



TAX BULLETIN 06-8
Virginia Department of Taxation
December 27, 2006

Individual Income Tax

**VIRGINIA AND MARYLAND UPDATE RECIPROCAL INCOME
TAX AGREEMENT**

On December 7, 2006, Virginia and Maryland signed a reciprocal agreement concerning individual income tax. This agreement supersedes a similar agreement dated August 24, 1992, that was effective for taxable years beginning after December 31, 1991.

Under the reciprocal agreement, Virginia residents who work in Maryland are exempt from Maryland income tax on compensation earned in Maryland. Maryland residents earning compensation in Virginia are similarly exempted from Virginia income tax. The 2006 agreement makes two changes that clarify the 1992 reciprocal agreement.

- (i) Those who maintain a place of abode in the state for an aggregate of 183 days or more are considered residents of that state.
- (ii) The reciprocal agreement applies only to compensation. Maryland residents who have income from a business, rental property, or other activity in Virginia must file a Virginia income tax return and pay tax on that income.

These changes are consistent with the way that Virginia has been administering the 1992 agreement with Maryland since its inception.

If you have additional questions, please contact the Department of Taxation at (804) 367-8031 for individuals or (804) 367-8037 for employers with questions about withholding.

RECIPROCAL INCOME TAX AGREEMENT
BETWEEN
COMMONWEALTH OF VIRGINIA
AND
STATE OF MARYLAND

I. Statement of purpose.

It is the intention of this agreement and the parties hereto:

A. To relieve employers and employees in the Commonwealth of Virginia and the State of Maryland from the withholding of Maryland income tax on compensation paid in Maryland to residents of Virginia and from the withholding of Virginia income tax on compensation paid in Virginia to residents of Maryland;

B. To relieve Virginia residents from liability for Maryland income tax and the requirement for filing a tax return with regard to compensation paid in Maryland; and

C. To relieve Maryland residents from liability for Virginia income tax and the requirement for filing a tax return with regard to compensation paid in Virginia.

II. Definitions.

A. For purposes of this agreement, "compensation paid in Maryland" is defined in Section 10-905(f) of the Tax-General Article.

B. For purposes of this agreement, "compensation paid in Virginia" is defined in Section 58.1-302 of the Virginia Code.

C. For purposes of this agreement, the term "Virginia employer" means an employer who is subject to the jurisdiction of the Commonwealth of Virginia, and the term "Maryland employer" means an employer who is subject to the jurisdiction of the State of Maryland.

D. For purposes of this agreement,

"Maryland resident" means an individual who is domiciled in Maryland or who maintained a place of abode in Maryland for an aggregate of 183 days or more and is a nonresident of Virginia; and

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“Virginia resident” means an individual who is domiciled in Virginia or who maintained a place of abode in Virginia for an aggregate of 183 days or more and is a nonresident of Maryland.

III. Agreements.

In the furtherance of their above stated intentions, the parties agree as follows:

A. Agreements respecting withholding.

1. No Maryland or Virginia employer shall be required to withhold Maryland income tax from compensation paid in Maryland to a resident of Virginia who files with his employer a certificate of nonresidence unless and until such employer is advised that any such certificate was improperly filed.

2. No Maryland or Virginia employer shall be required to withhold Virginia income tax from compensation paid in Virginia to a resident of Maryland who files with his employer a certificate of nonresidence unless and until such employer is advised that any such certificate was improperly filed.

3. A certificate of nonresidency may not be filed by an employee domiciled in one signatory state who maintains a place of abode in the other signatory state and spends in the aggregate more than 183 days of the taxable year in the other state.

B. Agreements respecting liability for individual income tax and tax return filing.

1. No Virginia resident who signs a certificate of nonresidence shall be required to pay Maryland income tax on compensation paid in Maryland, and if the compensation paid in Maryland is the only income from Maryland sources, there is no requirement to file a Maryland income tax return.

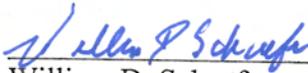
2. No Maryland resident who signs a certificate of nonresidence shall be required to pay Virginia income tax on compensation paid in Virginia, and if the compensation paid in Virginia is the only income from Virginia sources, there is no requirement to file a Virginia income tax return.

3. Nothing in this agreement shall be interpreted to exempt a resident of Virginia or Maryland who was a part-year resident of the other state from liability for payment of income tax or filing an income tax return with regard to compensation received while a resident of the other state.

4. Nothing in this agreement shall be interpreted to exempt a resident of Virginia or Maryland who has taxable income in the state of nonresidence, other than in the form of compensation, from liability for payment of income tax or filing an income tax return with regard to such other taxable income.

IV. Effective date.

This agreement is made this 7th day of December, 2006, and shall become effective and operative upon the parties with respect to taxable years beginning after December 31, 2005, and supersede the prior agreement dated August 24, 1992, that became effective for taxable years after December 31, 1991.



William D. Schaefer
Comptroller of the Treasury
State of Maryland



Janie E. Bowen
Tax Commissioner
Commonwealth of Virginia