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State income taxes are often overlooked by the general public, but professional tax return preparers should not make the same mistake. Nevertheless, it is easy to miss tax benefits or liabilities associated with state income taxes, especially as they relate to federal Form 1040. What's more, you can't always rely on tax preparation software to provide the right or best approach.

What sort of items are we talking about? Here are six common examples.

**1. State sales tax election:** Itemizers may choose between deducting state and local income tax or state sales tax on 2013 federal returns. Although it's usually a no-brainer to deduct income taxes for residents of states with high tax rates, others may deduct the sales tax if it produces a bigger write-off. The state sales tax deduction is based on actual receipts or a special IRS table plus tax paid on certain "big-ticket items" like cars, boats and home building materials.

**2. State income tax refunds:** A state income tax refund is good news, but the money may be subject to federal income tax in the year received, even if allocated to state income tax liability for the next year. Generally, the refund is taxable if the taxpayer deducted state and local income taxes in the prior year and benefitted from the deduction. However, there's no tax on the refund if you claimed the standard deduction, elected to deduct state sales tax instead of income taxes or paid the alternative minimum tax (AMT) last year and the refund amount was less than the amount disallowed under the AMT.

### 3. Use tax on out-of-state goods: When a resident of a state with a sales and use tax

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conservation protection and home property taxes – just to name a few. Be prepared to address tax issues for clients who file in multiple states, including those outside your usual comfort zone.

**5. Excise tax on vehicle registrations:** Do you know those annoying state excise tax payments for registering a vehicle? The amount paid to buy a new vehicle that is based on its value, plus the annual renewal, is deductible as a personal property tax on Schedule A of Form 1040. But you can't deduct any extra amount that isn't based on the vehicle's value, such as the cost of a customized license plate.

**6. Retirement income:** Some states offer tax breaks to retirees who receive income from qualified plans, like 401(k)s, and traditional IRAs. Also, Social Security retirement benefits may be exempt from state income taxation. Again, the laws vary widely around the country, so it is important to familiarize yourself with the rules in the applicable states.

Income Tax • State and Local Taxes • Taxes

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