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OCCASIONAL PAPERS SERIES

California Franchise Tax Board

Periodic Publications on Franchise Tax Board Issues & Topics

COUPLING CALIFORNIA PERSONAL INCOME TAXES TO FEDERAL INDIVIDUAL INCOME TAXES

by

Gene Adkins

and

Jay Chamberlain

March 1991

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Research Bureau
FRANCHISE TAX BOARD

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FEDERAL INDIVIDUAL INCOME TAXES

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COUPLING CALIFORNIA PERSONAL INCOME TAXES

TO

FEDERAL INDIVIDUAL INCOME TAXES

ABSTRACT

In this paper, the concept of calculating California's personal income tax directly from bottom-line federal individual income tax liability is examined. It is concluded that a tax rate of 24 percent of modified federal tax liability would yield the same level of state revenue as current law in 1991. Analysis of tax incidence data reveals that coupling would result in tax savings for taxpayers with adjusted gross incomes (AGI) over $50,000 and substantial tax increases for taxpayers with AGI under $20,000.

Also in this paper, constitutional and legal questions with respect to the delegation of state legislative authority and the balanced budget requirement are raised. Finally, some of the transitional issues, including depreciation and net operating loss allowances, are noted.

COUPLING CALIFORNIA PERSONAL INCOME TAXES

TO

FEDERAL INDIVIDUAL INCOME TAXES[1]

I. OVERVIEW

Most observers agree that the state tax system would be greatly simplified if state personal income taxes were calculated directly from federal individual income tax liability. This paper examines the concept and concludes that compliance and enforcement could be greatly enhanced by such "coupling." However, as discussed in the following pages, coupling introduces potentially irreconcilable problems involving social/economic issues, constitutional/legal questions, and budgetary/fiscal concerns.

The first step in examining the concept of coupling requires identifying the appropriate federal individual tax liability to serve as the state tax base. This step is necessary to compensate

[1] The views expressed in this paper are those of the authors. They do not necessarily represent the views of the State of California or the Franchise Tax Board. The authors express their appreciation to California State Senator Morgan, who represents California's 11th. Senate District, for suggesting that this issue be examined. The authors would also like to express their appreciation for valuable comments and suggestions from Robert Affleck, Tom Margetich, Phil Spilberg, Carol Horowitz, Terri Vollmer, and Doug Bramhall of the Franchise Tax Board. Responsibility for any errors remains with the authors.

for extraneous items such as the self-employment tax, differences between federal and state taxing authority, and different state and federal tax credits. It is beyond the scope of this discussion to examine all potential options, and it is not the intent of this paper to recommend one option over the others. However, in order to identify the approximate tax rate and to enable closer examination of the social and economic issues associated with coupling, a workable definition is offered. Based on this definition, a California tax base is calculated for the 1991 tax year. The initial conclusion of this exercise is that a flat tax of about 24 percent of each Californian's bottom-line federal tax liability, with certain modifications, would produce the same state revenue for 1991 as projected under current law.

The second step in this examination involves applying the above definition and tax rate to projected California tax returns to identify the incidence of taxation that would result. Comparison of the projected distribution of the tax burden under coupling with the projected distribution under current law reveals that coupling would result in a substantially more regressive state personal income tax structure. This shifting is a result of the federal individual income tax structure being inherently more regressive than the state personal income tax structure. The social and economic implications of this shift toward regressivity are discussed in Part III.

Parts IV and V offer brief discussions of the constitutional/legal questions and budgetary/fiscal issues that would arise from coupling. This portion of the analysis suggests that coupling may give rise to constitutional questions involving delegation of state legislative authority to Congress, and potential complications with Proposition 13's two-thirds vote requirement. This portion also notes potential conflicts between federal and state taxing authority regarding interest on federal obligations, Tier 1 railroad retirement benefits, and taxation of social security income. The primary budgetary/fiscal issue associated with coupling is that year-end federal tax law changes could seriously inhibit California's ability to comply with the constitutional requirement that a balanced state budget be submitted.

Part VI notes that some taxpayers could permanently lose, for state purposes, depreciation and net operating losses (NOL) previously taken for federal and not state purposes. In addition, it is noted that the federal allowance of NOL carrybacks could result in some taxpayers, during recessionary periods, filing for refunds of taxes paid during prior periods.

Finally, while several important facets of the general issue of coupling are examined, the potentially significant administrative and budgetary issues that the Franchise Tax Board would encounter in implementing coupling in California are not addressed in this paper.

