



State, payroll and individual tax issues for employees and business owners



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DISCLAIMER: This is a general discussion of some of the tax rules which may be applicable to your situation. Every taxpayer's situation is different. This information does not constitute tax or legal advice; you are advised to consult with a tax accountant or attorney who specializes in international issues for advice specific to your case.

Agenda:



1. **State considerations:** Tax rates, nexus, apportionment.
2. **Payroll:** Federal and state taxes, issues with remote work.
3. **Employee taxation:** Tax and reporting requirements for employees.
4. **Business owner taxation:** Taxes on capital; worldwide tax issues.
5. **Now what?** Planning considerations.

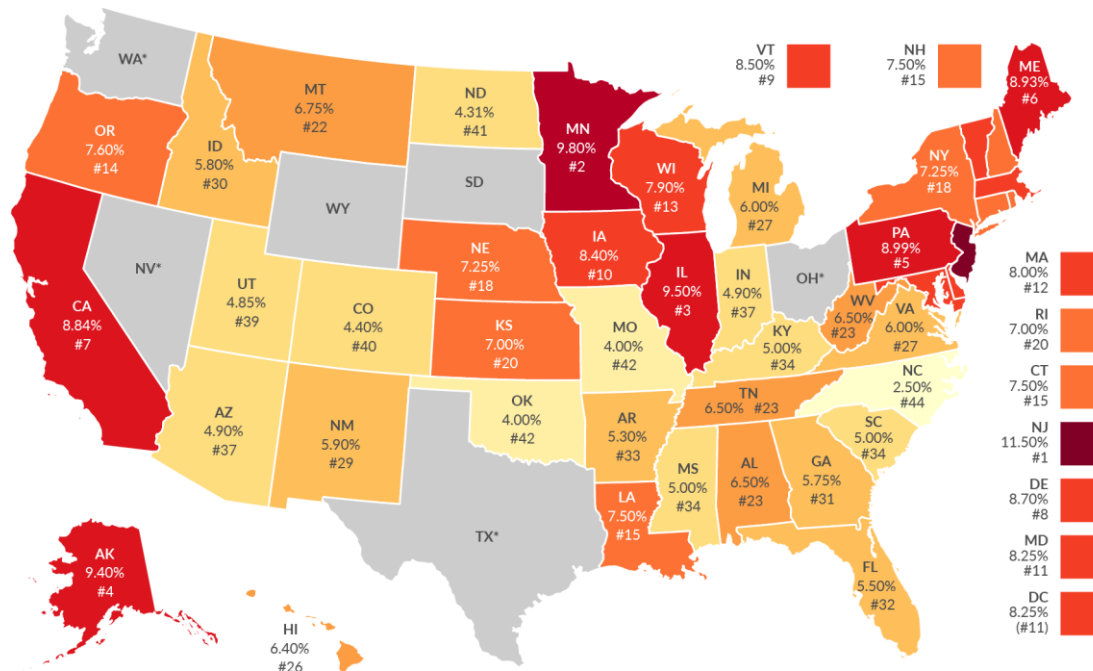
State taxation

State corporate tax rates from 0% to 12%



How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2023



Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

Top State Marginal Corporate Income Tax Rates



State taxation



Basic tools for reducing state tax

🔍 Nexus: Does this state have taxing jurisdiction?

- ✓ Physical presence
- ✓ Employees
- ✓ Incorporation
- ✓ Sales – “economic nexus”

🔍 Apportionment: How much income is taxable in this state?

- ✓ Sales
 - ✓ Where is the product delivered?
 - ✓ Where is the service enjoyed?
 - ✓ Where is the service provided?
- ✓ Property
- ✓ Payroll



Payroll



Employment taxes

- 📍 Social Security/Medicare: 7.65% to \$168,000, then 1.45%
- 📍 State unemployment insurance:
 - ✓ Taxable wage base \$7,000 to \$68,500
 - ✓ Tax rate 0.5% to 6% on taxable wages
- 📍 Workers compensation insurance
- 📍 Miscellaneous state/local fees
- 📍 Each state has its own rates, tax types, and authorities!
- 📍 Remote employees: Subject to rules where the work is performed. Potential for exponential growth of compliance burden. Creates nexus to new states.

