

State Tax—Frequently Asked Questions

1. Is state income tax withholding required for the worksite state(s) and/or my state of residence (home state)?

Most states subject workers to taxation in the state where the work is performed regardless of the worker's state of residence. Generally, there is no minimum work period in terms of days or weeks to avoid the worksite state taxation. Worksite state withholding might not apply if the income is below the state's minimum amounts, but this is unlikely for a professional's compensation level, even for just a week. Certain neighboring states do have reciprocity agreements where the states agree the worksite state will not require withholding of income tax from compensation paid to a nonresident. State withholding will be made for the worksite state unless your home state and worksite state have a reciprocity agreement. Where the worksite state has no income tax or has a tax rate lower than your home state, your home state may require withholding to the extent their tax rate is greater. Certain home states may require full income tax withholding regardless of the treatment or magnitude of the withholding in the worksite state; this amounts to double tax withholding. This double tax withholding should be partially or fully eliminated through tax credits claimed on the home state annual income tax return (see discussion below).

2. Am I required to file a state income tax return in the worksite state(s)?

You will generally be required to file a state income tax return for the worksite state if it has a personal income tax. Assuming you are claiming an appropriate amount of exemptions on Form W-4, the required withholding on your compensation should approximate the return liability so that any payment or refund due on the return should be minimal. Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming do not have an income tax on personal services (wages).

3. What income is taxed in my home state and the worksite state(s)?

Only the compensation you earned from an assignment in the worksite state should be subject to tax in the worksite state. However, generally all income you earn (including out-of-state compensation) will be subject to tax in your home state. Your home state will generally provide you a full or partial credit for the taxes paid to the worksite state(s). The credit process on your home state tax return should partially or fully eliminate the double tax, except to the extent the worksite state has a higher tax rate than your home state.

4. Won't my working in multiple states make my year-end income tax return filings more complex?

Yes, you may have state income tax filings in two or more states including your tax home state. If you are a tax savvy do-it-yourselfer, reasonably priced tax compliance software can expedite the process. Otherwise, we recommend you arrange for a tax professional to prepare these returns on your behalf. Each non-resident state filing might add from \$25 to \$150 to their fees.



5. Will my state of residence be challenged by the state taxing authorities?

Possibly. Although the state taxing authorities generally follow Federal rules, it is possible a worksite state might contend they should be reported as the tax home state requiring you to file a “resident” income tax return (as compared to “nonresident” return) in their state. This might be particularly true if you work most of a year or more in a single state and you have substantial other income that would be subject to tax as a resident. Due to subjective facts and various residency rules for each of the states, this matter is beyond the scope of this brief discussion. You should consult with your tax advisor if you believe this issue might apply to you.

The information contained herein is general in nature and based on authorities that are subject to change.

Tax information contained in this document is not intended to be used, and cannot be used, by any person as a basis for avoiding tax penalties that may be imposed by the IRS or any state. We recommend each taxpayer seek advice based on their circumstances from an independent tax advisor.