

15TH ANNUAL MIDWEST REGIONAL PAYROLL CONFERENCE

Multi-State Taxation



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Your instructor

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Multi-State Taxation

- Historically most employees lived in the same state they worked in
- Over the past 20-30 years business travel has become more mainstream
- States are looking for untapped revenue sources, therefore, enforcing existing statutes
- Most employer's either elected not to address nonresident withholding or established their own de minimis thresholds (60-90 days within jurisdiction)

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Questions Facing Employers

- Where to withhold?
- Do reciprocal agreements affect withholding?
- How are wages defined in nonresident states?
- Do nonresident states require separate Form W-4 or certificates?
- Are current payroll systems able to handle nonresident withholding?
- Federal intervention?

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General Payroll Withholding Rules

- Where services are performed
 - De minimis standards
 - Most states do not have a statutory de minimis threshold
 - Days in threshold (AZ – 60 days, HI – 60 days, ME – 10 days & NM – 16 days)
 - Dollar threshold (GA - \$5,000, ID - \$1,000, OK - \$300, SC - \$800 & WI - \$1,500)
- Residency if reciprocity agreement exists
 - Generally exempts a nonresident from taxation in the state where services are performed
 - AR, KS, MO, NE, OK – No reciprocal agreements
 - May not require employer withholding in resident state (Nexus)
 - Does not generally apply to local tax withholding

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Where to Withhold - continued

- Resident/nonresident taxation
 - Residency Test
 - Being domiciled in the state, or
 - Spending more than a certain number of days in the state
 - Dual residence
 - Nexus (Literally means “connection”)
 - Courtesy withholding
- Telecommuting
 - Convenience v. necessity
 - Potential double taxation

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Wages Defined

- Wages defined so “broadly” (includes all forms of compensation)
 - Income producing (wages, bonuses, etc.)
 - Managerial and administrative
 - Seminars
 - Vacation/PTO
- Wages paid years after employee actually performed services (nonqualified deferred comp, taxable fringe benefits, stock based comp, etc.)
 - State sourcing rules

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Equity Compensation State Sourcing Rules

- Where services were performed
 - Upon grant, where was the employee working
 - From grant to exercise, where was the employee working
 - From exercise to sale, where was the employee working
- State of residency
 - Not necessarily 'home' state
 - Resident by either being domiciled in the state or spending more than a certain number of days in the state (183)

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Equity Compensation State Sourcing Rules - continued

- Reciprocity
 - Allows withholding in state of residence instead of where services were performed
- Resident/nonresident taxation policy
 - May need to consider laws of two or more states
 - Potential dual withholding requirement
- Administrative feasibility

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Form W-4

- Not all states accept Form W-4
- Many states limit the number of withholding allowances by nonresidents
- State nonresident allocation forms (e.g. Missouri Form MO W-4A, New York Form IT-2104.1)
- State reciprocal agreement forms (Virginia Form VA-1)

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Unemployment Taxes

- Four-Part Test
 - Localization of services
 - Base of operations
 - Place of direction and control
 - Residence
- No Reciprocal Agreements

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Business Travel Expenses

- Away from home' and 'temporary'
 - Overnight from principal place of residence
 - No longer than 1 year (realistic expectation)
 - Realistically expected to last 1 year or less
 - Expected to last more than 1 year
 - Realistic expectation change
- Generally taxable to nonresident state

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Human Resources Issues

- Who will pay any additional tax?
 - Tax Equalization
- Common methods for gross-up
 - Analysis of individual tax filings
 - Flat percentage
 - When to gross-up?
 - Beginning of the year
 - End of the year
 - Include FICA in gross-up (highly compensated employees)

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Human Resource Issues - continued

- What are employers doing about employees state tax filing obligations?
 - Flat dollar amount per state
 - Pay for use of personal accountant
 - Pay for TurboTax
 - Provide no tax filing assistance to employee

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System Limitations

- Accommodate pay period allocations by jurisdictions
- Time & Attendance systems may not provide for multi-jurisdictional reporting within pay period
- May only allow withholding to one jurisdiction per pay period
- Many systems do not allow for storage of jurisdictional allocation percentages
- Systems are not programmed to handle tax equalization and gross-ups

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Federal Intervention

- H.R. 1393, Introduced March 7, 2017 (Passed House 6/20/17)
- H.R. 1129, Introduced March 13, 2013 (Dead)
- H.R. 1864, Introduced May 12, 2011 (Dead)
- H.R. 2110, Introduced April 27, 2009 (Dead)
- H.R. 3359, Introduced August 3, 2007 (Dead)
- H.R. 6167, Introduced September 25, 2006 (Dead)
- State issues with federal intervention
 - Thresholds are too high
 - Separate carve-out for highly compensated individuals
 - Infringement of state's rights

Contact Information

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