws (available in the session laws) that temporarily make the homestead rebate program less generous than it says in section 54:4-8.59 of the annotated statutes. You need to make sure that you check the recent applicable session laws that refer to section 54:4-8.59 and find and download any new ones from LexisNexis.** The session laws that amend this Homestead Rebate will generally refer to the “tax year” it applies to, and that is the year that should correspond to the **stateyear** in our state tax parameters spreadsheet. So for example, if you look in the “Laws” folder for the NJ income tax, “NJ INC 2015 SL CB Budget Law.pdf” contains the session law that specifies the value of the Homestead Rebate for tax year 2014, and then “NJ INC 2016 SL CB Budget Law.pdf” contains a session law that makes a further small amendment to that rebate for 2014

(basically just changing the date when it gets paid out, which is not relevant to our tax calculator). In the session law, search for 54:4-8.59 to find the relevant part of the session law. In addition, the New Jersey Department of the Treasury posts information on the “Homestead Benefit Program” on its web site, and we should find those and download and save them. Examples in the “Laws” folder for NJ include “NJ INC 2015 Webpage CB over 65.pdf” and “NJ INC 2015 Webpage CB under 65.pdf”. There are long delays in computing and paying the Homestead Rebate – for example, the benefit for property taxes paid in 2015 was sent to taxpayers around May 2018. As a result, the web page may not help you figure out how the rebate works when updating for a new year, but we should still get the latest version to help us figure out past years. More generally, the lengthy time lags between when property taxes are paid and when the rebate is given, together with the fact that NJ might enact changes to the rebate at any time in between, mean that sometimes the information necessary to determine how the credit works in the year we are updating may not be available yet. In those cases, we just copy the parameters from the most recent year for which we do know how it works. As a result, research assistants should check the past few years of NJ circuit breaker parameters, check them against the laws and web site descriptions, and check carefully to see if subsequent laws have changed the credit for past years retroactively. If so, please correct the past years’ data. Also note that sometimes even the budget bill gets superseded by a subsequent emergency act or veto – for example, it appears that the session law for the NJ budget initially specified a 2015 Homestead Rebate that was similar to the one for 2014, but then there was a 3-day shutdown of the NJ government and an emergency budget deal ended up cutting the 2015 rebate in half. It can be difficult to sort this out using LexisNexis, so checking various secondary sources (e.g. news articles) can be helpful for figuring out what is going on.

The basic features of the Homestead Rebate Program for homeowners and renters are laid out below:

Homestead Rebate Program for homeowners:

Aged below **cbage**:

The credit is calculated as a percentage of property taxes paid. The maximum amount of property tax eligible for the credit is **cbmaxhome**. For those with gross income not exceeding **xb10**, the percentage is **xr10**. For those with gross income above **xb10** but not exceeding **xb11**, the percentage is **xr11**. For those with gross income above **xb11** but not exceeding **xb12**, the percentage is **xr12**. The credit is not available to those with gross income above **xb12**. Note that in many years, NJ budget laws amended this so that there is no third bracket and rate (i.e., only

**xb10**, **xb11**, **xr10**, and **xr11** are defined). In those years, set **xb12** and **xr12** to zero, and the SAS code will still compute the credit correctly.

Aged at or above **cbage**:

Typically, the following structure applies. This is not what is spelled out in section 54:4-8.59 of the annotated statutes, but rather is what tends to get enacted in the temporary provisions that are adopted in each year's NJ budget law. The following credit is calculated as a percentage of property taxes paid. The maximum amount of property tax eligible for the credit is **cbmaxhome**. For those with gross income not exceeding **cbthresh1**, the percentage is **xr1**. For those with gross income above **cbthresh1** but not exceeding **cbthresh2**, the percentage is **xr2**. For those with gross income above **cbthresh2** but not exceeding **cbthresh3**, the percentage is **xr3**. The credit is not available to those with gross income above **cbthresh3**. Note that in many years, NJ budget laws amended this so that there is no third bracket and rate (i.e., only **cbthresh1**, **xr1**, **cbthresh2**, and **xr2** are defined). In those years, set **cbthresh3** and **xr3** to zero, and the SAS code will still compute the credit correctly.

So far, the credit that was actually implemented looked more like what is written in section 54:4-8.59 of the NJ code only in the year 2006. In this case, the credit is equal to the greater of the credit for people aged less than age 65 described above, or the following credit: Credit is equal to the portion of property tax above **cbfloor1** percent of gross income, but the credit must be within minimum and maximum credit values. Below income **cbthresh4**, the minimum credit is  $\min(\mathbf{cbmaxcr1}, \mathbf{proptax})$  and the maximum credit is **cbmaxcr2**. Between incomes **cbthresh4** and **cbthresh5**, minimum credit is  $\min(\mathbf{cbfloor2}, \mathbf{proptax})$  and maximum credit is **cbfloor3**. Between incomes **cbthresh5** and **cbpct1**, the credit simply equals  $\min(\mathbf{cbfloor4}, \mathbf{proptax})$ . Above income **cbpct1**, credit is eliminated. Since this is what is written into the NJ Code, it is possible that the credit will revert to this format at some point in the future, depending on what happens with the annual budget laws. Note that this version of the credit is hard coded into the SAS code and only works when **stateyear** = 2006, so if NJ reverts to this version of the credit we will need to change the SAS code.

Homestead Rebate Program for renters in 2006:

Aged at or above **cbage**:

Below income **xcbthresh1**, initial credit is equal to the portion of the property tax above **xcbfloor1** percent of gross income, plus fixed value **xcbfloor2**, up to a maximum credit of **xcbmaxcr1**, with a minimum initial credit of  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For income between **xcbthresh1** and **xcbthresh2**, the initial credit is  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For income between **xcbthresh2** and **xcbthresh3**, the initial credit is  $\min(\mathbf{xcbpct2}, \mathbf{proptax})$ . For those with incomes above **xcbthresh3**, the initial credit is 0. Percent of rent equivalent to property tax is **xcbrente**.

After the initial calculation, further minimums are applied. Credit is  $\max(\mathbf{xr5}, \text{initial credit})$  for gross income not exceeding **xb5**. Credit is  $\max(\mathbf{xr6}, \text{initial credit})$  for gross income above **xb5** but not exceeding **xb6**. Credit is  $\max(\mathbf{xr7}, \text{initial credit})$  for gross income above **xb6** but not exceeding **xb7**.

Aged below **cbage**:

Initial credit is equal to the minimum of property tax and **xcbmaxcr2**. If income is above **xcbthresh4**, credit is eliminated.

After the initial calculation of the credit, further limitations apply. Credit is  $\min(\mathbf{xr5}, \text{initial credit})$  for gross income not exceeding **xb5**. Credit is  $\min(\mathbf{xr6}, \text{initial credit})$  for gross income above **xb5** but not exceeding **xb6**. Credit is  $\min(\mathbf{xr7}, \text{initial credit})$  for gross income above **xb6** but not exceeding **xb7**. Credit is  $\min(\mathbf{xr8}, \text{initial credit})$  for gross income above **xb7** but not exceeding **xb8**.

Homestead Rebate Program for renters in 2007:

Aged at or above **cbage**:

Below income **xcbthresh1**, credit is equal to the portion of the property tax above **xcbfloor1** percent of gross income, plus fixed value **xcbfloor2**, up to a maximum credit of **xcbmaxcr1**, with a minimum credit of  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For income between **xcbthresh1** and **xcbthresh2**, the credit is  $\min(\mathbf{xcbpct1}, \mathbf{proptax})$ . For income between **xcbthresh2** and **xcbthresh3**, the credit is  $\min(\mathbf{xcbpct2}, \mathbf{proptax})$ . For those with incomes above

**xcbthresh3**, the credit is eliminated. Percent of rent equivalent to property tax is **xcbrente<sub>q</sub>**.

Aged below **cbage**:

Credit is equal to the minimum of property tax and **xcbmaxcr2**. If income is above **xcbthresh4**, credit is eliminated.

Homestead Rebate Program for renters in 2008:

2008: Aged at or above **cbage**:

Below income **xcbthresh1**, credit is equal to the portion of the property tax above **xcbfloor1** percent of gross income, plus fixed value **xcbfloor2**, up to a maximum credit of **xcbmaxcr1**, with a minimum credit of  $\min(\text{xcbpct1}, \text{proptax})$ . For income between **xcbthresh1** and **xcbthresh2**, the credit is  $\min(\text{xcbpct1}, \text{proptax})$ . For income between **xcbthresh2** and **xcbthresh3**, the credit is  $\min(\text{xcbpct2}, \text{proptax})$ . For those with incomes above **xcbthresh3**, the credit is eliminated. Percent of rent equivalent to property tax is **xcbrente<sub>q</sub>**.

Aged below **cbage**:

Not available.

Homestead Rebate Program for renters in 2009-present:

No longer available.

Some other details applying to the Homestead Rebate Program for both homeowners and renters.

A person's credit will correspond to wherever a person resides as of October 1<sup>st</sup> of that year. To approximate this, we say that if  $\text{proptax} \geq (\text{xcbrente}_q/100) * \text{rentpay}$ , then the taxpayer gets the homeowner's credit, and we'll treat  $\text{proptax} + (\text{xcbrente}_q/100) * \text{rentpay}$  as an approximation of the property tax paid that year. If  $\text{proptax} < (\text{xcbrente}_q/100) * \text{rentpay}$  then the taxpayer gets the renters credit, which will be based on  $(\text{xcbrente}_q/100) * \text{rentpay}$ .

Note: as usual, we assign the parameters to a year based on the year the income used in the formula to compute the credit was earned (so for example, the parameters for 2011 refer to those that applied to the credit that is calculated based on 2011 income). In some cases, the property tax used in the calculation of the NJ "Homestead Rebate Program" is from some prior year (for example, the credit computed using income earned in 2007 through the present is based on property tax paid,

or would have been paid, in 2006), and there has sometimes been a long delay in the payment of the credit (for example, since 2009, credits based on income earned in a given year are paid to the taxpayer two years after the income is earned). We do not do anything special in the calculator to account for these – the calculator’s computation of the credit uses the current year value of **proptax** and income, and does not account for delayed payment of the credit.

ADDENDUM FOR NEW JERSEY: PROPERTY TAX RELIEF PROVISIONS APPLYING IN NEW JERSEY THAT THE CALCULATOR IGNORES.

A program called the “Tenants’ Property Tax Rebate” is defined by chapter 210 of 1981 NJ public law. The section of the law that defines the size of the benefit appears in C.48:2-29.31 of NJ Annotated Statutes. The program was started in 1976, and is still in effect today. This program, which is not included in the calculator due to lack of information, requires some landlords of rental property to pass on property tax savings to their tenants. More information on his program can be found on Google Drive at “...\Google Drive\TaxLaw\ StateByState\NJ\IncomeTax\Laws\ NJ INC CB Tenants' Rebate Summary.pdf”

A program known as the “Property Tax Reimbursement (Senior Freeze) Program” is defined by chapter 348 of 1997 NJ public law. The section of the law that defines the program appears in C. 54:4-8.67 of NJ Annotated Statutes. The program allows some low-income seniors to receive a reimbursement for increases in their property taxes, starting in 1998 and still continuing today. This program is still in effect, but it is not incorporated into the tax calculator. More information can be found on Google Drive in the file “NJ INC 2015 AS CB Senior Freeze”

A rebate known as the “NJ SAVER” is defined by chapter 63 of 1999 NJ public law. The section of the law that defines the program appears in C.54:4- 8.57 et al. of NJ Annotated Statutes. The program was in effect from 1999 through 2004. It gave property tax-paying homeowners a rebate equal to the product of their property value amount up to \$45,000 multiplied by school tax rate for the municipality that the home is in. A taxpayer was allowed to take either the “NJ SAVER” or the “Homestead Rebate,” whichever was higher. Due to lack of information about school tax rates, the calculator does not incorporate the “NJ SAVER” rebate. See section four of “NJ INC 1999 SL CB” on Google Drive for more information.

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50 – New Hampshire Low and Moderate Income Homeowners Property Tax Relief, 2002 – present. This is in the New Hampshire Annotated Statutes, Title XV (Education), Chapter 198 (School Money), Section 198:57. It is a refundable credit equal to a percentage of state education property tax for low-income people who own their own homes (renters are not eligible). In New Hampshire, the only statewide property tax is used for education, but the state education property tax is only a small portion (around 10 percent in recent years) of total state and local property tax revenues. Only the state education portion of one's property tax bill is eligible for the credit. We approximate the credit by assuming that the taxpayer's state education property tax bill is equal to **proptax** times the statewide average ratio of state property tax revenues to total state and local property tax revenues, based on data from the Urban-Brookings Tax Policy Center State and Local Finance Data Query System <<http://slfdqs.taxpolicycenter.org/>>. We store the data used to calculate this in past years on Google Drive at:  
 ... \GoogleDrive\StateModel\NotesOnComplicatedStateProvisions\nh

We record this New Hampshire ratio of state property tax revenues to total state and local property tax revenues (in percentage points, i.e., on a scale from 0 to 100) in the variable **cbpct1**. Since this data is only available with a lag, we fill in recent years' values with the most recent available ratio. Research assistants should revise past years' values of **cbpct1** when data for those years becomes available, and then fill in newly added years with the value from the most recent year for which data are available. The credit is equal to a percentage of  $(\text{cbpct1}/100) * \text{proptax}$ , where the percentage gradually declines from 100 down to zero across several brackets for total household income (for which we use the variable **income**). The household income levels at the bottom of each income bracket are recorded in **xb1** through **xb5**, and the applicable percentages are recorded in **xr1** through **xr5**. (So for example, if income is below **xb2**, then the applicable rate is **xr1**.) The number of brackets must be recorded in **xbracknum**. See also **xtaxtype** = *cbnh*. The only **cb** and **xcb** variables that matter for this are **cbtype**, **cbform**, **cbincdef**, and **cbpct1**. All other variables with names beginning with **cb** or **xcb** are ignored and can be set to zero. There are a few other aspects of the calculation of this credit that we ignore (for example because they require data on state equalization rates that we do not have), so this is just a rough approximation of the actual credit. Prior to 2002 there was another credit for statewide education property tax in section 198:51, but it was a complicated credit based on the amount by which one's property tax bill increased from one year to the next because of the statewide education property tax credit.

Since we generally will not have the information needed to calculate this, we ignore the pre-2002 version of the credit.

201 – The **cb** and **xcb** variables are not used for circuit-breakers, but are instead used to store parameters used to compute a Louisiana tax applying 1975-1979 that is a complicated function of federal tax liability. See **taxtype = fedtab**.

202 – The **cb** and **xcb** variables are not used for circuit-breakers, but are instead used to store parameters used to compute a Louisiana alternative maximum tax applying 1980-1982 that is a complicated function of federal tax liability. See **xtaxtype = fedtab2**.

- cbage** Minimum age to qualify for circuit breaker credit (unless otherwise specified in **cbtype**).
- cbref** Is the circuit breaker credit refundable relative to the income tax?  
0 – No.  
1 – Yes.  
2 – [Connecticut]. Circuit breaker credit for all ages is not refundable; circuit breaker credit for those at or above **cbage** is refundable (see **cbtype 4**).
- cbform** Is the circuit breaker credit administered through the income tax? This variable, in conjunction with the value chosen for **cbinclude** by the user, determines which circuit breaker credits will be computed by the calculator.
- 0 – There is no circuit breaker credit.
- 1 – Credit is a line item on the income tax form.
- 2 – Credit is on a separate form or application not associated with the income tax, and is not incorporated directly into the property tax bill calculation.
- 3 – Credit is incorporated directly into the property tax bill calculation. Note that in these cases, it will usually be necessary to look directly at the law to understand how the credit is calculated.
- 4 – [Connecticut 1997-present]. Circuit breaker credit for all ages is **cbform = 1**, circuit breaker credit for those at or above **cbage** is **cbform = 3** (see **cbtype 5**).
- 5 – [Maryland 1981-present]. Circuit breaker credit for renters is **cbform 2**, circuit breaker credit for homeowners is **cbform 3** (see **cbtype 14**).



6 – [New Jersey]. Circuit breaker credit for renters is **cbform 1**, circuit breaker credit for homeowners is **cbform 2**. In New Jersey, there is also an optional property tax deduction or credit is taken directly on income tax form (same as **cbform1**) – see **cbtype** = 17.

7 – [Vermont 1973-1996]. Circuit breaker is **cbform 1** for people aged 65 and over. Otherwise it is **cbform 2** (see **cbtype 23**).

8 – [Vermont 2006-present]. Renter's credit is **cbform=1**, homeowner's credit is **cbform=3**.

9 – [North Dakota, 2007-present]. Renter's credit coded into **cb** variables is **cbform=2**. Property tax credit coded into **xcb** variables is **cbform=1** (but this credit is computed as part of **gencred**, so it applies regardless of the value of **cbinclude**).