II. DEFINITION OF TAX BASE AND CALCULATION OF TAX RATE

To identify the revenue effects of a coupling proposal requires a definition of the appropriate tax base. Since the bottom-line federal tax on the return reflects (a) extraneous items such as the self-employment tax, (b) tax on income that California does not or cannot tax, such as social security income, and (c) federal tax credits that differ from state tax credits, the definitional question requires careful deliberation. For this analysis, the following definition of the California tax base and qualifying tax credits is used (see Attachment I, Form 1040, U.S. Individual Income Tax Return):

LINE 53 (Form 1040)	__________	(Federal Total Tax Liability)
minus line 48	__________	(Self Employment Tax)
minus line 51	__________	(Social Sec Tax on Tips)
minus line 58	__________	(Earned Income Credit)
minus line 61	__________	(Credit for Fed Tax on Fuels)
minus line 62	__________	(RIC Credit)
EQUALS CA TAX BASE	__________	(California Tax Base)
Times	24.09%	(California Tax Rate)
EQUALS CA TAX	__________	(California Tax Liability)

This definition allows all federal credits. The following calculations assume that the state renters' credit would be retained, but all other state credits, including exemption credits, would be repealed. This definition, developed for ease of calculation purposes, raises certain tax authority questions, such as taxing social security and unemployment payments, lottery winnings, and interest on federal obligations, which would have to be addressed. For this analysis, however, their inclusion does not materially affect the calculations and general observations that follow.

California personal income tax liability for the 1991 tax year is projected to be $19.3 billion before renters' credits. The estimated federal tax base of California filers for 1991 is $80.1 billion. A tax rate of 24.09 percent ($19.3/$80.1 = 24.09%) of federal tax liability would produce state tax revenue of $19.3 billion. This amount would be reduced to $18.8 billion after application of renters' credits of $489 million.

Comparing tax liabilities by income classes under current California law with liabilities that would result from coupling, reveals substantial shifting of tax liability from taxpayers with adjusted gross incomes (AGI) over $50,000 to taxpayers with AGIs under $50,000. The group with the largest saving would be those with AGIs over $200,000. This group would save over $1.3 billion, or about one-fifth of their California tax liability. The largest percent increase would be incurred by taxpayers with AGIs in the $10,000 to $15,000 range (270%); while the largest dollar increase would be incurred by taxpayers with AGIs in the $30,000 to $50,000 range ($800 million). The following table illustrates the tax burden shifting that would occur if coupling were implemented in California.

TABLE 1: Distribution of Tax Changes from Coupling California Taxes to Federal Taxes Estimates for Tax Year 1991 Incorporating the Major Provisions of BRA 90*

AGI Class ($000's)	Number of Returns (000's)	California Tax Liability		Differences Due to Coupling	
		Cur Law ($Mil)	Prop Law ($Mil)	Amount ($ Mil)	Percent Change
Under 10	4,056	($61)	($73)	($12)	-20%
10-15	1,624	77	286	209	270
15-20	1,368	234	477	243	100
20-30	2,821	1,029	1,702	673	65
30-50	2,630	2,995	3,803	808	27
50-100	1,821	5,519	5,396	(123)	-2.2
100-200	298	2,697	2,248	(448)	-17
$200 +	126	6,326	4,976	(1,350)	-20
TOTAL	14,105	$18,815	$18,815	$0	0%

* The California tax liability used is the tax after all credits. The federal tax liability reported is based on federal taxable income (including federal deductions and personal exemptions) including the major Budget Reconciliation Act of 1990 (BRA 90) provisions. The dependent care credit, elderly care credit, foreign tax credit, general business credit, and prior year AMT credit are allowed to reduce the tax liability to, but not below, zero. Nonresident taxes would be apportioned according to California source income as a percent of total income.

III. SOCIAL/ECONOMIC ISSUES

As shown in the preceding section, coupling would result in a significant shift of the tax burden from high income taxpayers to low income taxpayers. This redistribution is a result of the federal tax structure relying on fewer brackets, which are wider, and on relatively smaller increases in the marginal tax rates. There are three federal tax brackets, reaching a maximum taxable income threshold at about three times higher than corresponding California brackets. The top federal tax rate is about twice the lowest federal marginal rate. On the other hand, the top California marginal tax rate is nine times the lowest state marginal tax rate. By coupling California taxes to federal taxes, these relatively regressive aspects of the federal structure would replace California's more progressive structure.

An additional source of the shift in tax liability is related to the federal use of personal exemption deductions, rather than exemption credits. As illustrated below, for a single taxpayer, the value of the federal deduction ($2,000 for 1989) increases as taxable income increases, while the value of the California credit remains fixed.

Taxable Income	Value of Deduction	Value of Credit
$10,000	$300	$55
$25,000	$560	$55
$50,000	$643	$55

By coupling California taxes to federal tax liability, this regressive aspect of the federal tax structure would be incorporated into California's tax structure.

