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State Individual Income Taxes on Nonresidents: A Primer

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Key Findings

- Five years after the start of the COVID-19 pandemic, remote and hybrid work has become a way of life for many Americans.
- Even occasional remote or hybrid work, or work-related travel, triggers nonresident individual income tax filing, withholding, and payment obligations in many states.
- States' nonresident income tax laws are highly complex and nonneutral.
- Unless substantial revenue is at stake, individuals, employers, and state revenue officials have little incentive to comply with or enforce overly aggressive nonresident income tax policies.
- Several states have adopted reforms that provide meaningful relief to taxpayers, but until more states adopt similar reforms, the nonresident income tax landscape will remain burdensome and complex.
- More states should adopt nonresident income tax reforms that promote simplicity and neutrality.
- Among the most valuable reforms to consider are day-based filing and withholding safe harbor thresholds and reciprocity agreements.
- States should also consider repealing existing convenience rules and not applying local income taxes to nonresidents.

Introduction

Among the lasting economic effects of the COVID-19 pandemic was a seismic shift in the way Americans conceptualize the workplace, as well as the rapid development of new technologies that allow many types of work to be performed from nearly anywhere. A Pew Research Center survey conducted in October 2024 found that, among employed adults with jobs that can be performed at home, 75 percent work remotely at least some of the time.[1] In 2023, 35 percent of such individuals worked from home all the time.

While some large employers have made the headlines for instituting policies requiring their employees to return to the office five days a week, many others are permanently offering some flexibility, such as allowing their employees to work from home two or three days per week even if they are required to report to the office on other days.

While employers' policies will continue to evolve, the American workforce expects a greater degree of workplace flexibility now than before the pandemic, with a sizeable share of workers saying they would likely leave their current jobs if their employer required them to return to the office full time.[2] This new economic reality has far-reaching implications extending far beyond personal preferences and commute times. From a state tax perspective, the rise in remote work affects where companies have nexus for corporate income tax purposes, and it also affects where employers and their employees withhold, file, and remit individual income taxes. While the former issue is beyond the scope of this paper, the latter issue is discussed in depth. Specifically, this paper provides an overview of states' individual income tax treatment of nonresidents and offers recommendations for how current policies can be improved to reduce compliance burdens and promote simpler and more neutral state income tax policies.[3]

The first half of this paper sets the stage by explaining how nonresident state income taxation works in general, reviewing topics such as credits for taxes paid to other states, reverse credits, reciprocity agreements, convenience rules, and other provisions relevant to taxpayers working outside their home state. The second half of this paper provides a detailed overview of states' current nonresident individual income tax filing and withholding thresholds, identifying similarities and differences among policies across the country and bringing transparency to a widely misunderstood area of state tax policy. Then, for policymakers seeking to simplify their state's tax treatment of mobile workers and reduce the costs of compliance, this paper offers the following major reform recommendations:

1) Establish a day-based filing and withholding nonresident individual income tax safe harbor threshold
    a. Aim for a 30-day threshold, which is widely viewed as the gold standard
    b. Prioritize consistency, adopting filing and withholding safe harbors that match
    c. Consider converting income-based thresholds to simpler, more neutral day-based thresholds

1 Kim Parker, "Many Remote Workers Say They'd be Likely to Leave Their Job if They Could No Longer Work from Home," Pew Research Center, Jan. 13, 2025, https://www.pewresearch.org/short-reads/2025/01/13/many-remote-workers-say-theyd-be-likely-to-leave-their-job-if-they-could-no-longer-work-from-home/.
2 Id.
3 The Tax Foundation is a 501(c)(3) educational nonprofit and cannot answer specific questions about your tax situation or assist in the tax filing process, and the contents of this paper do not constitute tax advice. For tax advice, please consult a tax adviser.

2) Minimize carveouts so safe harbors apply neutrally to the vast majority of nonresidents
    a. Avoid mutuality requirements
    b. Avoid key employee rules
    c. Avoid jock taxes or target them narrowly
3) Adopt reciprocity agreements with neighboring states
4) Avoid adopting (or repeal) convenience rules
5) Avoid applying local income taxes to nonresidents

If most states proactively adopt these reforms, the state income tax landscape will become substantially less burdensome, dramatically reducing compliance costs for remote and hybrid workers and those who travel to work, on a short-term basis, outside their state of residence.

Part 1: Overview of States' Income Taxation of Nonresidents

As a rule, an individual's income can be taxed both by the state in which the taxpayer resides and by the state in which the taxpayer's income is earned. For most Americans most of the time, these states are one and the same. However, in our highly mobile post-pandemic economy where remote and hybrid work are common, more individuals than ever before work—occasionally or frequently—from states besides their home state.

While all state income tax codes are structured to accommodate basic scenarios in which an individual lives in one state and works in another, most state tax statutes and regulations governing nonresident individual income taxation are outdated, exceedingly complex, and impose steep compliance burdens on individuals and employers. Since 2020, a handful of states have made meaningful progress in this area, but until most states follow suit, the state nonresident income tax landscape will remain unnecessarily complex. In the months and years ahead, more states should work to remove the archaic tax policy barriers that hinder efficiency and threaten flexibility in our increasingly mobile modern economy.

Credits for Taxes Paid to Other States

Since more than one state can stake a legitimate claim to the same income, to prevent double taxation, every state that levies an individual income tax on wage and salary income offers a credit for taxes paid to other states. Typically, such credits offset the amount the taxpayer actually paid to the other state *or* the amount the taxpayer *would have paid* on that same income if taxed by the domiciliary state, whichever is *less*.[4] This means when a portion of an individual's income is taxable in two states, while that tax revenue may get allocated between the two states, the taxpayer's total state income tax liability on that income will ultimately equal the amount he or she would have owed if taxed exclusively by the higher-tax state.

For example, suppose Sarah lives in a state with a 4 percent income tax rate but commutes across state lines to work in a state with a 6 percent rate. If she earns $60,000 in taxable income, she will owe $3,600

4 Jared Walczak, "Do Unto Others: The Case for State Income Tax Reciprocity," Tax Foundation, Nov. 16, 2022, https://taxfoundation.org/research/all/state/state-reciprocity-agreements/.

(6 percent of $60,000) to the state in which she works. Since her home state tax liability on that same income would be $2,400 (4 percent of $60,000), her home state will offer a $2,400 credit for taxes paid to her workplace state. In this case, the credit will wipe out her home state tax liability, with her home state receiving no income tax revenue and her workplace state receiving $3,600.

In the opposite situation, if Sarah lives in the state with the 6 percent rate but works in the state with the 4 percent rate, she would pay $2,400 to the state in which she works, and her home state would offer a $2,400 credit for taxes paid to her workplace state, reducing her home state liability to $1,200 ($3,600 minus $2,400). She will still pay $3,600 total—the same total liability as if she were taxed exclusively by the higher-tax state—but $2,400 would be sent to her workplace state and $1,200 to her home state.

Again, in scenarios such as this, the taxpayer's total state tax liability on the overlapping share of income will always match what their liability would have been if taxed exclusively by the higher-tax state, but the allocation to each state will vary depending on whether the state providing the credit is the higher- or lower-tax state. In cross-border commuter situations such as this, states of residence miss out on income tax revenue when their residents commute to work in other states. Such cross-border activity will always exist, but lower rates help promote a favorable tax climate to attract individuals and businesses and make it less likely that taxpayers will need to cross state lines for work.

Reverse Credits for Taxes Paid to Other States

Some states provide "reverse credits," whereby nonresidents working in the state can claim a credit against their nonresident state income tax liability to offset the taxes paid to their state of residence. Only a handful of states—Arizona, California, Indiana, Oregon, and Virginia—offer reverse credits, and they offer them only to residents of other states that offer them, with some states specifically carved out. For example, Indiana does not recognize the reverse credits in California or Virginia.[5]

To illustrate, suppose an Arizona resident commutes each day to an office in California and earns his entire income in California. Since Arizona and California do not have a reciprocity agreement (discussed later), this taxpayer must file a resident individual income tax return in Arizona and a nonresident return in California. Ordinarily, a taxpayer in this situation would claim an Arizona tax credit, reducing his Arizona tax liability to account for taxes paid in California, up to the amount he would have paid on that same income had it been taxed exclusively in Arizona.

In this situation, because California's tax rates are much higher than Arizona's, if the taxpayer claimed an ordinary credit in Arizona for taxes paid to California, this would wipe out the taxpayer's entire Arizona tax liability, and he would pay his entire tax bill to California, with his home state of Arizona receiving none of the revenue. However, because these states recognize each other's reverse credits, an Arizona resident in this situation would file in both states but claim a California credit, reducing his California nonresident income tax liability by the amount of taxes paid to Arizona. This way, both states receive a portion of the taxpayer's total tax liability, but the taxpayer pays the same amount he would have paid had he been taxed exclusively in higher-tax California.

5 Id.

Reverse credits, by ensuring taxpayers' home states always receive a portion of their income tax revenue, rightfully acknowledge that individuals typically receive more public services from their home state than from states in which they work, even when the taxpayer spends a significant amount of time in both states.[6] For example, if the taxpayer were to become eligible for various forms of state assistance, most of those expenses would be incurred by the taxpayer's state of residence, so it is appropriate for states of residence to receive revenue even when their residents spend a significant amount of time working elsewhere.

Reverse credits serve an important purpose, but it is the taxpayer's home state, not the taxpayer, who benefits from reverse credits. Reverse credits simply protect domiciliary states from disproportionately missing out on revenue. Reciprocity agreements, however, discussed in the next section, go a step further by keeping revenue from cross-border commuters in their domiciliary states while also reducing filing and withholding burdens.