#### **cbindef**

Definition of income used to calculate circuit breaker credit (this income measure is called **cbincome**) in the program. Note when **income** is referenced in the descriptions below, the calculator actually uses the larger of the **income** variable from the input data set, or the sum of **individual** income components from the **input** data set, whichever is larger, in order to ensure that the broadest possible measure of income is being used.

0 – There is no circuit breaker credit.

1 – Broad measure of income (**income**) of both filer and spouse.

2 – [Arizona; Montana 1981-1983]. Broad measure of income (**income**) of both filer and spouse minus social security benefits.

3 – [Colorado, Iowa, Kansas 1997-2006, Maine 1990-present]. Broad measure of income (**income**) of both filer and spouse but capital losses are excluded (negative **othcg1** and **othcg2** set equal to zero).

4 – [Connecticut 1997-present]. Circuit breaker credit for all ages uses **cbindef 5**, circuit breaker credit for those at or above **cbage** uses **cbindef 1** (see **cbtype 5**).

5 – [Hawaii, WV 2001-present, West Virginia 2003-2007, Maine 2013]. State adjusted gross income of both filer and spouse.

6 – [Idaho]. Broad measure of income (**income**) of both filer and spouse minus capital gains (**ltcg1**, **ltcg2**, **othcg1**, **othcg2**) and medical expenses (**medexp**).

7 – [Wisconsin]. Broad measure of income (**income**) of both filer and spouse minus **cbincval1** for each dependent.

8 -- [Minnesota 1984-present]. Broad measure of income (**income**) minus the federal personal exemption amount if filer or spouse is aged 65 or over. In addition, for all taxpayers regardless of age, subtract the sum of the following: federal personal exemption amount times **cbincval1** for first dependent; federal personal exemption amount times **cbincval2** for second dependent; federal personal exemption amount times **cbfloor3** for third dependent; federal personal exemption amount times **cbfloor4** for fourth dependent; and federal personal exemption amount for the fifth dependent. There is no additional subtraction for dependents beyond five. Finally, after 1988, capital losses are excluded (negative **othcg1** and **othcg2** are set equal to zero).

9 – [Montana 1989–1996]. Broad measure of income (**income**) minus **cbincval1** or percent **cbincval2** of total retirement benefits (**pension1**, **pension2**, **ssben1**, **ssben2**), whichever is greater. Negative income is set equal to zero.

10 – [New Mexico, North Dakota, Idaho]. Broad measure of income (**income**) of both filer and spouse minus medical expenses (**medexp**).

11 – [South Dakota]. Broad measure of income (**income**) of both filer and spouse minus **proptax** up to maximum deduction **cbincval1**.

12 – [Wisconsin 1977-1978]. Broad measure of income (**income**) of both filer and spouse minus **cbincval1** for every member of household aged 65 or above.

13 – [Pennsylvania 1999 - ]. Broad measure of income (**income**) minus 50% of social security benefits.

14 -- [Massachusetts 2001 - ]. Broad measure of income (**income**) of both filer and spouse, minus the total value of exemptions for dependents and the elderly allowed in the normal income tax (the provisions coded into **ex\_dep** and **ex\_age**). The variables **cbincval1** and **cbincval2** should be set to zero.

15 – [Kansas, 2007 – ]. Broad measure of income (**income**) minus 50% of social security benefits. In addition, capital losses are excluded (negative **othcg1** and **othcg2** set equal to zero). Starting in 2008, the credit that is computed using the variables starting with **xcb** is computed using a definition of income that includes 100% of social security benefits rather than 50%. See **cbtype** = 34.

16 – [West Virginia, 2007 - ]. For the elderly credit coded into the **cb** variables, federal adjusted gross income is used to calculate the credit. For the property tax credit available to people of all ages coded into the **xcb** variables, eligibility for the credit is based on federal AGI, and the percentage of income floor for computing the credit is computed based on federal adjusted gross income plus tax-exempt interest and untaxed social security benefits.

17 – [Missouri, 1973 - ]. Broad measure of income (**income**) minus **cbincval1** (if a homeowner) or **cbincval2** (if a renter).

**cbincval1** Dollar value involved in determination of income for circuit breaker credit. [Zero if not applicable].

**cbincval2** Second value involved in determination of income for circuit breaker credit. [Zero if not applicable].

**cbmaxhome** Maximum home value subject to circuit breaker property tax credit.

0 – Not applicable.

*Any number larger than 0* – Maximum market value of home subject to circuit breaker credit. Unless otherwise noted in the documentation for **cbtype**, this means that only property taxes on the portion of the value of the home below **cbmaxhome** are eligible for the credit. In some cases, **cbmaxhome** has a different meaning, which is specified in the documentation for **cbtype**. For example, in Kansas and Michigan, if **cbmaxhome** > 0 if the value of the home is larger than **cbmaxhome**, then no property tax credit is allowed at all. Also note that in some cases, the circuit breaker instructions specify such a limit in terms of the “taxable” or “assessed” value of the home, which can be very different (and usually much smaller) than the market (or “cash”) value of the home. In these cases, we do our best to code a value for **cbmaxhome** in terms of market value. So for example, in Michigan starting in 2012, people whose home has a taxable value greater than \$135,000 are not eligible for the credit. According to section 211-27a of the Michigan Annotated Statutes, the taxable value of a home is usually the “state equalized valuation,” but <http://michigan.gov/taxtrib/0,4677,7-187--126336--,00.html> clarifies that the state equalized value is usually equal to the assessed value, which section 211-27a says is 50% of the “cash” (or market) value of the home. For this reason, we code a value for **cbmaxhome** that is twice the value reported on the tax forms (e.g., the form says the limit is \$135,000 of taxable value, and we translate that into a **cbmaxhome** value of \$270,000).

**cbmaxrent** Maximum rent subject to circuit breaker property tax credit.  
[Zero if not applicable]

Circuit breaker variables that (usually) apply to those at or above **cbage**

Note that the meaning of any of these variables may change depending on the value of **cbtype**. If a variable is used for something different than its usual meaning, that will be specified in the documentation for **cbtype**.

**cbrenteq** Usually, first percentage of rent that is considered to be equivalent to property tax. [Zero if not applicable]

**cbmaxcr1** Usually, dollar value of maximum circuit breaker property tax credit.  
[Zero if not applicable]

**cbmaxcr2** Usually, dollar value of second maximum circuit breaker property tax credit. [Zero if not applicable]

**cbthresh1** Usually, first income threshold used in circuit breaker credit calculations.

**cbthresh2** Usually, second income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**cbthresh3** Usually, third income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**cbthresh4** Usually, fourth income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**cbthresh5** Usually, fifth income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**cbpct1** Usually, first percentage of eligible property tax payments that may be taken as a circuit breaker credit. [Zero if not applicable]

**cbpct2** Usually, second percentage eligible property tax payments that may be taken as a circuit breaker credit. [Zero if not applicable]

**cbfloor1** Usually, first percentage of income (or fixed value) floor, below which property tax is not eligible to be taken as a circuit breaker credit. [Zero if not applicable]

**cbfloor2** Usually, second percentage of income (or fixed value) floor, below which property tax is not eligible to be taken as a circuit breaker credit. [Zero if not applicable]

**cbfloor3** Usually, third percentage of income (or fixed value) floor, below which property tax is not eligible to be taken as a circuit breaker credit. [Zero if not applicable]

Circuit breaker variables (usually) applying to those below **cbage**

Note that the meaning of any of these variables may change depending on the value of **cbtype**. If a variable is used for something different than its usual meaning, that will be specified in the documentation for **cbtype**.

**xcbrente** Usually, percentage of rent that is considered to be equivalent to property tax. [Zero if not applicable]

**xcbmaxcr1** Usually, dollar value of maximum circuit breaker property tax credit. [Zero if not applicable]

**xcbmaxcr2** Usually, dollar value of second maximum circuit breaker property tax credit. [Zero if not applicable]

**xcbthresh1** Usually, first income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**xcbthresh2** Usually, second income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**xcbthresh3** Usually, third income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**xcbthresh4** Usually, fourth income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**xcbthresh5** Usually, fifth income threshold used in circuit breaker credit calculations. [Zero if not applicable]

**xcbtpct1** Usually, first percentage of eligible property tax payments that may be taken as a circuit breaker credit. [Zero if not applicable]

**xcbtpct2** Usually, second percentage eligible property tax payments that may be taken as a circuit breaker credit. [Zero if not applicable]

**xcbfloor1** Usually, first percentage of income floor, below which property tax is not eligible to be taken as a circuit breaker credit. [Zero if not applicable]

**xcbfloor2** Usually, second percentage of income floor, below which property tax is not eligible to be taken as a circuit breaker credit. [Zero if not applicable]

## LOCAL INCOME TAXES

Local individual income tax estimates are only available for 1977 and later years, and only for the following states: Delaware, Indiana, Kentucky, Maryland, Michigan, Missouri, New York, Ohio, and Pennsylvania. A few other states (e.g., Alabama, Iowa, and New Jersey) had extremely small local individual income taxes during this period but are not modeled as such. The local individual income tax is approximated based on state and local revenue data from the Census of Governments (accessed using the Urban-Brookings Tax Policy Center State and Local Finance Data Query System <<http://slfdqs.taxpolicycenter.org/>>). As of the latest revision of the calculator, data was not available yet for 2014 or 2015, so for now the 2014 and 2015 local tax parameters are assumed to be the same as for 2013. In addition, data on state and local income tax revenues are not available for 2001 or 2003, so values for those years are imputed based on linear interpolations between adjacent years when data are available. The coding allows for three types of local income tax approximation: (1) a tax that is a percentage of state tax liability; (2) a tax that is a percentage of taxable income; and (3) a tax that is a percentage of earned income (the last is divided into two types depending on whether the local tax is deductible from the state tax). The tax rate for each type of tax is: (1) local income tax revenues as a percentage of state income tax revenues; (2) local income tax revenues as a percentage of state personal income; and (3) local income tax revenues as a percentage of state personal income, divided by 0.75 (to approximate earned income as a share of total personal income). The New York local income tax applies in New York City only, and is the case where this approximation is probably the least accurate, since NYC has a rather complicated income tax. In this case, our approach at least roughly matches the progressivity of the NYC tax (since it is treated as a percentage of the NY state income tax, which is progressive and has roughly similar features), and very roughly approximates the burden of the NYC tax multiplied by the probability that a randomly selected New Yorker is subject to it. (Note to research assistants working on updating these parameters: the background calculations to compute **localrate** for the most recent update are in the spreadsheet ...\\GoogleDrive\\StateModel\\LocalIncomeTax\\LocalTaxParameters1977-2013.xlsx).

**localtype**      Type of local individual income tax.

0 -- None.

1 -- Local tax = (**localrate**/100)\*max(0, **taxs**).

IN, MD, MI, NY. Here, **taxs** is final state tax liability before subtracting off circuit-breaker credits.

2 – Local tax = (**localrate**/100)\*(state taxable income). Ohio. In this case, we compute **localrate** as local income tax revenues as a percentage of state personal income, and then multiply it by state taxable income (which in Ohio is AGI less exemptions) to compute local tax liability. Note that this is a likely to be bit off – since **localrate** is Ohio local

income tax revenue divided by Ohio personal income, in a future revision we should adjust **localrate** to reflect the fact that Ohio taxable income is probably smaller than Ohio personal income. In addition, starting in 2007, municipalities in Ohio could choose from two options: (1) a tax that was a flat percentage of state taxable income; or (2) a tax that was a flat percentage of earned income. It appears about half of municipalities chose each option. For now, the calculator assumes that the local tax is a percentage of taxable income in all localities in Ohio.

3 – Local tax =  $(\text{localrate}/100) * (\text{earned income})$ , and local income tax is treated the same as state income taxes for purposes of deductibility from the state income tax.

MO, PA

4 – Local tax =  $(\text{localrate}/100) * (\text{earned income})$ , local income tax is deductible from state income tax, and state income tax is not deductible from the state income tax. KY.

**localrate** Rate of local individual income tax.

## IX. DATA SET WITH FEDERAL TAX LAW PARAMETERS (IncTaxFed.csv)

All variables in IncTaxFed.csv have an "F" at the beginning of the variable name; any equivalent variable in IncTaxState.csv has the same name but with no "F" at the beginning (this does not apply to **Filertype**, which has an identical name in both data sets for purposes of merging SAS data sets in the calculator program). Cases where federal tax law variables have the same meaning and possible values as their counterparts in the state income tax data set are indicated with an asterisk (\*) -- see the variable list for IncTaxState.csv for descriptions of these variables. Note that projections for future years are based on federal income tax indexing rules, and current law as of July 2016. In cases where federal tax parameters are indexed for inflation, the projected future values are computed by formulas in the Excel spreadsheet using the values of the variables **Finfpiu** and **Fcpiu** (see documentation for those variables below for information on where the inflation projections come from). It is important not to re-sort IncTaxFed.xlsx because that can scramble the Excel formulas.

### YEAR AND FILING STATUS

- Fedyear** Federal tax year  
Note that between 1981 and 2004, if 0.1 is appended to **fedyear**, then the associated data refers to the federal tax law that would have applied in that year if the most recent major federal tax reform had not been enacted. So for example, **fedyear** = 1987.1 refers to the federal tax law that would have applied in 1987 if the Tax Reform Act of 1986 had not been enacted. If 0.2 is appended to **fedyear**, that refers to the federal tax law that would have applied in that year if the most recent *two* major federal tax reforms had not been enacted, and if 0.3 is appended to **fedyear** that refers to the federal tax law that would have applied in that year if the most recent *three* major federal tax reforms had not been enacted. Federal tax reforms enacted in 1981, 1982 (changes to minimum tax and AMT), 1983 (social security), 1986, 1990, 1993, 1997, 2001, and 2003 are counted as major federal tax reforms. In general, this is done for the first three years after the tax reform is enacted. Check the federal tax parameter spreadsheet (IncTaxFed.xls) for details on when this is available.
- Filertype** Filing status  
*s* -- Single  
*m* -- Married  
*h* -- Head of household
- Fedkey** Equals **Fedyear**\*100 + (1 if **Filertype**="h", 2 if **Filertype**="m", 3 if **Filertype**="s").

### TYPE OF TAX



**Ftaxtype** Type of federal personal income tax  
*none* -- No tax (prior to 1913), or no data available (after 2003).  
*fedinc* -- Federal personal income tax in effect (1913 - present)

### TREATMENT OF MARRIED COUPLES

**Fmarded** Deduction for married couple when both work  
*0* -- None  
*1* -- 1982 federal credit, 5% credit rate  
*2* -- 1983 federal credit, 10% credit rate

How it works:

EI = earned income = wages and salaries plus self-employment income from schedule C or F

NEI = net earned income = EI - employee business expenses and deductible retirement contributions

LNEI = lower-earning spouse's NEI

Deduction =  $.05 * \min(\text{LNEI}, 30000)$

**Fmultbrk** Does federal income tax have multiple bracket structures for different filing statuses?  
*0* -- No (1913-1947)  
*1* -- Yes (1948-present)

### EXCLUSIONS

**Fcgexpct** \*  
**Fdivexpct** \*  
**Fdivexamt** \*  
**Fintexpct** \*  
**Fdiexamt** \*

**Funemp** Federal treatment of unemployment insurance  
**ui** = gross unemployment compensation from input data set.  
Possible values:

*0* -- Not taxable (before 1979)

*1* -- 1979-81 treatment. UI in AGI =

$\min\{.5*\max[(\text{AGI not including UI}) + \text{UI} - E, 0], \text{UI}\}$ ,  
 where  $E = 20000$  (s, h) or  $25000$  (m)

2 -- 1982-86 treatment. Same as above, but  $E = 12000$  (s, h), or  $18000$  (m), and social security benefits excluded from definition of AGI used to calculate phase-out of exclusion.

3 -- UI is fully included in AGI (1987-2008, 2010 -)

4 -- First \$2,400 of UI is excluded from AGI, all UI above that level is included in AGI (2009).

**Fssbentax** Method of taxing social security benefits:  
 In formulae below, AGI includes everything in AGI except social security benefits.

0 -- Social security benefits are 100% excluded

1 -- Method that applied 1984-1993.

Soc sec benefits included in AGI =  
 $\min((\text{Fssr1}/100)*\text{ssben}, (\text{Fssr1}/100)*(\text{Fagi}+(\text{Fssr1}/100)*\text{ssben}-\text{Fssb1}))$

2 -- Method applying 1994-present.

Soc sec benefits included in AGI =  
 $\min((\text{Fssr2}/100)*\text{ssben}, (\text{Fssr2}/100)*\max(\text{Fagi}+\text{teint}+(\text{Fssr1}/100)*\text{ssben}-\text{Fssb2}, 0) + \min((\text{Fssr1}/100)*\text{ssben}, (\text{Fssr1}/100)*\min((\text{Fssb2}-\text{Fssb1}), \max(0, \text{Fagi}+\text{teint}+(\text{Fssr1}/100)*\text{ssben}-\text{Fssb1}))))$

3 -- 100% of social security benefits included in AGI (this has never applied).

