Tax Tips You Can Use

	Income from another state By Kathleen Crawford, EA LTC #27851-C First Published in the Jacksonville Review Aug 2011

Many people are confused about reporting income from other states. An example is selling your home in California after you have moved to Oregon. Another common issue is where to pay tax on pensions after you move. One of the considerations when moving is tax withholding and investment sources. This article gives guidelines on paying taxes to other states and what considerations are necessary.

The first important fact is that a taxpayer must pay tax to the state on income from that state. Idaho wants tax on the rents received on a rental house in Idaho. If a taxpayer is a partner in a company that has storage units in California, California wants its tax on the partnership income. A person who works in Oregon and whose company sends her to Arizona to work (think firefighter) for a period must pay Arizona income tax on the income earned in Arizona. The source state for earned income is the state in which a taxpayer earned the income. The source state for a business or rental is the state where the rental or business is located. There is a special rule for pensions, alimony, interest and dividends. Those moneys received for one of the four "PAID" items is sourced to the home of the recipient. So your pension "source" follows you when you move, regardless of who is paying the pension. A pensioner, who moves from California to Oregon to New Mexico in a single year, may have to file three state tax returns for that year.

When a taxpayer moves to a new state, in addition to changing the address at the post office, state withholding on income sources needs to be checked. Many people bring their information at tax time and find that they have to file a return in the former state because there is still state withholding being taken by the former state. The only way to get a refund is to file. Many taxpayers find that they owe tax in the new state and have a refund from the former state, because they did not change their withholding to the new state. Sometimes the opposite is true. A taxpayer gets wage income from his California job. We had the CA state withholding changed to zero because his Oregon income tax zeroed out any California tax he would have owed on that income.

Another issue that happens frequently is that a taxpayer invests in "state tax-free" bonds. It is important to realize that those bonds are only tax-free in one state. A person who invests in California tax-free bonds and moves to Oregon will pay Oregon income tax on the income from those bonds. When moving, review all state dependent investments. This can also affect college savings accounts. Only Oregon 529 plan contributions give a deduction on the Oregon state income tax return.

It is important to get professional tax advice when moving to a new state, so that tax time does not have unhappy surprises.

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