

Amount of Taxable Refund (from state) Explained

There are three ways that the refund from the state return(s) will not be taxable and three ways in which it may be at least partially non-taxable. Of course, it is never taxable on your state return so if it is included on the federal return it will have to be subtracted on the state return.

Three ways it is Not Taxable:

1. If the taxpayer used the standard deduction last year.
2. If the taxpayer itemized last year but used Sales Tax instead of income tax for a deduction.
3. If the taxpayer forced itemization last year even though the itemized deductions were less than the standard deduction. (Possibly for a benefit on the state return.)

Three ways the refund may be at least partially non-taxable:

1. If the amount of income tax withheld and deducted is greater than the difference between the Total Itemized Deductions and the Possible Standard Deduction, then the tax withholding deduction only benefitted the TP until the point where Itemized Deductions equaled the Standard Deduction, so, the rest should not be taxable. Example: Standard Deduction = \$13,000. Withholdings = \$500. Total Itemized Deductions = \$13,200. Of the \$500 in taxes deducted, only \$200 was needed to get to the point where the TP would have taken the Standard Deduction. There is no reason for the remaining \$300 to be taxable. Taxable amount = \$200.
2. If the State and Local Taxes exceeded the \$10,000 SALT limit, then any amount of State Income Tax that wasn't needed to get to \$10,000 is not taxable as a refund.
3. If the State Refund was greater than the difference between the State Income Tax deduction and the possible sales tax deduction, then only the amount of refund above the difference provided a benefit and would be taxable.

How to Compute Partial Taxability

For the three ways the refund may be at least partially non-taxable, Taxslayer provides a worksheet to compute the taxable amount but beware, it does not always ask for what it really wants. When you select the INCOME item "Form 1099-G Box 2", Taxslayer brings you to the input screen for the worksheet. There are six numbers from last year's return that are needed to determine how much of the refund is taxable this year.

1. The amount of the refund(s) from the state(s). This is provided on the 1099-G and you can put it in the first or second box on the input screen. If you provide

the rest of the information, TS will compute the taxable amount; if you don't, TS will take the full amount as taxable.

2. Total State and Local taxes paid from Schedule A Line 5d. This is the sum of Income Taxes, Real Estate Taxes, and Property taxes. It may not all be included in total deductions because of SALT Limits enacted in 2017.
3. Last year's total itemized deductions. (The screen says "Itemized or Standard" but if you had used the Standard Deduction then you would not need to do this worksheet--your taxable amount would be \$0. See the first #1 above.)
4. The amount of last year's state tax withheld, from Schedule A line 5a.
5. Prior year Sales Tax Deduction. TS says this is also on line 5a, which it cannot be because of #4 directly above. If the TP had actually used the Sales Tax INSTEAD OF the income tax, THEN it would be on Line 5a and you would not need to be doing this worksheet because the taxable refund would again be \$0. See the first #2 above. What Taxslayer really wants to know is How much COULD you have used had you chosen to deduct sales tax instead of income tax. You need to [COMPUTE THE SALES TAX HERE](#) or look it up if you have a sales tax table from last year. It will not be helpful to put in what is actually on Line 5a. Don't do that.
6. Taxslayer will then ask a few questions to determine what your Standard Deduction would have been last year.

For your efforts above, Taxslayer will not tell you if you reduced the amount of taxable refund. You must look at the tax return to see if it did or did not. Specifically, look at 1040 Schedule 1 Line 1. If it is less than the amount of refund then you did good. If it is the same, at least you tried.

Also, despite your efforts, the worksheet that you just populated probably will not be part of the print set. I don't know if it even actually exists or if it is just a computation.

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