**Fssb1** First income threshold used in social security benefit taxation calculation. (For 1984-present, \$25,000 for unmarried and \$32,000 for married).

**Fssb2** Second income threshold used in social security benefit taxation calculation. (For 1994-present, \$34,000 for unmarried and \$44,000 for married). Only applicable if **Fssbentax** = 2.

**Fssr1** First percentage rate used in social security benefit taxation calculation. (For 1984-present, 50%).

**Fssr2** Second percentage rate used in social security benefit taxation calculation.

(For 1994-present, 85%). Only applicable if **Fssbentax** = 2.

## EXEMPTIONS

|                   |   |
|-------------------|---|
| <b>Fexpercap</b>  | *   |
| <b>Fexreturn</b>  | *   |
| <b>Fex_dep</b>    | *   |
| <b>Fex_age</b>    | Value of extra federal exemption for age or blindness.  |
| <b>Fpctex</b>     | *   |
| <br>              |   |
| <b>Fexlim</b>     | Federal phase-out of personal exemptions applicable 1987-present.<br><i>0</i> -- Not applicable.<br><i>1</i> – Exemption phase-out of 1987-90 applies.<br><i>2</i> – Exemption phase-out of 1991-2009 or 2013 to present applies.<br><i>3</i> – Exemption phase-out same as 2 above, but amount of exemption lost is two-thirds of amount otherwise lost (applies 2006-7 under EGTRRA).<br><i>4</i> -- Exemption phase-out same as 2 above, but amount of exemption lost is one-third of amount otherwise lost (applies 2008-9 under EGTRRA).   |
| <br>              |   |
| <b>Fminexlim</b>  | AGI threshold at which phase-out of personal exemptions begins. If <b>Fexlim</b> is set to zero, then <b>Fminexlim</b> will be ignored by the SAS code, and should be set to zero.  |
| <br>              |   |
| <b>Fexlimrate</b> | Percentage rate used in personal exemption phase-out calculation<br>Led $FDTXBASE$ = federal taxable income,<br>and $EXEMPT$ = total value of exemptions before phase-out<br><br><i>5</i> -- Rate applicable from 1988-90.<br>If $fdtxbase > Fminexlim$ , tax increase from phase-out =<br>$\min[.28 * EXEMPT, (Fexlimrate/100) * (FDTXBASE - Fminexlim)]$<br><br><i>0.0008</i> -- Rate applicable 1991-present.<br>If $AGI > Fminexlim$ , Allowable exemption =<br>$\max[exempt - (AGI - Fminexlim) * (Fexlimrate/100), 0]$<br>During 1991 through 2005 and 2013 - present, the federal income tax instructions present this as taxpayers losing 2% of the value of their personal exemptions for every \$2500 by which AGI exceeded the threshold given in <b>Fminexlim</b> . The 0.0008 comes from $(.02/2500) * 100\% = 0.0008$ . The rate at which exemptions are lost was effectively 2/3 <sup>rd</sup> the normal rate in 2008-2007 and 1/3 <sup>rd</sup> the normal rate in 2008-2009, but this is handled through the coding of <b>Fexlim</b> as 3 or 4, not by adjusting the value of <b>Fexlimrate</b> .<br><br>Note: if <b>Fexlim</b> is set to zero, then <b>Fexlimrate</b> will be ignored by the SAS code and should be set to zero. |

## STANDARD DEDUCTION

|                    |   |
|--------------------|---|
| <b>Fminstded</b>   | *   |
| <b>Fmaxstded</b>   | *   |
| <b>Fminstded_d</b> | *   |
| <b>Fmaxstded_d</b> | *   |
| <b>Fminstded_a</b> | *   |
| <b>Fmaxstded_a</b> | Amount of increase in maximum standard deduction for each taxpayer or spouse aged 65 or over or blind (maximum of two increases). Applies 1987 and later years. |
| <b>Fpctstded</b>   | *   |
| <b>Fzba</b>        | *   |

## ITEMIZED DEDUCTIONS

Note: deductions for state and local property taxes and income taxes, and for casualty losses, were allowable continuously since 1913, and the calculator takes this into account. Variables are provided only for major itemized deductions that changed at some point.

|                 |   |
|-----------------|---|
| <b>Fcharded</b> | Deduction for charitable contributions.<br><i>0</i> -- No deduction for charitable contributions.<br><br><i>1</i> -- Charitable deductions are deductible, but only for itemizers when there is a standard deduction or zero bracket amount.<br><br><i>2</i> -- Charity is deductible for itemizers. For non-itemizers, deduction is $0.25 * \min(100, \text{charity})$ . (1982-83).<br><br><i>3</i> -- Charity is deductible for itemizers. For non-itemizers, deduction is $0.25 * \min(300, \text{charity})$ . (1984).<br><br><i>4</i> -- Charity is deductible for itemizers. For non-itemizers, deduction is $0.5 * \text{charity}$ . (1985).<br><br><i>5</i> -- Charity is deductible for itemizers. For non-itemizers, charity is also fully deductible. (1986). |
| <b>Fchlim</b>   | Maximum charitable deduction as a percentage of AGI.<br>The calculator now imposes this limit when it is binding. The calculator's detailed output files provides information on whether the limit was binding in the variable <b>Fchlimbind</b> . Note that the 50% of AGI limit for charitable deductions was temporarily suspended in 2005 for certain donations. The calculator currently deals with this by not imposing any % of AGI limit on charity if <b>Fchlim</b> is set to zero, as it is in 2005.  |

|                    |  |
|--------------------|--|
| <b>Fintded</b>     | *  |
| <b>Fmedded</b>     | <p>Deduction for medical expenses, % of AGI floor<br/> <i>0</i> -- No deduction is allowed (1913-1943)<br/> <i>Number &gt; 0</i> -- Percent of AGI floor (only expenses above the floor are deductible) [Note: from 2013 through at least 2016 this percentage is temporarily reduced to 7.5 if taxpayer or spouse is aged 65 or above – this is hard-coded into SAS in the MakeData macro. When updating the tax calculator, check Internal Revenue Code Section 213 (<a href="https://www.law.cornell.edu/uscode/text/26/213">https://www.law.cornell.edu/uscode/text/26/213</a>) to see if this temporary provision has been extended].</p> |
| <b>Fsaleded</b>    | <p>Are state and local sales taxes deductible?<br/> <i>0</i> -- No deduction is allowed (1913-1943, 1987-2003)<br/> <i>1</i> – Yes (1944-1986)<br/> <i>2</i> – May choose between sales tax deduction and income tax deduction (2004-2014). Note that this is one of those provisions that is set to expire almost annually and often gets restored by last-minute legislation.</p>  |
| <b>Fbuseded</b>    | <p>Are unreimbursed employee business expenses an itemized deduction?<br/> <i>0</i> -- No, unreimbursed employee business expenses are an adjustment (1913-86)<br/> <i>1</i> -- Yes, unreimbursed employee business expenses are an itemized deduction subject to 2% AGI floor along with miscellaneous deductions (1987-present)</p>  |
| <b>Fmovexded</b>   | <p>Are moving expenses an itemized deduction?<br/> <i>0</i> -- No, moving expenses are an adjustment (1913-86, 1994-present)<br/> <i>1</i> -- Yes, moving expenses are an itemized deduction (1987-93)</p>   |
| <b>Fcasdedlim</b>  | <p>Deduction for casualty losses, % of AGI floor<br/> <i>0</i> -- Casualty losses are an itemized deduction, and there is no % of AGI floor<br/> <i>Number &gt; 0</i> -- Percent of AGI floor (only expenses above the floor are deductible). Equals 10 from 1983-present</p>  |
| <b>Fidphthresh</b> | <p>AGI threshold where limitation of itemized deductions begins. (This is part of the “Pease” limitation). Applicable 1991-2009 and 2013 - . If itemized deductions are not limited, <b>Fidphthresh</b> should be set to zero.</p>   |
| <b>Fidphrate</b>   | <p>Percentage phase-out rate applicable for itemized deductions (also known as the “Pease” provision). Applicable 1991-2009, 2013 - .<br/> Allowable itemized deductions = protected deductions + max[.2*(unprotected deductions), (unprotected deductions) - (<b>Fidphrate</b>/100)*(AGI - <b>Fidphthresh</b>)]</p>   |

EGTRRA gradually phased this out during 2006 – 2009. In 2006 and 2007, the amount of itemized deductions lost is reduced to two-thirds what it would be otherwise. This is handled by setting **Fidphrate** = 2. The SAS code is written so that when **Fidphrate** = 2, no more than  $(2/3)*80\%$  of itemized deductions can be lost. In 2008 and 2009, the amount of itemized deductions lost is reduced to one-third of what it would be otherwise. This is handled by setting **Fidphrate** = 1. The SAS code similarly interprets this as meaning that the maximum loss of itemized deductions cannot exceed  $(1/3)*80\%$ . The provision did not apply 2010-2012, and then was reinstated with **Fidphrate** = 3 and higher thresholds for **Fidphthresh** starting in 2013. Unprotected deductions equals total itemized deductions less protected deductions. Protected deductions include medical and dental expenses, investment interest, casualty and theft losses, and any gambling or casualty losses included in “other miscellaneous deductions.” Certain qualified charitable contributions (those made in cash or by check to organizations not subject to the 30% of AGI limit) that were made between August 27, 2005 and December 31, 2005 were also included in the list of “protected deductions,” as well as being exempted from the limitation of deductible contributions to 50 percent of AGI. This special treatment of charity in late 2005 for purposes of calculating the Pease limitation is not yet reflected in the tax calculator program.

## BRACKETS AND RATES

**Fbracknum** \*  
**Fb1-Fb55** \*  
**Fr1-Fr55** \*

## INCOME AVERAGING

Applies 1964-1986.

How it works (approximately):

Let **avglaginc** = Annual average of lagged taxable income (previous 4 years from 1964-1983, previous 3 years from 1984-86), and TI = taxable income

If  $TI - \mathbf{avglaginc} > \max[(\mathbf{Fincavg}/100)*\mathbf{avglaginc}, 3000]$ ,  
then re-compute tax liability by applying the average tax rate that applies to the first 20% (25% starting in 1984) of the excess of TI over  $(1+(\mathbf{Fincavg}/100))*\mathbf{avglaginc}$  in the ordinary tax to all of that excess.

Notes: from 1970-78, it appears that taxpayers had to choose between income averaging and alternative capital gains tax computation -- they could not use both. Prior to 1970, there were some complicated adjustments to the income averaging computation involving capital gains, but these are currently ignored by the program since we are unlikely to have sufficient information to compute the effects of income averaging provisions before 1970 anyway (because panel data does not exist for those years). In 1981, taxpayers could use income averaging and the alternative capital gains computation at the same time, and this is incorporated into the program.

**Fincavg** Does income averaging apply / percentage used in income averaging formula.

*0* -- Income averaging does not apply (1913-1963, 1987-present)

*Number > 0* -- Percentage by which current taxable income must exceed lagged taxable income for income averaging to apply (33.3% from 1964-1969, 20% from 1979-1983, 40% from 1984-86)

## SPECIAL TAXES

**Fsptrx** Type of special tax. For federal, this just includes alternative taxes on capital gains that involved only one tax rate (those with multiple rates required coding in the "extra" tax section)

*cgmax1* -- Alternative maximum tax on capital gains. Pay smaller of regular tax, and regular tax recomputed without capital gains, plus **sptxrate** rate times capital gains.

*cgmax2* -- Alternative maximum tax on capital gains, where any gains taxed below the maximum rate already continue to be taxed at those below-maximum rates. Any gains that would otherwise be taxed at a rate above **sptxrate** are taxed at **sptxrate**.

*cgmax3* -- Alternative maximum tax on capital gains that applied at the federal level 1972-78. Let TI = income, and T(.) be the ordinary tax function which is defined by the regular bracket and rate structure. It works as follows:

If  $LTCG \leq \$50K$ :  

$$\text{tax liability} = T(TI - (1 - (\text{cgexpct}/100)) * \text{ltcg}) + (\text{sptxrate}/100) * (1 - (\text{cgexpct}/100)) * \text{ltcg}.$$

If  $LTCG > \$50K$ :  

$$\text{tax liability} = T(TI - (1 - (\text{cgexpct}/100)) * \text{ltcg}) + (\text{sptxrate}/100) * (1 - (\text{cgexpct}/100)) * \text{sptxex}$$

$$+ [T(TI)-T(TI-(1-(cgexpct/100))*LTCG+(1-(cgexpct/100))*sptxex)],$$

In this case, **sptxex** = 50000, and **sptxrate**=50.

**Fsptxex** \*  
**Fsptxrate** \*

## EXTRA FEDERAL INCOME TAX STRUCTURE

**Ftaxtype** Type of extra federal tax  
 Note: there is no “base” variable for the extra federal tax, since base is automatically defined by the value of **Ftaxtype**. Also note that changes in the taxation of capital gains coded into **Ftaxtype** will often have implications for the alternative minimum tax. SAS code to implement provisions analogous to **Ftaxtype** = *cgmax5*, *cgmax6*, and *cgmax7* is included in the section of the program on the federal alternative minimum tax, under **Famttype** = 7.

*none* – No extra tax is applicable.

*paratax* -- Parallel tax on some measure of income. In case of federal, this starts with gross income, then subtracts exclusions, deductions, and exemptions specified in rest of the variables for the tax. At the federal level, this applies to certain years between 1913-37 and 1943-45 when normal taxes and complicated surtaxes operated in tandem.

*cgmax4* -- Alternative maximum tax on capital gains with multiple brackets. It works like **Fsptx** = *cgmax1* above, but with multiple brackets and rates applying to different amounts of capital gains. Maximum tax on amount of capital gains in second bracket is:  $\min[\mathbf{Fxr2}*(LTCG-\mathbf{Fxb1}), T(TI)-T(TI-.5\mathbf{Fxb1})]$ , where  $T(.)$  is the ordinary tax function,  $TI$  is taxable income, and  $LTCG$  is long term capital gains.

*cgmax5* -- Reduced tax rates on capital gains, applicable at federal level 1997-2002. Essentially, capital gains that would have been taxed under the first tax bracket (1997-2001) or the first two brackets (2002-) in the regular tax are taxed at **Fxr1** instead, and gains that would have been taxed in a higher bracket are taxed at **Fxr2**. The dollar amount of the dividing point between brackets is in **Fxb2**. Total tax liability =  $T(TI-LTCG)+$ tax on capital gains, where  $T(.)$  is the ordinary tax function defined by brackets and rates,  $TI$  is taxable income, and  $LTCG$  is the measure of long-term gains subject to special treatment. Starting in 2001, **Fxr1** was lower if the asset had been held more than five years – the calculator consistently assumes that **lctg** represents gains from the longest-



term category. In addition, the 1997 legislation specified that assets bought in 2001 and later years and then subsequently held for five years would eventually be taxed at 18%, rather than the 20% reflected in **Fxr2**. The 2003 act obviated this feature before it began to apply, so we use the 20% top rate through 2002.

*cgmax6* – 2003 – 2012. Same as *cgmax5*, but qualified dividends are now taxed like long-term capital gains.

*cgmax7* – 2013 - . Reduced tax rates on capital gains and qualified dividends applicable at the federal level from 2013 on. This is very similar to *cgmax6* except that it allows for an additional tax rate and an additional bracket threshold for the taxation of capital gains and qualified dividends. Capital gains and qualified dividends that would have been taxed at a rate of **Fr2** or below if it were ordinary income is taxed at a rate of **Fxr1** instead. Capital gains and qualified dividends that would have been taxed at a rate of **Fr3**, **Fr4**, **Fr5**, or **Fr6** if it were ordinary income is taxed at a rate of **Fxr2** instead. Capital gains and qualified dividends that would have been taxed at a rate of **Fr7** if it were ordinary income is taxed at a rate of **Fxr3** instead. **Fxb1** equals zero. Stack taxable income so that capital gains and qualified dividends are at the top. The portion of capital gains and qualified dividends that are in the slice of taxable income between **Fxb1** and **Fxb2** is taxed at marginal rate of **Fxr1**. The portion of capital gains and qualified dividends that are in the slice of taxable income between **Fxb2** and **Fxb3** (if any) is taxed at a marginal tax rate of **Fxr2**. The portion of capital gains and qualified dividends that are in the slice of taxable income above **Fxb3** (if any) are taxed at a marginal tax rate of **Fxr3**.

