

A TAX GUIDE TO

Living and Working in

DIFFERENT STATES

If you live in Pennsylvania and work in a neighboring state, or vice versa, this guide will help you navigate the often treacherous landscape of how to file your taxes. The summary below is by no means comprehensive and local tax collection rules may vary across counties. The Pennsylvania Institute of Certified Public Accountants recommends that you consult with a CPA on complex, interstate tax issues.

RECIPROCAL STATES

Pennsylvania has reciprocity agreements with several neighboring states. This means nonresident states will not tax a nonresident employee's compensation, and that the compensation will be subject to the taxation of the worker's resident state. The taxpayer must provide the employer with the appropriate form to notify them of their nonresident status. For example, a Pennsylvania resident working in New Jersey will give the New Jersey employer a Form NJ-165, *Employee's Certificate of Nonresidency in New Jersey*, which certifies the employee is a resident of Pennsylvania and that Pennsylvania's income tax should be withheld rather than New Jersey's income tax.

If this form is not provided, the taxpayer must file a nonresident tax return in the state where they work in order to request a refund. In this case, they would also have to file a tax return in their resident state and pay the tax due to their home state since that state's tax had been not withheld.

The following states have reciprocity agreements with Pennsylvania:

- Indiana
- Maryland
- New Jersey
- Ohio
- Virginia
- West Virginia

NONRECIPROCAL STATES

Two of Pennsylvania's neighboring states do not offer income tax reciprocity: **Delaware** and **New York**. This means, for example, a Pennsylvania resident working in one of those states must file a return in that state, pay the tax, and then take a credit on the Pennsylvania return.

If you live in Delaware and New York and work in Pennsylvania, your resident credit is limited to the lesser of the Pennsylvania tax you paid on the compensation earned in Pennsylvania or the resident state tax on the compensation.

If you live in Pennsylvania and work in one of the two nonreciprocal states, the Pennsylvania credit is limited to the lesser of the tax you paid to the nonresident state or the Pennsylvania tax due on the compensation that was taxed in the nonresident state.

Still have questions about your specific interstate tax situation?
Please visit www.ineedaCPA.org to find a CPA in your area.