State Tax Payment Requirements

Special Arrangements for those departing a domestic Assignment en route to an overseas assignment

A number of employees have raised the issue of state tax liability when en route to an overseas assignment, via a period of Temporary Duty (TDY) training, from a domestic assignment. The Department's policy is employees, upon Permanent Change of Station (PCS) departure from their domestic assignment, can make their state tax election in one of the following ways:

a. Continue withholdings to the state of their domestic assignment;
b. Change their state tax withholdings to the TDY location of training (if greater than or equal to 183 days); or
c. Revert to their state of domicile.

As an example, an Agent may be assigned to the San Francisco Field Office, and has been assigned to Singapore as an ARSO, via six months of TDY training. Her home state as shown on her OF-126 is Michigan. She wishes to retain Michigan residency while overseas, and she is unlikely to return to California in the near future.

In this case she can change her state tax withholdings to Michigan, since she does not want to remain a California resident, and is unlikely to be in one state long enough during training to be liable for taxes there. Please note in some cases, the employee's TDY state may consider the employee a resident of the state for that period and the employee may still be obligated to file an income tax return for that state.

Equally, if her home state as shown on her OF-126 is Texas, she can cease withholdings to California and revert to Texas, where there is no income tax.

Circumstances are likely to differ for each employee, however, so you should review your situation and requirements carefully before making your election.

Note: If your domestic assignment is in the DC area, and your training is also in the DC area, then you cannot revert to your state of domicile until you arrive at your overseas assignment.

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