**Fxcgexpct** \*  
**Fxdivexpct** \*  
**Fxexreturn** \*  
**Fxex\_dep** \*  
**Fxpctex** \*  
**Fxmaxstded** \*  
**Fxpctstded** \*  
**Fxcred\_dep** \*

**Fxintded** \* (Note: if **Fxintded**=1, then all other itemized deductions are the same as in the ordinary tax)

**Fxbracknum** \*  
**Fxb1-Fxb3** \*  
**Fxr1-Fxr3** \*

MAXIMUM TAX ON EARNED INCOME

This was also called the “maximum tax on personal service income” in some years. It was applicable 1971-1981. How it works:

Before any adjustment for alternative capital gains computation:

EI (Earned income) = wages, salaries, Sch. C self-employment income, and 30% of net profits of a business where taxpayer contributed both capital and labor (which could include Sch. C, but need to check). Starting 1977, pension income becomes included in EI. Currently, calculator includes in EI for the purposes of this provision wages and salaries, all Sch. C self-employment income, and pension benefits where applicable. The 30% provision is currently ignored.

ED (Employment deductions) = employee business expenses and moving expenses.

ENI (Earned net income) = EI - ED

ELTCG = excluded long-term capital gains (50% excluded through 1978, 60% from 1979-86).

TPI = Tax preference items

1969-1975: TPI = ELTCG + excess investment interest + accelerated depreciation on low-income rental housing, real property, or personal property subject to a net lease + amortization of pollution control facilities or railroad rolling stock + stock options + bad debt reserves + depletion

1976: TPI = Same as above, plus "adjusted itemized deductions between 60% and 100% of AGI" are also a tax preference. Adjusted itemized deductions = total itemized deductions less medical & dental expenses and casualty losses.

1977-78: same as above, but \$30,000 exemption removed, and pension income added to EI. Also, in 1978 only, excluded capital gains are no longer a tax preference item for purposes of the maximum tax.

1979-81: TPI = Same as 1978, except adjusted itemized deductions now exclude state and local taxes as well.

TPIEX = exclusion for tax preference items (\$30,000 1971-76 , \$0 1977-81)

ETI = Earned taxable income = [(ENI / AGI)\*TI] - (TPI - TPIEX)

TAX(.) = Normal tax rate bracket structure

MAXTAX(.) = Normal tax rate and bracket structure adjusted to set rates above the maximum to the maximum rate (60% in 1971, 50% after that, contained in **Fmaxeirate**).

TOI (tax on other income) = TAX(TI) - TAX(ETI).

OMAXTAXLIAB (ordinary maximum tax liability)  
= MAXTAX(ETI) + TOI

Taking alternative capital gains computation into account:

Alternative capital gains computation applied through 1978 and in 1981.  
See **Fspstx** and **Ftaxtype** for details on that.

ATCG = alternative tax on capital gains (note that 1972-78, ATCG is just the tax on the first \$50,000 of LTCG before exclusion)

MAXTAXLIAB = Min{OMAXTAXLIAB, OMAXTAXLIAB - [TAX(TI) - TAX(TI - ELTCG)] + ATCG}

The maximum tax calculation is actually a lot more complicated than described above in 1981, because of complicated interactions with the alternative capital gains computation and the rate reduction credit. See calculator SAS code for details.

**Fmaxeitype** Type of maximum tax on earned income  
0 -- None (1913-1970, 1982-present)  
1 -- With alternative capital gains tax calculation and \$30,000 preference exemption (1971-1975)  
2 -- Same as 1, but with itemized deduction limitation (1976)  
3 -- Same as 2, but pension benefits count as earned income, and \$30,000 exemption for preference items removed (1977-78). Excluded capital gains no longer a tax preference item starting in 1978.  
4 -- Same as 4, but alternative capital gains tax calculation is only relevant in 1981, and excluded capital gains and state and local taxes are no longer a preference item (1979-81)

**Fmaxeirate** Maximum tax rate on earned income (60% in 1971, 50% 1972-81)

MINIMUM TAX (A.K.A. "ADDITIONAL TAX FOR TAX PREFERENCES)

Applies 1970-1982.

How it works:

Minimum tax =

$(\text{Fmintaxrate}/100) * \max(0, \text{TPI} - \max(\$10,000, .5 * \text{income tax after credits}))$   
- unused credits for elderly, child care, political contributions, and energy

TPI = tax preference items, defined below.

**Fmintaxtype** Type of minimum tax. This is a tax on "tax preference items" (TPI).  
Definition of TPI includes:

0 -- 1913-1969, 1983-present: no minimum tax

1 -- 1970-1975: TPI = excluded LTCG + excess investment interest + accelerated depreciation on low-income rental housing, real property, or personal property subject to a net lease + amortization of pollution control facilities or railroad rolling stock + stock options + bad debt reserves + depletion

2 -- 1976-78: = Same as above, plus "adjusted itemized deductions between 60% and 100% of AGI" are also a tax preference. Adjusted itemized deductions = total itemized deductions less medical & dental expenses and casualty losses.

3 -- 1979-82 = Same as above, minus excluded LTCG and preference itemized deductions (which are now in the AMT)

**Fmintaxrate** Percentage rate applied to tax preference income

0 -- 1913-1969, 1983-present

10 -- 1970-75

15 -- 1975-82

### ALTERNATIVE MINIMUM TAX (AMT)

Calculator involves some approximations in calculating the AMT. For example, complicated interactions with credits are ignored. AMT is computed by subtracting ordinary tax liability (before credits) from tentative alternative minimum tax.

Adjustments for things like the foreign tax credit are ignored. From its inception in 1979, the AMT could affect whether itemizing was advantageous or not, so from then on, itemization status for those potentially subject to the AMT is based on tax minimization rather than comparison between itemized deductions and standard deductions. Also note that it was possible for taxpayers subject to the alternative minimum tax to face a *negative* marginal tax rate on income. This would occur when tax credits (other than the foreign tax credit) were equal to or larger than ordinary tax liability, and the marginal rate in the AMT was below the marginal rate in the ordinary tax.

**Famttype** Type of alternative minimum tax.

Each value represents a different method for calculating the base for AMT. The descriptions of how the AMT works offered below are approximations reflecting the limited array of information supplied in the input data set. The different possible values for **Famttype** do not include changes in rates or exemptions, which are coded in separate variables (see below).

0 -- No AMT (1913-1978)

1 -- AMT base applicable in 1979-80, 1982.

AMTI (AMT taxable income) = AGI - exemptions - (deductions including ZBA) + ADJITEM + excluded capital gains.

ADJITEM = itemized deductions except medical, casualty, and tax, in excess of 60% of (AGI - allowable deductions).

TAMT = Bracket and rate schedule applied to (AMTI - Famtex).

AMT (AMT tax liability) =

max(0, TAMT - income tax after credits - mintax)

2 -- AMT base applicable in 1981.

AMTI is the same as in 1. Rates change. TAMT is now the minimum of TAMT under the old rates, or TAMT under the new rates but computed on (AMTI - excluded capital gains), plus a 20% tax on excluded capital gains. Thus the AMT may use either 1980 brackets or 1981 brackets under different circumstances (see above). Since 1981 brackets are the same as 1980 but with the top bracket lopped off, the 1980 brackets are coded in for 1981, and program appropriately accounts for this.

3 -- AMT base applicable in 1983-1986.

AMTI (AMT taxable income) = AGI - (allowable itemized deductions) + (excluded capital gains + dividend exclusion + other preference items).

Allowable itemized deductions that we can recover = charity + interest + medical(>10% of AGI, normally 5%) + casualty.

TAMT = Bracket and rate schedule applied to (AMTI - Famtex).

AMT = max(0, TAMT - income tax after credits)

4 -- AMT base applicable in 1987-90.

AMTI = TI + (standard deduction or disallowed itemized deductions) + (personal exemptions after phase-out) + (capital gain portion of contributions of appreciated property) + (adjustment to net operating loss deduction) + (other adjustments and tax preference items)

Disallowed itemized deductions = taxes + (medical expenses between 7.5% of AGI and 10% of AGI) + miscellaneous

TAMT = Bracket and rate schedule applied to [AMTI - (Famtex after phase-out)]

AMT = max(TAMT - income tax before credits, 0)

5 -- AMT base applicable in 1991-92.

Same as 4, except that itemized deductions lost to limitation are now subtracted from alternative minimum taxable income. In addition, capital gains on charitable contributions of appreciated tangible personal property were temporarily removed from AMT base for 1991 and 1992, but this change is currently ignored by the calculator. If a gift of appreciated assets is specified in the input data set in the **chareg** variable, it is assumed to be a gift of intangible property, and thus still subject to AMT in these years. So in effect, Famtype=5 is the same as Famtype=4 for purposes of the calculator.

6 -- AMT base applicable in 1993-96.

Same as 5, but capital gain on all charitable contributions now permanently removed from AMT base, which is reflected in the calculator. Also, itemized deductions lost to the limitation of itemized deductions for high-income households are now subtracted from AMTI (to avoid counting itemized deductions that are not actually deductible under the ordinary tax as preference items for the AMT). It appears from the tax forms that this last feature was not taken into account by the AMT in 1991-92, although this seems like such an obvious problem that I may just be missing how they fixed it in those years. There is also now an adjustment for carryovers of charitable contributions that exceed the 50% of AGI limit (to adjust for a different definition of AGI used by the AMT). This feature not taken into account by calculator.

7 -- AMT base applicable 1997-present.

Same as 6, but now  $TAMT = TAMT(AMTI - LTCG) + \text{Tax on capital gains}$ .

$AMT = TAMT - \text{income tax before credits}$

The tax on capital gains is the same as tax on capital gains in the ordinary income tax – see **Fxtaxtype** = *cgmax5*, *cgmax6*, and *cgmax7*.

Starting in 2000, AMT is added to tax liability before credits, so that credits can now offset AMT liability.

|                   |   |
|-------------------|---|
| <b>Famtex</b>     | AMT exemption amount                                |
| <b>Famtexth</b>   | AMT exemption phase-out threshold                   |
| <b>Famtexrate</b> | Cents of exemption lost per \$ AMTI above threshold |
| <b>Famtb1</b>     | bottom of 1st AMT bracket                           |
| <b>Famtb2</b>     | bottom of 2nd AMT bracket                           |
| <b>Famtb3</b>     | bottom of 3rd AMT bracket                           |
| <b>Famtr1</b>     | 1st AMT rate (%)                                    |
| <b>Famtr2</b>     | 2nd AMT rate (%)                                    |
| <b>Famtr3</b>     | 3rd AMT rate (%)                                    |
| <b>Famtbrkn</b>   | Number of brackets for AMT                          |

## GENERAL CREDITS

**Fcrpercap** \*

## CHILD TAX CREDIT

How it works:

If  $AGI < \mathbf{Fkidcthresh}$ , then credit =  $\mathbf{Fkide} * \mathbf{kids}$ .

If  $AGI > \mathbf{Fkidcthresh}$ , then credit  
=  $\max[0, \mathbf{Fkide} * \mathbf{kids} - (\mathbf{Fkidcrate}/100) * (AGI - \mathbf{Fkidcthresh})]$ .

Child credit is non-refundable through 2000. Starting in 2001:

If  $< 3$  kids, refundable child credit =  $\min\{\mathbf{Fkidcrefrate} * (EI - \mathbf{Fkidcrefinc}), \max[0, \mathbf{Fkide} * \mathbf{kids} - (\text{income tax after other non-refundable credits})]\}$

If 3 or more kids, refundable child credit =  $\min\{\max[\mathbf{Fkidcrefrate} * (EI - \mathbf{Fkidcrefinc}), (\text{soc sec and medicare taxes} - \text{EIC})], \max[0, \mathbf{Fkide} * \mathbf{kids} - (\text{income tax after other non-refundable credits})]\}$

**Fkide** Amount of child tax credit per child

**Fkidcthresh** AGI threshold where phase-out of child tax credit begins

**Fkidcrate** Percentage phase-out rate, percent. Credit is reduced by  $(\mathbf{Fkidcrate}/100)$  for every dollar of AGI above threshold.

**Fkidcrefinc** Income threshold above which child tax credit is refundable

**Fkidcrefrate** Percentage of earned income above  $\mathbf{Fkidcrefinc}$  that becomes refundable child credit.

## EARNED INCOME CREDIT

How it works:

Modified adjusted gross income (MAGI) =  $AGI (+ \mathbf{teint}$  through year 1999)

Earned income (EI) is essentially wages and salaries plus self-employment income.

$EIC(.)$  is the earned income credit as a function of income, defined by bend points and phase-in rates coded below.

If  $MAGI \leq 2\text{nd kink}$ , then  $EIC = EIC(EI)$

If  $MAGI > 2\text{nd kink}$ , then  $EIC = \min[EIC(EI), EIC(AGI)]$

|                   |   |
|-------------------|---|
| <b>Feicphin0</b>  | EIC phase-in rate, %, 0 kids  |
| <b>Feicphin1</b>  | EIC phase-in rate, %, 1 kid   |
| <b>Feicphin2</b>  | EIC phase-in rate, %, 2 or more kids  |
| <b>Feicphin3</b>  | EIC phase-in rate, %, 3 or more kids. If set to zero, <b>Feicphin2</b> is used. Becomes relevant starting in 2009.  |
| <b>Feic1bend0</b> | EIC 1st bend point, 0 kids  |
| <b>Feic1bend1</b> | EIC 1st bend point, 1 kid   |
| <b>Feic1bend2</b> | EIC 1st bend point, 2 or more kids  |
| <b>Feic2bend0</b> | EIC 2nd bend point, 0 kids  |
| <b>Feic2bend1</b> | EIC 2nd bend point, 1 kid   |
| <b>Feic2bend2</b> | EIC 2nd bend point, 2 or more kids  |
| <b>Feicphout0</b> | EIC phase-out rate, %, 0 kids   |
| <b>Feicphout1</b> | EIC phase-out rate, %, 1 kid  |
| <b>Feicphout2</b> | EIC phase-out rate, %, 2 or more kids   |
| <b>Feiclim0</b>   | Maximum MAGI to be eligible for EIC, 0 kids   |
| <b>Feiclim1</b>   | Maximum MAGI to be eligible for EIC, 1 kid  |
| <b>Feiclim2</b>   | Maximum MAGI to be eligible for EIC, 2 kids   |
| <b>Feiclim3</b>   | Maximum MAGI to be eligible for EIC, 3 kids (if set to zero, <b>Feiclim2</b> is used). Becomes relevant starting in 2009.   |
| <b>Feiciilim</b>  | Maximum investment income allowed before taxpayer is disqualified from EIC (begins in 1996). For purposes of the tax calculator, investment income is defined as: $[\text{int1} + \text{int2} + \text{teint1} + \text{teint2} + \text{div1} + \text{div2} + \text{lctg1} + \text{lctg2} + \max(\text{rentinc1}, 0) + \max(\text{rentinc2}, 0)]$ . The definition of investment income used in federal law is actually slightly more |



complicated than this, but this is the closest we can get with the available input variables.

### SOCIAL SECURITY PAYROLL TAX

Information on social security payroll tax liability is currently only used to calculate itemized deductions for the few states that allow a deduction for the employee portion of payroll taxes. Note that taxpayers in the phase-in range for taxation of social security benefits could face very high marginal tax rates. For instance, over a certain part of the phase-in range in recent years, the effective marginal tax rate is 1.85 times the ordinary marginal tax rate.

**Fssrate** Federal social security (OASDI) payroll tax rate, combined employer-employee. (%)

**Fsscapp** Maximum taxable earnings for OASDI payroll tax. Projections for future years are the intermediate projections from the *Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Projections in the current version are from the 2016 Trustees' report, available at <https://www.ssa.gov/oact/TR/2016/tr2016.pdf>. Values of **Fsscapp** through 2025 are from Table V.C1 from that publication, from the column labeled "Contribution and Benefit Base." Values of **Fsscapp** for 1975 through 2014 are from the "Historical data" rows of that table, and values for 2015 through 2025 are from the "Intermediate" rows of that table. The figures for 2026 and 2027 are based on indexing rules laid out in 42 USCS § 430 of the U.S. Code (which can be found on Lexis-Nexis), together with projections from the 2016 Social Security Trustees report tables V.C1 and V.B1. So for example, the 2026 value of **Fsscapp** is determined multiplying the 1992 value of **Fsscapp** (\$62,600) by the ratio of the intermediate projected average wage index in 2025 to its value in 1992 (which was \$22,935.42), and then rounding to the nearest multiple \$300. Table V.C1 indicates that the average wage index in 2025 is \$79,668.95 and then Table V.B1 indicates that the intermediate projection of the annual growth rate in the "average annual wage in covered employment" from 2025 through 2030 is 3.89 percent. So to find the value of **Fsscapp** for 2026 compute  $(\$79,668.95/\$22,935.42)*\$62,600$  and round to the nearest multiple \$300, which gives you \$195,600. To find the value of **Fsscapp** for 2027, compute  $(\$79,668.95*1.0389/\$22,935.42)*\$62,600$  and round to the nearest multiple of \$300 to get \$203,100.

