

Withholding Fact Sheet 20, Reciprocity — Employee Withholding

For employers who employ Michigan or North Dakota residents to work in Minnesota or Minnesota residents to work in Michigan or North Dakota

This fact sheet explains the Minnesota law for employee income tax withholding and reciprocity agreements with Michigan and North Dakota. If you need more information, see “Information and Assistance” on page 2.

Reciprocity Exemption

Minnesota has income tax reciprocity agreements with Michigan and North Dakota.

Employees who are employed outside their state of residence may be subject to income tax laws of two states—their state of residence and the state in which they are employed. Reciprocity helps to prevent the same personal service income (wages, salaries, tips, commissions, bonuses) from being taxed by more than one state. Generally, only the employee’s home state will tax their personal service income earned while working in a reciprocity state.

To qualify for the reciprocity exemption, both of the following must apply for the year:

- The employee is a resident of Michigan or North Dakota who works in Minnesota — or a Minnesota resident who works in Michigan or North Dakota — and returns to his or her state of residence at least once a month
- The employee received personal service income from working in a reciprocity state

Withholding Tax for Minnesota

Minnesota Companies With Employees Who are Residents of Reciprocity States

If you are a Minnesota company and you are required to withhold federal income tax from an employee residing in a reciprocity state, in most cases you are also required to withhold Minnesota income tax.

If your employee does not want you to withhold Minnesota tax from their wages, they must give you a completed Form MWR, *Reciprocity Exemption/Affidavit of Residency*. They must provide Form MWR by February 28 each year, or within 30 days after they begin working or change their permanent residence. To continue being exempt from Minnesota withholding tax, the employee must submit a new Form MWR to you each year.

You have until March 31 of each year or within 30 days after they give you a Form MWR to submit copies to the Minnesota Department of Revenue. For details, see Form MWR instructions.

Companies in Reciprocity States With Employees Who are Minnesota Residents

If you are a company located in a reciprocity state, you are not required to withhold Minnesota tax from an employee who is a Minnesota resident. However, you may choose to do so as a courtesy to your employee.

If you choose not to withhold Minnesota tax, your employee may be required to make regular estimated tax payments to us. Your employee is required to pay estimated tax if they expect to owe \$500 or more on their Minnesota Form M1, *Individual Income Tax*.

Withholding Tax for Employee’s State of Residence

Minnesota Companies With Employees Who are Residents of Reciprocity States

If you are a Minnesota company with an employee who is a resident of Michigan or North Dakota, you are not required to withhold income tax for the reciprocity state. We encourage you to do so as a courtesy to your employee.

Contact the reciprocity state’s tax department for instructions (see “Information and Assistance” on page 2).

If you choose not to withhold, your employee may be required to make regular estimated tax payments to the reciprocity state.

Companies in Reciprocity States With Employees Who are Minnesota Residents

If you are a company located in a reciprocity state and you choose to withhold Minnesota tax from a Minnesota resident, you must register for a Minnesota tax ID number.

If you already have a Minnesota ID number for other Minnesota taxes for the same business, you can use the same number for withholding tax. Go to our website at www.revenue.state.mn.us and log in to e-Services. You will need to activate a withholding tax account.

If you do not have a Minnesota ID number, you must apply for one. Go to www.revenue.state.mn.us and choose **Business Center**. You may also call us at 651-282-5225 or 1-800-657-3605 (toll-free).

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Reporting Information on the Company's Minnesota Withholding Tax Return

When you are filing your **Minnesota** withholding tax return, **always report wages** of the employee who has supplied you with a Form MWR. Do this even if you are withholding tax for the reciprocity state. Do not report the tax withheld for the other state on your Minnesota return.

If you withheld tax for the reciprocity state, contact the reciprocity state's tax department for instructions (see "Information and Assistance" on this page).

If you withheld tax for both Minnesota and the reciprocity state, report the Minnesota tax withheld on your Minnesota withholding tax return and report the amount withheld for the reciprocity state on that state's tax return.

Completing Form W-2 When You Have a Valid Form MWR

If you **did not withhold tax** for Minnesota *or* the employee's state of residence, complete the employee's Form W-2 as follows:

- In box 15 (State), enter the employee's state of residence
- In box 16 (State wages, tips, etc.), enter the employee's wages
- In box 17 (State tax), enter zero

If you **withheld tax for your employee's state of residence**, complete your employee's Form W-2 as follows:

- In box 15 (State), enter the employee's state of residence
- In box 16 (State wages, tips, etc.), enter the employee's wages
- In box 17 (State tax), enter the total tax withheld for the year for the state of residence

If you received a valid Form MWR from your employee, you do **not** need to send us a copy of Form W-2. You may be required to send a copy of the employee's Form W-2 to his or her state of residence. Contact the reciprocity state's tax department for requirements (see "Information and Assistance" on this page).

Keep a copy of the employee's Form W-2 with your tax records.

Penalties

We can assess you a \$50 penalty for each Form MWR you do not send to us as required.

An employee who files a Form MWR that he or she knows is incorrect is subject to a \$500 penalty for each incorrect form filed.

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: withholding.tax@state.mn.us

Phone: 651-282-9999 or 1-800-657-3594

This information is available in alternate formats.

Internal Revenue Service

Website: www.irs.gov Phone: 1-800-829-4933

Michigan Department of Treasury

Website: www.michigan.gov/taxes

Email: treasSUW@michigan.gov

Phone: 517-636-6925

North Dakota Office of State Tax Commissioner

Website: www.nd.gov/tax