

WHAT'S NEW?

In September 2016, the governor of New Jersey ended a tax reciprocal agreement with Pennsylvania effective Jan. 1, 2017.

The nearly 40-year-old agreement allowed commuters to pay income tax to the state where they live, rather than the state where they work.

Ending the agreement impacts nearly 250,000 workers and thousands of employers in PA and NJ.

In 2018, individuals must file income tax returns in both states. PA residents will get a credit for income tax paid to NJ on wages earned there. NJ will do the same.

PA has a flat tax rate of 3.07 percent. The NJ tax rate increases by income level.

WHEN IS THE CHANGE EFFECTIVE?

The change takes effect Jan. 1, 2017. Impacted workers will file two tax returns in 2018 for wages earned in 2017.

DOES THIS IMPACT THE TAX RETURN I FILE IN 2017?

No. However, certain taxpayers will file quarterly estimated payments for 2017 wages (see below).

PENNSYLVANIA WORKERS

HOW DOES THIS AFFECT PA RESIDENTS WORKING IN NJ?

Starting in 2018, PA residents working in NJ will file a NJ income tax return then file a [PA Income Tax Return](#) (PA-40). They will get a credit toward their PA income tax obligation for income tax paid to NJ. This is called a resident credit.

To get the credit, complete a [PA Schedule G-L, Resident Credit for Taxes Paid to Other States](#) and include a copy of the NJ return when filing with PA. The credit is the lesser of tax paid to NJ or the income subject to tax in both states times 3.07%.

Certain workers will make quarterly payments (see below).

DO I INFORM MY EMPLOYER IF THIS IMPACTS ME?

We recommend telling your employer if the change affects you. There may be forms to complete so the proper taxes are withheld and remitted on your behalf. Check your pay statements to ensure the tax is withheld for the state where you work.

WHO MUST MAKE ESTIMATED PAYMENTS STARTING IN 2017?

If you are a PA resident working in NJ and your employer doesn't withhold PA tax, you may need to make [estimated tax payments](#) to the PA Department of Revenue to avoid the estimated underpayment penalty.

Exceptions include:

- Your employer withholds PA tax;
- Your employer doesn't withhold PA tax, but you plan to take the resident credit for taxes paid in NJ;
- You qualify for a Tax Forgiveness credit;
- Your total other income is less than \$8,000.

If you are a NJ resident working in PA and your employer is not withholding NJ tax, you will need to contact the [New Jersey Division of Taxation](#) for its rules and regulations.

WILL I BE CHARGED A PENALTY SINCE I DIDN'T MAKE ESTIMATED PAYMENTS IN 2016?

No. This impacts wages earned starting Jan. 1, 2017.

I'M A PA RESIDENT WORKING IN BOTH PA AND NJ FOR THE SAME EMPLOYER. WHAT DOES IT MEAN TO ME?

Starting in 2017, if your employer meets the requirements to withhold income tax for both states, your employer will need to withhold taxes on the amount of compensation earned in both states.

However, you should calculate the number of days you work in PA and NJ and only pay income tax to NJ for the days you worked in that state. You should also claim a credit for taxes paid to NJ on PA Schedule G-L on your PA tax return.

If your employer only meets the requirements for withholding NJ taxes, your employer will only be required to withhold NJ income tax.

NEW JERSEY WORKERS

I'M A NJ RESIDENT WORKING IN PA, HOW DO I FILE MY TAXES?

Starting in 2018 you will file both a PA and NJ tax return. Indicate on your PA return (PA-40) that you are a nonresident. Report wages earned in PA and PA withholdings. The PA personal income tax rate is 3.07 percent. Next, complete the resident NJ return.

EMPLOYERS

I HAVE A BUSINESS IN PA, AND EMPLOY NJ RESIDENT(S). WHAT DOES IT MEAN FOR ME?

Starting in 2017, you will need to withhold PA taxes for your employees that reside in NJ.

Since PA and NJ have different tax rates, your employee may ask you to voluntarily withhold and remit NJ taxes, so they don't have to make estimated quarterly payments.

I OWN A BUSINESS IN NJ, AND I EMPLOY PA RESIDENT(S). WHAT DOES IT MEAN FOR ME?

For 2017, please consult NJ's instructions for withholding requirements. However, since PA and NJ have different tax rates, your employee may ask you to withhold and remit PA taxes, so they don't have to make estimated payments.

I OWN A BUSINESS AND EMPLOY WORKERS IN BOTH STATES. WHAT DOES IT MEAN FOR ME?

Starting in 2017, if your business meets the requirements to withhold income tax for both states, you will need to calculate the earnings and tax withholding on the amount of compensation earned by any employee that works in both states.