**Fhirate** Federal hospital insurance (Medicare) payroll tax rate, combined employer-employee. (%). Note that **Fhirate** does not include the new 0.9 percent HI tax on high-income people that was adopted as part of the Affordable Care Act – the parameters of that tax are coded into the variables **Fhirate2** and **Fhithresh2** below.

|                   |   |
|-------------------|---|
| <b>Fhicap</b>     | Maximum taxable earnings for HI.<br>Zero means no limit.  |
| <b>FssrateSE</b>  | Federal OASDI payroll tax rate for self-employed  |
| <b>FhirateSE</b>  | Federal HI payroll tax rate for self-employed. Note that <b>FhirateSE</b> does not include the new ACA Additional Medicare Tax (this is stored in <b>Fhirate2</b> instead).   |
| <b>Fhirate2</b>   | Tax rate (in percentage points) for the additional federal HI tax applying to the portion of wages, salaries, and self-employment income of an unmarried taxpayer or married couple that exceeds the threshold specified in <b>Fhithresh2</b> , as a result of the Patient Protection and Affordable Care Act of 2010.  |
| <b>Fhithresh2</b> | The portion of an unmarried taxpayer or married couple's wage and salary and self-employment income that exceeds the threshold defined in <b>Fhithresh2</b> is subject to an HI tax at a rate of <b>Fhirate2</b> percent, as a result of the Patient Protection and Affordable Care Act of 2010.  |
| <b>Fhirate3</b>   | Tax rate (in percentage points) for the additional federal HI tax applying to net investment income received by an unmarried taxpayer or married couple with modified AGI exceeding the threshold specified in <b>Fhithresh3</b> , as a result of the Patient Protection and Affordable Care Act of 2010. "Net investment income" is defined to include most forms of capital income included on the personal income tax return, such as capital gains, dividends, royalties, and rents, as well as business income from pass-through entities when the business is a "passive activity" of the taxpayer (calculator currently assumes all partnership and S-corporation income is "passive"). Modified AGI is defined as federal AGI plus net excluded foreign earned income. The tax rate <b>Fhirate3</b> is applied to a base equal to the smaller of net investment income or the excess of modified AGI over the threshold amount in <b>Fhithresh3</b> . |
| <b>Fhithresh3</b> | The threshold for modified AGI above which an unmarried taxpayer or married couple is subject to HI tax on net investment income as a result of the Patient Protection and Affordable Care Act of 2010.   |

### CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

In general, deduction, or expenditures eligible for credit, was limited to the earned income of the lower-earning spouse. Note that in cases where the maximum allowable credit was a step function of income, the calculator computes an approximation based on a linear phase-out.

**Fkcaretype** Type of provision for child and dependent care expenses

0 = none (prior to 1954)

1 = Itemized deduction (1954-1963). Maximum deduction was \$600. For married couple, if AGI > \$4,500, deduction reduced by \$1 for each \$1 of AGI above \$4,500.

2 = Itemized deduction (1964-1971). Maximum deduction was \$600 for one child or \$900 for two or more. The deduction is phased out with income for married couples only; for single parents, there was no phase-out. For married couples, the full deduction is allowed if AGI < \$6,000; deduction was then reduced by \$1 for each \$1 of AGI above \$6,000.

3 = Itemized deduction (1972-1975). Maximum deduction was \$2400 for one child, \$3600 for 2, or \$4800 for 3 or more. Deduction is phased out with income for all filing statuses. Full deduction available if AGI < \$18,000; deduction reduced by 50 cents for each dollar of AGI above \$18,000.

4 = Flat rate credit (1976-1981). Maximum eligible expenditures \$2,000 for 1 kid, \$4,000 for two or more. Credit rate is 20%.

5 = Flat rate credit (1982). Same as above, but maximum eligible expenditures increased to \$2,400 and \$4,800.

6 = Graduated rate credit (1983-2002). Same as above, but credit rate ranged from 30% for AGI below \$10,000, to 20% for AGI above \$28,000. Calculator approximates the phase-down of the credit rate with a smooth function. From 1987 through 1997, the amount of the credit was limited to be no larger than the amount by which federal tax liability before credits exceeded tentative alternative minimum tax. From 1998 through 2001, the credit was limited to be no larger than federal tax liability before credits. In 2002 and later years, the credit was limited to be no larger than the sum of federal tax liability before credits and AMT. The limitations are implemented in the part of the SAS code where final federal tax liability (**taxf**) is calculated, and do not affect the value of **Fkcarecred**, which is the gross credit before limitation. (The foreign tax credit also plays some role in the limitation but we ignore this).

7 = Graduated rate credit (2003-?). Maximum eligible expenditures rise to \$3,000 for 1 kid and \$6,000 for two or more kids. Credit rate now ranges from 35% for AGI below \$15,000, to 20% for AGI above \$43,000. Calculator approximates the phase-down of the credit rate with a smooth function. The credit is limited to be no larger than the sum of federal tax liability before credits and AMT. This limitation is implemented in the

part of the SAS code where final federal tax liability (**taxf**) is calculated, and does not affect the value of **Fkcarecred**, which is the gross credit before limitation. (The foreign tax credit also plays some role in the limitation but we ignore this).

CREDIT FOR ELDERLY AND DISABLED (A.K.A. RETIREMENT INCOME CREDIT)

Minimum age for eligibility is assumed to be 65 throughout. In some years, people below age 65 who had government employee pension income could also receive this credit -- we ignore this.

- Feldctype**      Type of federal credit for elderly and disabled
- 1 -- Non-refundable credit =  $(Feldcrate/100) * \{ \min[pen+div+int+rent, \max[0, Feldcbase - nontaxssben - \max(0, EI - Feldcex)]] \}$  -- separate calculation for each spouse. EI is earned income.
- 2 -- Same as 1, but half of labor income between Feldcex and Feldcex2 is excluded
- 3 -- Same as 2, but if over 65, spouses have the option of calculating separately using Feldcbase, or using Feldbase2, from which is subtracted the sum of their social security benefits and each spouse's labor income over his or her own exclusion.
- 4 -- If  $\geq 65$ , non-refundable credit =  $(Feldcrate/100) * \max[0, Feldcbase - nontaxssben - .5 * \max(0, AGI - Feldlcex)]$ . For joint returns: pool incomes, do a single calculation. Feldcbase applies if only one spouse  $\geq 65$ , Feldbase2 applies if both are  $\geq 65$ .
- Feldcbase**      "Base" (maximum amount of retirement income to which federal elderly credit can apply)
- Feldcbase2**    2nd "base" for calculating federal elderly credit
- Feldcrate**      % rate used in calculation of federal elderly credit
- Feldcex**        Exclusion for labor income or AGI used in calculation of federal elderly credit.
- Feldcex2**      2nd exclusion for labor income or AGI used in calculation of federal elderly credit.
- Feldcagefree**   If  $Feldcagefree > 0$ , then people older than Feldcagefree have all labor

income excluded from calculation of federal elderly credit

### MAKING WORK PAY TAX CREDIT

How it works: this is a refundable credit for each of taxpayer and spouse. For each, the credit is **Fmwpcrate** percent of earned income, up to a maximum credit of **Fmwpctmax**. For those with AGI above **Fmwpctthresh**, the credit is reduced by **Fmwpctphase** percent of the amount by which AGI exceeds **Fmwpctthresh**, until it is completely phased out. Earned income is defined the same as for the earned income credit. There is also a refundable credit equal to **Fercrred** that is given to each of taxpayer and spouse that receives social security benefits, railroad retirement benefits, SSI benefits, or veteran benefits. The making work pay credit is reduced by the amount of any **Fercrred** payment. Since we have limited information, we give the credit to taxpayers or spouses that have **ssben** > 0 or are aged 65 or above. The making work pay credit only applies in 2009 and 2010, and **Fercrred** only applies in 2009.

|                     |  |
|---------------------|--|
| <b>Fmwpcrate</b>    | Phase-in rate for “making work pay” tax credit.  |
| <b>Fmwpctmax</b>    | Maximum allowable “making work pay” credit.<br>(For married returns, this is the maximum amount per spouse).   |
| <b>Fmwpctthresh</b> | AGI threshold above which the “making work pay” credit is phased out.  |
| <b>Fmwpctphase</b>  | Phase-out rate for “making work pay” credit (percent).   |
| <b>Fercrred</b>     | Amount of “Economic Recovery Payment” to recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits, applicable in 2009. Due to limited information, the calculator only grants this to those aged 65 and above or with positive value for <b>ssben</b> . |

### FEDERAL NON-ITEMIZER DEDUCTION FOR PROPERTY TAXES

|                   |  |
|-------------------|--|
| <b>Fnipropmax</b> | Maximum allowable non-itemizer deduction for property taxes. Applies in 2008 and 2009. Non-itemizers are allowed a deduction for property taxes equal to $\min(\text{proptax}, \text{Fnipropmax})$ . |
|-------------------|--|

### INFLATION DATA FOR PROJECTING FUTURE FEDERAL TAX PARAMETERS

|                 |  |
|-----------------|--|
| <b>Finfepiu</b> | Projected CPI-U inflation rate used to index federal tax parameters. Section 1 of the Internal Revenue Code (26 U.S. Code Section 1), specifies that the inflation rate used to index a given year’s tax parameters is the percentage change in the average Consumer Price Index for all urban consumers (CPI-U) over “the 12-month period ending on August 31 of each year.” So for example, the percentage change in the 2017 federal parameters |
|-----------------|--|

relative to the 2016 federal parameters will be based on the percentage change in the CPI-U from the 3rd quarter of 2015 to the 3<sup>rd</sup> quarter of 2016. Our projections of inflation rates for future years are based on the latest available baseline forecast by the Congressional Budget Office (which at the time of writing is January 2016, available at:

<https://www.cbo.gov/sites/default/files/51135-2016-01-Economic%20Projections.xlsx>). This variable is set to zero in prior years when projections are not needed (because we know the actual value of the parameter that ended up applying). The inflation rate is recorded in decimal terms (e.g., a 2.3 percent inflation rate is recorded as 0.023).

## **Fcpiu**

CPI-U index normalized so that it equals one in the most recent year for which the actual values of inflation-adjusted federal tax parameters are known. This is computed from **Finfcpiu** using an Excel formula in the IncTaxFed.xlsx spreadsheet.

### SOME MAJOR FEATURES OF FEDERAL LAW INCORPORATED INTO THE SAS CODE FORT THE TAX CALCULATOR, BUT NOT REFLECTED IN FEDERAL TAX PARAMETER DATA SET

- Federal earned income credit, 1924-31 and 1934-43. This worked as follows.
  - Key variables:
    - Earned income (EI) = earned income (wages and salaries plus labor compensation portion of business and farm income).
    - Net income (NI) = total gross income minus itemized deductions.
    - Exemptions (EX) = total value of personal exemptions and dependent exemptions.
    - Deductions (DED) = itemized deductions "properly allocable to or chargeable against earned income," which mattered 1934-43. It is unclear what this means. Currently, calculator assumes these deductions include unreimbursed employee business expenses, and state income taxes times labor income as a share of total gross income. The law provides no guidance, so we need to find the IRS regulation regarding this issue in the IRS Bulletin circa 1934.
    - Earned Net Income (ENI):
      - 1924: If  $NI \leq \$5,000$ , then  $ENI = NI$ . Else if  $EI > \$5,000$  then  $ENI = \min[10000, \max(5000, EI)]$ .
      - 1925-27: If  $NI \leq \$5,000$ , then  $ENI = NI$ . Else if  $EI > \$5,000$  then  $ENI = \min[20000, \max(5000, EI)]$ .
      - 1928-31: If  $NI \leq \$5,000$ , then  $ENI = NI$ . Else if  $EI > \$5,000$  then  $ENI = \min[30000, \max(5000, EI)]$ .
      - 1934-43: If  $NI \leq \$3,000$ , then  $ENI = NI$ . Else if  $NI > \$3,000$  then  $ENI = \min[14000, \max(3000, EI - DED)]$ .

- How it worked:
  - 1924: Credit against tax =  $.25 * \min[\text{NT}(\text{ENI}-\text{EX}), \text{NT}(\text{NI}-\text{EX})]$ , where  $\text{NT}(\cdot)$  is the “normal” tax function (graduated rates of 2%, 4%, and 6%).
  - 1925-31: Credit against tax =  $.25 * \min[\text{NT}(\text{ENI}-\text{EX}) + \text{ST}(\text{ENI}), \text{NT}(\text{NI}-\text{EX}) + \text{ST}(\text{ENI})]$ , where  $\text{NT}(\cdot)$  is the “normal” tax function and  $\text{ST}(\cdot)$  is the “surtax” tax function.
  - 1934-43: Credit against taxable income used to compute “normal” tax only =  $.1 * \min(\text{ENI}, \text{NI})$ .
- Issues:
  - “Earned income” was defined to include wages and salaries plus labor portion of any sole-proprietorship, farm, or partnership income. In cases where both capital and labor were contributed, the labor portion would be considered not more than 20% of the net profit from the taxpayer’s share of the trade or business. The calculator currently treats all sole-proprietorship and farm net income as labor compensation, and does not count any partnership income as such.
- 1940 “Defense tax” =  $.1 * \min(\max(\text{fdtxliab\_bc}, 0), \max(\text{Fti} + \text{Fexempt} - \text{fdtxliab\_bc}, 0))$ , where **fdtxliab\_bc** is federal tax liability, **Fti** is federal taxable income, and **Fexempt** is the value of federal personal exemptions.
- 1943 “Victory Tax” and tax forgiveness.
  - Victory tax. In 1943, there was a one-year temporary “victory tax” that worked as followed. Victory tax taxable income was essentially gross income not including capital gains, less an exemption of \$624 for an individual return or \$1,248 for a joint return. Certain forms of U.S. federal government bond interest income were also exempt from the victory tax, but the calculator does not take this into account. Victory tax liability before credits (**VicTax\_bc**) was then 5% of victory tax taxable income. A credit was then allowed against victory tax liability. The credit for single was  $\min((.25 + .02 * \text{deps}) * \text{VicTax\_bc}, 500 + 100 * \text{deps})$ . The credit for head of household was  $\min((.4 + .02 * (\text{deps} - 1)) * \text{VicTax\_bc}, 1000 + 100 * (\text{deps} - 1))$ . The credit for married couples was  $\min((.40 + .02 * \text{deps}) * \text{VicTax\_bc}, 1000 + 100 * \text{deps})$ . Victory tax was further limited to be no greater than  $.9(\text{net income}) - \text{income tax other than victory tax}$ .
  - Tax forgiveness. Withholding of income taxes on wages began at a 5% rate on January 1, 1943, and at a 20% rate on July 1, 1943. This created transition problems in both 1943 and 1944. In 1943, people had to pay their full 1942 tax bills, and then also had to pay withholding tax on their 1943 incomes. In 1944, people would have to pay the portion of their 1943 tax liabilities that had not already been paid in 1943 (a substantial portion, since full withholding did not start until mid-year 1943), and would concurrently have to pay withholding taxes on their 1944 incomes. To address this situation, the 1943 tax form (filed in spring 1944) allowed a refund of 75% of the smaller of 1942 or 1943 taxes, whichever was smaller (there was a 100% refund if the

smaller of the two tax liabilities was less than 50%). In general, 1942 tax liability was usually smaller. Tax provisions were identical in 1942 and 1943, except that the victory tax and the medical and dental expense deduction applied in 1943 but not in 1942. To address this situation, for 1943 the tax calculator computes a 1942 tax liability assuming income and deductions were the same in 1943 as in 1942. It then reduces 1943 tax liability by 75% of the 1942 liability. This is done in a lump-sum fashion, so that it does not affect any marginal tax rate calculations.

- 1944-63 limitation on maximum effective federal average tax rate on federal taxable income. Rate limit was:
  - 1944-45: 90% of net income
  - 1946-47: 85.5% of net income
  - 1948-49: 77% of net income
  - 1950: 87% of net income
  - 1951: 87.2% of net income
  - 1952-53: 88% of net income
  - 1954-64: 87% of taxable income
- Credit for dividends, 1954-1964
 

div = dividend income; Fdivexamt = dividend exclusion; Fti = federal taxable income. Credit is non-refundable.

