

Income Tax Fact Sheet 4, Reciprocity

Minnesota has income tax reciprocity agreements with Michigan and North Dakota. For people who live in one of these states and work in Minnesota, the agreements may simplify tax filing by letting them file a return only in their home state instead of in both states.

Reciprocity prevents both states from taxing the same “personal service income” (wages and other job-related income). Generally, only your home state will tax the job-related income you receive from an employer in a reciprocity state.

To qualify for reciprocity, all of the following conditions must apply for the year:

- You reside in Minnesota and work in Michigan or North Dakota, or you reside in Michigan or North Dakota and work in Minnesota
- You received personal service income from the reciprocity state
- You returned to your home state at least once a month

Personal Service Income

Reciprocity applies only to personal service income, which includes:

- Wages
- Salaries
- Tips
- Commissions
- Fees
- Bonuses

If you're a Minnesota resident who received only personal service income from Michigan or North Dakota, you are not required to file an income tax return with that state. If you're a resident of Michigan or North Dakota who received only personal service income from Minnesota, you are not required to file a Minnesota return.

Example: You're a resident of Minnesota who commutes daily to your job in North Dakota. Because wage income qualifies under reciprocity, you do not have to file a North Dakota income tax return. Instead, you'll report the North Dakota wages on your Minnesota income tax return and pay tax on those wages only to Minnesota.

Other Types of Income

Other types of taxable income do not qualify for reciprocity. Depending on the source, this income may be taxed by your home state, the state it came from, or both.

For Minnesota Residents

Minnesota residents who meet the state's minimum filing requirement (\$12,200 for 2019) must file a Minnesota return and pay tax on all taxable income, regardless of where it came from. You can file a return electronically or use Form M1, *Individual Income Tax*.

If you paid tax to both Minnesota and to another state on the same income – except personal service income – you may qualify for a credit when you file your Minnesota return. For more information, see Schedule M1CR, *Credit for Income Tax Paid to Another State*.

Example: You're a Minnesota resident and sold your cabin in North Dakota. The capital gain (profit) does not qualify for reciprocity and will be taxed by both states. However, you may claim a credit on your Minnesota return for the tax paid to North Dakota. To determine the credit, complete a North Dakota income tax return. Then, complete a Minnesota return using Form M1 and Schedule M1CR.

For Michigan and North Dakota Residents

Income Assignable to Minnesota

Certain types of income from Minnesota sources may be taxed by both Minnesota and your home state. These include:

- Rents and royalties from property located in Minnesota
- Capital gains (profits) from the sale of land or other *tangible* property located in Minnesota (such as buildings, machinery, etc.)
- Gross winnings from gambling in Minnesota
- S corporation income, other than wages, from Minnesota sources
- Business income from the sale of goods in Minnesota

If your Minnesota income – not including personal service income – meets the state's minimum filing requirement, you must file a Minnesota return as a nonresident. You can file electronically or use Form M1 and Schedule M1NR, *Nonresidents/Part-Year Residents*.

For details about your Minnesota tax responsibilities, see Fact Sheet 3, *Nonresidents*.

Example: You're a Michigan resident who earned wages for working in Minnesota and a profit from selling your cabin in Minnesota. Your wages qualify for reciprocity and are taxed only by Michigan; however, the profit from selling your cabin does not qualify for reciprocity and is taxed by Minnesota.

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Income Assignable to Your Home State

Certain types of income from Minnesota are taxed only by your home state and not by Minnesota. These include:

- Interest and dividends
- Unemployment compensation
- Qualified pensions
- Capital gains from the sale of intangible property, such as stocks

Business Income

Most types of business income generated in Minnesota do not qualify for reciprocity and are taxed by Minnesota even if you're a resident of Michigan or North Dakota. This is true whether you own the business as a sole proprietor, limited liability company (LLC), or as a partner in a partnership.

In some cases, income from professional services you personally provide may qualify for reciprocity. For details, see "If you sell services," below.

If You Sell Products

If you own a business that sells products in Minnesota, the state will tax the income earned from those sales no matter where you reside.

If you reside in another state and operate as a sole proprietor or single-member LLC, you will use an "apportionment formula" to calculate how much of your business income is taxable by Minnesota. This formula, also used by corporations, is based on the Minnesota percentage of your total sales. For details, see Schedule M4A of Form M4, *Corporation Franchise Tax Return*.

If You Sell Services

If you own a business that sells services in Minnesota, some of your business income may qualify for reciprocity, as outlined below:

- Only compensation for professional service you personally provide may qualify
- That compensation does not qualify if business income generated by your employees or from the sale of goods is more than an incidental (minor) contribution to the income of your business
- Your total employee salaries and gross profit from the sale of goods are incidental if they add up to less than \$20,000 or 10 percent of the gross profit, whichever is greater

Example: You're a North Dakota dentist who owns a clinic in Minnesota.

- If you employ several other dentists at the clinic, the profit probably will not qualify for reciprocity because their earnings are more than a minor contribution to your business income.
- If you employ one assistant at the clinic, the profit may qualify for reciprocity if your employee earns less than \$20,000 or 10 percent of the gross profit.

How to Report Income Tax Withheld on Reciprocity Income

If You Reside in Minnesota and work in Michigan or North Dakota

You only need to file an income tax return with the reciprocity state if your employer withheld income tax from your wages. You may get a refund by filing the income tax return with the reciprocity state. Follow the instructions provided by the reciprocity state. You may not be required to have income tax withheld for personal service income earned in Michigan or North Dakota. For more information, contact their revenue department.

If your Minnesota gross income meets the minimum filing requirement, you should also file Form M1. You may owe Minnesota tax if it was not withheld during the year. Do not file Schedule M1CR.

If You Reside in Michigan or North Dakota and Work in Minnesota

If Minnesota income tax was withheld from your wages and you want to get a refund, you must file Form M1. Follow the steps in the "Michigan and North Dakota residents" section of the Form M1 instructions. You may also have to file and pay taxes on the same income in your home state.

To avoid having Minnesota tax withheld from your wages, complete Form MWR, *Reciprocity Exemption/Affidavit of Residency*, with your employer. You must give your employer a new form each year if you do not want Minnesota income tax withheld.

You can ask your employer to withhold tax for your home state, but they are not required to. If your employer does withhold tax for you, you must contact your state's revenue department for instructions.

- Michigan Department of Treasury,
517-373-3200, www.michigan.gov/treasury
- North Dakota Office of State Tax Commissioner,
701-328-1243, www.nd.gov/tax

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If You Move to Minnesota During the Year

If you move to Minnesota during the year and establish residency, you are a part-year resident. For more information, see Income Tax Fact Sheet 2, *Part-Year Residents*.

File as a part-year resident using Form M1 and Schedule M1NR. Do not subtract any reciprocity income on your Schedule M1M. See the instructions for Form M1 and Schedule M1NR for details.

Minnesota Property Tax Refunds

If you were a resident of Michigan or North Dakota for the full year, you do not qualify for a Minnesota Homestead Credit Refund or Renter's Property Tax Refund – even if you own or rent a home in Minnesota.

However, if you moved to Minnesota during the year, you may qualify for a refund as a part-year resident. For more information, see the instructions for Form M1PR, *Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund*.

Information and Assistance

Additional forms and information, including fact sheets and frequently asked questions, are available on our website.

Website: www.revenue.state.mn.us

Email: individual.incometax@state.mn.us

Phone: 651-296-3781 or 1-800-652-9094 (toll free)

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