Multi-State Taxation

If an employee works in more than one state, income tax might need to be withheld for multiple states. In fact, at times the employer might need to withhold income tax for multiple states from the wages of one employee. Withholding can become complicated when an employee lives in one state and works in another.

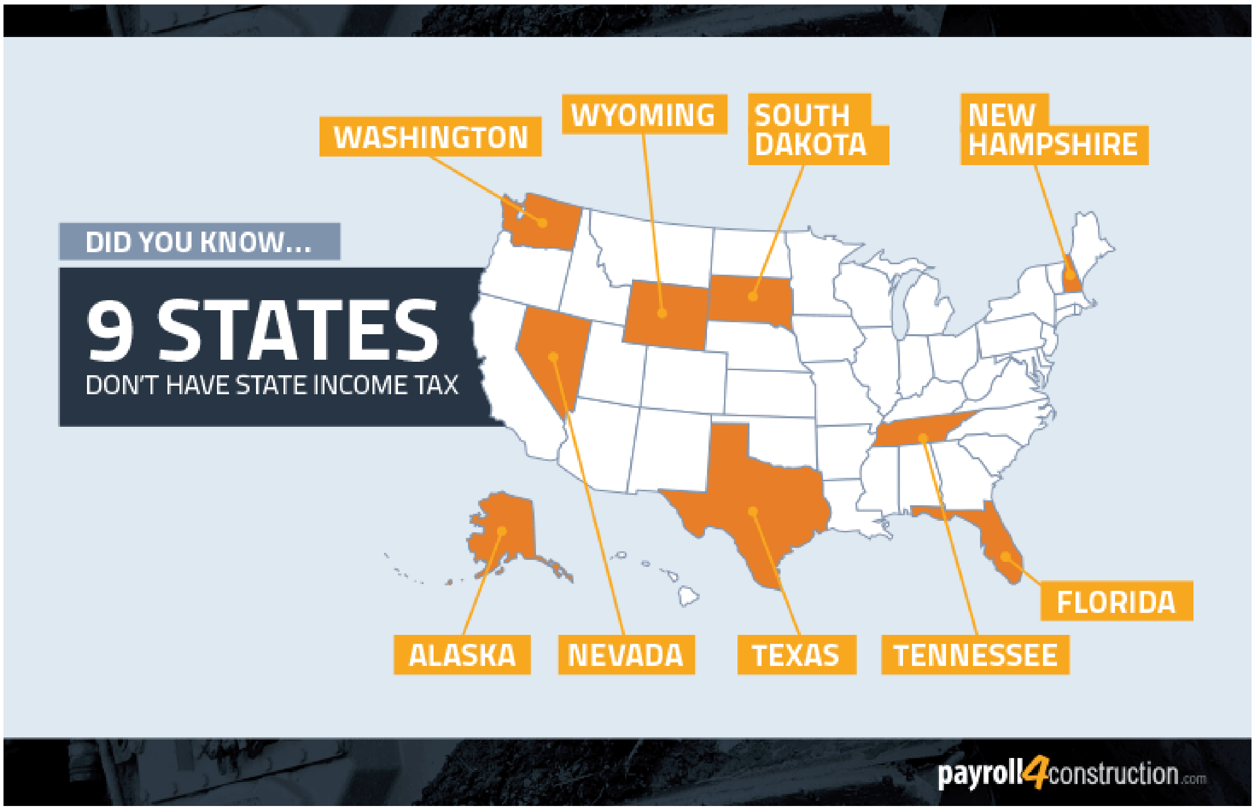
Which state income tax to withhold

As a starting point, the default rule of state income tax withholding is to withhold income tax for the state in which services are performed (the work state). Almost all states require employers to withhold tax from employee wages earned for work performed in that state, even for nonresidents. If an employee lives and works in one state, they are not required to pay multi-state taxes. Also remember withholding is not required for the nine states that do not have a state income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

An employee's state of residence must be determined because a resident is subject to the laws of that state, including its income tax laws. States have the power to tax all income of state residents, even income earned for work performed in a different state.

Reciprocity

When two states have a reciprocal agreement for tax purposes, it makes things easier for the employer by allowing it to withhold only for the state of residence. Maryland has state tax reciprocity agreements with Pennsylvania, Virginia, West Virginia and Washington DC.



Employees Working in Multiple States Without Reciprocity

If an employee works in multiple states that do not have reciprocity with the employee's state of residence, then the laws and requirements of both states must be considered. The employer might need to withhold state income tax for both the work state and the state of residency.