  - 1954: credit applied to dividends received after July 31, 1954. This is approximated by multiplying dividend income for the year by (5/12).  
 $\text{credit} = \min(.04 * \max(0, (5/12) * \text{div} - \text{Fdivexamt}), .02 * \text{Fti})$
  - 1955-63:  $\text{credit} = \min(.04 * \max(0, \text{div} - \text{Fdivexamt}), .04 * \text{Fti})$
  - 1964:  $\text{credit} = \min(.02 * \max(0, \text{div} - \text{Fdivexamt}), .02 * \text{Fti})$
- Federal rules for allocation of deductions and exemptions prior to 1948
  - Adult exemptions for whole return can be divided in any way they choose; adult per capita exemptions and age exemptions must go to the adult to whom they relate; and dependent exemptions must be taken by the adult providing over half of support.
  - From 1944-1947, separate filers could each get a \$500 standard deduction (same as for singles). If one spouse itemized, both had to itemize.
  - Each spouse claimed his or her own itemized deductions. So for instance, state taxes paid by each spouse were claimed by that spouse, charitable contributions made by a particular spouse were taken as deductions by that spouse, etc.
- “Recovery rebate” from Economic Stimulus Act of 2008.
  - Basic credit =  $\min(\text{net income tax liability}, \$600)$  if single or head of household, or  $\min(\text{net income tax liability}, \$1200)$  if married. “Net income tax liability” equals “regular tax liability” plus AMT minus nonrefundable credits (not including this one or the child credit).



- The minimum basic credit is \$300 if the taxpayer has either (1) “qualifying income” of at least \$3,000, or (2) has both a net income tax liability of at least \$1 and gross income greater than the basic standard deduction plus one personal exemption (or two personal exemptions if married).
- If the taxpayer qualifies for any basic credit at all, then there is an additional \$300 of credit for each child that qualifies for a child tax credit.
- The overall credit is phased out above a threshold of \$75,000 (or \$150,000 if married). Subtract 5% of the amount by which AGI exceeds the threshold, until the credit is completely phased out.

## X. DESCRIPTION OF RECENT CHANGES TO THE TAX CALCULATOR

This section describes changes implemented since December 2006.

### December 2006

- An optional feature that roughly approximates local income tax liability for 1977-2004 was added.
- The optional deduction for state sales taxes was incorporated into the calculator at the federal level. Some states have begun to allow a similar deduction, but the calculator does not yet reflect this unless those states also allow a deduction for state income taxes.

### February 2007

- Calculation of federal self-employment tax was corrected (thanks to Brad Heim).
- Calculation of Rhode Island earned income credit for recent years was corrected.

### May 2007

- The date at which social security benefits became exempt in Georgia was corrected to 1988 (thanks to Jon Rork).
- The date at which social security benefits became subject to tax in Wisconsin was corrected to 1986 (thanks to Inna Shapiro and Dan Feenberg).

### July 2007

- The treatment of medical expenses in AMT for 1991 and later years was corrected.
- The circuit-breaker credit calculation for **cbincdef=13**, which applied in Maine 1989-2004, was corrected (thanks to Hui Shan).
- Computation of the circuit-breaker credit for **cbtype=22**, which applied in Utah 1982-present, was corrected (thanks to Hui Shan).

### September 2007

- The 2006 and 2007 federal income tax parameters were updated.

### December 2007 - January 2008

- The method for determining federal and state itemization status was completely overhauled. There are many states where state itemization status is in some way

constrained by federal itemization status. For example, in some states, taxpayers are required to choose the same state itemization status as on the federal return. In these states, the choice of federal itemization status can have important consequences for state tax liability, and these consequences should be taken into account in the federal itemization decision. Similar issues arise in states where the state AMT ( $\text{mintaxtype} > 0$ ). The constraints on state itemization status were formerly ignored by the calculator, but information on these constraints is now included in the state variable `itemiz`, and the constraints are now imposed in the calculator. Given these complications, in order to accurately characterize optimal itemization status and marginal tax rates, and to avoid marginal tax rate notches, the tax calculator now always picks the combination of federal and state itemization statuses that minimizes combined federal-state tax liability, taking any constraints imposed on state itemization by federal itemization status into account. (Formerly, the program chose the federal itemization status that minimized federal tax liability, and the state itemization status that minimized state tax liability, without taking into account the impact of each decision on combined federal-state liability). Another change, intended to avoid “notches” that produce extreme values of marginal tax rates, is that now adding an increment to calculate marginal tax rates is not allowed to change itemization status. After adding the marginal tax rate increment, itemization status at each iteration is held at the same value it had in the corresponding iteration from before adding the marginal tax rate increment. See discussion of “itemization status” in section IV above for further details.

- In cases where variables calculated for the federal income tax affect state tax liability and vice versa, the number of iterations of the calculator used to compute federal and state tax liabilities was increased from three to four. As before, the marginal rate calculation repeats the complete set of (now four) iterations again after adding an increment to an input variable chosen by the user. I also expanded the set of conditions under which all four iterations are run. For example, cases where state itemization status is constrained by federal itemization status now lead to all four iterations.
- I inserted code directly into the program for translating SOI state codes into two-letter state postal abbreviations and vice versa, obviating the need for the old external file `StateCross.dat`.
- 2008 federal income tax parameters were updated. In addition, the AMT patch is now assumed to apply in 2007 but not in later years.
- The documentation has been edited in various places to improve clarity.
- The code for allocating state credits, minimum taxes, and itemized deductions across spouses who are filing separate state returns has been edited to remove a bug that could cause very high marginal rates in rare cases.
- I corrected errors in the code for calculating the Wisconsin and Minnesota AMTs.

- I corrected the code for **lowtype** = 12 to compute the credit as a percentage of tax liability *before* minimum taxes (which is generally how it is computed). I also edited the code disallow the credit altogether in California if the taxpayer is subject to the state AMT (this is specifically written into the CA law). This corrects some rare illegitimate marginal rate notches.
- I modified the code for the federal earned income tax credit to disallow the credit for taxpayers with investment income above the allowable threshold (this feature was introduced into federal law starting in 1996).
- Kentucky had incorrectly been recorded as allowing an itemized deduction for state income taxes from 1985-2000, based on faulty information from *All States Tax Handbook*. A review of tax forms and the annotated statutes indicate that state income taxes were not deductible in Kentucky during this period -- only local income taxes were deductible. This has now been corrected.
- In Louisiana from 2000-2002, taxpayers were only allowed to deduct a fraction of their itemized deductions. In 2000 and 2001, taxpayers were effectively allowed to take a deduction equal to a standard deduction plus 50% of "excess itemized deductions" (the amount by which federal itemized deductions exceeded the federal standard deduction). In 2002, taxpayers were allowed a deduction equal to a standard deduction plus 57.5% of excess itemized deductions. This feature is now incorporated in the tax calculator via the **itemlim** variable. Itemized deductions were eliminated in Louisiana starting in 2003, but this had already been reflected in the calculator.
- I modified the code for state itemized deductions starting in 2004 to allow the federal deduction for state sales taxes in cases where the state already allowed a deduction for state income taxes (which is generally accurate), but to disallow state itemized deductions for state sales taxes otherwise (which is not always accurate). We know that in fact, some states with income taxes that did not allow state income taxes to be deducted did start to allow deductions for state sales taxes in 2004, but only if required one to choose the sales tax deduction on the federal return as well. The calculator currently ignores those situations because dealing with them appropriately would greatly increase the complexity and running time of the program, but would probably have little impact on accuracy. See documentation for **sitted** above for further discussion.
- I corrected the alternative maximum tax calculation that applied in North Dakota 1981-2000 (**sptx** = *maxpctfd*). This tax was a percentage of federal tax liability. The ND law specified the measure of federal tax liability used to compute this tax should include the alternative minimum tax, and the program has now been adjusted to reflect this.
- I added the Vermont alternative minimum tax that applied in 2001 only.

- I removed the two-earner couple deduction from the Minnesota state income tax for 1982-84. The historical notes to section 290.01 in the 1989 Minnesota Annotated Statutes make clear that this deduction was explicitly disallowed in 1982-84, and then was allowed starting in 1985.
- The code for determining federal itemization status was changed to take the non-itemizer charitable deduction into account. I also changed the variable **Fcharded** so that it takes on different values for different types of federal non-itemizer deduction.
- I added state charitable deductions for non-itemizers (see **charded**). The data regarding which states allowed non-itemizer deductions currently follows *Taxsim* (thanks to Dan Feenberg and Inna Shapiro).
- The code for the itemized deduction credit in Wisconsin was corrected to apply only to itemized deductions to the extent that they exceed the Wisconsin standard deduction.
- I changed code for **xtaxtype** = agicred so that the credit is computed as a percentage of tax liability before minimum taxes in California. Similarly, I changed the code for **miscexctype** = 13 so that the credit is computed as a percentage of tax liability before minimum taxes in California. Both changes more accurately reflect the law, and also remove illegitimate marginal rate notches in rare situations.
- The true income range over which the Georgia low income credit (**lowtype**=2, 1971-1986) was phased out was so narrow that it led to marginal tax rates over 100%. The phase-out range has now been replaced with a "cliff" (the credit is eliminated if income goes above the threshold), because that way the "reverseMTR" feature of the tax calculator can now suppress the resulting marginal tax rate notch.
- I changed the code to only subtract *positive* amounts of federal income tax liability from state income when such a deduction is allowed, which is generally the rule.
- I removed the federal income tax deduction from "normal" North Dakota tax calculation for 2001 and later years (it is still present in the optional "extra" tax calculation).
- I coded in the maximum tax on personal service income that applied in New York from 1978 through 1986.
- Corrected the code for the 1979-1982 federal alternative minimum tax to define federal alternative minimum taxable income as federal taxable income minus the federal zero bracket amount, plus tax preference items. Formerly, the subtraction of federal zero bracket amount was incorrectly omitted. In addition, previously federal AGI less exemptions and the larger of itemized deductions and standard deductions

was used in place of taxable income -- this caused problems when calculations required calculating tax liability under both itemization statuses.

## February 2008

- Corrected federal income averaging for 1984-86 to apply the average tax rate on the first 25% (rather than 20%) of the excess of taxable income over 140% of **avglaginc** to all of that excess taxable income. The change from 20% to 25% occurred in 1984, but had not previously been incorporated into the calculator data. This percentage is directly in the SAS code, not part of the federal parameter data.
- Modified the code for federal income averaging in 1981 to allow taxpayers to take advantage of income averaging and the alternative capital gains computation at the same time.
- Added three variables to the input data set: **blind**, **psincome** and **psded**. The **blind** variable indicates whether the taxpayer and/or spouse are blind, and is used to calculate federal exemptions or federal additional standard deductions allowable to such taxpayers. The calculator does not yet model state tax treatment of blindness. The **psincome** and **psded** variables are included to allow for more accurate computations of the federal maximum tax on personal service income (earned income) that applied at the federal level 1971-1981. The information necessary to compute these two variables is generally available in IRS statistics of income data from those years.
- Changed code to allow the **oamtadj** in the input data set, which was not otherwise being used in 1981, to store the value of capital gains realized in 1981 after June 9th (which are subject to a maximum rate of 20% that year).
- When computing the second-earner deduction that applied at the federal level 1982-86, the calculator now assumes all business expenses are associated with the higher-earning spouse. This makes it easier to back out earned income of spouse from data that provides information on the amount of the second-earner deduction, while keeping the second-earner deduction computed by the calculator consistent with what is in the data.
- Modified the NY maximum tax on personal service income to make use of the **psincome** and **psded** variables, when available.

## March 2008

- Modified the calculator so that if **incrementquantity** = 0, the calculator will not go through the iterations required to calculate marginal income tax rates.

- Modified the **fedyear** variable so that it is possible to apply federal tax law that would have applied in the absence of recent major tax reforms in certain years starting with 1981.
- Fixed the code for implementing **taxnodetail**, which is used when the taxpayer input data does not provide information on how state and local tax deductions are divided up among different types of taxes. Previously, whenever **taxnodetail** was greater than zero, the calculator would produce nonsensical marginal rates. This problem has been corrected. Correcting it required, among other things, running two extra iterations of the tax calculator when **taxnodetail** > 0. I tested the new code on the 1979-1990 public use tax panel, by running the calculator once on the data with **proptax** and **salestax** set to their values in the original data and **taxnodetail** set to zero, then and once where **taxnodetail** was set equal to **proptax** + **salestax** + (**taxs** from the first run of the calculator). Marginal tax rates and tax liabilities were identical in the two runs.
- Changed the calculator code to start imposing limits on charitable deductions as a percentage of AGI at both the federal and state levels. Also added two variables to the detailed output data set, **Fchlimbind** and **chlimbind**, which indicate whether the limit was binding.
- Changed the SAS code for the California AMT to reflect the fact that built-in capital gains on charitable donations of appreciated assets are no longer included in the AMT base starting in 2002.
- In 1991-92, only built-in capital gains on charitable donations of intangible property (e.g., stocks) were subject to the federal AMT. Previously, the calculator did not include **charcrg** in the federal AMT base in 1991-92, essentially assuming that such gifts were tangible property. This has now been changed, so that **charcrg** is assumed to be intangible property, and thus subject to AMT in those years.
- Made minor corrections to the computation of the "adjusted itemized deductions" preference in the computation of federal maximum tax, minimum tax, and AMT 1976-82.
- Removed excluded capital gains as a tax preference item for purposes of calculating the federal maximum tax on personal service income in 1978.
- Added federal zero bracket amount to detailed output data set
- Corrected the AMT treatment of medical expenses 1987-90. Only medical expenses less than 10% of AGI are disallowed by the AMT in these years; calculator had previously incorrectly disallowed all medical expenses in the AMT during those years.

- For long-term capital gains realized in 1981, modified the code to calculate the marginal rate assuming gains were realized after June 9 in all cases.
- Changed AMT calculation for 1981 to only apply 20% rate to capital gains realized after June 9, 1981 when information on that is available.
- From 1983-1986, the deduction for second earner income was 10% of spouse's income up to \$30,000. The calculator data previously had 5% in these years. This has now been corrected.
- Changed the code for the 1981 federal rate reduction credit. Previously, it was coded as a 0.0125 percentage point reduction in each tax rate. But in fact, it was a credit equal to 0.0125% of tax liability, and the rates were left intact at the same levels as in 1980. In addition to this being a different size tax reduction, the fact that the rates were left intact is important for purposes of computing the maximum tax on personal service income and income averaging. In the case of income averaging, the credit is effectively recomputed as 0.0125% of income averaging tax liability. In the alternative capital gains computation, the credit is 0.0125% of tax liability computed on taxable income excluding post-June 9 capital gains. The application of the rate reduction credit is very complicated in the maximum tax on personal service income - see SAS code for details.
- Revised the code for the maximum tax on personal service income in 1981 to properly account for the alternative capital gains computation and the rate reduction credit.
- Corrected the federal AMT calculation to subtract itemized deductions lost to limitation from alternative minimum taxable income in the years 1991-1992.

### May 2008

- Removed the 50% of AGI limitation for charitable deduction for fedyear=2005.
- Fixed casualty loss deduction to disallow \$100 of losses (in addition to 10% of AGI, where applicable).
- Created coding scheme for new extra dependent exemption in Alabama starting in 2007 (see **lowtype** = 24).
- Modified code for Arkansas low-income tax table to reflect changes implemented in 2007 (see **xtaxtype** = *lowtab2*).



## July 2008

- Corrected Maryland circuit breaker credit calculation to remove the age restriction for homeowners starting in 1979 (the age restriction continues to apply to renters).
- Corrected value of **conform** to equal 2 in Maryland since 1967 (now **othadsaf** = 1, after **othadsaf** replaced **conform**).
- Corrected the Montana standard deduction for head of household for all years from 1985 on, and corrected the standard deduction parameters to include the minimum standard deduction that was introduced in 1996.
- Corrected value of **zba** for Louisiana 1985, 1987, and 1989.
- Corrected **miscex** and **miscexamt** for Massachusetts, 1984-86.
- Corrected **ex\_dep** for Massachusetts, 1979.
- Corrected values of **retph1** and **retph2** for heads of household in New Mexico 1985-86.
- Corrected **xbracknum** for New York in 1980 (number of brackets for state maximum tax on personal service income).

## August 2008

- Corrected tax rates in Massachusetts, 1985 (7.5% surtax was still in effect).
- Corrected Montana standard deduction for 1981.
- Corrected **cbthresh3** and **cbthresh4** for Montana 1981 - 1989.
- Corrected **cbincdef** for Montana 1981 - 1983.
- Corrected **cbmaxcr1** for Montana 1981-1982.
- Corrected Illinois earned income credit to make it refundable starting in 2003.
- Corrected value for **itemiz** in Maryland for 1987.
- Corrected values of various circuit breaker variables for Maryland 1979-89.
- Corrected value of **multbrk** for South Carolina 1987 - 1988.
- Corrected some details of Maine minimum tax starting in 2003, and added new code for it. See **mintaxtype** = 9.

- Corrected federal income tax deductibility for South Carolina 1985 and 1986.
- Added retirement income credit (that was a percentage of the federal version) in Nebraska 1981-85.
- For Tennessee, corrected values of **exreturn** and **retex** variables in 1986, and corrected values of **retex** variables for 1979.

