



# KEYSTONE PAYROLL

## ACT 32 Important Information

April 7, 2011

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### Important Information Regarding Earned Income Tax and Act 32 of 2008

Act 32 of 2008 created many changes in the rules governing the procedures and requirements that affect how employers withhold local earned income taxes. Depending on the county, these changes will take effect with either the 2011 or 2012 tax year. All employers must be in compliance with the start of the 2012 tax year. Below are several key points of the act and how they may affect employers.

**CERTIFICATE OF RESIDENCE** – This is a new form each employee must complete to identify the political subdivision (PSD) where the employee lives **AND** the political subdivision (PSD) where the employee works. Existing employees must fill out a certificate of residence, new employees must complete the certificate of residence at the time they are hired and any employee who moves must complete a new form when they change their residence. The completed Certificate of Residence should be considered as an addendum to the Federal Employee's Withholding Allowance Certificate (W-4) and included as part of an employee's permanent file.

**WITHHOLDING** – All employers are **REQUIRED** to withhold local earned income tax from their employees and remit them to the correct tax collector. The tax is to be withheld at the higher of the employee's residence tax rate or the non-resident tax rate for the municipality in which they work (if the municipality has a non resident rate).

**TAX COLLECTION DISTRICT (TCD)** – Act 32 requires county-wide earned income tax collection in each county, except Philadelphia, and the establishment of four TCDs in Allegheny County.

#### **What you as the employer need to do:**

**Determine if you have a location that has adopted Act 32, earned income tax withholding, effective January 1, 2011.** If you do not know the tax collection agency for your company or a location for your company, please contact Keystone Payroll. To our knowledge, Berks County, Chester County and Lancaster County have adopted mandatory earned income tax effective January 1, 2011. Some localities have decided to phase in the new act starting in 2011; Blair County Tax Agency for Altoona City in Blair County; Centre Tax Agency for College, Benner, Marion and Walker Townships in Centre County; Capital Tax for all locations in Juniata County. If you receive information from another agency, please let us know.

Example: In 2010, Fermanagh Township, Juniata County, the local earned income tax was collected by Juniata County Tax Office. Beginning in 2011, all employers in Juniata County will have the local earned income tax collected by Capital Tax Collection Bureau, Harrisburg Division. Businesses must register with Capital Tax. Keystone Payroll cannot register a company with a collection agency since we do not know the answers for certain sections of the form. If there is no change in the tax collection agency, then nothing needs to be done concerning registration of the company.

**Complete the Certificate of Residence forms.** If you are an employer who has a location where Act 32 was adopted effective January 1, 2011, have all the employees who work at that location complete the Certificate of Residency as soon as possible. Once you have collected the forms for all your employees, keep the original for your records and forward a copy to Keystone Payroll. Continue having all your employees complete the Certificate of Residency even if the business location is not adopting mandatory earned income tax until January 1, 2012. A copy of the Certificate of Residence form is enclosed or available to download from the "Resources" Section at [www.KeystonePayroll.com](http://www.KeystonePayroll.com).

Details about Act 32 of 2008 are available at the PA Dept of Community and Economic Development website, [www.newpa.com](http://www.newpa.com). Select Get Local Gov Support, then Municipal Statistics. If you have questions, please contact the tax department at Keystone Payroll.