Individual taxation

Employees



If line 3 is:		The tax is:		
Over—	But not over—		of the amount over—	
\$0	\$11,600	-----	+ 10%	\$0
11,600	47,150	\$1,160.00	+ 12%	11,600
47,150	100,525	5,426.00	+ 22%	47,150
100,525	191,950	17,168.50	+ 24%	100,525
191,950	243,725	39,110.50	+ 32%	191,950
243,725	609,350	55,678.50	+ 35%	243,725
609,350	-----	183,647.25	+ 37%	609,350

- Income tax: Graduated rates after \$14,600 “standard” deduction or itemized deductions
 - ✓ Different rates for married employees
- State income tax: 0% to 13%
- Employee payroll tax: 7.65% to \$168,000, then 1.45%
- Practically everyone files a tax return; no precompiled “draft” return

Individual taxation

Business owners



If line 3 is:		The tax is:		
Over—	But not over—			of the amount over—
\$0	\$11,600	-----	+ 10%	\$0
11,600	47,150	\$1,160.00	+ 12%	11,600
47,150	100,525	5,426.00	+ 22%	47,150
100,525	191,950	17,168.50	+ 24%	100,525
191,950	243,725	39,110.50	+ 32%	191,950
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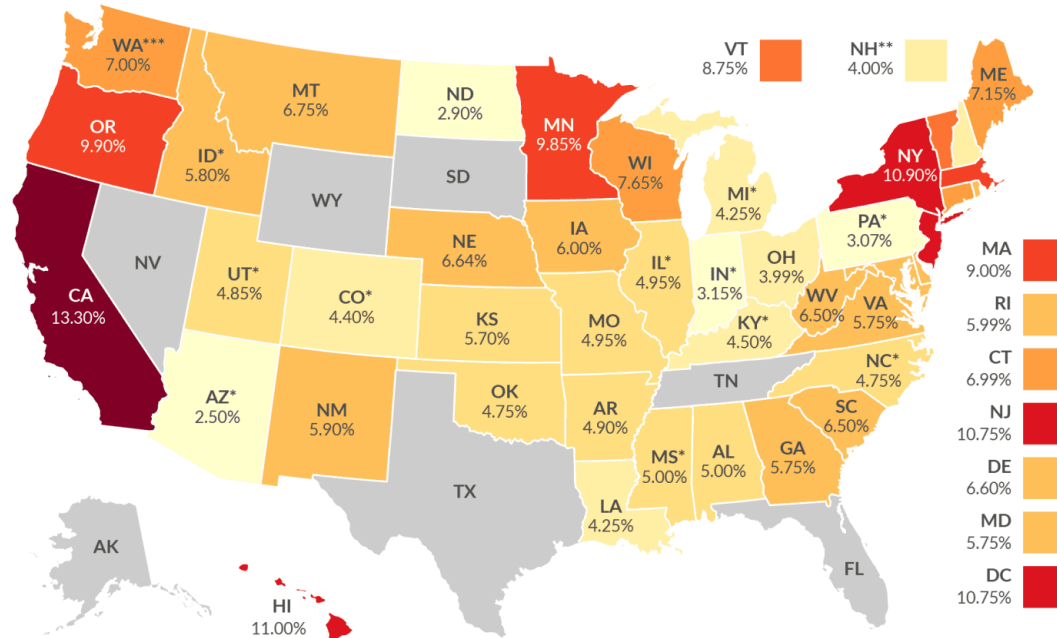
- 🔍 Taxed on worldwide income; complicated reporting requirements for foreign assets and income
 - ✓ Heavy penalties for noncompliance
- 🔍 “Controlled foreign corporation” and “passive foreign investment company” rules
- 🔍 Dividends and capital gains taxed preferential rates (up to 23.8%)
- 🔍 Nonresident withholding taxes up to 39.6%

Individual taxation

State individual tax rates from 0% to 13%



Top Marginal State Individual Income Tax Rates (as of January 3, 2023)



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

(*) State has a flat income tax.

(**) State only taxes interest and dividends income.

(***) State only taxes capital gains income.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

Top State Marginal Individual Income Tax Rates



Now what?



Planning considerations prior to arrival

Choice of entity and tax classification

Will state taxes affect your business model?

- ✓ Will you be profitable or spending for growth and eventual sale?
- ✓ Will you sell into your state?
- ✓ Well-paid professionals or minimum-wage employees with high turnover?
- ✓ Local or remote workers?

Individuals: Analyze your foreign financial affairs

- ✓ Understand U.S. taxation of your foreign assets and income
- ✓ Can you rearrange your affairs to reduce U.S. taxation?



Thank you!

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