Reciprocity Agreements

One valuable way some states relieve individual income tax compliance burdens for nonresidents and their employers is by maintaining reciprocity agreements with other states. Under reciprocity agreements, also known as reciprocal agreements, states—usually neighboring states—mutually agree to tax cross-border workers based exclusively on residency to relieve individuals and their employers of the burden of filing and withholding in both states. To take advantage of these reciprocity agreements, taxpayers must submit a reciprocity affidavit or declaration form, but this requirement is typically less burdensome than requiring taxpayers to file a nonresident income tax return in their workplace state. (Indiana, however, is an example of a state that requires nonresidents from reciprocal states to file a reciprocal nonresident income tax return on Tax Day.)[7]

Most of the reciprocity agreements that exist today have been in place for many decades, with few new agreements adopted since the early 1990s.[8] While reciprocal agreements are not a novel policy solution, they are becoming increasingly relevant as the workforce becomes more mobile than ever before. They are a valuable policy solution to reduce tax compliance burdens for individuals and employers alike, as well as to reduce the number of total income tax returns both parties to the agreement must process. Additionally, by keeping individuals' income tax revenues in their domiciliary state, reciprocity agreements help ensure taxpayers' income tax dollars are distributed to the state from which they typically derive the most benefit in terms of government services received. For all these reasons, more states should consider adopting reciprocity agreements with nearby states.

As of January 1, 2025, 30 reciprocity agreements exist among 15 states and the District of Columbia. Kentucky participates in seven agreements, while Michigan and Pennsylvania each participate in six. Three states—Iowa, Montana, and New Jersey—offer reciprocity with only one other state, while 26 states have an individual income tax on wage and salary income but do not participate in any reciprocity agreements.

6 Edward J. Bernert, "Taxation of Remote Workers in Ohio," *Tax Notes State*, Oct. 21, 2024, https://www.taxnotes.com/tax-notes-state/individual-income-taxation/taxation-remote-workers-ohio/2024/10/21/7m671?highlight=%22reverse%20credit%22#sec-5-9.

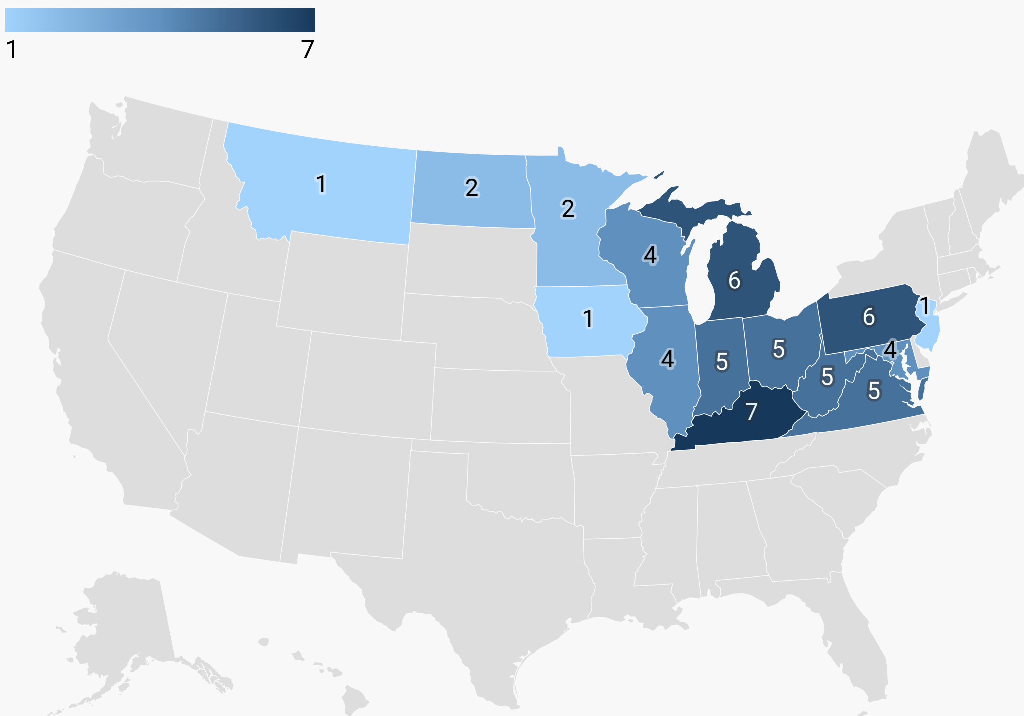
7 Indiana Department of Revenue, "Form IT-40RNR: Reciprocal Nonresident Indiana Individual Income Tax Return (2023)," accessed Jan. 7, 2025, file:///C:/Users/KatherineLoughead/Downloads/IT-40RNR%20(9-23)%20Fillable.pdf.

8 Jared Walczak, "Do Unto Others: The Case for State Income Tax Reciprocity."

Figure 1.

Take-Up of Reciprocity Agreements Varies Greatly by State

Number of Reciprocity Agreements by State, as of January 1, 2025



Note: Federal law prohibits the District of Columbia from taxing nonresidents' income.
Source: State statutes and regulations; Bloomberg Tax; Tax Foundation research.

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Reciprocity agreements can take the form of bilateral agreements between two states or unilateral offerings of reciprocity with any state that adopts reciprocating policies.[9] While detailed discussion of these agreements is beyond the scope of this paper, a broad definition of reciprocity agreements has been used in Figure 1 and Table 1.

9 Because the District of Columbia is precluded from taxing nonresident income, Virginia and Maryland have policies framed as commuter exemptions to govern tax obligations of DC residents working in their states, but these are just a special form of bilateral agreements.

Table 1. State Reciprocity Agreements Reduce Burdens for Cross-Border Commuters

State Reciprocity Agreements as of January 1, 2025

	IL	IN	IA	KY	MD	MI	MN	MT	NJ	ND	OH	OR	PA	VA	WV	WI	DC	Count
IL			✓	✓		✓										✓		4
IN				✓		✓					✓		✓			✓		5
IA	✓																	1
KY	✓	✓				✓					✓			✓	✓	✓		7
MD													✓	✓	✓		✓	4
MI	✓	✓		✓			✓				✓					✓		6
MN						✓				✓								2
MT										✓								1
NJ													✓					1
ND							✓	✓										2
OH		✓		✓		✓							✓		✓			5
PA		✓			✓				✓		✓			✓	✓			6
VA				✓	✓								✓		✓		✓	5
WV				✓	✓						✓		✓	✓				5
WI	✓	✓		✓		✓												4
DC					✓									✓				2

Note: Federal law prohibits the District of Columbia from taxing nonresidents' income.
Source: State statutes and regulations; Bloomberg Tax; Tax Foundation research.

Importantly, while some sources classify reverse credits as a type of reciprocity agreement, they ought to be classified distinctly because reverse credits have different effects than reciprocity agreements.[10] As discussed earlier, reciprocity agreements offer a benefit to the taxpayer, while the benefit of reverse credits accrues to the taxpayer's state of residence, not to the taxpayer, since the taxpayer is still required to file in both states.

In a post-pandemic economy, where remote and hybrid workplace flexibility remains common, reciprocity agreements are especially valuable in scenarios in which an individual lives in one state and occasionally works from home in that state but sometimes commutes to a workplace in another state. For example, because Iowa and Nebraska lack a reciprocity agreement, an Iowa resident who occasionally commutes to an office in Omaha is currently required to file a nonresident return in Nebraska and a resident return in Iowa, on which the taxpayer claims Iowa's credit for taxes paid to Nebraska. To allocate income tax revenue correctly, the taxpayer and his or her employer are technically expected to keep track of the exact number of days the employee works in each state, which can quickly become cumbersome if the number of days they commute to the office varies from week to week. For employers that might otherwise be

10 Jared Walczak, "Do Unto Others: The Case for State Income Tax Reciprocity."

inclined to allow their employees to commute to an office only on an as-needed basis, burdensome nonresident income tax filing and withholding laws—including a shortage of reciprocity agreements—could reduce employers' likelihood of offering such flexibility.

Convenience Rules

Some states maintain aggressive "convenience of the employer rules" (often simply called "convenience rules") whereby nonresident individual income tax filing, withholding, and payment is required when a nonresident's employer is located in the state even if the employee works remotely from outside that state and has minimal ties to that state. Under such policies, employees who work outside the state are treated as if their work is conducted in the state if they work outside the state for the "convenience of the employer," a term that is defined broadly and oftentimes vaguely.

The term is best understood by way of contrast: that is, working in a location other than the company's office is a matter of convenience rather than a necessity of performing the job. Narrow exceptions to these rules therefore generally apply only when the work cannot feasibly be performed in the employer's state, such as when a technician performs repair work at a property located in a different state.[11] As such, employees who telework from another state due to personal necessity or preference are frequently captured under convenience rules.

Typically, living in one state and working in another does not create double taxation due to the availability of credits for taxes paid to other states. However, eligibility for such credits usually extends only to taxes on income earned while the taxpayer is *physically working outside his or her home state*. Eligibility for such credits typically does *not* extend to income taxed by another state while the resident is physically working within his or her domiciliary state. As such, individuals who work remotely from out of state for an employer located in a convenience rule state are often denied their home state's credit and exposed to true double taxation, where all their wage or salary income is fully exposed to two states' individual income taxes.[12]

Proponents of convenience rules view them as a way to prevent revenue loss, especially in high-cost-of-living states that are more likely to see an exodus of residents who have the flexibility to telework from elsewhere. However, states that maintain aggressive convenience rule policies are likely to face longer-term barriers to competitiveness as telework-friendly employers relocate from convenience rule states or shift some operations to offices elsewhere to protect their employees from double taxation.

