

SPOUSAL IRA DEDUCTION AND
TAXABLE UNEMPLOYMENT COMPENSATION

1984 LEGISLATION

Chapter 71 of the Laws of 1984 has amended section 612(f) of the Tax Law to provide two exceptions to the general rule that where married taxpayers file a joint federal return and separate New York State returns their New York adjusted gross income must be determined as if they had filed separate federal returns.

SPOUSAL IRA DEDUCTION

A spousal IRA deduction, which is a deduction for the amount contributed to the nonworking spouse's IRA, is allowed for federal tax purposes only if a joint return is filed. The spousal deduction was previously lost on a New York State return if married couples filed joint federal returns and separate New York State returns.

As a result of the amendment to Section 612(f), the spousal IRA deduction allowed on a joint federal return will be allowed on the nonworking spouse's separate New York return. Each spouse's deduction must equal the amount contributed to his or her own account. This amendment is effective for tax years beginning in 1984.

Example:

Spouse "A" earns wages of \$50,000 during 1984. Spouse "B" does not work but has unearned income of \$5,000. Spouse "A" contributes \$1,500 to his IRA and \$750 to a spousal IRA for spouse "B". They file a joint federal return and take a \$2,250 (\$1,500 + \$750) IRA deduction. They file separate New York State returns (on one form) and are allowed to deduct \$2,250 for the IRA contributions. Spouse "A" must report \$1,500 in column A and spouse "B" must report \$750 in column B of their 1984 New York return.

TAXABLE UNEMPLOYMENT COMPENSATION

For federal tax purposes, married taxpayers who file a joint federal return may have to include in their taxable income some or all of the unemployment compensation if their adjusted gross income plus unemployment compensation and certain specified deductions exceeds a base amount of \$18,000. The base amount is zero for married taxpayers who file separate federal returns and did not live apart for the entire tax year. Married taxpayers who filed joint federal returns and separate New York returns previously had to recalculate the New York taxable unemployment compensation using a base amount of zero. This resulted in the inclusion of the full amount of unemployment compensation in New York adjusted gross income.

As a result of the amendment to Section 612(f) the taxable portion of unemployment compensation reported by married taxpayers who file a joint federal return is the amount to be reported on their separate New York State returns. Each spouse must include his or her own taxable portion of unemployment compensation in his or her separate New York adjusted gross income. This amendment is effective for tax years beginning in 1984.

Example I

Spouse "A" has unemployment compensation of \$5,500 and spouse "B" has unemployment compensation of \$5,000. Their only other income during the taxable year was wages in the amount of \$30,000 for spouse "A" and \$10,000 for spouse "B" and they have no adjustments to income. They file a joint federal return and separate New York State returns on one form. Taxable unemployment compensation would be computed as follows:

	<u>Federal</u> <u>Joint</u>
Total income excluding unemployment compensation	\$40,000
Unemployment compensation	<u>10,500</u>
Total	50,500
Minus base amount	<u>18,000</u>
Excess	32,500
Half the excess	16,250
Amount to be reported in gross income (lesser of half the excess or the actual amount of unemployment compensation).	10,500

Accordingly, on their joint federal return, they are required to report taxable unemployment compensation of \$10,500. They must also report \$10,500 as taxable unemployment compensation on their separate New York State returns. However, spouse "A" will report \$5,500 in Column A and spouse "B" will report \$5,000 in Column B on their New York State returns.

Example II

Spouse "A" has unemployment compensation of \$5,500 and spouse "B" has unemployment compensation of \$5,000. Their only other income during the year is wages in the amount of \$8,000 for spouse "A" and \$2,000 for spouse "B" and they have no adjustment to income. They file a joint federal return and separate New York returns on one form. Taxable unemployment compensation would be computed as follows:

	<u>Federal</u> <u>Joint</u>
Total income excluding unemployment compensation	\$10,000
Unemployment compensation	<u>10,500</u>
Total	20,500
Minus base amount	<u>18,000</u>
Excess	2,500
Half the excess	1,250
Amount to be included in gross income (lesser of half the excess or the actual amount of the unemployment compensation).	1,250

Accordingly, on their joint federal return they are required to report taxable unemployment compensation of \$1,250. They must also report \$1,250 as taxable unemployment compensation on their separate New York State returns. However, the \$1,250 must be apportioned between spouse "A" and spouse "B" based upon the ratio of the unemployment compensation received by each spouse, as follows:

$$\frac{\text{Unemployment compensation received by spouse "A" ("B")}}{\text{Total unemployment compensation received by both spouses}} \quad X$$

$$\text{Total amount of federal taxable unemployment compensation} \quad =$$

The taxable amount to be reported by spouse "A" ("B") on the New York State return.

$$\text{Spouse "A" would report} \quad \frac{\$ 5,500}{\$10,500} \times \$1,250 = \$655$$

$$\text{Spouse "B" would report} \quad \frac{\$ 5,000}{\$10,500} \times \$1,250 = \$595$$

The Administrative Code of the City of New York, Title T, has been correspondingly amended to conform to the amendments made to Article 22 of the Tax Law.

Cross Reference: TSB-M-80-(4)-I is obsolete for tax years beginning in 1984.