AEG

**ANDERSON
ECONOMIC
GROUP**

February 6, 2018

Mr. Steve Mnuchin
Secretary, United States Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

RE: Tax Cuts and Jobs Act; Treasury Actions to Clarify Consequences for State Exemptions

Dear Mr. Mnuchin:

As you are aware, the federal Tax Cuts and Jobs Act adopted into law in late December has enormous implications for federal taxation and for the US economy. It also has implications for state taxation. I am writing you to alert you to an emerging problem among states that reference the Internal Revenue Code in their state income tax laws. I request that the Department of Treasury take prompt action to prevent confusion among taxpayers, erroneous assertions that the federal law causes large state tax income increases, and differences in application of the same provision among different states.

State Income Tax Laws that Reference Federal Definitions of Exemptions

Analysts at Anderson Economic Group have identified 41 states that impose a state income tax.[1] Of these, at least 22 states reference section 151 of the Internal Revenue Code in state statutes. Section 151 establishes exemptions for federal income tax. These exemptions have wide importance in both state and federal tax laws.

As you are aware, the federal Tax Cuts and Jobs act amended Section 151 to set the federal personal exemption amount to zero through the year 2025, for federal income tax purposes only. The same amendment is explicit that this change does not eliminate the exemption for any other purpose, and indeed the law continues to require the indexing of the exemption amount for other purposes.

Issue Arising in Some States; Our Interpretation

This zeroing out of the exemption for federal income tax purposes in certain years raises a possible ambiguity in state income tax laws: does this mean that *state* tax exemptions, and other areas

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1. We recognize that there is some ambiguity on the nature of the "income" tax levied in a small handful of these states. However, the issue presented is focused on "exemptions" and not on "income."