### September 2008

- Created new code for Kentucky family size credit instituted in 2005 (see **xtaxtype** = **liabcred2**).
- Corrected phase-out income range for New York household credit from 1986 on.
- Corrected phase-out income range for New York child care expense credit from 2001 on.
- The descriptions of **miscexctype=15** and **miscexctype=16** had been reversed in the documentation. Also **miscexctype=12** and **miscexctype=15** had been miscoded in the SAS code. These problems have been corrected. (Affected KS, IN, and VA).
- Created new code for new “Empire State Child Credit” in NY. This is a child credit that is a function of the federal credit, instituted in 2006. See **sptx** = **kidcred**.
- Created new code for phase-out of the benefits of marginal tax rates below the top rate. This was instituted in NY starting in 2006. (See **sptx2** = **surtax**).
- Created new code for NM low-income exemption that was instituted in 2006. See **xtaxtype** = **lowexempt**.
- Created code for new VA EITC, instituted starting in 2006. See **eicstypestate** = 7.
- Updated state tax parameter data through 2007.

### January – February 2009

- Fixed a bug in the calculation of **liabtax** and **liabcred** (affecting KY 1956-1960 and CA in 1969).
- Modified IncTaxCalc.sas to allow it to send SAS log file to an external file, IncTaxCalc.log, which is saved in the *outputpath* directory specified by the user.
- Corrected a mistake in the code for the 1940 federal “defense” tax.

- Incorporated low-income credits and retirement income credits for Vermont 1969-1993 into SAS code.
- Fixed SAS code for state income taxes that are a percentage of federal tax liability, to allow for refundable tax credits where appropriate.
- Corrected an error in the calculation of Vermont’s “special tax limitation schedule” (**sptx** = “vtmax”), 1969-73. The error had been introduced in the January 2008 edits, which had allowed for situations where state law limits choice of state itemization status in some way that depends on federal itemization status.
- Modified computation of Arkansas low-income tax table (**xtaxtype** = lowtab1) 1973-1990, in order to reduce likelihood of large marginal tax rate notches.
- Corrected 1948-1969 federal alternative capital gains tax calculation to remove effects of special rate reduction credit that only applied in 1981.
- Corrected federal dividend credit calculation for 1954-57 so that when alternative capital gains tax calculation applies, credit cannot exceed 4% (or 2% in 1954) of taxable income excluding capital gains. Note that in 1958-1964, this provision was removed from the law, so that the maximum credit was once again 4% (or 2% in 1964) of taxable income. In cases where the taxpayer had large capital gains but zero or negative taxable income aside from capital gains, this could lead to small negative marginal tax rates on non-capital gains income, and small positive marginal tax rates on itemized deductions. Those odd marginal tax rates are a legitimate outcome of the tax law.
- Corrected SAS code for calculation of federal retirement income credit 1965-1975 (**Feldcred**=3). The method for calculating the phase-out of the credit for married couples had been slightly off.
- Modified the **reverseMTR** option so that it addresses notches in **mtrfns**. The program now recalculates marginal tax rate after subtracting an increment from **mtrvar** not only when overall marginal tax rate (**mtr**) exceeds the value of **checkMTR**, but also when federal marginal tax rate calculated setting state income tax to zero (**mtrfns**) exceeds the value of **checkMTR**. It then chooses the set of marginal rates that minimizes the maximum of the absolute values of **mtr** and **mtrfns**.
- Fixed parameters of New York maximum tax on earned income, 1985 and 1986.

## May 2009

- Replaced the old state tax **conform** variable with a new variable **othadjsaf**. Both variables serve the similar purpose (indicating whether a state income tax generally

allows similar adjustments to the federal income tax), the change just simplifies the coding scheme and renames the variable.

### June – August 2009

- Updated calculator to reflect changes in federal income tax up through June of 2009.
- Corrected calculation of 2007 standard deduction for Alabama, and clarified coding scheme for phase-outs of standard deductions in documentation.
- Changed coding scheme for Connecticut exemption phase-out (1992 – present) to remove it from the bracket and rate structure (**b1-b26** and **r1-r26**) and hard code it using **exlim** = 3.
- Made minor correction to calculation of alternative tax on capital gains in Hawaii 1991-1998 and 2002-present (see **sptx** = **cgmax2**).
- Corrected the standard deduction for married couples filing separately in Iowa for 1979 – present (see **mardedtype** = 9).
- Corrected Louisiana credit for child and dependent care expenses 1986 – present (see **kidcaretype** = 15 and **kidcaretype** = 16).
- Incorporated Maryland child care credit that began in 2000 but which we had previously missed (see **kidcaretype** = 28).
- For Massachusetts 1996 – present, made major correction to taxation of **othcg**, and minor corrections to taxation of dividends, interest, and **ltcg**. See **sptx** = **diothcgtax**, **masstax**; and **sptx2** = **ltcgtax**.
- Modified code for **cgexpct** so that if **cgexpct** = 100, then it applies to **ltcg** + **othcg**, not just **ltcg**. This is generally correct.
- Made a minor correction to the calculation of the Missouri pension exclusion for married couples, 1997 – present.
- Corrected phase-outs of retirement income deductions in MN (1978-84) and TN (1976-1999).
- Corrected limit in deduction for federal income taxes in Montana for married couples, 2005-2007.
- Corrected federal deduction for child care expenses 1972-75 so that phase-out applies to all filing statuses, not just married.
- Corrected calculation of deduction for child care expenses in Montana, 1955-present.

- Incorporated new two-earner couple deduction that was introduced in North Dakota starting in 2007 (see **mardedtype** = 10).
- Corrected calculation of deduction for federal income taxes in Arizona 1987-1989. See **limfdtype** = 5.
- Coded in non-itemizer charitable deduction that applied in Colorado 2001 and 2006-2008 (see **charded** = 5).
- Coded in “credit for general income tax” for Hawaii, 2007 (see **xtaxtype** = lowcred).
- Corrected refundability of IL EIC for 2003-2006 (see **eictypestate** = 8).
- Corrected Iowa “alternative tax computation” (**xtaxtype** = maxtax) so that it does not apply to single filers, only married and head of household, 1988-2008. Corrected treatment of separate filers by this Iowa alternative tax, 1988-2008. Corrected no-tax floor (**lowtype** = 14) to apply in Iowa for all filing statuses 1988-2008.
- Made a variety of corrections to property tax credit for Maryland, 1979-present.
- Incorporated a new Montana property tax credit (introduced in 2007) into the code for **cbtype** = 6.
- Incorporated non-refundable credit for 5% of property tax in Illinois income tax, 1991 – present (see **cbtype** = 8).
- Corrected income thresholds for eligibility for Oklahoma sales tax credit starting in 2005, and parameterized the thresholds (see **miscexctype** = 8 and **sptx** = misc8).
- Corrected retirement income exclusions in Utah, 1987-2007, to include taxable social security benefits in the measure of retirement income. Also corrected the phase-out calculation for these exclusions so that the income measure used to compute the phase-out included tax-exempt interest starting in 1994. See **retexctype** = 17 and **miscexctype** = 5 and 6.
- Made various minor corrections to calculation of Virginia age deductions (**retexctype** = 18 and **miscexctype** = 17), 2004-2007.
- Minor corrections to calculation of exclusion of labor income for low-income taxpayers, MD 1989-1997 (see **lowtype** = 10).
- Made minor correction to tax rates in Colorado 1979-1981.
- Various corrections to Minnesota circuit breaker credit, 1975-present. See **cbtype** = 16 and **cbtype** 29 through 32.

- For Minnesota: corrected value of standard deduction in 1983, 1984, 1986; corrected parameters of child care tax credit 1984-1989; corrected credits and standard deduction in alternative maximum tax, 1985; corrected value of **retph1** 1985-1986, all **retex** variables in 1987, and **pctfeldcr** in 1987.
- Corrected parameters of NY circuit breaker credit, 1979-1984.
- Corrected timing of introduction of NY retirement income exclusion (it started in 1982, not 1981).
- Coded in NY minimum standard deduction, 1972-1984, and corrected all NY standard deduction values for 1977.
- Ohio, 1983-1988, allowed choice between extra \$350 per capita exemption or \$20 per capita credit. Calculator previously assumed everyone took exemption. See **lowtype=27**.
- Corrected brackets and rates used to compute credit for married couples in Ohio 1984-1988 (**mardedtype = 7**).
- Corrected values of **cbthresh1** and **cbthresh2** in OK 1979 and 1984-1987.
- Corrected values of **xexperc** and **xex\_age** in OK 1982-2005.
- Corrected value of **pctfdeldcr** in OR 1987-1988.
- Coded in “alternative flat tax” introduced in RI in 2006 (see **sptx = maxtax**).
- Corrected value of **xcbthresh1** in ME 2006.
- Corrected value of **kc1** in GA 1980-86.
- Corrected value of **cbmaxcr2** for Hawaii 1981-2004.
- Corrected value of **r1** in Idaho 1979.
- Corrected value of **xcbmaxcr2** in Indiana 1998.
- Corrected tax rates in Iowa, 1989.
- Corrected values of **kc2** and **kc4** in Iowa, 1990-1992.
- Corrected value of **cbage** in Iowa, 1992.
- Corrected value of standard deduction in Kansas 1998-2000.

- Corrected **r1** for married couples in Kansas 1988 and 1995-1997.
- Corrected value of **exreturn** in NH, 1997-1998.
- Corrected value of **kc5** in NY 1997-1998.
- Corrected Ohio child care credit 1993-1996.
- Ohio 1996-1998: addressed the fact that personal exemptions were larger for dependents than for taxpayer and spouse in these years by coding the extra exemption amount for dependents into **ex\_dep**.
- Corrected **crreturn** in AR 2005-2007.
- In CA, corrected **b2** for married in 2006, **b3** for head of household in 2007, **kc4** in 2005, **cred\_age** in 2006, and **crreturn** for married in 2006-2007.
- In CT, corrected **xcbthresh2** for singles in 2007.
- In DC, corrected **r3** in 2005.
- In ID, corrected **cbform** in Idaho 2004-2007, and corrected tax brackets for 2007.
- In NE, corrected **xosa1st** 1993-present.
- In NM, coded in 2005 income tax rebate (see **xtaxtype** = nmrebate).
- In NV, corrected value of **cbthresh1**, 2003-2007.
- Corrected code for choosing between property tax deduction and credit in NJ (see **cbtype** = 17) so that the choice is held constant when adding increment to calculate marginal tax rates (in order to avoid marginal tax rate notches).
- Coding scheme for Vermont circuit-breaker (1973-present) was re-organized, and various corrections were made. See revised documentation for **cbtype** = 23.
- Coding scheme for North Dakota circuit-breaker (1973-present) was re-organized, and the new property tax credit added in 2007 was coded in. See **cbtype** = 33.
- Made various corrections to Wyoming circuit-breaker credits, 1975-present. See **cbtype** = 25.
- Revised the coding scheme for Arkansas low income tax tables, 1991-present (see **xtaxtype** = lowtab2 and lowtab3). The tax calculator now more accurately

characterizes how these special tables work, including the non-linear aspects, and reflects the changes enacted in 2007.

- Corrected calculation of deduction for federal income taxes in Oklahoma, 1975-1978. See **limfdtype** = 2.
- Revised code for Kentucky Family Size Tax Credit (**xtaxtype** = liabcred2) to correct treatment of married couples filing separately.
- Modified code for low-income credits in Pennsylvania and California to eliminate smoothing of the phase-out of the credit. This avoids extremely high marginal tax rates as long as **reverseMTR** is set equal to 1. See **lowtype**=12.
- Changed exclusion for capital gains (**cgexpct**) to from 60% to 0% in Arizona, 1987 and 1988. Arizona Session Laws of 1988, Chapter 271, amending sections 43-104, 43-1021, and 43-1022 make clear that references to the Internal Revenue Code had already been updated to reflect TRA86 in 1987, and that nothing in 43-1021 or 43-1022 undid the elimination of the 60% exclusion.
- Changed maximum tax rate on capital gains from 7.5% to 7.25% in Hawaii, 1987-2001 (**sptx** = cgmax2) – verified using 1988, 1993, and 2000 HI Annotated Statutes.
- Changed capital gains exclusion (cgexpct) for Kentucky in 1990 from 60% to 0%. 1990 Kentucky session laws Chapter 476 makes clear that references to the federal Internal Revenue Code were updated from 1985 IRC to 1989 IRC effective for tax years beginning in 1990; this is the change that eliminated the 60% exclusion (this is also consistent with All States Tax Handbook’s interpretation).
- Corrected coding of Iowa alternative minimum tax. Previously, a coding error was causing the Iowa AMT not to apply 1982-1987, and that has been corrected. A variety of other details of the Iowa AMT calculation were also corrected for years 1982-present. Among other things, the itemization decision in Iowa is now deferred until all other aspects of the Iowa income tax are calculated, after a tentative value of **taxs** is computed. This allows the Iowa AMT to be appropriately factored into the decision about whether to itemize deductions on the state return. In addition code for the 1987 Iowa AMT has been corrected so that tax preference items are computed based on 1986 federal law, there is no phase-out of the exemption, and the exemption for separate filers is half of that for joint returns (see 1990 Iowa Annotated Statutes, historical notes to Section 422.5, pp. 71-72).
- Corrected computation of application of unused credits against “extra tax” for separate filing spouse in computation of **StaxAX**.
- Corrected computation of non-refundable state earned income credits in the case of married couples filing separate state returns.



- Revised code for **mintaxtype**=5 to allow state itemization choice to be independent of choice on federal return, where appropriate, and to account correctly for the fact that state income tax is not deductible from itself, where appropriate.
- Coded in “additional tax on unearned income” applying in New York 1987-1988 (see **sptx** = ueitax).
- Modified code for **mintaxtype**=1 and **mintaxtype**=2 (minimum taxes applying in NY and CA in various years) to allow for the fact that state excluded capital gains could be different than federal, and to remove state income taxes from the computation, and to allow for the fact that NY tax after credits is subtracted from tax preference items in the calculation.
- Revised code so that whenever **mintaxtype** > 0, everything is computed under both federal itemization statuses, and the federal itemization status that minimizes combined federal and state tax liability is chosen. (Previously, this was only done if **itemiz**>1 or **mintaxtype**=5, or if there was positive federal minimum tax or AMT liability). This addresses a number of states where the state AMT can vary depending on federal itemization status.
- Corrected computation of West Virginia alternative minimum tax, 1983-present. It is 25% of federal AMT less ordinary WV tax liability, not 25% of federal tentative alternative minimum tax less ordinary WV tax liability. See **mintaxtype**=10.
- Removed capital gains on charitable donations of appreciated assets from base of Minnesota alternative minimum tax 1987-1992 (Section 290.091 of the 1989 Minnesota Annotated Statutes).
- Corrected measure of income used to compute Massachusetts low-income exemptions and credits to include dividends, interest, and capital gains, all years.
- Modified SAS code for Massachusetts in all years to allow value of exemption not used to offset ordinary tax to be used against taxes on interest, dividends, and capital gains.
- Corrected value of **egexpct** for DC 1970-1975 (it had been 100, and should have been 50).
- Overhauled the coding scheme for the income tax in Louisiana, 1975-1982. See **taxtype** = *fedtab*, and **xtaxtype** = *fedtab2*. During 1975-1979, Louisiana personal income tax was based on tables published in the law, and during 1980-1982 the tables served as an alternative maximum tax. The calculator now uses an approximation to the published tables based on a spline regression to compute these taxes. Before, we used the ordinary tax on taxable income that was still laid out in the Louisiana code during this period, but the tables superseded the ordinary tax 1975-1979, and served as an alternative (limit) to that ordinary tax 1980-1982. The calculator now

accurately captures this, although as noted above we've approximated the tax laid out in the tables.

- Changed code for **localtype=1** to multiply local tax rate by  $\max(0, \text{taxs})$  instead of **taxs**.
- Corrected capital gains exclusion in North Dakota 1979-1980, changing it from 60% to 50%. ND Annotated Statutes Section 57-38-01 on definitions freezes references to the Internal Revenue Code as of a certain date, and governed the capital gains exclusion. ND session laws 1979, Chapter 602, makes clear that North Dakota did not adopt the federal change of capital gains exclusion from 50% to 60%, and ND session laws 1981 Ch. 594 Sec. 2 makes clear that the 60% exclusion begins to apply in 1981.
- Corrected a typo in the code for **sptx = cgexmax2** which was causing the capital gains exclusion in Vermont to be too large.
- Corrected a problem in marginal tax rate calculations in 1981. Previously, due to a typo in the SAS code, if **oamtadj** was greater than zero in 1981, then when marginal tax rates were calculated, an increment was added to **oamtadj** regardless of whether the marginal rate on capital gains was being computed (an increment should have been added to **oamtadj** only if the marginal rate on capital gains was being computed).

### July-August 2011

- Set age exemption (**ex\_age**) to zero in New Mexico 1933-1960 and in North Dakota 1942-1944. (Thanks to Karen Conway).
- Modified SAS code to deal appropriately with how the 2011 temporary social security tax cut applies to the self-employed.
- Corrected value of **xr4** for head of household filers in Vermont, 2006-2007 (this was a typo that had no effect on the tax calculations).
- Updated federal and state tax parameter data through 2010.

