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Reciprocity Agreement with New Jersey Comes to an End

STATE AND LOCAL TAX, TRANSPORTATION & LOGISTICS
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Effective January 1, 2017, residents of New Jersey and Pennsylvania who live in one state, but work in the other, will no longer be afforded the convenience of having their wages taxed only in their state of residence, because the governor of New Jersey ended the Reciprocal Personal Income Tax Agreement (Agreement) between the states, which had been in place for nearly forty years.

Under the old Agreement, New Jersey and Pennsylvania agreed to not tax the compensation of individuals who traveled into the other state for work, and as a matter of convenience, employers would withhold income taxes based on the employees' state of residence. Also, the residents who commuted between the states for work were relieved from having to file income tax returns in their nonresident state, provided their only source of income from the other state was in the form of compensation.

With the Agreement no longer in place, both employers and commuters will be faced with additional compliance burdens. Employers will now be required to withhold state income taxes based on where the employees work, as opposed to where they live. The commuters will now be required to file income tax returns in both the state in which they work, and the state in which they reside. Pennsylvania residents will receive a credit for taxes paid on the compensation that was earned in New Jersey, so while the income will not be taxed in both states, Pennsylvanians could be subject to an additional 5.9 percent tax on their wages because New Jersey's top tax rate is 8.97 percent.

The Pennsylvania Department of Revenue estimates that nearly 125,000 Pennsylvanians will be required to file personal income tax returns in both states, and that the Commonwealth could lose \$5 million in revenue as a result of the change.

If you are an employer, or commuter, that will be affected by this change, [please contact a member of our State and Local Tax Group](#).

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Update: Please note that on November 22, 2016, New Jersey Governor Chris Christie announced that the Agreement will continue. Taxpayers should continue following the existing withholding rules.

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