

## Consolidation of Local Earned Income Tax Collection

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November 30, 2011

Major changes relating to the collection of local Earned Income Tax (“EIT”) will take effect on January 1, 2012. Act 32 of 2008 mandates the consolidation of EIT collection and reporting (one tax collection district per county) for taxes levied and collected after December 31, 2011, and applies to all municipalities and school districts in all counties except Philadelphia. Under the new tax collection system, all employers doing business in the state, even those located in jurisdictions that do not impose an EIT, will be required to withhold applicable EIT from compensation paid to their employees. Employers with business locations in multiple counties will be permitted to file one return with the county tax collection district where their payroll operations are located, or with another tax collection district approved by the Department of Community and Economic Development. However, employers who exercise that option will be required to remit withholdings and employee tax detail electronically on a monthly basis, whereas Act 32 otherwise requires quarterly tax returns and payment.

Act 32 substantially expands the scope of an employer’s obligation to withhold EIT from compensation paid to employees. Under the current regime, an employer is only legally required to withhold an EIT imposed by a jurisdiction in which the employer has a place of business. Under Act 32, an employer will be required to withhold EIT from employees at a rate equal to the greater of the tax rate imposed by the employee’s place of residence or the nonresident tax rate imposed by the locality where the employee works. The tax collection district will then be responsible for distributing the taxes to the correct jurisdictions. Act 32 requires employers to obtain a Residency Certification Form from all new employees and from current employees who provide notification of a name and/or address change. While it is recommended that employers require all current employees to verify their residency information for EIT withholding purposes, it is not required by Act 32.

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