

PENNSYLVANIA ACT 32 OVERVIEW

On July 2, 2008 the Pennsylvania legislature enacted an amendment of the Local Tax Enabling Act, Act 511 of 1965 with the goal of consolidating and simplifying the collection of Local Earned Income taxes on a countywide basis. Mandatory compliance is effective January 1, 2012. However, some Tax Collection Districts (TCD's) have elected to be early adopters in 2011 and will require employers to comply now.

Act 32 has huge implications for employers in Pennsylvania and for those of us in the payroll service business. In this letter, we will outline the changes and new requirements that are a part of this Act and provide you with information and resources to assist in keeping you in compliance.

What changed?

Under the current Local EIT collection system, each locality and school district has the option of setting their tax rate and choosing who will collect their tax. Also, employers are only required to withhold the worksite EIT and not the employee's resident EIT. The only exception to this rule is the City of Philadelphia.

Under the new regulation, localities and school districts can still set their EIT rate (the most common is 1%), but the collection responsibility will fall into one of 66 Tax Collection Districts that are roughly congruent with counties, but are not a function of county government. Each Tax Collection District (TCD) will choose a collector (such as Berkheimer, Keystone Tax Collectors, Central Tax Bureau, etc.), that will be responsible for collecting the EIT for each municipality and school district contained in the TCD. This is where the simplification of collection comes in.

However, at the employee and employer level, there is a layer of complexity that did not exist prior to this legislation. Currently, employers only have to withhold and remit the local tax for their worksite location regardless of where their employees live. As of January 1, 2012, employers will be required to withhold either the worksite non-resident EIT or the employee's resident EIT depending on which tax rate is higher. For example, if the worksite location has a 1% EIT and an employee lives in a locality with a 1.25% EIT, the employer will be required to withhold the resident EIT rate for that employee.

In addition, every employee will be required to complete the Pennsylvania Certificate of Residency (copy included) to validate the employee's resident and worksite municipality. If an employee moves, a new certificate is required. One of the key pieces of information on the certificate is the Political Subdivision code for both the resident and worksite locations. These codes will be used to remit taxes to the correct locality, and to file returns at the end of each quarter. It is imperative that you collect the certificates from every employee and be sure that the PSD codes are included.

Where can you find the PSD codes?

www.newpa.com/get-local-gov-support/municipal-statistics will take you to the page on the DCED website that has the listing. There is a link on that page that reads Political Subdivision (PSD) Codes List.

If you click on that link, it will open up a spreadsheet with all the PSD codes listed in alphabetical order by the TCD (roughly counties) and then by school district. You will use the 6 digit PSD for the municipality. You can also retrieve this spreadsheet from the PROXUS website ([CLICK HERE](#)).

What do I have to do?

It is the responsibility of the employee and employer to be sure that the correct PSD codes are collected and provided to PROXUS (or entered in the online payroll system) for every employee. If you are a phone/fax client, please make a copy of the Certificates of Residency and send them to your client service representative at PROXUS. You can scan and email to ACT32@proxushr.com. If you are a PC Connection or Paychoice Online client, please keep the C.O.R. forms and as soon as our systems have been updated to accept the PSD codes, we will instruct you on how to enter them properly in the system.

As stated earlier, if an employee moves, you will need to have them complete a new C.O.R. with the new address and PSD. Also, all new hires must complete the C.O.R.

Included in this package is an ACT32 Client Location request form. We need you to complete this form and return it to us no later than April 29, 2011 so we can be sure that we have all physical locations for your business and code them correctly in the system. This is imperative to our year end process and will insure that local tax returns are filed in compliance with this new regulation. You can mail, fax or scan/email the completed forms to us.

As with any change in tax regulations, we expect more information to become available as we get closer to the effective date of January 1, 2012. We will continue to communicate with you as we learn more or as requirements change. Please be on the lookout for messages from us that reference ACT32.

If you have any questions regarding ACT 32, please call your client services representative or send your questions to ACT32@proxushr.com

As always, we value your business and look forward to continuing to work with you.

Sincerely,

Chris

John

Colton

Enclosures (also available on the PROXUS website):

PROXUS ACT 32 LOCATION REQUEST FORM – ([CLICK HERE](#))

PENNSYLVANIA CERTIFICATE OF RESIDENCY FORM – ([CLICK HERE](#))