### February-April 2012

- Corrected the timing of the introduction of the pension exclusion in Maryland (stored in **retex** variables) to start in 1965 rather than 1967. See 1965 Maryland income tax code section 281(v). Thanks to Karen Conway and Jon Rork.
- Corrected the pension exclusion in Illinois (stored in the **retex** variables) so that it applies in 1969 and from 1971, but not in 1970. See Illinois tax forms for 1970 and 1971, Section 202(b) of the 1969 Illinois income tax code, and Section 2-203(a)(2)(E) of the Illinois income tax code starting in 1971, after enactment of P.A. 77-669

(which exempted pension income based on contributions made before 8/1/1969 and began to apply in 1971), and then after enactment of P.A. 77-2062 which began to apply in 1972. Thanks to Karen Conway and Jon Rork.

- Corrected the pension exclusion in Ohio in 1972, based on historical notes to Section 5747.01 of the 1973 Ohio Annotated Statutes that indicate that the exclusion of pensions up to \$4,000 began to apply in taxable year 1972 rather than 1973.
- Corrected the pension exclusion in Colorado between 1974 and 1979 (based on section 39-22-110 of the 1981 Colorado Cumulative Supplement to the Annotated Statutes). Maximum pension exclusion amounts for 1975 through 1979 had inadvertently been shifted to one year earlier than the correct years.

### August 2013

- Corrected values of **propded** and **saleded** in Wisconsin from 1979 through 1985 to reflect the fact that itemized deductions for taxes were disallowed in these years (I had previously thought only income tax deductions were disallowed). See 1979 Wisconsin Session Laws, Chapter 1, Section 11.
- Incorporated a credit for property taxes and rent that has applied in Wisconsin since 1978, See documentation for **sptx = pcwi78** and **sptx = pcwi**.

### November 2013

- Added variables **qdiv1** and **qdiv2** to the input data set to record qualified dividends, and modified the SAS code so that only qualified dividends are taxed at special low rates at the federal level starting in 2003 (previously, the calculator was subjecting all dividends to those special low federal tax rates).

### August-October 2014

- Updated New York calculations for **sptxex2** (2009 and on) and **eictypestate** (96 forward).
- New York: fixed itemized deduction limitation.
- West Virginia: moved the \$8,000 exemption available to each elderly person from the **ex\_age** variable to the **retex** variables, which allows a more accurate calculation of the allowable exemption. See **retex** = 22.
- Rhode Island: phase outs for exemptions and standard deductions (2010 forward)
- Minnesota: phase out of exemption (2011)
- Wisconsin: updated property tax credits

- Arizona: fix family credit to account for spouse and maximum credit.
- Vermont: Fixed **sitted** so it would be capped. Now **sitted** can be 0, 1, or greater than 1 (which is the cap).
- Federal: updated SAS code to allow a third rate at 20% for capital gains.
- Indiana: added automatic refund for 2012.
- Many other changes that I have not yet had time to summarize here.

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### July 2015

- Added **depind**, **taxfiler**, **incomealt**, and **wgt** to set of variables included in input data set containing taxpayer characteristics.
- Modified coding of Colorado child care credit from 1997 through 2014, correcting errors in the formula for 1998 and 1999, and making the approximation of the phase-out slightly more accurate in other years.
- Created **sptx** = *cgexar* for a new kind of capital gains exclusion applying in Arkansas starting in 2014.
- Corrected tax brackets for singles in Georgia for 2013.
- Modified SAS code to account for the fact that state child care credits in OK are multiplied by ratio of state to federal AGI.
- Modified code for state child care credits so that phase-outs are based on measure of income defined in **kcincome**.
- Corrected value of **kcincome** for NE, 1989 – present.
- Filled in value of **kcfedlimit** for NE, 1989 - 2003.
- Modified calculation of federal tax liability (**taxf**) to take into account certain limitations on the credit for child and dependent care expenses, including the following. From 1987 through 1997, the amount of the credit was limited to be no larger than the amount by which federal tax liability before credits exceeded tentative alternative minimum tax. From 1998 through 2001, the credit was limited to be no larger than federal tax liability before credits. In 2002, the credit was limited to be no larger than the sum of federal tax liability before credits and AMT. The limitations

are implemented in the part of the SAS code where final federal tax liability (**taxf**) is calculated.

- Modified calculation of state child care credits to take into account **kcfedlimit**.
- Modified the Oregon working families child care credit (**kidcaretype**=26) to limit it to taxpayers with capital income less than **xb5**, and filled in values of **xb5** for 1997-present.
- Renumbered value of **kidcaretype** in MN and WI in most recent years to be 30 and 8, respectively.
- Fixed errors in the SAS code for MN child care credits (**kidcaretype** = 19 and 30). Previously the limitation on the maximum allowable credit was not being implemented in **kidcaretype** = 19, and there were a number of errors in **kidcaretype** = 30 (which only began to apply in 2013).
- Corrected SAS code for **exlim** = 5.
- Incorporated personal exemption phase-out applying in Hawaii from 2009 – present (**exlim** = 5) in state parameters worksheet, and modified SAS code for **exlim** = 5 to handle Hawaii's 2009 version of this.
- Corrected value of **kc2** in Hawaii to be 15 rather than 12 in 2013.
- Modified SAS code, documentation, and state tax parameters database to allow for the fact that the income threshold at which the phase-out of the Iowa AMT exemption begins became decoupled from the federal threshold starting in 2013. See **mintaxtype** = 7.
- Corrected the values of circuit breaker variables in Illinois for 2013.
- Corrected computation of Wyoming property tax credits to account for the fact that starting in 2008, the tax credit for elderly was reduced by the amount of the property tax credit for all ages.
- Corrected computation of West Virginia property tax credits in 2012 and 2013 to incorporate new income limits imposed in 2012, and subtraction of elderly property tax credit from property taxes in the formula for the homestead excess property tax credit.
- Changed **cbage** to 0 in Indiana in all years since 1982 (this does not affect anything since the credit it applied to was eliminated in 1982).
- Corrected value of **maxstded** for 2013 from 7000 to 7500.

- Corrected value of **b4** in Wisconsin in 2013 for heads of household and singles (changed it from 236,000 to 236,600).
- Modified coding scheme for circuit-breaker property tax credit in Vermont (**cbtype** = 23) to allow for maximum renter's rebate credit amount implemented starting in 2012.
- Corrected values for **cbpct1** and **xcbpct1** in Maine for 2013 (was 100, should be 40).
- Corrected value of **sptxex** for MI in 2012 and 2013 (was 40000, should be 20000).
- Changed the value of **cbthresh3** in MN to more accurately approximate the phase-out of the MN circuit breaker credit.
- Corrected the values of **cbmaxcr2** for 2013 h and s from "11100" to "1100."
- Corrected the values for **retex**, **retph1**, **retph2**, and **b2-b7** in 2013 for Montana to account for indexing for inflation.
- Corrected the value of **experecap** in Ohio for 2011-2013 for single and head of household (it was off by \$50 or \$100 depending on the year).
- Moved the low-income credit applying in Ohio 2005 – present from **lowtype** = 2 to **miscexctype** = 23, to make room in the low variables for an increase in the personal exemption for lower-income taxpayers that began to apply in 2014 (see **lowtype** =

### Summer 2016

- Corrected value of **retex** for Wisconsin for married couples, increasing it from 5000 to 10000, for the years 2009-2015.
- Corrected the value of **idphthresh** for head of household in California in 2014.
- Corrected the value of **itemiz**, changing its value from 2 to 4, in Vermont for 2009 and later years.
- Modified retirement income credit for people under age 65 in Utah applying since 2008 (**miscexctype** = 20) to account for the fact that people are only eligible if they were born before 1953.
- Corrected the Colorado circuit breaker credit to incorporate modifications to the credit that were made starting in 2014.
- Changed the value of **kcfedlimit** from 1 to 0 in SC in 1984 and all subsequent years. The SC child care credit is a percentage of expenses eligible for the federal child care credit, not a percentage of the federal child care credit itself, so **kcfedlimit** is

irrelevant to calculating the SC child care credit, and 0 is the correct code for **kcfedlimit**.

- Corrected various errors in our implementation of the Rhode Island phase-out of standard deduction and personal exemptions that has applied since 2011.
- Corrected the values of **lowph1** and **lowph2** in Oregon for 2013 and 2014.
- Modified Oklahoma EITC for 2002 and later years to account for the fact that if OK AGI is less than federal AGI, the Oklahoma EITC must be multiplied by the ratio of Oklahoma AGI to federal AGI. See **eicypestate** = 13.
- Corrected value of **mintaxex** for Iowa for 2014.
- Corrected implementation of Ohio senior citizen's credit (**cred\_age**) for 1973 through present so that a married couple gets a single credit of two times **cred\_age** as long as at least one spouse is aged 65 or above.
- Corrected the personal exemption phase-out in Maryland for 2012 and later years (see **exlim** = 7).
- Corrected the itemized deduction limitation applying in New York in 2009 and later years (see **itemlim** = 3 and **itemlim** = 4).
- Modified the retirement income credit for people under age 65 in Utah (**miscexctype** = 20) to take into account that only those born before 1953 are eligible for it.
- Wrote SAS code for the new limitation on itemized deductions in Kansas in 2015 (**itemlim**=25)
- Wrote SAS code for CT social security benefits taxation for 1998 onward (**ssbentx** = 5,6,7)
- Wrote SAS code for tax on social security benefits in Nebraska for 2015 (**ssbentx** = 14)
- Wrote SAS code for permanent building fund credit reduction and grocery credit in Idaho (2008-) (**miscexctype** = 19 and **lowtype** = 26)
- Wrote SAS code for Minnesota's EIC starting in 2014 (**eicypestate**=11)
- Added SAS code to handle VT's Itemized Deductions Limitation in 2015 (**itemlim** = 26)
- Added SAS code to handle NC's Itemized Deductions Limitation in 2014 and 2015 (**itemlim** = 7 and **itemlim** = 8)

- Modified SAS code to apply the temporary reduction in the percentage of AGI used to calculate medical and dental expense deduction from 10 percent to 7.5 percent for households where taxpayer or spouse are aged 65 or above, applying 2013-2016.
- Added SAS code to handle OH's EIC from 2013-present (eicystate = 12)
- Added SAS code to handle NJ's 1976-1985 Renters Credit (cbtype=37)
- Added documentation and SAS code to handle CA EITC 2015- (eicystate=14)
- Added SAS code to handle NJ's property and rent credits from 1985-1989 (cbtype=38) 1990-1995 (cbtype=39), 1995-2002 (cbtype=40), and 2003-2005 (cbtype=41).
- Wrote code for Kansas business and passthrough tax exemption (2013- )
- Wrote code for Ohio business and passthrough partial exemption (2013- )

### January 2017

- Corrected errors in the SAS code implementing the federal taxation of capital gains in the ordinary income tax and the alternative minimum tax for 2013 and later years (**Ftaxtype** = **cgmax7** and **Famttype** = 7).

### Summer 2017

- Minor editing to the documentation (fixing typos, clarifying some explanations, correcting a few descriptions that we had forgotten to update, such as year references).
- Modified the SAS code for **xtaxtype** = *utahcred* so that the value of the federal standard deduction used in the formula would include the value of the non-itemizer property tax deduction that applied at the federal level in 2008 and 2009.
- Corrected the value of **crreturn** for Arkansas in 2015 for married and head of household.
- For California 2013-2015, corrected an error in the **bracknum** variable that was causing taxes to be computed incorrectly for millionaires, and corrected some errors in the upper tax brackets. Also corrected error in the values of **b9** and **b10** for California in 2015 (they had been reversed).



## Fall 2017

- Corrected some errors in the SAS code and IncTaxState parameters for the Illinois circuit breaker credit (**cbtype** = 8) for the years 2012 - 2015 that were causing a division by zero problem.
- Corrected some errors in the SAS code for the New Jersey “Property Tax Deduction / Credit Program” applying 1996-present (see **cbtype** = 40, 41, 42) that was causing some large illegitimate notches in marginal tax rates. The errors had been introduced during August of 2016.
- Re-wrote the SAS code for the New Jersey deductions for property tax and rent applying in 1985-1989 to correct assorted errors that had been introduced in August 2016 (see **cbtype** = 38).

## 2018

- Wrote SAS code for **itemlim**=23, Minnesota itemized deduction limitation 2011 – present.
- Edited the SAS code for **itemiz**=4 so that it would work correctly with **itemlim** = 23.
- Corrected the value of **maxstded\_a** for head of household filers in Colorado for 2015.
- Corrected value of **eicstate1** for Colorado in 2015.
- Corrected values of certain circuit-breaker variables for Colorado in 2014 and 2015.
- Corrected value of New Jersey property tax credit for 2015 (a budget deal enacted in 2017 retroactively cut it in half).
- Corrected the coding of Connecticut’s 2015 “3% Tax Rate Phase-Out Add-Back” and the “Tax Recapture” (provisions coded in using **xtaxtype** = *paratax*).
- Corrected the value of one tax bracket for head of household filers in Hawaii in 2015.
- Corrected the value of **pctfdeldcr** for head of household in Iowa, 2015.
- Corrected top tax rate in Kentucky for 2015.
- Corrected tax brackets for married couples in Louisiana in 2015.
- Corrected the value of **exlim** in **Maryland** for 2012 – 2015.

- Corrected the value of **retex** for married couples in Maryland for 2014 and 2015.
- Corrected value of **kc2** in Maryland for 2014 and 2015.
- Corrected the value of **xbrackum** in Maryland for 2015.
- Incorporated the “Low and Moderate Income Homeowners Property Tax Relief” program that has applied in New Hampshire since 2002 – see **cbtype** = 50.
- Corrected values of **kc5** and **kc6** in Minnesota for 2015.
- Corrected value of **itemiz** in North Carolina for 2012 through 2015.
- For Missouri in 2015, corrected values of **exreturn** and **maxstded** for head of household, and **xcbthresh** and **xcbthresh1** for married.
- Corrected the value of **medded** in Maine for 2014 and later years.
- Incorporated cap on itemized deductions in Maine starting in 2013, and phase-out of itemized deductions starting in 2016. See **itemlim** = 27, **itemlim** = 28, **sptx** = *itemlim27*, **sptx** = *itemlim28*, **sptx2** = *itemlim28*.
- Corrected the value of **cbincdef** for Maine for 2014 and later years.
- Corrected the SAS code for deduction for the greater of state and local income taxes and state retail sales taxes at the state level in the case of married couples who file separately at the state level (i.e., corrected the computation of the variable “**sitdedallowed**” in the SAS code).
- Corrected SAS code for calculation of limitation on deductibility of state and local income taxes applying in Vermont 2009-2014 (**sitded** = 5000).
- Corrected parameters relating to the phase-out of standard deductions in Wisconsin for 2016.
- For Utah, corrected the value of **cbage** (was 65, should have been 66) in 2008 and later years.
- Corrected value of **cbthresh4** for single taxpayers in Rhode Island from 1987 through 2015.
- Corrected deduction for federal income tax liability in Oregon, 2009 to present, to phase it out at higher income levels. See **limfdtype** = 6.

- Minor corrections and refinements to the coding of the Missouri circuit breaker property tax credit in years since 1973. See **cbincdef** = 17 for one example of a change (previously the exemptions now recorded in **cbineval1** and **cbineval2** were worked into the **cbthresh** and **xcbthresh** variables, but that didn't get things quite right, and the new coding scheme does). Corrections were also made to values of **cbthresh3**, **cbthresh4**, **cbfloor1**, and **cbrenteq** for various years in the 1970s, based on finding the relevant session laws online.
- Corrected values of **low** and **lowdepamt** in North Carolina 2014 – 2016.
- Incorporated provision in Nebraska that limits Nebraska income tax liability to be no larger than federal income tax liability under certain circumstances, since 2004. See **sptx2** = *nefedmax*.
- Edited the SAS code that defines income for purposes of computing the Oregon retirement income credit (**retex** = 15) that has existed since 1991, to make that definition of income more closely match what is actually used in computing the credit on the tax form.

## 2019

- Wrote SAS code for **kidcaretype** = 31 (Oregon Working Family Household and Dependent Care Credit, 2016 - ).
- Wrote SAS code for **kcincome** = 6 (Oregon, 2016 - ).
- Corrected value of **kc1** in Arkansas, 1993-1997.
- Corrected value of **kcincome** for Arizona, 1954-1989.
- Corrected various aspects of the California child and dependent care tax credit for 1977 through 1992.

## REFERENCES

*Note:* Due to the many hundreds of state annotated statutes and session laws we collected, particular reference information for each one is not included here. This list includes only the secondary sources. A list of years for which we collected annotated statutes and/or session laws for each state is available upon request. We have retained electronically scanned PDF files of all of these laws.

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