The regressive nature of coupling could be reduced by use of varying rates calculated to be revenue-neutral by income class. This would require defining income classes and calculating the appropriate rate for each class. While this would reduce the relative regressivity, it would not eliminate it. For example, if the AGI class of $30,000 to $50,000 were made revenue-neutral vis-a-vis current law, taxpayers near the $30,000 income level would pay more than under current law, and those near the $50,000 level would pay less. That is, there would be regressivity within the class. This result could be reduced by defining smaller classes. Generally, moving toward the progressivity of current state law would require an increasing number of tax rates the closer the structure approached current law tax burden distribution. The proliferation of different tax rates would offset the gains of simplicity and create analytic/administrative problems.

Clearly the redistribution of tax liability noted above would be considered a significant social issue. An additional social issue caused by the adoption of the federal structure would be the incorporation of the "marriage penalty" in California tax law. That is, under existing California tax rates, two single taxpayers living together would have the same tax liability if they were to remain single or marry one another. Under federal law, if two single taxpayers become married, they may pay increased income taxes. For example, under federal law, two single taxpayers with 1989 taxable incomes of $25,000 each would be liable for a combined total of $9,192 in federal taxes. If they were to marry, they would be liable for $9,970 in federal taxes, a marriage penalty of $778, or about 8.5 percent of their prior tax liability.

While not as clear as the social issues, the shift of tax liability introduces economic issues to be considered. The decrease in state taxes for the wealthy would be offset somewhat by increased federal tax liability for the wealthy. The increase in state taxes for the less wealthy would be offset somewhat by decreased federal tax liability. Given generally higher tax rates on the wealthy, there would be a net increase in federal taxes paid by Californians, thus reducing total disposable income in the California economy. In addition, there would likely be a shifting of economic activity to the extent there are differences in spending and investing activities between the upper and lower AGI recipients. It is beyond the scope of this discussion to examine the implications of these impacts in detail.

IV. CONSTITUTIONAL/LEGAL ISSUES

Coupling is generally considered to be automatic adoption of future federal law changes into California law; i.e., prospective conformity. The Legislative Counsel has opined that automatic conformity would be an unconstitutional delegation of the state's legislative power to Congress (October 19, 1959). There has been no change in that opinion since the original ruling.

Section 3 of Article XIII A of the California Constitution requires two-thirds approval by both houses for "any change in State taxes enacted for the purpose of increasing revenues...." Unless modified, this requirement could inhibit the state's ability to modify the withholding and final tax rate(s) in response to changes in federal tax law. This could seriously impede the state's flexibility to adjust to changing economic and social conditions.

In addition, the tax base may have to be modified to take into account differences in federal and state taxing authority. Federal law explicitly prohibits state taxation of interest received on federal obligations and Tier 1 railroad retirement benefits. The latter prohibition has been interpreted to extend possibly to the taxation of social security income. In addition, interest on other state bonds is taxable at the state level, but not at the federal level. Rhode Island has overcome these problems by requiring taxpayers to recalculate their federal tax liability excluding items taxable at the federal level but not at the state level, and including items not taxable at the federal level but taxable at the state level (see Attachment II, Rhode Island Income Tax Return).

Finally, the simplicity of coupling seems to be lost with respect to taxation of nonresidents who receive California source income directly and/or via pass through entities. In order to identify California source income and calculate appropriate allocation amounts for these taxpayers, a substantial body of California law would be required. These issues would apparently preclude pure coupling.

V. BUDGETARY/FISCAL ISSUES

The timing of federal tax law changes could create serious problems for California, due to the constitutional requirement that the Governor submit a balanced state budget. Other states which conformed to federal tax law have encountered such difficulties. For example, Oregon adopted automatic conformity in 1969. The Federal Tax Reform Act of 1969 (enacted December 30, 1969) forced the Governor of Oregon to reduce spending and increase state controlled liquor prices to balance the budget. The federal Revenue Act of 1971 resulted in the Oregon Legislature being called in for a special session leading to reduced program expenditures and increased cigarette taxes. Oregon abandoned automatic conformity in 1971. At one time, Alaska and Nebraska fixed state taxes as a percent of federal liability. They abandoned the method due to budgetary problems associated with the timing of changes in federal tax law. However, as discussed below, not all states have experienced insurmountable difficulties as a result of coupling.

Vermont's personal income tax is 25 percent of federal tax liability, with minor modifications. According to a spokesperson for the Vermont Commissioner of Taxes, the biggest advantage is simplicity in compliance. In addition, all tax law and case law are established at the federal level, greatly simplifying state enforcement. The disadvantages are that the federal tax structure is not viewed as progressive enough and changes in federal tax laws automatically impact Vermont. Vermont is not required to balance the state budget annually, which removes the budgetary constraints experienced by other states which have pursued coupling (see Attachment III, Vermont Income Tax Return).