As of January 1, 2025, eight states—Alabama, Connecticut, Delaware, Nebraska, New Jersey, New York, Oregon, and Pennsylvania—maintain convenience rules in their tax codes.[13] Five of these rules are full convenience rules, while three apply in limited situations. In Connecticut and New Jersey, the convenience rules are retaliatory, applying only to nonresidents who live in states that have their own convenience rules. Oregon's convenience rule applies only to nonresidents who work in a managerial role for an em-

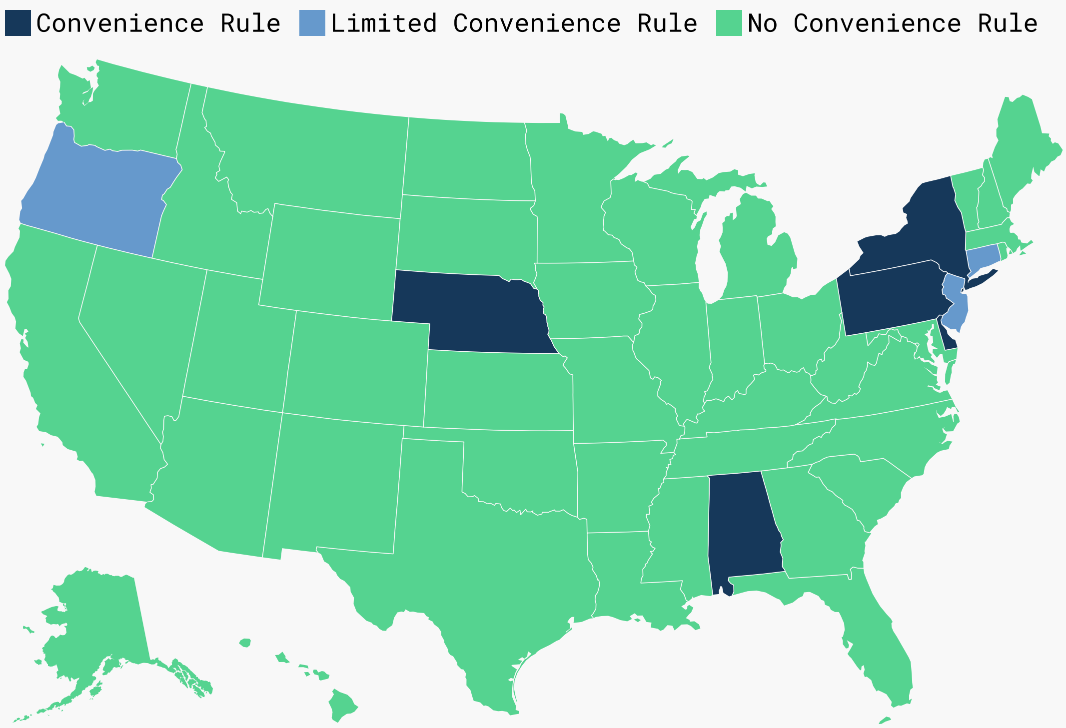
11 Jared Walczak, "Teleworking Employees Face Double Taxation Due to Aggressive 'Convenience Rule' Policies in Seven States," Tax Foundation, Aug. 13, 2020, https://taxfoundation.org/research/all/state/remote-work-from-home-teleworking/.
12 Id.
13 Andrew Wilford, *The 2024 ROAM Index: How State Tax Codes Affect Remote and Mobile Workers*, 11, 2024, https://www.ntu.org/foundation/detail/the-2024-roam-index-how-state-tax-codes-affect-remote-and-mobile-workers.

ployer located in Oregon. Notably, Alabama's convenience rule is the result of a tax tribunal decision rather than a statutory change.[14] Additionally, during the COVID-19 pandemic, Arkansas briefly saw regulatory promulgation of such a rule, though lawmakers quickly responded with legislation to eliminate it, while Massachusetts adopted a temporary income sourcing rule that had the same effect. This rule was adopted with the intention of preventing Massachusetts from losing revenue during the pandemic, since many individuals who typically commuted to offices in Boston and other parts of Massachusetts suddenly found themselves working from their homes in surrounding states.

Figure 2.

Six States Maintain Aggressive Convenience Rules

State Convenience Rules as of January 1, 2025



Note: Alabama's convenience rule is the result of a tax tribunal decision. Connecticut and New Jersey's rules apply only to nonresidents who live in states with their own convenience rules. Oregon's convenience rule applies only to nonresidents in managerial roles. Massachusetts adopted a temporary income sourcing rule during the COVID-19 pandemic that had the same effect as a convenience rule.
Source: State statutes, forms, and regulations; Tax Foundation research.

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Massachusetts' temporary sourcing rule led to litigation by New Hampshire—a state without an individual income tax—which argued Massachusetts' policy violated the US Constitution's Dormant Commerce Clause and Due Process Clause by taxing value earned outside the state's borders. The US Supreme Court declined to hear the case regarding Massachusetts' temporary sourcing rule, but opportunities may exist for future constitutional challenges.

14 Janelle Fritts, "Alabama Tax Tribunal Says Out-of-State Workers Owe Income Taxes," Tax Foundation, Mar. 31, 2023, https://taxfoundation.org/blog/alabama-remote-work-tax/.

Alternatively, a solution could be reached through an act of Congress. One bill, the Multi-State Worker Tax Fairness Act, would invalidate states' convenience rules by specifying that, for tax purposes, an individual cannot be deemed to be present or working in a state while he or she is working from home in a different state. This bill was first introduced in 2014 by a delegation of Democratic House and Senate members from Connecticut, and while it has been introduced in subsequent years, it has not passed either chamber.

To avoid deterring teleworking-friendly employers, states that maintain convenience rules should consider repealing them, and states that do not have them should avoid adopting them. In addition to hindering states' economic competitiveness, convenience rules depart from the principles of sound tax policy by divorcing taxes paid from benefits received. Under most taxes, some sort of connection exists between taxes paid and benefits received. To varying degrees, taxpayers benefit from public services in the states in which they spend a significant amount of time earning income, making taxable purchases, or owning property.

Taxpayers typically derive the most benefit from their state of residence, and—when that differs from the state in which they work—taxpayers benefit from the public services in states in which they spend significant time physically working. As such, states rightfully have broad authority to tax the activity that occurs within their borders. It is aggressive and constitutionally dubious overreach, however, for states to expose all or much of a nonresident's income to in-state taxation simply because their employer is located there, especially when those individuals rarely step foot in the state and do not directly benefit from public services provided in that state.

Other Situations: Military Members and Expatriates

Another complicated area of state income taxation involves Americans who spend significant amounts of time living and working outside the United States, including members of the military and expatriates who maintain their US citizenship but spend substantial time living and working in another country.

While policies vary from state to state, Americans who live abroad for part of a year generally owe income taxes on all income from all sources to their domiciliary state. When US citizens spend the full year living abroad, many states do not require state income tax payment, but some do aggressively tax those whose last legal residence was within the state. Meanwhile, some states offer special filing relief for military members, such as by forgoing their right to tax active-duty military pay that is earned outside the individual's domiciliary state. While a detailed analysis of these policies is beyond the scope of this paper, it is helpful to be aware that states maintain special rules pertaining to taxpayers in these situations that may differ from the rules governing full-year US residents.

Part 2: The State Nonresident Income Tax Landscape Is Highly Complex and in Need of Reform

Having reviewed the basics of nonresident state income taxation, the next part of this paper will shed light on the complexities at play in the current landscape and identify opportunities for taxpayer-friendly reforms that reduce compliance burdens.

Overview of States' Nonresident Individual Income Tax Filing and Withholding Thresholds

Among the greatest areas of complexity in states' tax treatment of nonresidents is their widely varying thresholds governing when filing and withholding obligations are triggered.

Table 2 shows a basic overview of states' filing and withholding thresholds, and the pages that follow dive deeper into the specifics surrounding both the employee and employer sides of nonresident income tax compliance.

Overview of States' Nonresident Individual Income Tax Filing Thresholds

States' nonresident individual income tax filing requirements differ substantially from state to state but currently fall into 12 broad categories (shown in Figure 3). States that fall into the most burdensome category require individuals to file nonresident individual income tax returns if they receive *any* income sourced to the state. This policy is currently in place in Arkansas, Delaware, Michigan, Nebraska, and Ohio. While these states offer little guidance on the matter, a reasonable interpretation of this law is that a 25-year-old Iowa resident who is a full-time graduate student is technically required to file a nonresident individual income tax return in Nebraska if she spends just one hour babysitting for a family that lives in Nebraska, even if she does not earn enough total income from all sources to be required to file a federal return.

In numerous other states, a nonresident's obligation to file is based on whether their total income from *all* sources exceeds a specified threshold, regardless of how little they earn in that state. Specifically, in California, Kentucky, New Jersey, New York, North Carolina, South Carolina, and Virginia, nonresidents with *any* income sourced to those states must file if their *total* income from all sources—or state-specific adjustments to their total income from all sources—exceeds a specified amount. This specified amount often matches or is comparable to the state's standard deduction.

For example, in North Carolina, a nonresident with income from North Carolina sources must file if their total gross income from all sources exceeds North Carolina's standard deduction amount (which varies by filing status). North Carolina's single filer standard deduction was $12,750 as of 2024, so the vast majority of full-time workers will easily exceed this threshold and be required to file on day one. Meanwhile, California lists its own income filing thresholds for nonresidents, which vary by age, filing status, and number of dependents. For example, a single nonresident under the age of 65 with no dependents must file in California if their total worldwide gross income exceeds $21,561 (as of tax year 2023), regardless of how little they earn in California.

