
Tax Alert

New Jersey Withdraws from Reciprocal Tax Agreement with Pennsylvania



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On September 2nd, New Jersey Governor Chris Christie notified Pennsylvania officials that he has ended a 38-year-old agreement that allowed New Jersey and Pennsylvania residents to pay income taxes where they reside, rather than where they work. This change is effective January 1, 2017.

By way of background, taxpayers who live in one state and work in another state typically file two tax returns: a resident return in the state they live and a nonresident return in the state they work. The resident state generally allows a credit to individuals for taxes paid to the nonresident state on wages earned in the other state.

When New Jersey enacted its Gross Income Tax in 1977, the tax rates imposed by New Jersey and Pennsylvania were almost the same. In an effort to simplify compliance, they enacted an agreement that allowed residents of either state, working in the other state, to only file in their state of residence. Over the years, New Jersey tax rates have risen to a current maximum of 8.97%, whereas Pennsylvania has a flat tax rate of 3.07%, creating a perceived revenue shortfall to New Jersey mainly due to those high wage earner Pennsylvania residents that work in New Jersey. These individuals pay tax to Pennsylvania at a rate of 3.07% while, absent the reciprocity agreement, would have paid to New Jersey at a rate of 8.97%. No Legislative approval is required to effectuate the Governor's action.



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The elimination of the reciprocal agreement will require employers to commence withholding taxes for nonresident employees of both states effective January 1, 2017. In addition, individual taxpayers may be required to make estimated tax payments to their state of residence if the credits for taxes paid to other jurisdictions do not fully cover their tax liability.

Please contact your WeiserMazars tax professional or a member of our State & Local Tax group to discuss this action and how it may impact your tax liability or withholding requirements.

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