The State of Rhode Island, on the other hand, is required to balance the state budget. Since 1971, the state has levied personal income tax as a percent of federal tax liability. The tax is levied on the bottom line federal tax liability after credits with adjustments for social security tax. Rhode Island residents are asked to recompute their federal schedules with modifications to include income subject to state taxation but not federal, and to exclude income subject to federal taxation but not state. Rhode Island has not experienced the budgetary and fiscal problems other states have reported because of a "Hold Harmless" clause in their law. Under the hold harmless clause, the General Assembly, if in session, or the Tax Administrator may increase the withholding rate in the event federal tax liability decreases below that anticipated.

VI. FINAL COMMENTS

In addition to the general issues noted in the preceding pages, the implementation of coupling would give rise to a number of specific issues which would have to be addressed, including: depreciation; net operating losses (NOL); horizontal equity; first-year state tax refunds; and administrative issues for this department.

Some taxpayers may have completely depreciated assets for federal purposes, but not for state purposes. Coupling to federal tax liability could result in their permanently losing some portion of state depreciation allowances. Similarly, differences between federal and state net operating loss (NOL) allowances could result in the loss, for state tax purposes, of operating losses that were taken for federal and not state purposes prior to the transition. The question of NOL carrybacks (which current law allows for federal but not state purposes) would also have to be addressed. Incorporating NOL carrybacks into state law could exacerbate fiscal planning; e.g. in recessionary periods with declining tax receipts, individuals with NOL's could file for refunds of taxes previously paid.

Coupling personal income taxation only could lead to questions of horizontal equity between Personal Income Tax and Bank and Corporate Tax laws. The issue of coupling the bank and corporate tax is beyond the scope of this paper, but a cursory examination of the factors involved suggests that such coupling would be very difficult at best. The taxation of insurance companies and multinational corporations, for example, could remove any semblance of simplicity from the concept.

In the first year, state tax refunds from the prior year would be included in the federal base and thereby taxed by the state. This creates the potential for taxpayers with the same incomes and deductions to pay different taxes in the first year. This issue also gives rise to some manipulative potential in periods other than the first year; however, the overall potential is minor. Finally, coupling could create a number of administrative and budgetary issues for this department. Further pursuit of coupling would require that these issues be addressed in greater detail.

ATTACHMENT I

FEDERAL FORM 1040

1989

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 1989

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 | OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). (If a P.O. box, see page 7 of Instructions.)	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see Instructions.**
City, town or post office, state and ZIP code. (If a foreign address, see page 7.)		

Presidential Election Campaign ▶ Do you want $1 to go to this fund? . . . Yes | No
If joint return, does your spouse want $1 to go to this fund? . Yes | No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2 . .

b ☐ **Spouse** . . . . .

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

If more than 6 dependents, see Instructions on page 8.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed . . .

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

Line	Description			Box	Amount
7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*			7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*			8a	
b	**Tax-exempt** interest income (see page 10). DON'T include on line 8a	8b			
9	Dividend income *(also attach Schedule B if over $400)*			9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions			10	
11	Alimony received			11	
12	Business income or (loss) *(attach Schedule C)*			12	
13	Capital gain or (loss) *(attach Schedule D)*			13	
14	Capital gain distributions not reported on line 13 (see page 11)			14	
15	Other gains or (losses) *(attach Form 4797)*			15	
16a	Total IRA distributions	16a	**16b** Taxable amount (see page 11)	16b	
17a	Total pensions and annuities	17a	**17b** Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*			18	
19	Farm income or (loss) *(attach Schedule F)*			19	
20	Unemployment compensation (insurance) (see page 13)			20	
21a	Social security benefits	21a	**21b** Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13)			22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶			23	

Adjustments to Income

(See Instructions on page 14.)

Line	Description	Box	Amount	Box	Amount
24	Your IRA deduction, from applicable worksheet on page 14 or 15	24			
25	Spouse's IRA deduction, from applicable worksheet on page 14 or 15	25			
26	Self-employed health insurance deduction, from worksheet on page 15	26			
27	Keogh retirement plan and self-employed SEP deduction	27			
28	Penalty on early withdrawal of savings	28			
29	Alimony paid. **a** Recipient's last name ____ and **b** social security number.	29			
30	Add lines 24 through 29. These are your **total adjustments** ▶			30	

Adjusted Gross Income

Line	Description	Box	Amount
31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 20 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

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Tax Computation

32	Amount from line 31 (adjusted gross income)	32	
33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶ 33a ☐		
b	If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐		
c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐		
34	Enter the larger of: • Your **standard deduction** (from page 17 of the Instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here ▶ ☐	34	
35	Subtract line 34 from line 32. Enter the result here	35	
36	Multiply $2,000 by the total number of exemptions claimed on line 6e	36	
37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero)	37	
	Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.		
38	Enter tax. Check if from: a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615. (If any is from Form(s) 8814, enter that amount here ▶ d ______.)	38	
39	Additional taxes (see page 18). Check if from: a ☐ Form 4970 b ☐ Form 4972	39	
40	Add lines 38 and 39. Enter the total ▶	40	

Credits

(See Instructions on page 18.)

