

## **Legislative Update: Pennsylvania Act 32 Payroll Reporting**

Beginning January 1, 2012, employers who maintain worksites in Pennsylvania or employ individuals who may work from their homes are required to withhold applicable earned income tax (EIT) from those employees. Under Act 32, signed into Law on July 7, 2008, employers are responsible for comparing the total applicable resident vs. non-resident EIT rates for each employee, withhold the higher of the two and send it to the tax collector of the work address. Employers must attain information in the Residency Certification Form for every employee and begin withholding the local EIT assessed and collected after December 31, 2011.

Implementation of Act 32 is expected to improve the local income tax system by reducing the number of tax collectors in Pennsylvania from 560 to no more than 69. New tax collection committees are formed to oversee the local income tax system within each district and administer a process that contains fines and penalties for tax officers who neglect to perform their required duties. Re-designed regulations, forms, and collection procedures will be consistent throughout the state.

For employees who live and/or work in Philadelphia, current Philadelphia withholding rules apply. Every employer who has a place of business within Pennsylvania but outside of Philadelphia must withhold the Philadelphia resident Earned Income Tax from employees who are Philadelphia residents and submit the withholdings directly to Philadelphia.

The payroll reporting responsibilities for employers and employees under Act 32 are as follows:

### **Employer-Required Payroll Reporting Steps:**

- Register businesses with the tax collection district.
- Fill out the Residency Certification Form with employee signature.
- Monthly or quarterly, send withheld taxes for all employees to the appropriate tax collectors/officers.
- Within 30 days of the close of each calendar year, employers complete and submit the Annual Withholding Reconciliation Form to the appropriate tax collectors/officers.

### **Employee/Self-Employed Payroll Reporting Steps:**

- Provide complete street address of residence, sign and date Residency Certification Form and file with the Employer. Upon change of address, the employee must provide updated information.
- If an individual is self-employed or obtains compensation other than through an employer/business entity, a Quarterly Estimated Earned Income Tax form must be filed with the Tax Officer for the tax collection district where the individual lives, within 30 days following the end of each quarter of the Calendar Year.
- No later than April 15, every employee must complete the Taxpayer Annual Local Earned Income Tax Return and file with the Tax Officer of the tax collection district where he/she lives. Any outstanding local earned income tax responsibility must be remitted with this return.

A detailed listing of tax collection districts and required reporting forms can be found on the Pennsylvania Department of Community and Economic Development website at [www.newPA.com](http://www.newPA.com).

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