Table 2. Nonresident Filing and Withholding Thresholds Vary Greatly by State

Nonresident Individual Income Tax Filing and Withholding Thresholds as of January 1, 2025

State	Filing Threshold	Withholding Threshold
Alabama	1 day	1 day
Alaska	n.a.	n.a.
Arizona	1 day	60 days
Arkansas	1 day	1 day
California	1 day	> $1,500
Colorado	1 day	1 day
Connecticut	> 15 days and > $6,000	> 15 days
Delaware	1 day	1 day
Florida	n.a.	n.a.
Georgia	$5,000 or 5% of wages	> 23 days or > $5,000 or > 5% of wages
Hawaii	1 day	> 60 days
Idaho	> $2,500	$1,000
Illinois	> 30 days	> 30 days
Indiana	> 30 days	> 30 days
Iowa	$1,000	1 day
Kansas	1 day	1 day
Kentucky	1 day	1 day
Louisiana	> 25 days (a)	> 25 days (a)
Maine	> 12 days and > $3,000	> 12 days and > $3,000
Maryland	1 day	1 day
Massachusetts	1 day	1 day
Michigan	1 day	1 day
Minnesota	$14,950 (MN sources) (b)	$14,950 (all sources) (b)
Mississippi	1 day	1 day
Missouri	$600	1 day
Montana	> 30 days	> 30 days
Nebraska	1 day	1 day
Nevada	n.a.	n.a.
New Hampshire	n.a.	n.a.
New Jersey	1 day	1 day
New Mexico	1 day	> 15 days
New York	1 day	> 14 days
North Carolina	1 day	1 day
North Dakota	> 20 days (a)	> 20 days (a)
Ohio	1 day	$300 quarterly
Oklahoma	$1,000	> $300 quarterly
Oregon	> $2,800 (b)(c)	1 day
Pennsylvania	1 day	1 day
Rhode Island	1 day	1 day
South Carolina	1 day	> $2,000
South Dakota	n.a.	n.a.
Tennessee	n.a.	n.a.
Texas	n.a.	n.a.
Utah	> 20 days (a)	> 20 days (a)
Vermont	> $100	30 days
Virginia	1 day	1 day
Washington	n.a.	n.a.
West Virginia	> 30 days (a)	> 30 days (a)
Wisconsin	$2,000	$2,000
Wyoming	n.a.	n.a.
District of Columbia	n.a. (d)	n.a. (d)

(a) State has a mutuality requirement, whereby its filing/withholding threshold applies only to nonresidents from states that do not levy an individual income tax or that offer a "substantially similar exclusion."
(b) Threshold is adjusted annually for inflation.
(c) Threshold varies by filing status; single filer amount is shown.
(d) Federal law prohibits the District of Columbia from taxing nonresidents' income.
Source: Tax Foundation; Bloomberg Tax; state statutes.

Several additional states take a similar, but simpler, approach by matching their total income filing thresholds to the federal income tax filing thresholds. Specifically, Maryland, New Mexico, and Rhode Island state that nonresidents must file if they receive any income sourced to the state and are required to file a federal return.[15] Federal filing thresholds vary by filing status and whether a taxpayer has reached the age of 65, and these amounts are adjusted annually for inflation. For tax year 2025, in most cases, a US citizen must file a federal individual income tax return if his or her annual gross income is at least $15,000 (single filers) or $30,000 (married couples filing jointly).

Meanwhile, in Colorado, nonresidents must file if they either receive any income from Colorado sources and are required to file a federal return or if they earn enough Colorado-sourced income to incur a Colorado income tax liability, regardless of their total income.

In Alabama, Arizona, Hawaii, Kansas, Massachusetts, and Mississippi, state statutes specify that nonresidents must file if their income from state sources exceeds the state's standard deduction, personal exemption, the sum of both, or another specified threshold *after* it has been prorated by the ratio of state-sourced income to total income from all sources. For example, Alabama's administrative code states, "Every nonresident individual, receiving income from property owned or business transacted within Alabama, which is more than his prorated Alabama personal exemption is required to file a return."[16] Because full-year Alabama residents can claim a personal exemption of $1,500 (single filers), this means nonresidents can accrue this personal exemption at a rate of approximately $4 per day. As such, a single filer earning more than her prorated personal exemption (roughly $4 per day) in Alabama-sourced income is technically required to file a nonresident return to Alabama even if she does not owe income tax after her prorated standard deduction or prorated itemized deductions are taken into account.

States that use their prorated standard deduction and/or personal exemption as the nonresident filing threshold save few, if any, nonresidents from having to file. Even in states that conform to the federal standard deduction ($15,000 for single filers in tax year 2025), the vast majority of nonresidents who travel for work will receive no benefit under such a threshold since most traveling workers work full time and earn substantially more than $41 per day.

In Pennsylvania, nonresidents are generally required to file if they earn enough state-sourced income to incur a state income tax liability. Because Pennsylvania does not have a standard deduction or personal exemption, calculating whether a taxpayer has an income tax liability is easier in Pennsylvania than it would be in many other states. Pennsylvania's filing instructions state that nonresidents with Pennsylvania gross taxable income "in excess of $33" must file, even if no tax is due with the return. (Pennsylvania's tax rate of 3.07 percent, applied to $33 in income, generates $1 in Pennsylvania income tax liability.)

15 Nonresidents with income from Colorado sources must file if they are required to file a federal return or incur any Colorado individual income tax liability.
16 Ala. Admin. Code r. 810-3-15-.21(3)(e)(1).

Pennsylvania, which does not have a standard deduction or personal exemption, makes this process easier for nonresidents by calculating the amount of Pennsylvania-sourced income a taxpayer would have to earn to face liability and listing this amount in its income tax instructions. Because Pennsylvania does not have a standard deduction or personal exemption, Pennsylvania's filing instructions state that nonresidents with Pennsylvania gross taxable income "in excess of $33" must file, even if no tax is due with the return. (Pennsylvania's tax rate of 3.07 percent, applied to $33 in income, generates $1 in Pennsylvania income tax liability.)

While each of the 23 aforementioned states has its own rules for when nonresidents are required to file, in all of those states—except in relatively rare circumstances—nonresidents are typically required to file and pay those states' income taxes if they spend even one day working in those states. This creates steep compliance burdens for individuals who travel for work both regularly and periodically, while generating little additional revenue, on net, for most states, after credits for taxes paid to other states are taken into consideration.

There are, however, a handful of states that have established meaningful safe harbor thresholds to relieve nonresidents from filing and payment obligations when they spend less than a certain number of days working in the state or earn less than a certain amount of income in the state.

States that require nonresident income tax filing after a specific state-sourced income threshold is met are Georgia, Idaho, Iowa, Minnesota, Missouri, Oklahoma, Oregon, and Vermont. Notably, Missouri and Vermont specify that filing is not required, even if the state-sourced income threshold is met, if the nonresident is not required to file a federal return.

It is worth noting that Vermont's state-sourced income filing threshold is so low that it provides little meaningful relief. Vermont requires filing when nonresidents earn more than $100 in Vermont, and this threshold is not adjusted for inflation, so its real value as a safe harbor has eroded over time. As of 2023, US median household income was $80,610 per year, or $220.85 per day, and US median personal income was $42,220 per year, or $116 per day.[17] As such, most full-time workers who work for even one day in Vermont are required to file a return. However, the state-sourced income filing thresholds in the other states are more generous. Minnesota is the most generous, with a filing threshold of $14,950 as of tax year 2025.

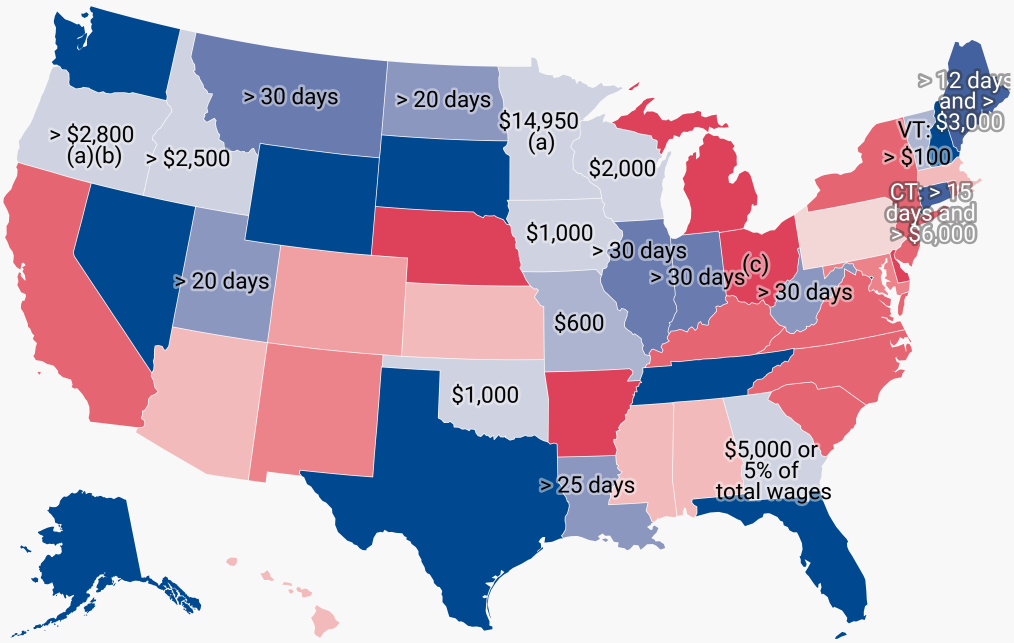
The thresholds in Georgia, Oregon, Idaho, and Wisconsin also provide meaningful relief, and the thresholds in Iowa and Oklahoma provide a modest amount of relief. Only in Oregon and Minnesota are these broadly applicable state-sourced income thresholds indexed to inflation, so most such safe harbors continue to lose their real value over time. In Georgia, nonresident filing is required if the nonresident earns $5,000 or 5 percent of their total wages in Georgia, whichever is less.

17 US Census Bureau, "Income in the United States: 2023," https://www.census.gov/data/tables/2024/demo/income-poverty/p60-282.html; US Census Bureau, "Real Median Personal Income in the United States," retrieved from FRED, Federal Reserve Bank of St. Louis, accessed Jan. 16, 2025, https://fred.stlouisfed.org/series/MEPAINUSA672N.

Figure 3.

Nearly Half the States Generally Require Nonresident Filing on Day One

Nonresident Individual Income Tax Filing Thresholds as of January 1, 2025



Nonresidents Must File When:

- They receive any state-sourced income
- They receive any state-sourced income and total income from all sources exceeds specified amount
- They receive any state-sourced income and are required to file a federal return
- Receive enough state-sourced income to incure state tax liability or are required to file a federal return
- State-sourced income exceeds prorated standard deduction/personal exemption/other similar amount
- They receive enough state-sourced income to incur state tax liability
- State-sourced income threshold is met
- State-sourced income threshold is met and required to file a federal return
- Day threshold is met (with mutuality requirement)
- Day threshold is met
- Day threshold and income threshold are both met
- Not applicable (no individual income tax or nonresidents not taxed)

Note: (a) Threshold amount adjusted annually for inflation. (b) Threshold amount varies by filing status; single filer amount is shown. (c) Nonresidents with Ohio source income must file unless Ohio AGI is less than or equal to $0, Ohio exemption amount equals or exceeds Ohio AGI, or sum of various specified credits equals or exceeds income tax liability. However, even taxpayers who meet these exceptions must file with the state if they have a local school district income tax liability.
Source: Tax Foundation research; state statutes, forms, and instructions.

