

## WHERE WILL YOU BE TAXED?

The Super Bowl is one of most watched sporting events in America. As athletes train and prepare for the big game, their tax advisors also prepare for potential double taxation of state income tax as they earn income for work outside their resident states. Are they prepared to face the unwanted tax surprise?

The NFL season came down to two teams this year, the Tampa Bay Buccaneers and the Kansas City Chiefs, with the Bucs taking home the Lombardi Trophy. Bonuses could be earned, however; since it's earned in a different state, each athlete will need to be cognizant of potential double taxation. The good news is that the game was played in Florida, which has no state tax.

Double taxation is a dilemma now passed down to many workers due to the current pandemic. How does state taxation work if I reside in one state but my employer is in another?

Each state has rules on personal income-tax filing depending on how long an individual works in a nonresident state. State income-tax requirements range from “very friendly” to “very unfriendly,” with a handful of states having no state income taxes. This [link](#) provides a breakdown of the 50 states and their withholding requirements based on days worked in that state. What does this mean for those employees who have been forced to work remotely due to the pandemic?

Most employees reside in the same state as the company where they work. This means they file their personal income taxes for their resident state, and employers withhold state taxes based on their state of residence.

Those who live in a different state from where the company is domiciled or what some consider as their employment “home base” may owe in one or both states, often with a home-state offset. This is typical for someone who lives close to a state line and works in an office across the border.

Additionally, some states have adopted the “[convenience of the employer rule](#)” as temporary relief; however, be sure to discuss with a CPA or tax professional to determine qualifications.

Here are a couple things to consider while working from home:

- If you work in the United States, regardless of location of employee and/or employer, your federal taxes do not change.
- As a result of the pandemic work-from-home order, if your employer is now across state lines, work with your CPA or tax professional to determine if your resident state and employer state have reciprocity rules.
- If there are no reciprocity agreements between the states, talk with your CPA or tax professional regarding the state tax credits for nonreciprocity states.
  - Different states have different tax rates, so credits may not completely offset.
- Consider adjusting your state income-tax withholding.

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The pandemic has altered the calculation, as workers might work-from-home permanently, yet still be obligated to employer state taxation based on their former office being located in a state different from where they live. Previously, telecommuting or work-from-home privileges were a way to retain or recruit employees and was an innovative strategy for companies. Now, the landscape of being able to continue business has made working from home a standard practice in order to survive. This, however, comes with drawbacks as many employees are unaware of the potential tax surprise they face because of the work-from-home taxation rules. Simply put, if you're earning

money in a state where you're not a resident, you could be required to file a tax return for that state and pay taxes.

Athletes and others who travel for work had no significant change as it relates to business and earning income when the pandemic hit. For a lot of us, however, it changed our normalcy. In early 2020, employees were concerned about setting up a home office and worrying about living resources such as toilet paper. Now, in early 2021, it's time for tax planning for a challenging year and moving forward by understanding tax consequences of working from home.

## [Additional Resources and Links](#)

### [Tax Management](#)

[Teleworking Employees Face Double Taxation Due to Aggressive "Convenience Rule" Policies in Seven States](#)

[Retirement Planning Strategies for Growth, Income, and Wealth Transfer](#)

[AICPA/Harris Poll Reveals Many Taxpayers Unaware of State Tax Liabilities Related to Working Remotely](#)

[Problem: A patchwork of complicated nonresident income tax laws](#)

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