

# Multi-State Taxation



## Outlook FINANCIAL CENTER

### Tax Patterns for State Returns

#### *Resident Returns*

States that have an individual income tax follow one of four basic patterns for calculating tax liability on income tax returns for residents.

- 1) **Federal AGI.** The first, and most common, pattern is for the state return to begin with federal AGI and then modify federal income by state-specific additions and subtractions. State returns may allow:
  - A deduction for standard or itemized deductions,
  - A deduction for personal exemptions, and/or
  - A credit for personal exemptions.
- 2) **Federal taxable income.** State returns in the federal taxable income category begin with federal taxable income so the standard or itemized deduction has already been included. Federal income is then modified by state-specific additions and subtractions.
- 3) **State-defined income.** A number of state returns do not use a federal starting point; income is included and excluded based on state law. State returns within the state-defined income category may allow:
  - A deduction for standard or itemized deductions,
  - A deduction for personal exemptions, and/or
  - A credit for personal exemptions.
- 4) **Investment income only.** Washington taxes only certain capital gain income and allows a standard deduction, charitable donation deduction, and certain exemptions.

**No individual income tax.** Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming do not have an individual income tax.

#### *Part-Year Resident Returns*

States follow one of two basic patterns for calculating tax liability on income tax returns for part-year residents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in each state's instruction booklet.

- 1) **Determine items of AGI received while a resident.** Part-year residents determine items of AGI received while a resident. Deductions and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from AGI received while a resident.

### Outlook Financial Center LLC

305 Public Square SE  
Suite 4 (Second Floor)  
Troy, OH 45373

Phone: (937) 552-9990

- 2) **Prorate tax calculated as if a full-year resident.** Part-year residents calculate tax as if a full-year resident and then prorate the tax by a ratio of income received while a resident to total income.

#### *Nonresident Returns*

States follow one of two basic patterns for calculating tax liability on income tax returns for nonresidents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in the each state's instruction booklet.

- 1) **Determine state-source AGI.** Nonresidents determine state-source AGI based on income that is derived from or connected with state sources. Deduction and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from state-source AGI.
- 2) **Prorate tax calculated as if a full-year resident.** Nonresidents calculate tax as if a full-year resident and then prorate the tax by a ratio of state-source income to total income.

### Servicemembers Civil Relief Act

A military spouse's legal residence or domicile does not change by reason of being absent or present in the duty station state solely to be with the servicemember in compliance with military orders.

**Election.** For any taxable year of marriage, a servicemember and spouse may elect for purposes of taxation, regardless of the date of marriage, any of the following.

- The residence or domicile of the servicemember.
- The residence or domicile of the spouse.
- The permanent duty station of the servicemember.

### States With Reciprocal Agreements

**District of Columbia.** Nonresidents are not required to file a DC return. Residents of DC are not required to file a return for the state of:

- Maryland if the only source of Maryland-source income is from wages.
- Virginia if they do not have an actual place of abode in Virginia and the only Virginia-source income is from salaries and wages.



## Multi-State Taxation

**Illinois.** Iowa, Kentucky, Michigan, and Wisconsin residents are required to file only if they received Illinois-source income other than wages or request a refund of Illinois taxes withheld. Illinois residents working in these states report compensation on their Illinois return.

**Indiana.** Full-year residents of Kentucky, Michigan, Ohio, Pennsylvania, or Wisconsin, whose only income from Indiana is from wages, salaries, tips, or commissions, must file Form IT-40RNR, *Reciprocal Nonresident Indiana Individual Income Tax Return*. They will not be subject to Indiana state income tax, but may owe county tax which is calculated on Form IT-40RNR.

**Iowa.** Iowa residents with Illinois wage income are only subject to tax in Iowa. Illinois residents with Iowa wage income only are only subject to tax in Illinois.

**Kentucky.** Kentucky has agreements with the states in the table below. Taxpayers are taxed by their state of residence on income covered by the agreement and not by the state where income is earned. Individuals who live in Kentucky for 183 days or more during the year are taxed as residents and reciprocity does not apply.

State	Types of Exemptions
Illinois, West Virginia	Wages and salaries.
Indiana	Wages, salaries, and commissions.
Michigan, Wisconsin	Income from personal services (including salaries and wages).
Ohio	Wages and salaries (unless paid by S corporations to 20% or greater direct or indirect equity investors).
Virginia	Salaries and wages of daily commuters.

**Maryland.** Residents of the District of Columbia, Virginia, and West Virginia are not required to file a Maryland return if their only Maryland income is from wages and salaries. This also applies to Pennsylvania residents residing in local jurisdictions that do not impose an income or earnings tax against Maryland residents.

**Michigan.** Residents of Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin are only required to file a Michigan return if Michigan income from sources other than wages is received or to request a refund of Michigan withholding.

**Minnesota.** Minnesota has reciprocal agreements with Michigan and North Dakota. Residents of those states are not subject to Minnesota income tax if:

- The taxpayer was a full-year resident of Michigan or North Dakota who returned to his or her home state at least once a month, and
- The taxpayer's only Minnesota income was from the performance of personal services (wages, salaries, tips, commissions, bonuses).

**Montana.** Residents of North Dakota are not required to file a Montana return if the only source of Montana income is wages.

**New Jersey.** Compensation paid to Pennsylvania residents employed in New Jersey is not subject to New Jersey income tax.

**North Dakota.** North Dakota has reciprocal agreements with Minnesota and Montana. Minnesota residents are not required to file a North Dakota return if the only North Dakota source of income is wages, and the taxpayer maintains a home in Minnesota and returns to the home at least once each month. Montana residents are not required to file a North Dakota return if the only North Dakota source of income is wages.

**Ohio.** A full-year nonresident living in the border states of Indiana, Kentucky, Michigan, Pennsylvania, or West Virginia does not need to file an Ohio return if the nonresident's only Ohio-source income is from wages.

**Pennsylvania.** Pennsylvania has agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Generally, one state will not tax a resident of the other state on compensation that is subject to employer withholding.

**Virginia.** Taxpayers who meet the following reciprocity criteria do not need to file a Virginia return and are not subject to Virginia income tax.

**Kentucky and the District of Columbia.** Residents of Kentucky or the District of Columbia who commute daily to work in Virginia are not required to file a return if all of the following apply.

- The taxpayer had no actual place of abode in Virginia at any time during the year,
- Salaries and wages are the taxpayer's only Virginia-source income, and
- The salaries and wages are subject to income taxation by Kentucky or the District of Columbia.

**Maryland, Pennsylvania, and West Virginia.** Residents of Maryland, Pennsylvania, and West Virginia are not required to file a Virginia return if the only income from Virginia sources is salaries and wages, taxpayer was present in Virginia for 183 days or less during the tax year, and salaries and wages are subject to taxation by the resident state.

**West Virginia.** Full-year residents of Kentucky, Maryland, Ohio, Pennsylvania, or Virginia whose only source of West Virginia income is from wages and salaries can claim a refund for tax withheld from wages.

**Wisconsin.** Wisconsin does not tax wages and other personal service income of residents of Illinois, Indiana, Kentucky, or Michigan. A resident of one of these states whose only income from Wisconsin is wages is not required to file a return, unless the return is to claim a refund for tax withheld in error.

## Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2026 Tax Materials, Inc.  
All Rights Reserved