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STATE INCOME TAXES ON INCOME SOURCED TO OTHER JURISDICTIONS

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You asked which states impose income taxes on wages that residents earn in other states.

SUMMARY

The 41 states with broad-based income taxes and the District of Columbia tax residents on their entire taxable income, whether it was earned within or outside the state. The states with broad-based income taxes include every state except Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming. But even though states tax income residents earn in other states, they allow those residents a corresponding credit against their income tax for taxes they paid to another jurisdiction. Each state has different rules for determining the amount of the credit and the types of credit-eligible income.

For example, a taxpayer who lives in Connecticut but works in New Jersey must pay both New Jersey and Connecticut income tax on his New Jersey wages, but he may apply a credit against his Connecticut tax for income taxes he paid to New Jersey on that income. However, if the taxpayer also had gambling winnings in New Jersey, he could not credit his New Jersey tax payment for those winnings against his Connecticut tax because, under Connecticut law, gambling winnings are not credit-eligible income.

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In addition, some states have adopted reciprocal tax agreements with one or more states whereby they agree to tax income based on a taxpayer's residence, rather than the state where the income is sourced. Under these agreements, taxpayers who live in one state and work in another are only required to file a return and pay taxes in the state in their home state. Thus, the states forego tax revenue from nonresident income earned in their states and instead collect taxes on the income their residents earn in the other states. Generally, reciprocity agreements apply to compensation, including wages, salaries, commissions, and fees earned by an employee, and exclude other types of income, such as income from the sale or rental of property.

For example, Pennsylvania residents who receive compensation from New Jersey sources are not subject to New Jersey income tax on those earnings. Instead, they pay only Pennsylvania income taxes on them. Consequently, New Jersey employers withhold and remit Pennsylvania income tax for their Pennsylvania resident employees. The reverse is true for New Jersey residents and Pennsylvania employers with New Jersey resident employees.

Attachment 1 indicates whether each state and the District of Columbia has entered into reciprocity agreements and the states with which it has such an agreement. In all, 15 states and the District of Columbia have entered into agreements. Connecticut is among the other 28 states that have no reciprocity agreements.

Attachment 1: Reciprocity Agreements

Jurisdiction	*Reciprocal Agreements*	*Jurisdiction*	*Reciprocal Agreements*
Alabama	None	Mississippi	None
Arizona	None	Missouri	None
Arkansas	None	Montana	ND
California	None	Nebraska	None
Colorado	None	New Hampshire	None
Connecticut	None	New Jersey	PA
Delaware	None	New Mexico	None
District of Columbia	MD, VA	New York	None
Georgia	None	North Carolina	None
Hawaii	None	North Dakota	MN, MT
Idaho	None	Ohio	IN, KY, MI, PA, WV
Illinois	IA, KY, MI, WI	Oklahoma	None
Indiana	KY, MI, OH, PA, WI	Oregon	None
Iowa	IL	Pennsylvania	IN, MD, NJ, OH, VA, WV
Kansas	None	Rhode Island	None
Kentucky	IL, IN, MI, OH, VA, WV, WI	South Carolina	None
Louisiana	None	Tennessee	None
Maine	None	Utah	None
Maryland	DC, PA, VA, WV	Vermont	None
Massachusetts	None	Virginia	DC, KY, MD, PA, WV
Michigan	IL, IN, KY, MN, OH, WI	West Virginia	KY, MD, OH, PA, VA
Minnesota	MI, ND	Wisconsin	IL, IN, KY, MI

Source: CCH *State Tax Guide*

RP:ts