

Indiana Tax and Withholding Requirements for Nonresident Employees

This memorandum is for informational purposes only. It is not intended to provide legal or accounting services or advice and should not be relied upon for such purposes. You should consult your own accountant or lawyer for such services or advice.

The withholding of income taxes is required for all nonresidents employed in Indiana, except for legal residents of states complying with Indiana's reciprocity statute.

Indiana has established reciprocity agreements with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin concerning the collection of income tax from nonresidents employed in Indiana. These agreements provide that Indiana will not impose adjusted gross income tax on the salaries, wages, tips and commissions earned by the legal residents of states with reciprocity who work in Indiana. For residents of these states, income tax is imposed on salaries and wages earned in Indiana by that person's state of residence.

Because of reciprocity agreements, and under Indiana law, Indiana employers are not required to withhold Indiana adjusted gross income tax from qualified nonresidents. A qualified nonresident employee who works in Indiana should submit a properly completed Form WH-47, Certificate of Residence, to the employee's employer. This certificate is an affidavit showing the employee's legal state of residence and provides proof to the employer that withholding of Indiana adjusted gross income tax is not required. Indiana University is not allowed to grant the exception from withholding without a properly executed Form WH-47 on file.

Indiana reciprocity agreements do not exempt non-resident employees from local option income taxes imposed by certain Indiana counties. There are three types of local option income taxes, the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT). Indiana University must withhold any local option income taxes imposed by the county in which the employee works.

Form WH-47 may be downloaded from the Indiana Department of Revenue website: <http://www.state.in.us/dor/taxforms/pdfs/wh47.pdf> . Detailed withholding information from the Department, including procedures for non-residents employed in Indiana, can be downloaded at: <http://www.in.gov/dor/taxforms/pdfs/wh-13.pdf>

Estimated Tax Payments

Salaries and wages earned in Indiana by residents of reciprocal agreement states are subject to tax by the individual's state of residence. Individuals who can reasonably expect to have income from which income tax is not withheld may be required to make estimated tax payments to their state of residence. Individuals should check with their state department of revenue for additional information regarding estimated income tax requirements.

Income Tax Returns

Individuals residing in reciprocal agreement states whose *only* income from Indiana was from salaries, wages, tips or commissions must file Indiana Form IT-40RNR, Reciprocal Nonresident Indiana Individual Income Tax Return. Residents of reciprocal agreement states with other types of income from Indiana, such as farm income or rental income, must file Indiana Form IT-40PNR, Indiana Income Tax Return for Part-Year Indiana Residents and Full-Year Indiana Non-Residents. Individuals should obtain information from their state department of revenue for additional filing requirements, including their resident state individual income tax returns.

Residents of non-reciprocal agreement states with income from Indiana must file Indiana Form IT-40PNR, Indiana Income Tax Return for Part-Year Indiana Residents and Full-Year Indiana Non-Residents. Individuals should obtain information from their state department of revenue for additional filing requirements, including their resident state individual income tax returns. In some cases, the individual may be able to claim credit for taxes withheld and paid to Indiana on the income tax return of their resident state.

Prepared by: Financial Management Services, April 2005