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**Pennsylvania Department of
Community & Economic Development
Local Withholding Tax FAQ**

Where do we register for local income tax withholdings?

As an employer, for earned income taxes, you register with the earned income tax officer of the municipality/school district where your Pennsylvania business site is located. Examples of business sites include but are not limited to factories, warehouses, offices and residences of home based employees.

For Local Services taxes you register with the Local Services tax officer of the municipality/school district where your Pennsylvania business site is located.

Examples of business sites include but are not limited to factories, warehouses, offices, businesses and residences of home based employees

Are we required to withhold local income taxes from all of our employees?

All employers with work sites within the taxing jurisdiction are required by law to deduct the earned income and Local Services taxes from their employees at that site if the tax is listed in the Earned Income Tax Register or Local Services Tax Register of the Department of Community and Economic Development.

Must we withhold from employees who reside in Pennsylvania but work at our facility in another state?

The Local Tax Enabling Act does not require you to withhold earned income taxes from an employee who resides in Pennsylvania working for you in your facility in another state. Some employers do withhold and remit earned income taxes as a benefit to their Pennsylvanian residents who work out of state. The Act does not require employers to withhold Local Services taxes from an employee since this is a tax levied at the actual work location.

Who is a non-resident?

A non-resident is anyone who resides outside the taxing district.

Are we required to remit local tax withholdings to each non-resident's taxing jurisdiction?

Responsibility for transmitting withheld taxes of nonresidents to the employees' place of residence rests with the tax officer, not with the employer.

Must we also register and remit local tax withholdings to the school district?

The Act requires employers to register only with school districts who have a different collector than the municipality.

Are there any exceptions for withholding local taxes for the municipality/school district?

Yes, Philadelphia and Pittsburgh have exceptions. Philadelphia falls under the Sterling Act and requires employers to withhold and remit earned income taxes for all their employees who reside in Philadelphia even if they are employed at a site outside of Philadelphia. Pittsburgh City School District has a similar requirement.

We have heard that Act 7 requires employers to deduct the tax weekly. Is this true?

If a municipality and school district's combined local services tax rate is *more than* \$10, employers must withhold the tax based on their number of annual payroll periods and are prohibited from withholding the tax in a lump-sum payment. Therefore, if an employer pays its employees weekly, the tax must be withheld weekly.

How often are employers required to submit tax revenue to the municipal tax collector?

For municipalities and school districts with a combined tax rate of more than \$10, employers must submit tax revenue within 30 days of the end of each quarter.

What happens if an employee resigns? Must the employer try to collect the tax from the former employee for the remainder of the year?

No. The employee is now liable for the tax. If an employee quits, his previous employer only needs to withhold the tax for the payroll periods in which he was employed. The new employer will be responsible for withholding the tax from future paychecks.

If a municipality and school district's combined local services tax rate is \$10 or Less, may the municipality continue to require that the full \$10 be withheld in a lump sum from the first paycheck of the year?

Yes

Is the new \$12,000 low-income exemption for the tax mandatory?

Each political subdivision that levies an LST at a rate of \$10 or less is permitted to exempt those taxpayers whose total earned income and net profits from all sources within the political subdivision is less than \$12,000. Each political subdivision that levies an LST at a rate exceeding \$10 is required to exempt persons whose total earned income and net profits from all sources within the political subdivision is less than \$12,000 for the calendar year in which the LST is levied. The school district for the municipality in which a worksite is located may

or may not levy an LST. If it does, the income exemption provided may differ from the municipality and can be anywhere from \$0 to \$11,999. "Income from all sources" is defined as the same "earned income" and "net profits" that are used to determine the local earned income tax.

Does Act 7 define "income from all sources" for purposes of the low income exemption?

Yes. The act defines "income from all sources" as the total earnings and net profits from all sources *within* the municipality for the calendar year in which the local services tax is levied.

Should employers withhold the tax from employees who earn less than \$12,000 low-income exemption?

Not if the employee files an upfront exemption certificate with both the employer and the municipality affirming that he reasonably expects to receive less than \$12,000 during the calendar year for which the exemption certificate is filed.

What happens if the income of an individual who filed an upfront exemption certificate exceeds \$12,000 during the calendar year?

If that person's earned income from the primary employer exceeds \$12,000 or the municipality's tax collector informs the employer that the employee's income has reached \$12,000, employers "restart" withholding of the LST by withholding:: (1) a "catch-up" lump sum tax equal to the amount of tax that was not withheld from the employee as a result of the exemption; and (2) the same amount per payroll period that is withheld from other employees. Except for monitoring when an employee who has filed an exemption certificate earns more than \$12,000, the intent of the amendment is that employers are not responsible for investigating exemptions, monitoring tax exemption eligibility or exempting an employee from the tax.

If an employee works in more than one municipality and each levies the local service tax, which one has the priority for the collection of the tax?

The primary place of employment is determined the day the taxpayer first becomes subject to the tax during the payroll period if the tax is levied at more than \$10. If the tax is levied at \$10 or less, it is the first place of employment during the calendar year based on the following priorities (listed in order):

- 1) the municipality where the employee maintains his or her principal office or is principally employed;
- 2) the municipality where the employee lives and works if the municipality levies the local services tax; and
- 3) the municipality where the employee works and is nearest to his residence if that municipality imposes the tax.