



AccountingAidSociety

Reciprocal States

Reciprocal States

- Michigan has **reciprocal tax agreements** with the following states:
 - Illinois
 - Indiana
 - Kentucky
 - Minnesota
 - Ohio
 - Wisconsin
- This means if you're a Michigan resident but earn wages in one of these six reciprocal states, You pay income tax only to Michigan, not the state where you work
- A Michigan resident may file a withholding form with an employer in a reciprocal state to claim exemption from that state's income tax withholding.
 - The out-of-state income may make Michigan individual income tax estimated payments necessary.
 - If withholding is paid to one of the reciprocal states, a Non-Resident return must be filed to claim it.
 - A resident of a reciprocal state who claims a refund of Michigan withholding tax must file a Schedule NR along with an MI-1040.

Reciprocal States

These agreements apply only to compensation for personal services such as:

- Salaries
- Wages
- Commissions

The agreements **do not cover** other income types such as:

- Independent contractor earnings
- Business income
- Rental
- Interest
- Capital gains

Practice Scenario

Jerry is a resident of Michigan but works a W-2 job in Ohio. On his W-2 there are some withholdings for Ohio.

Is Jerry's income taxable to Ohio?

- A. Yes
- B. No

Practice Scenario

Jerry is a resident of Michigan but works a W-2 job in Ohio. On his W-2 there are some withholdings for Ohio.

Is Jerry's income taxable to Ohio?

- A. Yes
-  B. No

Explanation: As a Michigan resident Jerry's income is only taxable to the state of Michigan under the reciprocal agreement between the states.

Practice Scenario

Jerry is a resident of Michigan but works a W-2 job in Ohio. On his W-2 there are some withholdings for Ohio.

How would Jerry claim the withholdings from Ohio?

- A. File a Michigan Non-resident return
- B. File a MI-W4
- C. File a Ohio Non-resident return
- D. The withholdings cannot be claimed.

Practice Scenario

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How would Jerry claim the withholdings from Ohio?

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- B. File a MI-W4
-  C. File a Ohio Non-resident return
- D. The withholdings cannot be claimed.

Explanation: In order to claim the withholdings, Jerry must file a state of Ohio Non-Resident return.

End of Reciprocal States

Take a few moments with your table and discuss any questions you may have regarding this topic.