



Multistate Income Tax Basics



What to expect

- Key Multistate Income Tax Concepts
 - IRC conformity
 - Common state modifications to federal income
 - Bonus depreciation adjustments
 - Net Operating Loss (NOL) treatment
- Complexities of Allocation and Apportionment
- Franchise taxes

Sabrina Parris, CPA

- Founder of Honeycomb State Tax Strategies
- Adjunct accounting instructor at California Lutheran University
- Runner, triathlete, mom





Impact of State Conformity to IRC

Common State Modifications

- Bonus and/or 179 Depreciation
- NOL carryback/carryforward elections
- Employee Retention Credit
- Taxes paid

Tax Formula for Multistate Corporations

	Federal taxable Income from Form 1120	\$
Plus/Minus	State modifications	\$
Equals	State taxbase	\$
Minus	Allocable nonbusiness income	\$
Equals	State apportionable income/loss	\$
Times	State apportionment percentage	%
Equals	State apportioned income/loss	\$
Plus	State allocable nonbusiness income	\$
Equals	State taxable income/loss	\$
Times	State taxrate	%
Equals	Tax liability before credits	\$
Less	State tax credits	\$
Equals	Net state income tax liability	\$

Income Formula for Flow-through Entities

	Federal taxable Income from Form 1120	\$
Plus/Minus	State modifications	\$
Equals	State taxbase	\$
Minus	Allocable nonbusiness income	\$
Equals	State apportionable income/loss	\$
Times	State apportionment percentage	%
Equals	State apportioned income/loss	\$
Plus	State allocable nonbusiness income	\$
Equals	State income/loss	\$



Bonus Depreciation – States Conforming to Federal

Alabama
Colorado
Delaware
Iowa (post-2020)

Montana
Nebraska
New Mexico



Test Your Knowledge

To arrive at state taxable income, which is a common addition to federal taxable income?

- a) Interest income earned on U.S. obligations
- b) Interest earned on municipal bonds
- c) State income taxes paid
- d) Federal income taxes paid

Test Your Knowledge

To arrive at state taxable income, which is a common addition to federal taxable income?

- a) Interest income earned on U.S. obligations
- b) Interest earned on municipal bonds
- ✓ c) **State income taxes paid**
- d) Federal income taxes paid

Bonus Depreciation – North Carolina

Taxpayer buys qualifying asset for \$125,000

Federal Bonus Depreciation $80\% \times \$125,000 = \$100,000$

	Federal Bonus	NC Bonus	Adjustment
2023	100,000	15,000	85,000
2024	-	17,000	(17,000)
2025	-	17,000	(17,000)
2026	-	17,000	(17,000)
2027	-	17,000	(17,000)
2028	-	17,000	(17,000)

Allows 85% bonus in year of purchase

Add-back is deducted evenly over next 5 years



Allocation and Apportionment Methods

- Allocation – Non-business income is specifically allocated to one state
- Apportionment - Business income is apportioned to various states based on each state's apportionment formula

Allocation and Apportionment Example: XYZ Corporation

- Nexus in two states: North Dakota and Kansas
- Federal taxable income: \$19,000

	ND	KS	Total
Sales	380,000	120,000	500,000
Property	60,000	300,000	360,000
Payroll	12,000	8,000	20,000

Allocation and Apportionment Example: XYZ Corporation

$$\text{ND} \quad \frac{(380,000/500,000 + 60,000/90,000 + 12,000/20,000)}{3} = 67.56\%$$

$$\text{KS} \quad \frac{(120,000 / 500,000 + 30,000 / 90,000 + 8,000 / 20,000)}{3} = 32.44\%$$

$$67.56\% + 32.44\% = 100\%$$

Allocation and Apportionment Example: XYZ Corporation

- Nexus in two states: ~~North Dakota~~ **Missouri** and Kansas
- Federal taxable income: \$19,000

	MO	KS	Total
Sales	380,000	120,000	500,000
Property	60,000	300,000	360,000
Payroll	12,000	8,000	20,000

