STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

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INDIVIDUAL INCOME TAX – RECIPROCAL AGREEMENTS

(Replaces Revenue Administrative Bulletin 1988-17)

RAB 2017-13. This Revenue Administrative Bulletin (RAB) replaces RAB 1988-17 and describes reciprocal agreements as they pertain to Parts 1 and 3 of the Michigan Income Tax Act and nonresident taxpayers.

ISSUES

I. What is a reciprocal agreement?

II. Michigan currently has reciprocal agreements with which states?

III. What requirements are placed on Michigan **employers** with nonresident, reciprocal employees?

IV. What requirements are placed on **employees** from Michigan working in a reciprocal state?

V. How are taxes withheld in error and remitted to the State of Michigan from nonresident workers refunded?

CONCLUSIONS

I. What is a Reciprocal Agreement?

Individuals who are employed outside of their state of domicile may be subject to the income tax laws of two states; that is, the state of domicile and the state in which they are employed. To prevent income from being subject to tax by more than one state, states can voluntarily enter into reciprocal agreements.

Under MCL 206.256, if the laws of an individual's state of residence other than Michigan exempt a Michigan resident from liability for the payment of income taxes on income earned for personal services performed in that state, the Michigan Department of Treasury (Department) may enter into a reciprocal agreement with that state to provide a similar tax exemption for that state's residents on income earned for personal services performed in Michigan.

Under the general terms of each reciprocal agreement, a Michigan resident will be, in effect, exempt from any income tax imposed by a reciprocal state on compensation (salaries, wages and commissions) earned for personal services performed in the reciprocal state. Similarly, a resident of a reciprocal state who earns compensation for services performed in Michigan will be, in effect, exempt from Michigan income tax. The resident of a reciprocal state need not file a Michigan income tax return if he or she has no income subject to tax in Michigan.

II. Current Reciprocal Agreements

Pursuant to MCL 206.256, Michigan has entered into reciprocal agreements with each of the following states:

State:	Effective date:
Wisconsin	October 1, 1967
Indiana	January 1, 1968
Kentucky	January 1, 1968
Illinois	January 1, 1971
Ohio	January 1, 1972
Minnesota	January 1, 1984

Reciprocal agreements do not apply to independent contractors, local taxes, or income other than compensation.

III. Requirements Placed on Michigan Employers

Employers located in Michigan must withhold income tax from all compensation paid to nonresident employees for work done in Michigan, unless subject to a reciprocal agreement. Michigan does not furnish non-residency certificates. An employer may develop a form on its own or obtain the required information from the nonresident employee by way of a letter. The form or letter must contain the employee's name, legal address, and Social Security number. It must also include a signed and dated statement that the address provided is the employee's legal address. The employer must keep the form as its authority to not withhold Michigan income tax.

IV. Requirements Placed on Michigan Employees Working Outside of Michigan

A Michigan resident working in a reciprocal state may ask his or her employer to voluntarily withhold Michigan income tax on compensation. Although the employer is not required to do so, an employer may voluntarily register with the Department to withhold Michigan income taxes for the Michigan residents working in its state.

A Michigan resident whose reciprocal state employer does not withhold income taxes from his or her compensation must pay quarterly estimates of tax if the taxpayer expects his or her annual tax liability will exceed $500.[1]

V. Taxes Withheld in Error and Remitted to Michigan from Nonresident Workers

A nonresident worker from a reciprocal state whose Michigan employer has erroneously withheld and remitted income taxes on compensation exempt under a reciprocal agreement may file a return in Michigan to claim a refund of the taxes erroneously withheld and remitted, but must do so within the statute of limitations set forth in MCL 205.27a.

[1] MCL 206.301.