TAXES FOR THE MASSES

TAX NERDERY ON THE REGULAR

Episode 18 – On Working from Home – Where You Pay Tax

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the tax ramifications to employees and potentially to their employers of working from home when the employee resides or works from a location that is outside of their employer's state of operations.

Concepts covered

- Cross-jurisdictional taxes: State income sourcing rules for individuals
- "Convenience-of-the-employer" income tax withholding rules
- Economic nexus and residency

Multiple choice and True/False questions

1. Which of the following best describes states' approaches to taxing individuals' salaries and wages? Select all that apply.
    a. An individual's resident state usually claims the right to tax only the share of income earned in that state
    b. An individual's resident state usually claims the right to tax all of its residents' income regardless of where it is earned
    c. Non-resident states usually claim the right to tax individuals based on the time spent working in that state or the amount of income earned in that state
    d. Non-resident states usually do not claim the right to tax individuals on any income earned in their state

2. Assume you live in Kansas where the individual income tax rate is 3%. You work 30% of the time in Kansas and 70% of the time in Missouri where the income tax rate is 5%. Assuming your taxable income is $60,000 and taking credits for taxes paid to other states into consideration, how much tax will you owe to Kansas?
    a. $0
    b. $300
    c. $540
    d. $1,800

3. Which of the following is true about "convenience-of-the-employer" rules?

a. It prohibits employers from having employees who work out of state
b. It allows employers the flexibility to decide whether to report out-of-state employees' wages to their resident state or to the state where the company is headquartered.
c. It was ruled unconstitutional by the U.S. Supreme Court in 2020.
d. It allows employers to report out-of-state employees' wages to the state where their office is located regardless of where the employees reside or perform their work.

4. Assume you live in New Hampshire where there is no individual income tax on wages, but your employers' office is in Massachusetts where the individual income tax rate is 5%. You worked from home 100% of the time during 2020 and earned $60,000 during the year. How much additional tax would you owe if Massachusetts has a convenience of the employer rule versus if it only taxed individuals on income earned while physically working in Massachusetts?
   a. $0 – tax credits would eliminate any double taxation
   b. $1,200
   c. $1,800
   d. $3,000

5. According to the podcast, which of the following is true about the concept of residency?
   a. Your state of residence is the state where you live the majority of the year.
   b. Your state of residence is the state where you are registered to vote.
   c. Your state of residence is the state where you have the closest economic connection.
   d. Your state of residence is the state where you receive your mail.

6. True or False – you can be considered a part-time resident of a state if you had an economic connection there during some part of the year.
   a. True
   b. False

7. True or False – the concept of nexus is similar to the concept of residency. It determines whether a business has a sufficient economic connection to a state.
   a. True
   b. False

8. Which of the follow is/are true regarding nexus? Select all that apply.
   a. A business with nexus in a state is required to pay tax on income earned within the state.
   b. A business with nexus in a state could be required to remit sales tax on transactions with customers in that state.
   c. A business with nexus in a state can choose whether to collect withholding tax on individuals who work outside of the state.

d. Having employees physically work in a state can create nexus for businesses in the state.

<u>Short answer/essay or in-class discussion questions</u>

1. Choose any U.S. state and use the internet to look up its rules related to taxing non-resident individuals on income earned within the state. Summarize these rules. For example, is there an income threshold?

2. Choose any U.S. state. Based on the discussion in the podcast, develop a prediction about whether or not that state might have a “convenience-of-the-employer” rule. Using the internet as a resource, see if your prediction was correct. Has the state made any changes to the rule since COVID?

3. In your own words, explain the concept of double taxation and how state credits for income taxes paid to other states mitigate double taxation.

4. The podcast explains how working out of state in a lower tax state can result in some degree of double taxation. Assume an induvial earns $50,000 for the year. 20% of the time they work in Kansas (their resident state) where the individual tax rate is 5% and the other 80% of the time they work in Missouri (non-resident state) where the individual tax rate is 3%. Explain what the podcasters mean when they say the individual is paying a higher rate on some income than they should be.