Allocation and Apportionment Example: XYZ Corporation

$$\text{MO} \quad 380,000/500,000 \quad = 76\%$$

$$\text{KS} \quad \frac{(120,000 / 500,000 + 30,000 / 90,000 + 8,000 / 20,000)}{3} = 32.44\%$$

$$76\% + 32.44\% = 108.44\%$$

Is this outcome possible?! **YES!**



Trends in State Apportionment

Single Sales Factor States:

- Alabama
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Georgia
- Idaho
- Illinois
- Indiana
- Iowa
- Kentucky
- Louisiana
- Maine
- Maryland
- Michigan
- Minnesota
- Mississippi
- Missouri
- Nebraska
- New Hampshire
- New Jersey
- New York
- North Carolina
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- Texas
- Utah
- Vermont
- West Virginia
- Wisconsin
- Washington, D.C.

State Tax Planning

Operates in ND and KS
\$100,000 federal taxable income

	North Dakota	Kansas
Sales Factor	77.78%	22.22%
North Dakota (\$700,000/\$900,000)		
Kansas (\$200,000/\$900,000)		
Property Factor	76.92%	23.08%
North Dakota (\$50,000/\$65,000)		
Kansas (\$15,000/\$65,000)		
Payroll Factor	75.00%	25.00%
North Dakota (\$300,000/\$400,000)		
Kansas (\$100,000/\$400,000)		
Sum of apportionment factors	229.70%	70.30%
Divide by 3	3	3
State apportionment percentage	76.57%	23.43%
Times business income	\$ 100,000	\$ 100,000
State taxable Income	\$ 76,567	\$ 23,433
Times state tax rate	3.55%	3.50%
State income tax	\$ 2,718	\$ 820
Total		\$ 3,538

State Tax Planning

Moves inventory, distribution center, and related employees from North Dakota to Kansas

Minimal tax impact
\$3,530 versus \$3,538

	North Dakota	Kansas
Sales Factor	77.78%	22.22%
North Dakota (\$700,000/\$900,000)		
Kansas (\$200,000/\$900,000)		
Property Factor	46.15%	53.85%
North Dakota (\$30,000/\$65,000)		
Kansas (\$35,000/\$65,000)		
Payroll Factor	55.00%	45.00%
North Dakota (\$220,000/\$400,000)		
Kansas (\$180,000/\$400,000)		
Sum of apportionment factors	178.93%	121.07%
Divide by 3	3	3
State apportionment percentage	59.64%	40.36%
Times business income	\$ 100,000	\$ 100,000
State taxable Income	\$ 59,643	\$ 40,357
Times state tax rate	3.55%	3.50%
State income tax	\$ 2,117	\$ 1,412
Total		\$ 3,530

State Tax Planning

Operations in Colorado and Kansas

\$4,126 versus \$3,538
17% increase in state taxes

	Colorado	Kansas
Sales Factor	77.78%	22.22%
Colorado (\$700,000/\$900,000)		
Kansas (\$200,000/\$900,000)		
Property Factor		23.08%
Colorado (N/A)		
Kansas (\$15,000/\$65,000)		
Payroll Factor		25.00%
Colorado (N/A)		
Kansas (\$100,000/\$400,000)		
Sum of apportionment factors	77.78%	70.30%
Divide by 3	1	3
State apportionment percentage	77.78%	23.43%
Times business income	\$ 100,000	\$ 100,000
State taxable Income	\$ 77,780	\$ 23,432
Times state tax rate	4.25%	3.50%
State income tax	\$ 3,306	\$ 820
Total		\$ 4,126



Net Operating Loss (NOL) Treatment

- Federal vs. State NOL Rules
 - Differences in carryforward and carryback provisions
- State-Specific Limitations
 - Restrictions on NOL utilization
- Multistate NOL Planning
 - Important considerations for effective planning



Odd-ball States

- Oregon Corporate Activity Tax
- Ohio CAT
- Revised Texas Franchise Tax
- Washington B&O Tax

Odd-ball States – Separate S-Corp Election

These states do not recognize federal S-Corp election:

- Washington, D.C.
- Louisiana
- New Hampshire
- New York
- Ohio (subject to CAT)
- Tennessee
- Texas (recognizes S-Corp but still subject to tax)



Wrap-up and questions