States that provide relief—but only to certain filers—up until a day-based threshold is met are Louisiana, North Dakota, Utah, and West Virginia. Filing and payment relief under these states' day-based thresholds is available only to residents of states that do not levy an individual income tax or that offer a "substantially similar exclusion" under what is termed a mutuality requirement.[18] The implications of mutuality requirements are discussed further later in this paper.

: Only three states, Illinois, Indiana, and Montana, provide a day-based threshold without a mutuality requirement or without an accompanying income threshold. In all three states, nonresidents are required to file only after they have worked in the state for more than 30 days.

States that provide filing relief until both an income-based threshold and a day-based threshold are met are Connecticut and Maine. Connecticut requires nonresident filing only after the nonresident has worked in the state for more than 15 days and earned more than $6,000 in the state. In Maine, nonresident filing is required once the nonresident works in the state for more than 12 days and earns more than $3,000 in Maine.

Finally, in nine states and the District of Columbia, nonresident filing and withholding is not required either because the state does not levy an individual income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming) or because the tax does not apply to nonresidents (Washington and the District of Columbia). Specifically, Washington's capital gains tax applies to nonresidents in only rare circumstances, such as when they earn a profit on the sale of a taxable asset located in Washington. (Sales of real estate are not subject to Washington's capital gains tax.) Uniquely, the District of Columbia does not tax income earned within the District by nonresidents because federal law prohibits it from doing so.

Overview of States' Nonresident Individual Income Tax Withholding Thresholds

Like filing thresholds, states' nonresident individual income tax withholding thresholds vary substantially from state to state, although less variation exists among withholding thresholds than filing thresholds. Specifically, as discussed earlier and illustrated in Figure 3, even among the states that all generally require nonresident filing on day one, many categories of variations exist in how those requirements are structured. When it comes to withholding laws, however, when states generally require nonresident withholding on day one, those laws—despite imposing steep compliance burdens—are typically more straightforward to understand. Some states that otherwise require nonresident withholding on day one specify a few exceptions to that policy, but, for the most part, those laws are similar from state to state. Among states that have established withholding safe harbor thresholds, however, substantial variation exists from state to state in terms of which taxpayers qualify for withholding relief under those safe harbors and which do not.

Figure 4 shows states' withholding thresholds as of January 1, 2025. Currently, nine states have broadly applicable day-based thresholds specifying that, in most cases, employers need not withhold unless their

18 See Andrew Wilford, *The 2024 ROAM Index: How State Tax Codes Affect Remote and Mobile Workers*, National Taxpayers Union Foundation.

nonresident employee works for more than a specified number of days in the state. These day-based thresholds range from allowing nonresidents to work in the state for about half a month (in Connecticut, New Mexico, and New York) to about two months (in Arizona and Hawaii) before withholding is required.

Four additional states—Louisiana, North Dakota, Utah, and West Virginia—have day-based thresholds that apply only when an employer's nonresident employee resides in a state that either does not levy an individual income tax or offers a "substantially similar exclusion," or when the employee's income is exempt from taxation by the state under the US Constitution or federal statute. As such, for employers in all states whose employees perform short-term work in these "mutuality requirement" states, the employer's obligations vary from employee to employee. As previously mentioned, because a minority of US residents live in a state that meets either qualification, in practice, employers are often required to withhold when their employees work even a single day in any of these states.

Seven states use an income threshold, rather than a day threshold, to determine whether an employer must withhold on behalf of their nonresident employee working in the state. In Ohio and Oklahoma, the thresholds are so low that they offer little meaningful relief. Specifically, an individual earning the median US personal income ($42,220 in 2023) would exceed Ohio and Oklahoma's withholding thresholds on his or her third day working in the state. At the opposite end of the spectrum, South Carolina and Wisconsin's thresholds allow a median-earning employee to work roughly 17 days in the state before withholding obligations are triggered. However, because higher-earning employees exceed these thresholds more quickly than lower-earning employees, employers must pay close attention to how quickly any individual employee will be expected to reach any applicable income threshold.

Uniquely, Minnesota's withholding threshold is based not on the amount of *state*-sourced income a nonresident earns but on the amount of *total* income earned from that employer wherever that income is earned. If an employer expects to pay an employee $14,575 or more in income from *all* sources in a year, that employer must withhold from that employee on *any* taxable income earned in Minnesota. As such, Minnesota's withholding threshold is essentially irrelevant for full-time employees.

Finally, two states, Georgia and Maine, maintain both a day-based threshold and an income threshold. In Georgia, withholding is required if a nonresident employee works in the state for more than 23 days *or* earns more than $5,000 or more than 5 percent of their total income in Georgia. In Maine, withholding is generally only required on behalf of a nonresident who works in the state for more than 12 days *and* earns more than $3,000 from state sources. Georgia's law, which specifies three different ways withholding obligations can be triggered for an employee, is overly complicated and could benefit from simplification.

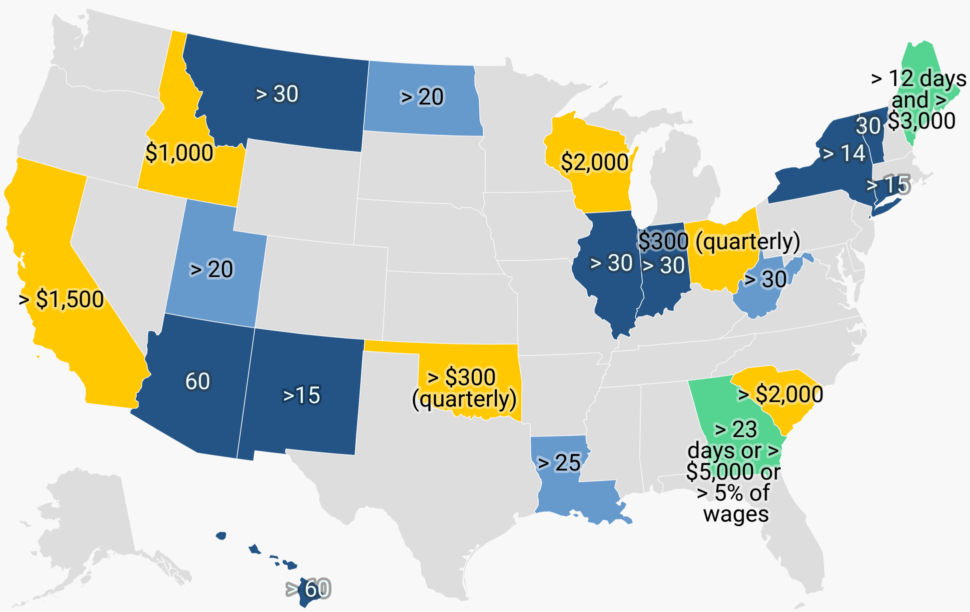
Figure 4.

Nearly Half the States Maintain Day- and/or Income-Based Withholding Thresholds

Nonresident Individual Income Tax Withholding Thresholds as of January 1, 2025

Threshold Type

Days | Days with Mutuality Requirement | Income | Days and/or Income



Note: In states with a mutuality requirement, day threshold applies only for employers when their nonresident employee lives in a state with no individual income tax or with a "substantially similar exclusion." Minnesota does not require employer withholding if the employer expects to pay the employee less than $14,950 in total income from all sources (as of 2025).
Source: State statutes, forms, and instructions; Tax Foundation research.

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While states' withholding thresholds may seem relatively straightforward at face value, the fine print found in state statutes makes compliance substantially more complicated. For example, many states that have a withholding threshold that provides relief in some or many situations claw back this relief in other situations, such as when a nonresident employee is a professional athlete, professional entertainer, public figure, or a "key employee" who earns above a certain amount of income (see Table 3). Additionally, many states—regardless of whether they have a withholding safe harbor—specify instances in which withholding is *not* required. The most common exception from withholding requirements is for nonresident disaster recovery workers performing qualified disaster recovery work during a declared disaster (see Table 4).

Table 3. In Some States, Employer Withholding Relief Is Revoked Based on Characteristics of the Employee

State	Withholding Threshold	Professional Athletes and Entertainers	Public Figures/ Public Speakers/ Compensated on Per-Event Basis	Key Employees	Construction Workers	Qualified Production Employees	Traveling Salespersons Compensated Based on Volume of Business Transacted
Arizona	60 days	Revoked					
Connecticut	> 15 days	Revoked					
Illinois	> 30 days	Revoked					
Montana	> 30 days	Revoked	Revoked	Revoked	Revoked	Revoked	
New York	> 14 days	Revoked	Revoked				Revoked
North Dakota	> 20 days (a)	Revoked	Revoked	Revoked	Revoked		
Utah	> 20 days (a)	Revoked	Revoked	Revoked	Revoked		

(a) State has a mutuality requirement.
Source: State statutes, forms, and instructions; Tax Foundation research.

Table 4. Numerous States Offer Special Withholding Relief to Employers of Certain Qualifying Nonresident Employees

State	Withholding Threshold	Disaster Recovery Workers	Interstate Common Carriers/Transportation Workers	Employees Expecting No Liability	Household Services	Agricultural Workers	Motion Picture Workers	Nonresident Military Servicemembers	Taxpayers of a Certain Age	Professional Conferences/ Job Training
Arizona	60 days	✓	✓		✓	✓	✓			
California	> $1,500			✓						
Colorado	None	✓	✓				✓	✓		
Connecticut	> 15 days		✓					✓		
Illinois	> 30 days	✓	✓					✓		
Iowa	None	✓					✓			
Maryland	None	✓								
Mississippi	None	✓								
Nebraska	None		✓							
New York	> 14 days								✓	✓
Ohio	$300 (quarterly)				✓	✓			✓	
Oklahoma	> $300 (quarterly)				✓	✓				
Oregon	None			✓						
Pennsylvania	None			✓						
Virginia	None									
West Virginia	> 30 days (a)									
Wisconsin	$2,000	✓								

Note: This table uses categorial generalizations; see state statutes, forms, and instructions for specific rules in each state.
(a) State has a mutuality requirement.
Source: State statutes, forms, and instructions; Tax Foundation research.