41	Credit for child and dependent care expenses *(attach Form 2441)*	41			
42	Credit for the elderly or the disabled *(attach Schedule R)*	42			
43	Foreign tax credit *(attach Form 1116)*	43			
44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ______	44			
45	Credit for prior year minimum tax *(attach Form 8801)*	45			
46	Add lines 41 through 45. Enter the total			46	
47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶			47	

Other Taxes

(Including Advance EIC Payments)

48	Self-employment tax *(attach Schedule SE)*	48	
49	Alternative minimum tax *(attach Form 6251)*	49	
50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50	
51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51	
52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52	
53	Add lines 47 through 52. Enter the total ▶	53	

Medicare Premium

54	Supplemental Medicare premium *(attach Form 8808)*	54	
55	Add lines 53 and 54. This is your **total tax** and any supplemental Medicare premium ▶	55	

Payments

Attach Forms W-2, W-2G, and W-2P to front.

56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56			
57	1989 estimated tax payments and amount applied from 1988 return	57			
58	Earned income credit (see page 20)	58			
59	Amount paid with Form 4868 (extension request)	59			
60	Excess social security tax and RRTA tax withheld (see page 20)	60			
61	Credit for Federal tax on fuels *(attach Form 4136)*	61			
62	Regulated investment company credit *(attach Form 2439)*	62			
63	Add lines 56 through 62. These are your **total payments** ▶			63	

Refund or Amount You Owe

64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶			64	
65	Amount of line 64 to be **REFUNDED TO YOU** ▶			65	
66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66			
67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it			67	
68	Penalty for underpayment of estimated tax (see page 21)	68			

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

ATTACHMENT II

RHODE ISLAND INCOME TAX RETURN

1989

RI-1040

1989 RHODE ISLAND INDIVIDUAL INCOME TAX RETURN

(To Be Used By Resident Taxpayers With Modifications, Various Credits And/Or Income Taxes Paid To Other States)

For 1989 or other tax year ____________, 19__ ending ____________, 19______.

PRINT OR TYPE

First Name and Initial (If joint return use First Name and Initials of both.) Last Name	Your Social Security Number
Present Home Address (Number and Street, Including Apartment No. or Rural Route)	Spouse's Social Security Number
City, Town or Post Office State Zip Code	City or Town of Legal Residence

A Filing Status Please check one: 1 ☐ Single 2 ☐ Married filing joint return (even if only one had income) 3 ☐ Married filing separate return. 4 ☐ Head of Household (with qualifying person) 5 ☐ Qualifying widow(er) with dependent child (Year spouse died 19)

B Total exemptions claimed (1989 Federal 1040 Line 6e or Federal Form 1040A Line 6e. Enter number. ▶

RHODE ISLAND TAX COMPUTATION

- If you have modifications to Rhode Island income, complete Schedule I on Page 2 before entering your federal income tax liability on Line 1 below.
- If you have no modifications to Rhode Island income, but are claiming credit(s) complete Lines 1 and 2 below and Line 8 Schedule 1, before completing Schedule II on the reverse side, if applicable. Enter your federal income tax liability on Line 1.

PLEASE ATTACH W-2 FORMS HERE

1.	1989 Federal Income Tax-Federal Form 1040 Line 53 less Lines 48, 51 and 58; 1040A Line 22 less Line 25b; 1040EZ Line 7; or Schedule 1, Line 17, Page 2. ▶	1.	
2.	Rhode Island income tax 22.96% of amount on Line 1 (See instructions and tax table) ▶	2.	

TAX PAYMENTS AND CREDITS

3.	A	Rhode Island 1989 Income Tax withheld (R.I. State W-2 form please attach) ▶	3A	
	B	Payments on 1989 Form R.I. 1040ES and credits carried forward from 1988. ▶	3B	
	C	Property Tax Relief Credit (Attach Form R.I. 1040H) ATTN: Persons over 65 or disabled. ▶	3C	
	D	Credit for Income Taxes paid to other states-Schedule II-Line 22-Attach signed copy of other state return. ▶	3D	
	E	Energy Credit (Attach Form R.I. 5695) ▶	3E	
	F	Other Credits Indicate Credit Form Numbers ▶	3F	
	G	Other Payments ▶	3G	
	H	Total - add Lines 3A, 3B, 3C, 3D, 3E, 3F and 3G ▶	3H	

CHECK IF EXTENSION IS ATTACHED ☐

4.	If Line 2 is larger than Line 3H, enter **BALANCE DUE** and pay in full with return. CHECK ▶ ☐ If Form 2210 is attached INTEREST $ ▶ ☹	4.	
5.	If Line 3H is larger than Line 2 enter **OVERPAYMENT** ▶ ☺	5.	
6.	Amount of overpayment to be refunded ▶	6.	
7.	Amount of overpayment to be credited to 1990 Estimated Tax ▶	7.	

