

## **Withholding of Pennsylvania Income taxes under Act 32**

Act 32 created many changes in the rules governing the procedures and requirements that affect how employers withhold and file local earned income taxes. The following information provides more details on the changes and its effect on employers.

### **Highlights of Act 32 Changes**

**Tax Collection District (TCD)** -Act 32 requires county-wide earned income tax collection, creating a Tax Collection District (TCD) in each county, except Philadelphia to which Act 32 does not apply, and four tax collection districts in Allegheny County. Full requirements of Act 32 are effective 1/1/2012 with a few counties adopting the changes effective 1/1/2011. An [official tax register](#) showing the tax rates and other information is maintained by the Department of Community and Economic Development (DCED).

**Certificate of Residence** – A [new form](#) each employee must complete to identify the political subdivision (PSD) where the employee lives and the political subdivision (PSD) where the employee works. Existing employees must fill out a [certificate of residence](#), new employees must complete the certificate of residence at the time they are hired and all employees shall file a new certificate of residence with their employer if they move to a new residence.

**Withholding** – All employers are required to withhold local earned income tax from their employees and remit them to the correct tax collector. The tax is to be withheld at the higher of the employee's resident tax rate, the tax rate for the PSD in which they reside, or the non-resident tax rate for the municipality in which they work, if that municipality has a non-resident tax ordinance.

### **Determining the Amount of tax to Withhold**

Using the [official tax register](#) maintained by the DCED every employer should take the following steps to determine the amount of tax to withhold from each employee:

1. Determine the municipality in which the person's place of employment is located.
2. Determine from the certificate of residency form the municipality and school district in which the employee resides.
3. Determine from the DCED tax register whether any income tax is levied on non-residents by the municipality in which the employee's place of employment is located—and if so, the tax rate. If levied on non-residents, this is the employee's non-resident tax rate.
4. Determine from the DCED tax register whether any income tax is levied by the municipality and school district in which the employee resides. If levied, the combined municipal and school district rate is the employee's resident tax rate.
5. Withhold tax at the greater of the resident tax rate or the non-resident tax rate.
6. If an employee moves, the employer must require the employee to file a new [certificate of residency](#) form, and the employer must repeat steps 1 through 5.

Link to DCED website and official tax register

<http://www.newpa.com/get-local-gov-support/tax-information/earned-income-tax>

## **EMPLOYER REGISTRATION**

If not previously registered, an employer shall, within 15 days after becoming an employer, register with the tax collector for the place of employment the name of the address of the employer and such other information as the Department of Community and Economic Development (DCED) may require.

## **EMPLOYER RETURNS/REPORTS**

The following information must be reported:

1. The name, resident address and Social Security number of each employee
2. The compensation of the employee during the period covered by the return (preceding month or preceding three-months).
3. The total income tax deducted from the employee and paid with the return.
4. The name of the municipality and PSD Code of the political subdivision imposing the resident income tax upon the employee.
5. The total compensation of all employees during the preceding calendar quarter
6. The total income tax deducted from the employees and paid with the return

Appointed Tax Collectors will establish specific formats for reporting this information and may require additional information. The items outlined above are the minimum information requirements.

### **General Rule/Single-Site Employers** (an employer with a single place of employment in one TCD):

Within 30 days following the end of each calendar quarter, an employer shall file a quarterly return and pay the amount of income taxes deducted during the preceding calendar quarter to the tax collector for the place of employment for each employee.

### **Option for Multi-Site Employers** (an employer with place of employment in more than one TCD):

Within 30 days following the last day of each month, the employer may file the tax return information and pay the total amount of income taxes deducted from employees in all Pennsylvania work locations other than Philadelphia during the preceding month to the tax collector for either the TCD in which the employer's payroll operations are located or as determined by the DCED. Alternatively, an employer may report to each place of employment as described under "General Rule/Single-Site Employers." The return and income taxes deducted must be filed and paid electronically. An employer must file a Letter of Intent to file combined returns and make combined payments with the tax collector for each place of employment at least one month before filing its first combined return or making its first combined payment.

### **Out-of-State Employers**

Should an employer's headquarters/payroll operations be located outside of Pennsylvania, the employer may file a consolidated return/payment with any tax collector where the employer has a work site, other than Philadelphia. An employer must file a Letter of Intent to file combined returns and make combined payments with the tax collector for each place of employment at least one month before filing its first combined return or making its first combined payment.

### **Annual Return and Individual Withholding Statements to be filed with Tax Collector**

On or before February 28 of the succeeding year, an employer must file with the tax collector where income taxes have been deducted and remitted:

1. An annual return showing, for the period beginning January 1 of the current year and ending December 31 of the current year, the total amount of compensation paid, the total amount of income tax deducted, the total amount of income tax paid to the tax collector and any other information prescribed by the DCED.

2. An individual withholding statement, which may be integrated with Form W-2, for each employee employed during all or any part of the period beginning January 1 of the current year and ending December 31 of the current year, setting forth the address and Social Security number, the amount of compensation paid to the employee during the period, the amount of income tax deducted, the amount of income tax paid to the tax collector, the numerical code prescribed by the DCED representing the TCD where the quarterly or monthly payments were remitted and any other information prescribed by DCED. Every employer shall furnish one copy of the individual withholding statement to the employee for whom it is filed.