Shortcomings in States' Safe Harbor Policies

Thus far, this analysis has illuminated the complexity individuals and employers face in their attempts to comply with states' nonresident individual income tax filing and withholding laws. Namely, individual taxpayers who travel for work oftentimes face requirements to file and pay in numerous states besides their domiciliary state, but compliance is low both due to a lack of awareness about these laws and due to the costs of compliance oftentimes far exceeding the amount of tax liability actually owed to non-domiciliary states. Likewise, nonresident withholding laws—which oftentimes require employers to adjust each traveling employee's withholding in real time and submit all the associated paperwork—can be exceedingly tedious, especially for small and midsize employers with especially limited resources.

While numerous states have sought to reduce the burden for individuals and employers by establishing safe harbor filing and withholding thresholds, many of the solutions states have adopted to date are nonneutral, overly complex, or provide only minimal relief.

The next section of this analysis will highlight specific shortcomings in states' nonresident filing and withholding policies and suggest recommendations for improvement. Currently, major shortcomings in states' safe harbor policies include inconsistencies between filing and withholding thresholds within the same state, mutuality requirements that create complexity and limit the scope of relief, income-based thresholds that create unnecessary complexity, nonneutral "key employee" rules, and overly broad "jock taxes" that capture more than just the affluent—and extend well beyond athletes and entertainers themselves.

Inconsistencies Between States' Filing and Withholding Thresholds Create Unnecessary Complexity

One of the unnecessarily complicated aspects of states' nonresident income tax filing and withholding policies is that, in many states, the filing requirement employees face for their work in another state differs substantially from their employer's withholding requirement for that same business trip. For example, most individuals traveling to Arizona or Hawaii for business are required to file if they work even a single day in either state. However, employers are not required to withhold on behalf of such employees unless the employee spends a substantial amount of time—approximately two months—in either state. Other states that offer meaningful withholding relief to employers but are stingy in the filing relief they offer employees are California, New Mexico, New York, South Carolina, and Vermont.

However, nearly as many states take the opposite approach, offering more generous relief to individuals than to employers, including Idaho, Iowa, Minnesota, Missouri, Oklahoma, and Oregon. Meanwhile, some states retain only slight variations between their filing and withholding thresholds, including Connecticut and Georgia. Ohio offers a nearly meaningless employer withholding threshold while requiring filing by almost all nonresidents with Ohio source income. Table 5 shows the filing and withholding thresholds in the states whose filing and withholding thresholds do not match.

Table 5. Many States' Filing and Withholding Thresholds Do Not Match

Mismatched Nonresident Individual Income Tax Filing and Withholding Thresholds as of January 1, 2025

State	Filing Threshold	Withholding Threshold
Arizona	No meaningful threshold	60 days
California	No meaningful threshold	> $1,500
Connecticut	> 15 days and > $6,000	> 15 days
Georgia	> $5,000 or > 5% of total wages	> 23 days or > $5,000 or > 5% of total wages
Hawaii	No meaningful threshold	> 60 days
Idaho	> $2,500	$1,000
Iowa	$1,000	No meaningful threshold
Minnesota	$14,950 (MN sources) (a)	$14,950 (all sources)
Missouri	$600	No meaningful threshold
New Mexico	No meaningful threshold	> 15 days
New York	No meaningful threshold	> 14 days
Ohio	No meaningful threshold	$300 (quarterly)
Oklahoma	$1,000	> $300 (quarterly)
Oregon	> $2,800 (a)(b)	No meaningful threshold
South Carolina	No meaningful threshold	> $2,000
Vermont	> $100	30 days

(a) Threshold is adjusted annually for inflation; the 2025 amount is shown.
(b) Threshold varies by filing status; single filer amount is shown.
Source: State statutes, forms, and instructions; Tax Foundation research.

As states consider how to improve their tax treatment of a highly mobile workforce, states that offer a safe harbor threshold for either filing or withholding but not both should consider extending their threshold to both types of stakeholders. Furthermore, states with mismatched thresholds should consider amending their statutes to apply the more generous threshold to both filing and withholding to reduce the likelihood of confusion.

Mutuality Requirements Create Complexity and Limit Relief in a Nonneutral Manner

In Louisiana, North Dakota, Utah, and West Virginia, nonresident filing and withholding safe harbor thresholds apply only for nonresidents who reside in states that offer a "substantially similar exclusion" or do not levy an individual income tax. These four "mutuality requirement" states have determined that if their own residents would be subject to stringent filing and withholding laws when working in another state, they will likewise expose those individuals to stringent filing and withholding requirements when they travel to work in Louisiana, North Dakota, Utah, or West Virginia.[19]

19 Andrew Wilford, *The 2024 ROAM Index: How State Tax Codes Affect Remote and Mobile Workers*, 5.

Notably, however, none of these states provide public guidance as to how they define "substantially similar exclusion." As such, individuals and employers are left to use their own judgment, or to contact the state's revenue department, to determine whether any safe harbor offered in the individual's home state is "substantially similar" to the safe harbor offered in these mutuality requirement states.

The 30-day thresholds in Illinois, Indiana, and Montana, for instance, are clearly "substantially similar," and Georgia's relatively generous safe harbor would also presumably be deemed substantially similar even though its safe harbor has an income-based component. There is more room for uncertainty, however, about whether less generous dollar-based thresholds would qualify in states like Idaho, Iowa, Missouri, Oklahoma, Oregon, and Wisconsin. Furthermore, there is a lack of public guidance as to whether an individual hailing from a state with a filing or withholding threshold, but not both, would be eligible for both filing relief and withholding relief in a mutuality requirement state.

When taxpayers are left without guidance, in all but rare instances, they will take the path of least resistance and will not go out of their way to try to comply with unclear policies. For example, residents of states with low dollar thresholds—or with a filing or withholding threshold but not both—might choose to assume they qualify for filing and withholding relief in mutuality requirement states even without clear guidance from those states. Very few taxpayers would take the initiative to contact these states' revenue departments to confirm whether they truly qualify with a policy that they assume is difficult for those states to enforce in the first place.

Notably, relatively few Americans qualify for filing and withholding relief in mutuality requirement states. Currently, only about 23 percent of US residents live in states that forgo an individual income tax, and only about 16 percent of US residents live in states that offer a meaningful safe harbor for both filing and withholding. When all states that offer any kind of safe harbor are considered, even states like Ohio and Oklahoma that maintain withholding thresholds of only $300, only 49 percent of US residents live in a state that offers any form of day- or income-based filing or withholding safe harbor. As such, even under a very liberal definition of "substantially similar exemption," only about 72 percent of US residents hail from states that would make them eligible for the filing and withholding relief offered in mutuality requirement states.

Proponents argue mutuality requirements create an incentive for more states to adopt safe harbor thresholds of their own. In theory, individuals and employers ineligible for relief might complain to their elected officials and influence them to enact safe harbors in their own states so they would be more likely to enjoy relief when working in states with mutuality requirements. In practice, however, since nonresident filing compliance among individuals is already quite low, the contingent of nonresident individuals who file in these states—and who also take the initiative to contact their state elected officials about these matters—is so small as to be unlikely to have a sizeable or expeditious impact. Furthermore, since many employees now live in states other than the state in which their employer is located, employers in no-income-tax states and states that offer a "substantially similar exclusion" are, in many cases, still required to withhold nonresident income taxes on behalf of many of their employees who travel for work.

For example, if an Indianapolis-based employer sends two employees on a two-day business trip to Utah, the employer would not be required to withhold Utah income taxes on behalf of an employee who resides in Indiana but would be required to withhold on behalf of an employee who works remotely from Michigan, since Michigan does not offer a "substantially similar" safe harbor threshold. In this case, the Indiana-based employer is penalized by Utah with increased compliance burdens based on the policy decisions made by lawmakers in Michigan, not based on decisions made by the employer, the employee, or even the state in which the employer is located. Likewise, the Michigan resident is required to file a Utah nonresident tax return for his or her two days' worth of work in the state, while the Indiana resident is not required to file in Utah.

Many stakeholders agree the widespread adoption of filing and withholding thresholds is a desirable outcome, but the practical effects of mutuality requirements are nonneutral treatment of otherwise similarly situated taxpayers, unnecessary complexity, and the arbitrary application of rules to determine whether an employer must withhold for any individual employee. For example, employers know that, in most circumstances, they are no longer required to withhold for nonresident employees temporarily working in Indiana and Montana, but in Louisiana, North Dakota, Utah, and West Virginia, this must be determined on a case-by-case basis, creating unnecessary complexity. This complexity is likely to cause some individuals to think they are eligible for these states' day-based thresholds when they are not, reducing compliance among taxpayers who might otherwise try to comply.

As more states consider adopting new thresholds or making their existing thresholds more generous, instead of adopting nonneutral mutuality requirements that discriminate against individuals based on the policies in place in their own states, states should take the simpler and more neutral approach of adopting taxpayer-friendly safe harbor policies without strings attached. States that independently decide to do so will become increasingly attractive as destinations for conferences and other business travel.

Empirical evidence shows that states and cities with meaningful nonresident safe harbor policies, or no income tax at all, are more popular destinations for professional conferences, trainings, and meetings than jurisdictions with aggressive nonresident filing and withholding policies. Each year, Cvent Holding Corp., a company that provides software-as-a-service (SaaS) for meetings and events, publishes its "Top 50 Meeting Destinations in North America" list. The top four cities on Cvent's 2024 rankings list are Orlando, Florida; Las Vegas, Nevada; Nashville, Tennessee; and Dallas, Texas—all cities in states that do not levy an individual income tax at all.[20] While San Diego, California, comes in fifth in the rankings, ranking sixth through ninth are Chicago, Illinois; Atlanta, Georgia; Denver, Colorado; and Phoenix, Arizona—all cities in states with relatively low, flat individual income tax rates—followed by Austin, Texas, another city in a state that does not levy an individual income tax. Of all the states represented on the list of top 10 cities, Colorado is the only state that requires both nonresident filing and withholding on day one. Interestingly, three of the states represented on the top 10 list—Arizona and California—provide employer withholding relief even though they lack a filing safe harbor. (Arizona and Illinois offer generous withholding safe harbors that require employer withholding only when a nonresident employee works at least 60 or 31 days, respectively, in those states.) Eight of the nine states represented on the top 10 cities list all allow nonresidents to work in the state for at least three weeks before employers are required to withhold on their behalf. Furthermore, of the top 10 cities, only one—Denver, Colorado—levies any sort of city or county income tax on nonresidents.