FOR OFFICE USE ONLY

PLEASE ATTACH CHECK HERE

7A ELECTORAL SYSTEM CONTRIBUTION $5.00 ($10.00 if a joint return) (see instructions) NOTE This will not increase your tax or reduce your refund. Check one ☐ YES ☐ NO

7B If you wish the first $2.00 ($4.00 if joint return) to be paid over to a specific party, check the first box and fill in the name of the political party. If you wish it to be paid over to a nonpartisan general account. Check second box. (1) ☐ ____________ Party (2) ☐ NonPartisan General Account (See instructions) (Do not specify name of any particular candidate)

7C OLYMPIC CONTRIBUTION $1.00 ($2.00 if a joint return) (See instructions) NOTE: This contribution will reduce your refund. ☐ YES ☐ NO

7D R.I. ORGAN TRANSPLANT FUND $1.00 ($2.00 if a joint return) (See instructions) NOTE: This contribution will reduce your refund. ☐ YES ☐ NO

7E ARTS AND TOURISM DEVELOPMENT FUND NOTE: This contribution will reduce your refund. ☐ $1.00 ☐ $5.00 ☐ $10.00 ☐ Other $______ (write in amount)

7F R.I. NONGAME WILDLIFE FUND NOTE: This contribution will reduce your refund. ☐ $1.00 ☐ $5.00 ☐ $10.00 ☐ Other $______ (write in amount)

7G CHILDHOOD DISEASE VICTIMS' FUND NOTE: This contribution will reduce your refund. ☐ $1.00 ☐ $5.00 ☐ $10.00 ☐ Other $______ (write in amount)

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct and complete.

YOUR ▶ SIGNATURE DATE | SPOUSE'S ▶ SIGNATURE DATE

SIGNATURE & ADDRESS OF PAID PREPARER DATE

Make check payable to R.I. Division of Taxation. Mail check and this return to R.I. Division of Taxation One Capitol Hill Providence, RI 02908-5801.

SCHEDULE I

RHODE ISLAND MODIFICATIONS TO FEDERAL ADJUSTED GROSS INCOME

8.		Federal adjusted gross income-Federal Form 1040 Line 31; 1040A Line 13; 1040EZ Line 3. ▶		8	
9.		Modifications increasing federal adjusted gross income. (See specific instructions)			
	A.	Income from obligations of any state or its political subdivisions, other than Rhode Island ▶	9A		
	B.	Income from U.S. obligations exempt from Federal income tax but not exempt from state income tax. ▶	9B		
	C.	Capital loss carryovers from taxable years ended prior to January 1, 1970. ▶	9C		
	D.	Other modifications (See instructions - attach schedule) ▶	9D		
	E.	Total adjustments - add Lines 9A, 9B, 9C, & 9D.		9E	
10.		Add Lines 8 and 9E.		10	
11.		Modifications decreasing federal adjusted gross income.			
	A.	Income from obligations of the U.S. Government included in Line 8 above but exempt from state income taxes. ▶	11A		
	B.	Rhode Island Lottery Prizes (WINNINGS AND PRIZES RECEIVED PRIOR TO JULY 1, 1989) ▶	11B		
	C.	Other Modifications (See instructions - attach schedule) ▶	11C		
	D.	Total adjustments - add Lines 11A, 11B, and 11C. ▶		11D	
12.		Modified federal adjusted gross income (Line 10 less Line 11D). ▶		12	
13.		Enter your deduction from Federal Form 1040 Line 34, Form 1040A Line 16, Form 1040EZ Line 4. ▶		13	
14.		Subtract Line 13 from Line 12. ▶		14	
14A		Multiply $2000 by the number of exemptions entered on Form 1040 Line 6e or 1040A Line 6e.		14A	
14B		Taxable Income. Subtract Line 14A from Line 14		14B	
15A		Federal income tax on the amount on Line 14B. Check if from ☐ Tax Tables ☐ Tax Rate Schedules ☐ Form 8615 ▶		15A	
15B		Additional taxes. Check if from ☐ Form 4970, OR ☐ Form 4972, ▶		15B	
15C		Other taxes. Total of amounts entered on Lines 49, 50 and 52 Federal Form 1040. ▶		15C	
15D		Total Federal income tax before credits. Add Lines 15A, 15B and 15C. ▶		15D	
16.		Credits. Total amounts entered on Lines 46 and 58 Federal Form 1040 or Lines 21 and 25b Federal Form 1040A ▶		16	
17.		Total Federal income tax - Line 15D less Line 16. (Enter here and on Page 1, Line 1.)		17	

SCHEDULE II

CREDIT FOR INCOME TAXES PAID TO ANOTHER STATE - RHODE ISLAND RESIDENTS ONLY

Attach copy of return filed with other state.

