

# State Income Tax Filing

By Mrs. Jane Winand, Office of the Staff Judge Advocate

Clients seeking tax assistance at the Fort Meade Tax Center are frequently uncertain about state income tax liability. Many soldiers need to file a state income tax return, even if it is to get a full refund of any monies that were withheld and paid to the state during the tax year. Taxpayers may have questions about which state they should file their income tax return with. The starting point in making this determination is what state appears on the W-2 as withholding state income tax. This is likely the home of record and is the state to which the taxpayer has some permanent connection. The Servicemembers' Civil Relief Act (SCRA) allows active duty servicemembers to claim their permanent residency state despite current limited ties to that state. This exempts those stationed in the National Capital Region from filing with the state they presently live in because of the current military assignment.

In many cases, it is to the servicemember's advantage to avoid taxation in the state he or she may temporarily live because of a military assignment. Be advised that the District of Columbia has one of the highest tax rates in the country. Maryland has not only a state income tax, but also a local tax, which varies from county to county. Those servicemembers serving at Fort Meade, who have claimed a state different from DC, Maryland or Virginia as their state of residence, need not file with DC, Maryland, or Virginia because of the protections afforded by the SCRA. Please note: SCRA protections shield only military pay from taxation by the local state. Servicemembers who have a second job in the civilian sector are still subject to the taxation of the local state.

As an example, consider MAJ Taxpayer who entered the military from Arizona. She is now stationed at Fort Meade. She currently owns property in Arizona, and is registered to vote there. She and her husband live in Maryland where the husband works as a civilian attorney. MAJ Taxpayer has listed Arizona as her residence state on the LES and state withholdings are withdrawn regularly from her pay and paid to Arizona. Where must she file? MAJ Taxpayer must file a federal return with the IRS, and a state return with Arizona. Her husband, however, still must file a Maryland return based on his civilian income. Some states exempt active duty military pay from state tax. If MAJ Taxpayer's permanent state of residence was one of those states, state filing would be unnecessary.

What state you claim ultimately has a huge impact on your tax liability. There are details and intricacies in getting the proper state refund, especially from those states that offer a full rebate. Please visit the tax center at the Office of the Staff Judge Advocate, 4217 Roberts Avenue, or make an appointment at (301) 677-9762 for answers to these and other tax questions.