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# States Look Beyond Borders to Collect Owed Taxes

By **CATHERINE RAMPPELL**

When Josh Beckett pitches for the Red Sox at [Yankee Stadium](#), New York collects income tax on the portion of his salary that he earned in New York State.

But what about a [Boston Scientific](#) sales representative who comes to New York to pitch medical products to a new client? New York has decided it wants a slice of that paycheck, too.

Anyone who crosses a state border for work — to make a sales call, say, or meet with a client or do a road show on Wall Street — probably owes income taxes in that state.

If you live in Boston but spend one out of 250 workdays this year in New York, you owe New York income taxes on 1/250th of your salary. And vice versa if you are a New Yorker visiting Boston — or Anywheresville, for that matter — for business.

Such laws have been on the books for decades, and they vary by state. But it is only recently, accountants and tax lawyers say, that many states appear to have picked up enforcement, expanding it beyond the wealthiest celebrities and athletes.

“The states are all hungry for revenue,” said Alan Clavette, an accountant in Newtown, Conn. “We are certainly seeing states like New York and Connecticut looking more and more for executives and everyday taxpayers who may be spending time across the border.”

The states, for their part, say better techniques for tracking tax deadbeats, not pressure to fill their budget holes, have prompted them to become more vigorous at enforcing the provision.

“We are just trying to make sure our tax laws are complied with,” said Richard D. Nicholson, commissioner of the Connecticut Department of Revenue Services. “That’s not driven by a need for revenue. If we’re doing more, it’s because of advances in technology. We can do analysis we could never do before with just paper.”

Once upon a time, state tax officials relied on the sports pages and celebrity magazines to see when well-known higher-earners came to town for work. (Yes, even the taxman reads *Us Weekly*.) For everyone else, it was largely a “don’t ask, don’t tell” world, says James W. Wetzler, the former tax commissioner for New York State, because it was not cost-effective for states to monitor every bricklayer and lawyer crossing a border.

“We tried to preserve a reasonable balance,” said Mr. Wetzler, now a director at the firm Deloitte Tax. “We wanted to avoid imposing onerous burdens on people just for us to collect small amounts of revenue.”

But now states have greater access to data warehouses that help them better track taxes owed. Real estate transactions, federal data from the [Internal Revenue Service](#), commercial license plates, traffic tickets, bids for government construction projects — all this information, newly digitized and dumped into a computer system, can help states find tax scofflaws.

“We’re sort of getting into ‘1984’ land here,” said Kenneth T. Zemsky, an accountant and partner at Ernst & Young. “A lot of the reason they went after athletes and entertainers is that they couldn’t find the other people. Now they’re able to get those people, too.”

Still, perhaps the best enforcement mechanism may be requiring companies to withhold additional taxes from their employees’ paychecks. State auditors may not be able to monitor every border-crossing, but with corporate payroll managers as their enforcers, they don’t need to.

“Our employees call me the ‘Tax Nazi,’ ” says Dee Nelson, the corporate payroll manager at the Koniag Development Corporation, a government contractor that works on military projects. “They get really angry at me when we withhold their pay if they do a project in Utah or wherever. And I have to explain this is the law, not me just trying to be a bully.”

Ms. Nelson’s employer is based in Anchorage, but at any given time its employees are generally working in five states with five different withholding requirements. She estimates that the administrative work required for managing multistate employees adds about 10 percent to the cost of each project.

Many Fortune 500 companies contacted for this article privately acknowledged having been slightly less vigilant than Ms. Nelson about tracking the minute-by-minute movements of their thousands of employees in the past. But these companies also say that they have been subjected to payroll audits more frequently in the last few years and that tax officials have requested travel logs for highly paid employees during these audits.

In some cases auditors check to see if, say, an employee who was reimbursed for airfare to California also had California income taxes withheld from his paycheck. If not, the company can be fined.

Finding out that you owe income taxes across the border can raise your overall tax bill, if your home state has a low tax rate (or no income tax rate at all, as in a handful of states). But your tax bill may not rise by much, since most states allow you to deduct income taxes paid to another state.

The bigger burden associated with distributing your taxes to more state governments is the administrative effort it requires, for both employee and employer. Many states require filing a return for a single day's work. For peripatetic workers like salesmen or consultants, filing a pile of additional state tax returns can become prohibitively expensive, not to mention frustrating.

"There's 50 states out there and 50 different laws," said Nola Wills, senior vice president and chief compliance officer at Harbor America, a financial services company near Houston. "It's difficult for a small business to have all the information and resources to know that. In most cases their C.P.A. doesn't know that, either."

So long as there is still a great deal of ignorance about these laws, the states with the most aggressive tax compliance teams have the most to gain. They can siphon off more revenue from their neighboring states than the other way around, all without fear of retaliation from anyone who has the power to vote them out of office.

But as more states catch on and start investing in more payroll auditors and data mining tools to get money back, the end result may be an arms race until every state comes out more or less evenly.

"If everybody goes after everybody, nobody wins," said Arthur R. Rosen, a New York tax lawyer and partner at McDermott Will & Emery. "In this interstate war of 'you tax my rich guy and I tax your rich guy,' it's just a wash, a preposterous flurry of tax returns."

In the meantime, states may have a new prominent target.

Last year [President Obama](#) visited at least 30 states. But, like other presidents before him, he plans to file in just one: his home state, Illinois, according to a White House official.

State tax auditors, start your engines.