18.	Rhode Island income tax (Page 1 - Line 2 this return) ▶	18	
19.	Adjusted Gross income from other state(s). ▶	19	
20.	**TAX CREDIT COMPUTATION** (See instructions) $\frac{\text{Line 19}}{\text{Line 8 or Line 12}}$ = ☐.☐☐☐☐ X Line 18________ = ▶	20	
21.	Tax due and paid (See specific instructions) to other state(s) Insert Name of State(s) Paid ▶	21	
22.	Maximum tax credit (Line 20 or Line 21 whichever is smaller but not to exceed amount on Line 18) ▶ Enter here and at Line 3D	22	

ATTACHMENT III

VERMONT INCOME TAX RETURN

1989

SCHEDULES

SCHEDULE A. TAXABLE MUNICIPAL BOND INCOME

25. Total interest income from state and local obligations, exempt from federal tax .... 25.
26. Vermont municipal obligations included in Line 25 .... 26.
27. Non-Vermont municipal bond income: Line 25 less Line 26 .... 27.
28. Were you or your spouse age 62 or over on December 31, 1989?
☐No ☐Yes If yes, enter $5,000 .... 28.
29. Taxable municipal bond income: Line 27 less Line 28, but not less than 0. Enter on Side 1, File Data Section. Add this amount to your federal adjusted gross income and recompute your federal tax. **ENTER YOUR NEW FEDERAL TAX ON LINE 1.** Attach copies of your original and recomputed federal returns: See instructions .... ➡ 29.

SCHEDULE B. UNDER $7,000 INCOME CREDIT

30. Adjusted gross income from Side 1, File Data Section.
Use combined income of husband and wife if separate returns are being filed .... 30.
31. Vermont tax from Side 1, Line 4. Use combined taxes of husband and wife if separate returns are being filed .... 31.
32. Credit % from table below .... 32. %
33. Total credit: Multiply Line 31 by Line 32 .... 33.
34. Less credit claimed by spouse if separate return filed. If none, enter 0 .... 34.
35. NET ALLOWABLE CREDIT: Line 33 less Line 34. Enter here and on Side 1 Line 5 .... ➡ 35.

If your Vermont tax is From	To	Enter this % tax credit on Line 32	If your Vermont tax is From	To	Enter this % tax credit on Line 32
$ 0.00	$ 52.00	100%	$115.01	$130.00	50%
52.01	68.00	90	130.01	145.00	40
68.01	84.00	80	145.01	162.00	30
84.01	99.00	70	162.01	178.00	20
99.01	115.00	60	178.01	195.00	10

SCHEDULE C. CREDIT FOR TAX PAID TO ANOTHER STATE — FOR RESIDENTS/PART-YEAR RESIDENTS ONLY

36. Adjusted gross income taxed in another state and taxed in Vermont: See instructions .... 36.
37. Adjusted gross income: Federal amount or recomputed amount, if applicable .... 37.
38. Vermont tax: Side 1 Line 2 less Line 5 .... 38.
39. Computed tax credit: Divide Line 36 by Line 37 and multiply by Line 38
Line 36 / Line 37 ________ x Line 38 ________ .... 39.
40. Amount of TAX due and paid to other states on income on Line 36: See instructions .... 40.
41. Enter the lesser of Line 39 or Line 40 here and on Side 1 Line 7 .... ➡ 41.

Name of state(s) ________ COPIES OF NONRESIDENT RETURNS MUST BE ATTACHED

SCHEDULE D. EARNED INCOME CREDIT — FOR RESIDENTS/PART-YEAR RESIDENTS ONLY

RESIDENTS COMPLETE LINES 42 & 43:

42. Earned income credit from Federal Form 1040 Line 58 or 1040A Line 25b .... 42.
43. Vermont earned income credit: Multiply Line 42 by 25%. Enter here and on Side 1 Line 19 .... ➡ 43.

PART-YEAR RESIDENTS COMPLETE LINES 44-50:
Enter figures in Column A as they appear on your federal worksheet.
List the portion earned while a Vermont resident in Column B.