20 Cvent, "Top 50 Meeting Destinations in North America," accessed Jan. 24, 2024, https://toplists.cvent.com/the-top-50-destinations-in-north-america/.

These cities are appealing conference destinations for many reasons, including the availability of large convention centers, popular entertainment and recreation opportunities, access to major airports, and—in some cases—desirable weather. While favorable nonresident income tax treatment alone is not enough to add otherwise obscure municipalities to the top 50 meeting destinations list, it is a factor that makes some destinations marginally more attractive than others. For example, if the leaders of a large company are planning a retreat or training week for hundreds or thousands of employees, there is an advantage to choosing a destination that avoids triggering complex tax withholding and filing obligations for the company and its employees. In most cases, the meeting destination will still receive plenty of sales and excise tax revenue from these out-of-state visitors, in addition to generating valuable economic activity that helps sustain the local workforce.

Income-Based Thresholds Are Inferior to Day-Based Thresholds

Another shortcoming among many states' current filing and withholding safe harbor policies is that many states use income-based thresholds to determine when filing and withholding are required. Income-based thresholds are more difficult to comply with than day-based thresholds, especially for employers, because employers must determine on a case-by-case basis how quickly any traveling employee will meet nonresident states' thresholds based on that employee's unique compensation. For employees who earn commissions or whose earnings otherwise fluctuate throughout any given year, this can be especially complicated to determine. Adding further complexity is the fact that different states maintain different definitions of taxable income, so income that is subject to nonresident income taxation in one state may not be subject to taxation in another.

Currently, several income-based safe harbors provide little meaningful relief and are not indexed to inflation, including Ohio and Oklahoma's $300 quarterly withholding thresholds and Vermont's $100 filing threshold. At the very least, states should consider raising these thresholds to a level that provides meaningful relief and indexing these thresholds to inflation, but converting these thresholds to more generous day-based thresholds is the best approach to better provide relief in a simpler and more neutral manner.

"Key Employee" Rules Are Nonneutral and Add Complexity

Three states—Montana, North Dakota, and Utah—offer day-based filing and withholding safe harbor policies but claw back relief for certain higher-income employees, referred to as "key employees." North Dakota and Utah conform to the federal definition of "key employee," which the Internal Revenue Code (IRC) defines, generally, as an officer of the employer—and one of the employer's 50 highest-paid employees—who either (1) earns more than $230,000 in annual compensation as of 2025 (adjusted for inflation), (2) owns more than 5 percent of the company, or (3) owns 1 percent of the company and has annual compensation exceeding $150,000.[21] Montana's definition of "key employee" instead captures individuals whose compensation from their employer exceeded $500,000 in the previous tax year.

21 26 U.S.C. § 416(i)(1)(A); Internal Revenue Service, "Notice 2024-80: 2025 Amounts Relating to Retirement Plans and IRAs, as Adjusted for Changes in Cost-of-Living," accessed Jan. 10, 2025, https://www.irs.gov/pub/irs-drop/n-24-80.pdf.

Key employee rules exclude certain individuals from compliance relief based on arbitrary income thresholds, adding unnecessary complexity to tax codes in the process. One valuable way state policymakers can simplify their tax codes is by identifying areas that contain numerous structurally unnecessary caveats and carveouts and finding ways to apply these policies more neutrally. Nonresident individual income tax policies are complex enough without key employee rules, so states that have them should consider repealing them, and states that do not have them should avoid adopting them.

"Jock Taxes" Are Too Broad and Often Capture Lower-Compensated Athletes, Entertainers, and Support Staff

States rarely expend resources tracking down average Americans to make them file and pay when they spend a few days working in the state, but many revenue departments aggressively ramp up enforcement when higher amounts of revenue are at stake. This is apparent not just in some states' key employee rules, but also in many states' rules regarding professional athletes and entertainers who travel among many states for games or performances.

Specifically, states that require nonresident filing and withholding on day one are more likely to enforce those laws for highly compensated public figures whose game or concert schedules are public than for private citizens whose temporary work in a state generates substantially less revenue and is not the subject of public attention. And states offering day-based filing and/or withholding safe harbors to average citizens tend to claw back that relief when a nonresident is a professional athlete or entertainer (see Table 3).

Unequal enforcement practices, as well as statutory clawbacks that affect a small minority of taxpayers, are examples of nonneutral tax policy that ideally ought to be avoided, but self-interested states are rarely willing to forgo the revenue they could otherwise claim from highly compensated stars. As a result, affected individuals are forced to expend significant resources each year in their efforts to comply with a highly complex nonresident state income tax landscape. This can involve filing dozens of nonresident income tax returns and paying substantial sums to any state in which the taxpayer earns income (with the exception of states that do not levy an individual income tax).

Making matters more complicated, states maintain standards and definitions for the allocation of professional athletes' income that differ from the standards and definitions governing traditional taxpayers' income. For example, states typically apportion professional athletes' and support staff members' income based on "duty days" in the state as a share of duty days in other states, and definitions of "duty days" differ from state to state.[22]

Since few states are willing to forgo this revenue by applying safe harbor policies neutrally to all individuals, state tax treatment of professional athletes' and entertainers' income is unlikely to change absent congressional action to establish uniform standards. Short of repealing their "jock taxes," states can, however, do more to enhance the simplicity and transparency of their states' policies and prevent them from applying too broadly.

22 Joel Busch, "Drawing the Line: Professional Athletes for State Tax Purposes," *Tax Notes State*, Jun. 3, 2024, https://www.taxnotes.com/special-reports/individual-income-taxation/drawing-line-professional-athletes-state-tax-purposes/2024/05/31/7k786.

An underacknowledged issue with states' "jock taxes" is that they often fall not just on highly compensated celebrities who can afford to hire sophisticated tax preparers, but also on lower-earning athletes and less-highly-compensated or lower-income support staff. For example, the minimum annual salary for a Minor League Baseball player was between $19,800 and $35,800 in 2024,[23] a far cry from the tens of millions brought in by star players in professional sports, who are among the primary targets of states' "jock tax" policies. Furthermore, these policies apply not just to athletes and their coaches, but often to anyone else who is paid to travel with the team, including athletic trainers and team managers, among others.

The same principle applies to professional entertainers: headlining performers are far from the only ones affected. Their band members, backup dancers, choreographers, producers, vocal coaches, stylists, security personnel, and merchandise salespeople are among those subject to exceedingly complicated nonresident income tax filing and payment obligations.[24]

As with professional athletes, an individual's status as a professional entertainer is not, by itself, an indicator of affluence. Many musicians spend years touring the country for a small amount of compensation while working other jobs to make ends meet, with far from any guarantee they will ever "make it big." Many so-called "starving artists" perform for the love of their craft, and while they may bring in modest earnings in the process, their income streams are anything but stable.

When states tax professional athletes, entertainers, public figures, key employees, and other selected groups more aggressively than other nonresidents, those policies are, by default, nonneutral. As such, amending these policies to make them more narrowly targeted may not meaningfully enhance neutrality but could meaningfully enhance simplicity by relieving compliance burdens for more traditional taxpayers who find themselves caught up in these laws. For example, one possible solution policymakers could consider would be to establish a day-based filing and withholding safe harbor while establishing more narrowly targeted parameters under which such relief is clawed back, such as only when a professional athlete or entertainer's income exceeds a certain level. Such a solution is far from perfect and echoes the "key employee" rule some states use to limit the applicability of their thresholds, but it is preferable to providing no relief whatsoever to those in affected industries, no matter how nominal their pay.

Local Income Taxes Too?

Adding further complexity to the nonresident income tax compliance landscape is the fact that, in many states, nonresidents are not only required to file statewide nonresident income tax returns, but also to pay local income taxes to the various cities and counties in which they perform even a limited amount of work.

As of 2023, 5,055 jurisdictions across 16 states imposed their own local income taxes.[25] In some states, local income taxes are levied only on residents, but in other states, local income taxes are levied on resi-

23 J.J. Cooper, "How Much Are Minor League Baseball Players Paid in 2024?," Baseball America, May 8, 2024, https://www.baseballamerica.com/stories/how-much-are-minor-league-baseball-players-paid-in-2024/.
24 EisnerAmper, "Concert Tours and Taxes (Taylor's Version)," Aug. 15, 2023, https://www.eisneramper.com/insights/blogs/tax-blog/taylor-swift-entertainers-tax-blog-0823/.
25 Jared Walczak, Janelle Fritts, and Maxwell James, *Local Income Taxes: A Primer*, Tax Foundation, Feb. 23, 2023, https://taxfoundation.org/research/all/state/local-income-taxes-2023/.

dents and nonresidents alike, albeit often at differing rates. In approximately 2,884 jurisdictions spanning 14 states, nonresidents are required to pay local income taxes. Similar to the statewide policies in place in many states, many localities technically require income tax payment when nonresidents perform any work or generate any local income tax liability in a given jurisdiction. As a result, in some states, a nonresident who spends a week traveling throughout a non-domiciliary state could generate local income tax liability in multiple local jurisdictions.

