

**VERMONT DEPARTMENT OF TAXES
TECHNICAL BULLETIN**

TAX: INCOME

TB-42

**SUBJECT: Adjustment to Household Income on Form HI-144
for Employment and Self-Employment Taxes Withheld
or Paid**

ISSUED: 6/10/08

REFERENCE: 32 V.S.A. § 6061

INTRODUCTION

This Bulletin provides instructions for the adjustment to Household Income on Form HI-144 for employment and self-employment taxes (Social Security and Medicare) withheld or paid as referenced in 32 V.S.A. § 6061(5)(B) and defined under 32 V.S.A. § 6061(4)

CALCULATION OF ADJUSTMENT

Vermont law allows Household Income reported on Form HI-144 to be reduced by social security and medicare taxes withheld on wages or paid by self-employed persons. The social security and medicare tax adjustment does not apply to any amount related to exempt household income or elective deferrals made to retirement accounts such as qualified 401(k), SEP IRA, and SIMPLE plans.

32 V.S.A. § 6061(4)(1) defines Household Income as modified adjusted gross income. 32 V.S.A. § 6061(5) then states:

"Modified adjusted gross income means federal adjusted gross income:

- (A) before the deduction of any trade or business loss, loss from a partnership, loss from a small business or "subchapter S" corporation, loss from a rental property, or capital loss, except that in the case of a business which sells a business property with respect to which it is required, under the Internal Revenue Code, to report a capital gain, a business loss incurred in the same tax year with respect to the same business may be netted against such capital gain;
- (B) with the addition of the following, to the extent not included in adjusted gross income: alimony, support money other than gifts, gifts received by the household in excess of a total of \$6,500.00 in cash or cash-equivalents, cash public assistance and relief (not including relief granted under this subchapter), cost of living allowances paid to federal employees, allowances received by dependents of servicemen and women, the portion of Roth IRA distributions representing investment earnings and not included in adjusted gross income, railroad retirement benefits, payments received under the federal Social

Security Act, and all benefits under Veterans' Acts, and federal pension and annuity benefits not included in adjusted gross income; nontaxable interest received from the state or federal government or any of its instrumentalities, workers' compensation, the gross amount of "loss of time" insurance, and the amount of capital gains excluded from adjusted gross income, *less the net employment and self-employment taxes withheld from or paid by the individual (exclusive of any amounts deducted to arrive at adjusted gross income or deducted on account of excess payment of employment taxes) on account of income included under this section*, less any amounts paid as child support money if substantiated by receipts or other evidence that the commissioner may require.”

Household Income includes all items reported in Federal adjusted gross income. However, elective deferrals to retirement accounts such as qualified 401(k), SEP IRA, and SIMPLE are not part of Federal adjusted gross income and there is no requirement to add-back such elective deferrals to arrive at Household Income.

The adjustment on Form HI-144 for net employment and self-employment taxes withheld from or paid by the individual is limited to the portion of such taxes related to “income included under this section.” The amount of employment income *included under this section* does not include elective deferrals to retirement accounts as discussed above. To determine the proper amount of adjustment or exclusion from household income, the amount of income from includable sources, (e.g. wages, salaries, tips) multiplied by the prevailing rate for social security tax (6.20% x earnings up to maximum) and medicare tax (1.45% x earnings) is added to the amount allowed as an adjustment for one-half of self-employment tax in arriving at adjusted gross income on Federal Form 1040¹ Excess employment tax payments are not included in the adjustment on Form HI-144.

EXAMPLE

Taxpayer reports Federal adjusted gross income of \$80,000 that includes \$60,000 in wages, tips, and other compensation as reported in box 1 of Form W-2. Social security and medicare wages of \$65,000 are reported on Form W-2 in both box 3 & 5 with an elective deferral of \$5,000 made to an employer-sponsored qualified 401(K) plan. Social security and medicare tax are withheld in the amount of \$4,030 (6.20% x \$65,000 and \$942 (1.45% x \$65,000), respectively. Taxpayer reported an adjustment on Federal Form 1040 of \$1,500 representing one-half of self-employment tax paid related to net income reported on Schedule C. Taxpayer also reported taxable interest income of \$268. The adjustment to include on Line o of Form HI-144 for social security and medicare taxes withheld or paid is calculated as follows:

¹The adjustment in arriving at adjusted gross income on Federal Form 1040 for one-half of self-employment tax periodically changes – Line 27 in tax year 2007.

Gross Wages	\$ 65,000
Less: Elective Deferrals	(5,000)
Net Wages	\$ 60,000
Social Security and Medicare tax rate	<u>x 7.65%</u>
Social Security and Medicare tax based on wages	\$ 4,590
Plus: One-half of self-employment tax paid	<u>1,500</u>
Adjustment for social security and medicare tax paid and withheld	\$ 6,090
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Date

Approved:

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Date