

Family Adjustment
1985 Legislation

Chapter 29 of the Laws of 1985 amends and adds new sections to the New York State Tax Law to provide for a family adjustment. This adjustment provides a tax benefit for married couples by allowing them to shift a specified amount of income into a lower tax bracket. This benefit is allowable for taxable years beginning after December 31, 1984.

The family adjustment is available where a husband and wife file a joint return or file separately on one return. The family adjustment cannot be claimed where a husband and wife file separately on separate forms. The family adjustment is excluded from the definition of personal service net income in the computation of "maximum tax on personal service income."

Sections 611(a) and 631(a), as amended, define New York State taxable income of a resident and a nonresident individual as New York adjusted gross income less the New York deduction, the New York personal exemptions and increased or decreased by any family adjustment. (See also City of New York Taxable Income on page 3).

New sections 616-B and 636-B define New York net income of a resident and a nonresident individual as New York adjusted gross income less the New York deduction and the New York personal exemptions. (See also City of New York Taxable Income on page 3.)

Under new section 616-A, any husband and wife, either of whom is a New York resident, whose joint or combined New York adjusted gross income for the taxable year is \$36,000 or less for 1985, \$38,000 or less for 1986 and \$40,000 or less for 1987, are entitled to a family adjustment as follows:

<u>Year</u>	<u>Family Adjustment</u>
1985	lesser of \$3,000 or ½ New York net income*
1986	lesser of \$4,000 or ½ New York net income*
1987	lesser of \$5,000 or ½ New York net income*

* ½ of the husband's or the wife's separate New York net income, whichever is greater, is used to figure the family adjustment where the couple files separately on one return. Their combined New York net income is used to figure the family adjustment where the couple files a joint return.

Where the couple's joint or combined New York adjusted gross income exceeds \$31,000, the amount computed above must be reduced by \$500 for every \$1,000 or portion thereof of adjusted gross income over \$31,000. Because the maximum family adjustment is \$3,000 for 1985, \$4,000 for 1986 and \$5,000 for 1987, married taxpayers will cease to be eligible for this family adjustment when their New York adjusted gross income exceeds \$36,000 for 1985, \$38,000 for 1986 and \$40,000 for 1987.

Section 636-A, as added, provides a similar adjustment for nonresidents, subject to the limitation percentage.

A new section 654(j) provides that where two returns are required due to a change of resident status during the taxable year, the family adjustment is determined as if the husband and wife were residents for the entire taxable year, and is then prorated between the two returns to reflect the portions of the entire taxable year during which the individuals were residents and nonresidents.

Where a husband and wife file separately on one return, the spouse with the higher New York net income subtracts the family adjustment from his or her New York net income, and the spouse with the lower New York net income adds an identical amount to his or her New York net income.

Example:

A husband and wife file separately on one return for 1985. The husband has wages of \$25,000 and the wife has wages of \$6,000. The couple has itemized deductions of \$4,000 and claims four exemptions. The use of the family adjustment in computing the New York State tax is as follows:

	<u>Husband</u>	<u>Wife</u>
Total NY income (NY adjusted gross income)	\$25,000	\$ 6,000
Itemized deductions	(4,000)	
Exemptions	<u>(2,550)</u>	<u>(850)</u>
NY net income (previously NY taxable income)	\$18,450	\$ 5,150
Family adjustment*	<u>(3,000)</u>	<u>3,000</u>
NY taxable income	<u>\$15,450</u>	<u>\$ 8,150</u>
 New York State income tax**	 <u>\$902.75</u>	 <u>\$329.00</u>

*The family adjustment is the lesser of \$3,000 or 1/2 of the husband's net income (1/2 x \$18,450 = \$9,225).

**Without the family adjustment, the husband's New York State tax (on \$18,450 of New York taxable income) would have been \$1,187.75. The wife's tax (on \$5,150 of New York taxable income) would have been \$167.50. Total New York State tax would have been \$1,355.25 instead of \$1,231.75. The use of the family adjustment results in a tax savings of \$123.50.

On a joint return, the family adjustment is subtracted from the couple's joint New York net income, and a tax is computed on their New York taxable income. A separate tax is then computed on the family adjustment as if that amount was the sole taxable income of the husband and wife. The New York State tax is the sum of the tax on New York taxable income and the tax on the family adjustment.

Example:

A husband and wife file a joint return for 1985. The couple has \$32,500 total New York income (wages only), itemized deductions of \$24,450 and three exemptions. The use of the family adjustment in computing the New York State tax is as follows:

	<u>Joint</u>
Total NY income (NY adjusted gross income)	\$32,500
Itemized deductions	(24,450)
Exemptions	<u>(2,550)</u>
NY net income	\$ 5,500
Family adjustment*	<u>1,750</u>
NY taxable income	<u>\$ 3,750</u>
Tax on taxable income of \$3,750	\$110.00
Tax on family adjustment of \$1,750	<u>42.50</u>
Total New York State income tax**	\$152.50

*The family adjustment is the lesser of \$3,000 or 1/2 of New York net income ($\frac{1}{2} \times \$5,500 = \$2,750$), reduced by \$500 for every \$1,000 or portion thereof that New York adjusted gross is over \$31,000. Since New York adjusted gross income is \$32,500, the amount of \$2,750 must be reduced by \$1,000. The allowable family adjustment is \$1,750.

**Without the family adjustment, the New York State tax (on \$5,500 of New York taxable income) would have been \$185. Using the family adjustment, the New York State tax is \$152.50. The use of the family adjustment results in a tax savings of \$32.50.

City of New York Taxable Income

Section 1303 of Article 30 of the Tax Law, as amended, defines New York City taxable income of a city resident as New York State net income. Therefore, the New York City resident tax is now computed on the New York State net income, not New York State taxable income. The family adjustment does not apply to the City of New York resident tax.

Cross reference:

Maximum Tax on Personal Service Income - TSB-M-85-(9)-I