

# Act 7 & 32

## Employer Filing Requirements (LST & EIT)

### Filing Requirements for Earned Income Tax Collection in PA

- ▶ Businesses must register with the County Tax Collector within 15 days after becoming an employer
- ▶ Businesses must acquire a **"Certificate of Residency"** form from each employee. The form has been developed by the Department of Community and Economic Development (DCED). And will be utilize to establish the taxes to be held from each employee.
- ▶ Employees must alert their employer each time they move and complete a new "Certificate of Residency"
- ▶ At the time of payment, employers must withhold the greater of the employee's resident tax for where they live or nonresident tax for where they work as released in the Department of Community and Economic Development (DCED) official tax register

## Withholding Requirements

- ▶ There are only two tax rates that an employer must consider when calculating the proper amount of tax to withhold.
  - The employees resident tax rate or,
  - The non-resident tax rate for the jurisdiction where the business is located
- ▶ If a community where a person works has a non-resident tax, and that tax rate is higher than the tax rate where that person lives, the community where he or she works is entitled to the difference.

## Requirements of Tax Collection

- ▶ All employers in the state are subject to the new filing requirements
- ▶ Employers must file a quarterly return and are required to pay the amount of tax withheld during the preceding period at that time
- ▶ Businesses with places of employment in multiple counties can choose to submit all of their withholding information and payments to one county collector, to do so the employer must agree to:
  - Give 30 day notice to the Collector they intend to file with
  - Notify all of tax entities it has locations in of their intent to file one consolidated return
  - file electronically
  - file every 30 days

## Requirements of Tax Collection

Employers must provide

- Each employee's name, address, and social security number. (Address cannot be a PO Box, must be street name and house number)
- Each employee's compensation during prior 1/3 months.
- Tax amount deducted from each employee.
- Provide the proper Political Subdivision Code for each employee.

## Requirements of Tax Collection

Employers must provide

- If an employee moves during the reporting period the employer will need to list the employees wages attributed to each PSD separately on the return filed.
- Being for the 2012 Tax Year, the information to be shown in the "Locality Box" on the W-2 will be the 2 digit county code to which the funds were remitted. (This code is the first 2 digits of the employers PSD code.)

## W-2 Information

- ▶ Information in Box 18 should indicate total wages paid in 2015 as reported to county to be shown in Box 20
- ▶ Box 19 should indicate taxes remitted to the county collector in Box 20
- ▶ Information to be placed into Box 20 of the 2015 W-2 is to be the 2 Digit code of the county to which funds were remitted to.
- ▶ If taxpayer had funds submitted to multiple county administrators (such as in wages reported to City of Philadelphia) these must be shown as separate line items or on separate W-2's.

22222		Employee's social security number 888-88-8888		OMB No. 1545-0008		
b Employer identification number (EIN) 23-12345678			1 Wages, tips, other compensation 53,000.00	2 Federal income tax withheld 3,456.99		
c Employer's name, address, and ZIP code County of Luzerne 15 Public Square Wilkes Barre, PA 18702			3 Social security wages 57,500.00	4 Social security tax withheld 1,000		
			5 Medicare wages and tips 57,500.00	6 Medicare tax withheld		
			7 Social security tips	8 Allocated tips		
d Control number			9	10 Dependent care benefits		
e Employer's first name and initial Mark H. Davis		Last name Davis	11 Nonqualified plans		12a	
521 W, Main Street Trappe, PA 19426			13 Statutory <input type="checkbox"/> Statutory <input type="checkbox"/> Statement <input type="checkbox"/> Third-party <input type="checkbox"/> party <input type="checkbox"/> salary	12b		
			14 Other LST - \$52.00	12c		
			12d			
f Employer's address and ZIP code						
15 State PA	Employer's state ID number	16 State wages, tips, etc. 57,500.00	17 State income tax 1,765.25	18 Local wages, tips, etc. 57,500.00	19 Local income tax 805.00	20 Locality name 40

**W-2 Wage and Tax Statement** 2011 Department of the Treasury—Internal Revenue Service  
Form Copy 1—For State, City, or Local Tax Department

## Requirements of Tax Collection

For resident and non-resident withholding, every employer must use the DCED *official tax register* to determine the **tax rate applicable to every employee** and list the proper Political Subdivision Code (PSD) for where they live.

The Official Tax Register is located at <http://munstatspa.dced.state.pa.us/Registers.aspx>

Secondary Resource– [www.factfinder2.census.gov](http://www.factfinder2.census.gov)

A link to the Political Subdivision Codes (PSD) codes is provided at <http://www.hab-inc.com>

## Errors from the Field

- Statewide employers and Employers with multiple locations in same county, filing all employees under one account header.
  - Statewide/Countywide filers may file for all locations utilizing a single report, but each location must be broken out individually on the report. Each entry must identify the following items for each location.
    - ✓ Tax year and month/or quarter file is for
    - ✓ Employer ID # assigned by collector
    - ✓ Employer mailing address (not physical location address)
    - ✓ PSD code of Employer location employees employed in
    - ✓ Employee assigned to location
    - ✓ All information on employee, as noted previously

