

reimbursement, and shall be used in the CMTR formula.

(B) If two or more States impose an income tax on the moving expense reimbursement, and more than one State taxes the same portion of the reimbursement, but those States allow an adjustment or credit for income taxes paid to the other State(s), then the reimbursement is not subject to double taxation. In this situation, the highest of the applicable State marginal tax rates, as determined under paragraphs (e)(2) (i) through (iii) of this section, shall be used in the CMTR formula.

(C) If two or more States impose an income tax on the moving expense reimbursement, and more than one State taxes the same portion of the reimbursement without allowing an adjustment or credit for income taxes paid to the other, then the reimbursement is subject to double taxation. In this situation, the sum of the applicable State marginal tax rates, as determined under paragraphs (e)(2) (i) through (iii) of this section, shall be used in the CMTR formula.

(3) *Local marginal tax rate.* Because of the impracticality of establishing a single marginal tax rate table for local income taxes that could be applied uniformly on a nationwide basis, appropriate local marginal tax rates shall be determined as provided in paragraphs (e)(3)(i) through (iii) of this section.

(i) If the employee incurs an additional local income tax (see definition §302-17.5(b)) liability as a result of moving expense reimbursements, he/she shall certify to such fact when claiming the RIT allowance (see certification statement in §302-17.10) by specifying the name of the locality imposing the income tax and the applicable marginal tax rate determined from the actual marginal tax rate table or schedule prescribed by the taxing locality. The marginal tax rate shall be the one applicable to the taxable income portion of the amount of earned income determined under paragraph (d) of this section for the employee (and spouse, if filing jointly). The same tax rate shall be used in calculating the CMTR for both Year 1 and Year 2. The employing agency shall establish procedures to determine whether the employee-certified local marginal tax rate

is appropriate for the employee's income level and filing status and approve its use in the CMTR formulas. (See also §302-17.10(b)(2).)

(ii) If the local marginal tax rate is stated as a percentage of Federal or State income tax liability, such rate must be converted to a percent of taxable income for use in the CMTR formulas. This is accomplished by multiplying the applicable Federal or State tax rate for Year 1 as determined in paragraph (e) (1) or (2) of this section by the applicable local tax rate. For example, if the State tax rate for Year 1 is 6 percent and the local tax rate is 50 percent of State income tax liability, the local tax rate stated as a percentage of taxable income would be 3 percent. The local tax rate thus determined for Year 1 will be used in determining the CMTR for both Year 1 and Year 2.

(iii) The situations described in paragraph (e)(2)(iv) of this section with respect to State income taxes may also be encountered with local income taxes. If such situations do occur, the rules prescribed for determining the single State marginal tax rate shall also be applied to determine the single local marginal tax rate for use in the CMTR formulas.

(4) *Marginal tax rates for the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the U.S. possessions—(i) The Commonwealth of Puerto Rico.* A Federal employee who is relocated to or from a point, or between points, in the Commonwealth of Puerto Rico may be subject to income tax on the employee's salary (including moving expense reimbursements) by both the U.S. Government and the government of Puerto Rico. However, under the current law of Puerto Rico, such employee receives a credit on his/her Puerto Rico income tax for the amount of taxes paid to the United States. The rules in paragraphs (e)(4)(i)(A) through (C) apply in determining the marginal tax rate applicable for transfers to, from, or between points in Puerto Rico.

(A) The applicable Puerto Rico marginal tax rate shall be determined by using the income level determined in paragraph (d) of this section for Federal taxes and the employee's filing