	A. Federal Amount $	B. Vermont Portion $
44. Wages, salaries, tips, etc.	44A	44B
45. Self-employment income	45A	45B
46. Total earned income: Add Line 44 and Line 45	46A	46B
47. Earned income credit adjustment: Divide Line 46B by Line 46A and enter here but not more than 100%		47. %
48. Earned income credit from Federal Form 1040 Line 58 or 1040A Line 25b	48.	
49. Multiply Line 48 by 25% and enter the result here		49.
50. Vermont earned income credit: Multiply Line 49 by Line 47. Enter here and on Side 1 Line 19 .... ➡		50.

989 VERMONT INCOME TAX RETURN

or Fiscal year
ending ____________ 1990

DUE DATE APRIL 16, 1990

Resident—Nonresident—Part Year Resident
DEPARTMENT OF TAXES
Montpelier, Vermont 05602

PRINT OR TYPE — FILE DATA

Last Name	First Name and Initial (enter both)		Your Social Security Number
Mailing Address			Spouse's Social Security Number
City, Town or Post Office	State	Zip Code	City/Town & State of Legal Residence as of 12-31-89

School district code of Vermont residents as of 12-31-89
Enter number from school district code table ☐☐☐

Daytime phone number: (____) ____________ ☐Self ☐Spouse
If age 65 or over, check block(s) .... ☐Self ☐Spouse
Occupation: Self ____________ Spouse ____________

☐ Single ☐ Head of Household
☐ Married filing jointly
☐ Married filing separately (Enter spouse's social security no. above and full name here)
____

EXEMPTIONS claimed (1040 Line 6e or 1040A Line 6e or 1040 EZ enter 0 or 1)
ADJUSTED GROSS INCOME (1040 Line 31 or 1040 A Line 13 or 1040 EZ Line 3) $
TAXABLE INCOME (1040 Line 37 or 1040A Line 19 or 1040EZ Line 5) .... $
MUNICIPAL BOND INCOME (Schedule A Line 29) $

STOP **FILE DATA SECTION MUST BE COMPLETED BEFORE RETURN CAN BE PROCESSED.**

TAX

1. FEDERAL TAX:
   - **1040EZ** Line 7 (Enter on Line 1)
   - OR **1040A** Line 20 Minus Line 21 (Enter result on Line 1)
   - OR **1040** Line 40, Plus Line 49, + Recapture of investment tax credit, + Line 52, Minus Line 41, - Line 42, - Line 43, - Investment tax credit, - Line 45 (Enter result on Line 1) .... 1.
2. Vermont Tax: 25% of Line 1 .... 2.
3. Income Adjustment: Attach Form 103IA or enter 100% .... 3. %
4. ADJUSTED VERMONT TAX: Multiply Line 2 by Line 3 .... 4.

CREDITS

5. Under $7,000 Adjusted Gross Income Credit: From Schedule B Side 2 .... 5.
6. See instructions: FOR DEPARTMENT USE ONLY .... 6.
7. Other States Credit: From Schedule C Side 2, Line 41 .... 7.
8. Total: Add Lines 5 and 7 .... 8.
9. Balance: Subtract Line 8 from Line 4. If less than zero enter 0 .... 9.

TAX

10. Use/Sales Tax due for out of state purchases: See instructions .... 10.
11. Total Taxes Due: Add Lines 9 and 10 .... 11.

TOTAL

12.  Vermont Nongame Wildlife Contribution .... 12.
13. TOTAL DUE: Add Lines 11 and 12 .... 13.

PAYMENTS

14. Vermont Tax Withheld: Attach W-2s to reverse side facing forward .... 14.
15. 1989 Estimated Tax or Extension Payments .... 15.
16. Vermont Real Estate Withholding: Attach copy of Form REW-1 .... 16.
17. Sales Tax Rebate: Attach Form 103ST .... 17.
18. Age 62 and older only: Homeowner or Renter Rebate. Attach Form 103SR .... 18.
19. Earned Income Credit: From Schedule D Side 2, Line 43 or Line 50 .... 19.
20. TOTAL: Add Lines 14-19 .... 20.

BALANCE

21. OVERPAYMENT: If Line 13 is smaller than Line 20, enter overpayment .... 21.
22. Amount of overpayment you want credited to 1990 estimated tax .... 22.
23. Amount of overpayment to be REFUNDED: Subtract Line 22 from Line 21 .... 23.
24. BALANCE DUE: If Line 13 is larger than Line 20, enter amount due in full to the State and make check payable to Vermont Department of Taxes. See instructions .... 24.

SIGNATURES

I hereby certify that this return is true, correct and complete to the best of my knowledge. If prepared by a person other than the taxpayer his declaration further provides that under 32VSA 5901 this information has not been and will not be used for any other purpose or made available to any other person other than for the preparation of this return unless a separate valid consent form is signed by the taxpayer and retained by the preparer.

Your signature	Date	Signature of preparer if other than taxpayer	Date
Spouse's signature (if filing jointly both must sign)		Address of preparer	

FORM 103