## Errors from the Field

- ▶ Common errors seen
  1. Employee reported using PO Box as mailing address – *ACT 32 requires employers provide physical street address for all employees each quarter.*
  2. Filing based on employees home PSD versus Work PSD – *All taxes are to be remitted based upon the employees employment location.*
  3. Employer submitting Philadelphia Wage Tax to countywide administrator – *Reporting requirements for the City Philadelphia are unchanged under ACT 32, funds collected for or in the city must be remitted to the city.*

## Errors from the Field

- ▶ Common errors seen
  1. Individuals who were employed in areas that have Non-resident Earned Income taxes in place that exceed their resident rate, claimed refunds of the overpayment. Or attempted to apply overpayment to spouse. Funds remain in work location.
  2. Taxpayers failed to file finals returns believing they are not required to do so because taxes are now withheld.
  3. Taxpayers on extension assumed it carried to local as well when filed with the IRS. Copy of extension form must be submitted to local by 4/15 as well.

## Errors from the Field

- ▶ Common errors seen
  1. We have began to see that tax preparers are using a clients tax return as a “template” and simply whiting out the name and social and inserting the new name and social. Due to scan line on form this cause the return to post to the same person the original was for.

## Changes to Individual Filings

- ▶ There are also 4 notable changes under Act 32 that effect individual taxpayers as well. They are as follows:
  1. Individuals may no longer utilize Net Losses from the operation of a business as an offset against W-2 wages earned.
  2. Individuals who operate multiple businesses may now offset the net loss from one business against the net profits of another. The aggregate , if greater than \$0, is what is taxed locally.
  3. Beginning with the 2012 tax year, Out of State Credits **cannot** be applied to Open Space and/or Occupational Assessment Elimination levies. The tax due on wages subject to these percentages are due even if sufficient credit exists to cover them.

## Changes to Individual Filings

- ▶ There are also 4 notable changes under Act 32 that effect individual taxpayers as well.
  1. Taxpayers who have income that is not being withheld on by an employer, i.e. Income from Self-employment, Out of State wages and/or governmental employment are required to file and pay the tax quarterly if their taxable income, not withheld on, in the prior tax year was \$12,0000 or greater.

## Rate Changes in Eastern PA

- ▶ Matamoras Borough in Pike County implemented an 1 % EIT effective 07/01/15.
- ▶ Westfall Township, Pike County implemented an 1% EIT effective 05/15/15.
- ▶ Both tax are levied on residents and non-residents alike.



## Local Services Tax – ACT 7

- ▶ Imposed upon individuals who hold an occupation within the taxing jurisdiction(s)
- ▶ Known as the “right to work within” tax.
- ▶ Maximum Rate Limitation – \$52.00

## Local Services Tax – ACT 7

- ▶ Taxes levied at a rate of greater than \$10.00 must be withheld in equal installments spread over the number of payrolls due to be paid in that calendar year.
- ▶ If rate is greater than \$10.00, employee pays the tax for the number of weeks for which they are employed in jurisdiction.
- ▶ Individuals who earn less than \$12,000 may be exempted from paying the tax.

## Local Services Tax – ACT 7

- ▶ Individuals who are qualified by the Veterans Administration as being 100% Disabled Veterans are also exempt from the tax
- ▶ In order for an employer to grant an exemption, they must have a completed Exemption certificate on file for the employee. Employee is required to provide a copy of certificate to tax administrator as well.

## Local Services Tax – ACT 7

- ▶ Income to be considered is to be Earned Income Only and only that which is earned in the taxing jurisdiction.
- ▶ Employee must provide proof of earnings for prior year along exemption form.
- ▶ Proof includes–
  - Prior year W-2, or
  - Prior year State Tax Return, or
  - Final paystub from prior year employment in taxing jurisdiction

## Local Services Tax – ACT 7

- ▶ \$12,000 exemption only applies to the municipalities portion of the tax. Taxes levied by school district are subject to their exemption amount (if one is in place) so employee may be subject their portion, even if not to the municipal piece.
- ▶ Employers are required to track the earnings of employees who have qualified for an exemption.
- ▶ If employee exceeds \$12,000, employer must withhold amount of taxes due to that point and the each week going forward.

## Local Services Tax – ACT 7

- ▶ Employee may apply for a refund of taxes withheld during the prior calendar for up to 75 days after the date of the final payment due date for the year in question.
- ▶ If the tax is shared by the school district, the district must utilize the municipal collector for the collection of their portion as well.

## Contact information

- ▶ James Hunt, Dir. of Governmental Relations
- ▶ Berkheimer Tax Administrator
- ▶ 50 N. Seventh St.
- ▶ Bangor, PA 18013
  - (800) 360-8989 ext. 2156 (Exton)
  - (800) 360-8989 ext. 2413 (Bangor)
  - (610) 588-5765 (fax)
  - [jhunt@hab-inc.com](mailto:jhunt@hab-inc.com)
  
  - Link to DCED Certificate of Residency
  - [www.newpa.com/webfm\\_send/1605](http://www.newpa.com/webfm_send/1605) or at
  - [www.hab-inc.com](http://www.hab-inc.com) - **ACT 32 Information**