Part of the Tax De-Mystification Series

7 Facts You Must Know About Multi-State Tax Filing

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If you earn money in a state where state income tax is applicable, you must file a tax return with that state even if you live in one of the states that do not charge income tax.

For instance, if you live in Nevada but generate income in New Mexico, you are liable for New Mexico taxes.

That does not mean that you pay double the tax. You pay the non-resident tax only on the amount that you earned out of the state in which you live and the resident tax only on the portion you earned in the state in which you do live.

Some states hold a reciprocal agreement that allows residents of one state to request exemption from tax withholding in the other state.

1. Who Has to File Multiple State Returns?

There are various circumstances under which you could find yourself having to file taxes in more than one state. Some examples are:

1. You moved from one state to another during the year
2. You live in one state but work in another
3. You are a multi-state business owner
4. You have property or other income-generating investments in another state
5. You hold shares in an S-corporation that does most of its business in another state

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2. Moving from One State to Another During the Year

If you moved to a new job with a different employer, working out the amount of income you earned in each of the two states is relatively simple as each of the employers will provide you with a W-2 that will specify how much you earned.

If you are moving from one state to another with the same employer, a single W-2 showing total earnings will be issued and you will have to determine the split. If your income is the same each month, the split can be calculated based on the number of weeks or months you lived in each state.

3. Living in One State and Working in Another

If you live in one state and commute to another to work, you are considered a non-resident of the state you work in and must file a tax return with both states, with some exceptions. This generally applies even if the work you are doing as a non-resident is temporary in nature.

A number of states impose a "first day" rule with regard to money earned, and it means that you are liable for that state's income tax from the moment you begin work.

Other states have a "waiting period" that allows non-residents to earn income in that state for a period of time before subjecting it to income tax. The waiting period varies from state to state and can be between 10 and 60 days.

Other states have an income threshold instead of a waiting period where you could earn anywhere between $300 and $1,800 before your non-resident income is subject to tax.

That does not mean, however, that income you earned in a non-taxing state such as Texas is tax-free; you will still have to report that income on your resident state tax filing.

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4. Owning a Multi-State Business

Businesses creating a nexus in a state must file a tax return with that state. A nexus is a legal term and means that the business has "sufficient physical presence" to have generated income in that state as a result of conducting business there. Qualifiers for a nexus include having such things as a physical location, and/or employees and/or subcontractors who regularly work in that state. Thresholds for nexus qualification vary from state to state.

5. Owning Property or Other Investments in a Non-Resident State

Income is income is income, according to most states (and to the IRS, of course). Income generated from property or other investments is treated the same as income generated from employment. If you have an out-of-state rental property that you are collecting rent for, or if you have other income-generating investments, you will have to file taxes in the state in which the income was generated.

6. Ownership of a Company in Another State

If you hold shares in an S-corporation that does most of its business in a different state or if you are a partner in an out-of-state company, you will probably have to file a tax return for the state in which that corporation or company does business.

7. Determining Your State of Residence

You would think that establishing where you live is a no-brainer, but what if you have dual residency such as a retiree with a second home in a different state, or someone who has temporarily relocated for work, or someone who is receiving medical treatment in another state for an extended period of time.

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State tax auditors look at a number of factors when determining someone's state of residence. Some of the typical ones are:

- Where you are employed and whether the employment is temporary or permanent
- Where you own or lease your domicile
- Where your driver's license was issued
- The amount of time you spent in that state vs time spent in another state
- Where you are registered to vote
- Where your children attend school
- Where your credit card charges are incurred and where the statements are sent
- Where your vehicle is registered
- Location of your doctor, dentist, lawyer

If you have moved from one state to another, it is wise to have your driver's license and other state permits issued by the state to which you have moved.

It Can Get Complicated!

Each state has different regulations, requirements, and qualifications and it can get complicated quickly.

Your best bet is to consult a qualified CPA who is well-versed in multi-state tax filing to avoid costly mistakes.

Garza Gump Group has the experience and the expertise to minimize your tax bill to the lowest possible legal amount.

Call us at 214-352-6198 or email contact@gggroupcpa-advisors.com for advice you can count on.

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