Table 6. Local Income Tax Treatment of Nonresidents Differs by State and Locality

Local Income Tax Treatment of Nonresidents by State (as of 2023)

State	Local Income Tax Jurisdictions	Nonresidents Subject to Local Income Taxes?	Nonresident Rate Matches Resident Rate?
Alabama	4	Yes	Yes
Colorado	5	Yes	Yes
Delaware	1	Yes	Yes
Indiana	92	Yes	Yes
Iowa	287	Sometimes (a)	Yes (a)
Kansas	482	No	n.a.
Kentucky	213	No	n.a.
Maryland	24	Yes	No
Michigan	23	Yes	No
Missouri	2	Yes	Yes
New Jersey	1	Yes	Yes
New York	4	Sometimes (b)	No (b)
Ohio	870	Yes (ordinary taxes); No (school district taxes)	Yes (ordinary taxes)
Oregon	4	Yes	Yes
Pennsylvania	3,041	Yes	No
West Virginia	4	Yes	Yes

(a) In Iowa, most local income taxes are school district taxes, which are paid only by residents. One county, Appanoose County, has an ordinary income tax that is levied at a uniform rate for residents and nonresidents.
(b) In New York, Yonkers is the only jurisdiction to impose its local income tax on nonresidents, and its rate varies based on a taxpayer's residency status.
Source: State agencies; local ordinances; Tax Foundation research.

Taxing nonresidents generates very little revenue for localities but creates prohibitively steep compliance burdens for nonresidents and their employers. Unlike state income tax filing, which is centralized and handled by each state's revenue department, local income taxes are sometimes decentralized, with each county or city having its own forms, filing instructions, and rates. As such, to comply, taxpayers must first determine whether a city or county levies a local income tax on nonresidents before determining how to file and remit the appropriate amount for each jurisdiction in which they have a filing obligation.

In many cases, popular tax filing software can accommodate only relatively basic scenarios in which individuals wish to file in non-domiciliary states and claim a credit against their home state liability. If taxpayers want to try to comply with nonresident local income tax laws, they are usually on their own. For individuals who hire paid tax preparers to help them file their income tax returns, the fees that would be necessary to make filing nonresident local income returns worth a tax preparer's time could easily be a hundred times higher than the amount of local income taxes owed. As a result, very few taxpayers try to comply with, or are even aware of, nonresident local income tax obligations.

Furthermore, while individuals can usually offset their nonresident state income tax liabilities by claiming a credit against their home state liability, these credits are claimed for taxes paid to other *state* governments, not to county or municipal governments. As a result, nonresident local income taxes not only generate significant compliance burdens, but they can also yield additional financial burdens as well. One exception to this sometimes occurs when taxpayers owe local income taxes to the city or county in which they reside or typically work in addition to local income taxes for work performed in other states. Sometimes, credits can be claimed against home state local income tax liability for local income taxes paid elsewhere, but this is not universal, since not all local income tax jurisdictions offer such credits.

Many localities keep nonresident local income tax requirements on the books even if they dedicate few, if any, resources to proactively enforcing these laws. Ultimately, keeping laws on the books that are unenforceable or are not enforced is bad tax policy, especially when those policies generate little revenue while generating steep compliance burdens for the few honest taxpayers who try to comply. In Iowa, Kansas, and Kentucky, which each have hundreds of local income tax jurisdictions, those taxes do not apply to nonresidents,[26] but in Ohio and Pennsylvania, which have hundreds and thousands of jurisdictions, respectively, many of those taxes do apply to nonresidents, creating a prohibitively complex nonresident state income tax landscape.

Ultimately, states that currently rely on local income taxes should consider replacing those taxes with revenue from simpler and less economically harmful taxes, like real property taxes and sales taxes. Short of local income tax elimination, however, states should consider amending their laws to specify that local income taxes can be levied only on residents. This would help make states, and the cities and counties within them, more attractive destinations for business tourism, promoting local and state economic growth while generating revenue in more efficient ways.

Compliance with Nonresident Income Tax Laws Is Low

Given the complexity at play in the state and local nonresident income tax landscape, it is no surprise that, among taxpayers who spend a limited amount of time working in a state besides their home state, compliance with nonresident income tax laws is quite low. While ignorance about these policies has never been a valid excuse for a lack of compliance, ignorance persists due to both a lack of widespread enforcement and the sheer complexity that makes compliance challenging for average taxpayers and paid tax preparers alike.

26 Appanoose County, Iowa, does apply its local income tax to nonresidents. All other local income taxes in Iowa are levied by school districts and apply only to residents.

Even among those who are aware of these laws, many individuals have little incentive to spend $60 or $70 per state to use tax filing software to file nonresident income tax returns in states they owe a fraction of that amount of tax liability to, especially knowing their total tax liability will frequently remain unchanged due to credits for taxes paid to other states, and anticipating that states have little expectation of compliance. Many state revenue departments seem unconcerned about enforcing nonresident income tax policies unless significant revenue is at stake, such as when an individual is a high-income earner or has spent several months working in the state. States have little value to gain from expending limited resources processing no- or low-dollar nonresident income tax returns, especially when it can easily cost more for the state to process such returns than the states receive in revenue from them. When states' aggressive nonresident income tax policies continuously make scofflaws out of otherwise honest taxpayers, there is a strong argument to be made that the underlying policies ought to change.

Attempts at a Federal Standard

In addition to the Multi-State Worker Tax Fairness Act described earlier, which would invalidate states' convenience rules, a separate, broader bill has been repeatedly introduced in Congress that would establish a uniform, nationwide 30-day filing and withholding safe harbor.

This bill, the Mobile Workforce State Income Tax Simplification Act, has been introduced in various forms in every session of Congress since 2006.[27] It has passed the US House of Representatives on three occasions, including as recently as 2017, but it has not received a vote in the US Senate.

This bill would establish a uniform threshold whereby nonresident state income tax filing and withholding would not be required when nonresidents work in a state besides their domiciliary state for 30 days or fewer. This safe harbor would provide protection to nonresidents in most short-term work travel scenarios but would not apply to professional athletes, professional entertainers, qualified production employees, or certain public figures.

A uniform national standard such as this would greatly simplify nonresident state income taxation in the United States, eliminating the vast majority of the complexity that has been described in this paper. A nationwide 30-day safe harbor would allow individuals to move much more freely among states—for reasonable, limited periods of time—before triggering additional income tax filing obligations for themselves and withholding obligations for their employers. Again, it is important to remember that highly mobile workers would still pay income taxes on all their taxable wage and salary income to their home state, but they would simply no longer have to worry about allocating small shares of their income tax liability to other states and then offsetting those payments with credits claimed against their home state liability.

While Congress has historically been hesitant to establish uniform national standards governing matters of state tax policy, there is an argument to be made that the benefits to taxpayers and employers would far exceed the costs to states in losing their authority over this matter. It is important to keep in mind that, under the current patchwork of state nonresident income tax policies, all states that tax wage and sal-

27 Stephen P. Kranz and Eric Carstens, "Breaking News: House Passes Mobile Workforce State Income Tax Simplification Act," *The National Law Review*, Sep. 22, 2016, https://natlawreview.com/article/breaking-news-house-passes-mobile-workforce-state-income-tax-simplification-act.

ary income gain some revenue from nonresidents who make payments to their state, but they also lose revenue when their own state's residents claim credits for taxes paid to other states. The amount gained or lost on net varies from state to state, but the compliance costs for taxpayers and employers are steep. In many cases, the cost to taxpayers of filing nonresident returns in all the states they are technically required to file in far exceeds the amount of taxes actually owed to those other states, which is why compliance with these laws is low for those who conduct only limited worked in other states.

Recent State Reforms

Many of the states with day-based thresholds enacted them only recently, within the past five years. Table 7 shows the six states that have adopted major reforms to their individual income tax treatment of nonresidents since 2020.

Table 7. Six States Have Adopted Major Nonresident Income Tax Reforms Since 2020

State	Threshold Type	Filing Threshold?	Withholding Threshold?	Mutuality Requirement?	Took Effect
Illinois	> 30 days	✓	✓		2020
Louisiana	> 25 days	✓	✓	✓	2022
West Virginia	> 30 days	✓	✓	✓	2022
Utah	> 20 days	✓	✓	✓	2023
Indiana	> 30 days	✓	✓		2024
Montana	> 30 days	✓	✓		2024

Source: State statutes, forms, and instructions; Tax Foundation research.

Moving forward, more states would do well to adopt similar reforms but should consider refraining from adopting mutuality requirement provisions.

Recommended Reforms

Absent congressional action to establish uniform standards at the federal level, more states should consider adopting state-level reforms that reduce complexity and compliance costs for individuals and employers and streamline administrative and enforcement costs for the state. For policymakers wishing to improve their state's tax treatment of mobile, remote, and hybrid work, the following list of reform recommendations can serve as a guide:

1) Establish a day-based filing and withholding safe harbor threshold
    a. Consider adopting a 30-day threshold, which many agree strikes an appropriate balance between reducing compliance burdens and allocating revenue to states in which substantial nonresident work is performed
    b. To enhance simplicity, ensure filing and withholding thresholds match
    c. Consider converting income-based thresholds to simpler, more neutral day-based thresholds
2) To promote neutrality, safe harbor thresholds should apply broadly to the vast majority of nonresidents
    a. Avoid mutuality agreements
    b. Avoid key employee rules
    c. Avoid jock taxes or ensure they are sufficiently narrowly targeted
3) Adopt reciprocity agreements with neighboring states
4) Avoid adopting (or repeal existing) convenience rules
5) Avoid local income taxes altogether or avoid applying them to nonresidents

If most states proactively adopted the aforementioned reforms, the state income tax landscape would become substantially less burdensome for America's increasingly mobile workforce comprised of many individuals who regularly or even occasionally work in states besides their state of residence.

Conclusion

Most states' nonresident individual income tax policies are exceedingly—and unnecessarily—burdensome and complex, generating great frustration among individuals and employers and affecting compliance levels. In recent years, a handful of states have adopted meaningful reforms to provide filing and withholding relief when nonresidents perform limited work outside their home state, but until most other states follow suit, the nonresident income tax landscape will remain burdensome. In the months and years ahead, state policymakers should seize the opportunity to make their tax codes simpler, more neutral, and more competitive by adopting reasonable day-based filing and withholding safe harbors, reciprocity agreements, and other reforms that foster greater flexibility in our highly mobile economy.

Errata: An earlier version of this paper described Illinois' 30-day filing and withholding threshold as being a withholding threshold only. It has been corrected.