

# Franklin County Area Tax Bureau

Website: <http://www.fcatb.org>

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## 2011 Employer Withholding Instructions

### Payment Record of Withheld Taxes

Keep a record below of payments made to our office for withheld Earned Income Tax (EIT) and Local Services Tax (LST). You will need these figures when completing your year-end reconciliation (Form 541).

Period	Due Date	Date Paid	Check # (s)	EIT	LST
1st Quarter	April 30				
2nd Quarter	July 31				
3rd Quarter	October 31				
4th Quarter	January 31				
			Annual Totals:		

### Earned Income Tax (EIT) and Local Services Tax (LST) Withholding Rates

Jurisdictions	New PSD Code	Earned Income Tax Rates		Comments See Below**	Local Services Tax Rates
		Resident	Non-Resident		
<b>Chambersburg Area School District</b>					
Chambersburg Borough	280101	<b>1.7%</b>	1.0%		52.00
Greene Township	280102	<b>1.7%</b>	1.0%		10.00
Guilford Township	280103	<b>1.7%</b>	1.0%	1	10.00
Hamilton Township	280104	<b>1.7%</b>	1.0%		10.00
Letterkenny Township	280105	<b>1.7%</b>	1.0%		10.00
Lurgan Township	280106	<b>1.7%</b>	1.0%		10.00
<b>Fannett Metal School District</b>					
Fannett Township	280201	1.0%	1.0%		
Metal Township	280202	1.0%	0%	2	
Toboyne 2 <sup>nd</sup>	280203	1.0%	1.0%		
<b>Greencastle-Antrim School District</b>					
Antrim Township	280301	1.0%	0%	2	10.00
Greencastle Borough	280302	1.0%	.5%	3	10.00
<b>Tuscarora School District</b>					
Mercersburg Borough	280401	1.0%	.5%	3	52.00
Montgomery Township	280402	1.0%	0%	2,4	
Peters Township	280403	1.0%	.5%	3,4	
Saint Thomas Township	280404	1.0%	0%	2,4	
Warren Township	280405	1.0%	0%	2,4	
<b>Waynesboro Area School District</b>					
Guilford Township 5 <sup>th</sup>	280501	1.0%	1.0%	1	10.00
Mont Alto Borough	280502	1.0%	1.0%		52.00
Quincy Township	280503	1.0%	1.0%		52.00
Washington Township	280504	1.0%	1.0%		52.00
Waynesboro Borough	280505	1.0%	.5%	3	52.00

\*These are the new 6 digit PSD codes developed by the Pennsylvania Department of Community and Economic Development (DCED) to be used by all employers effective January 1, 2012. We will be transitioning to these codes during 2011.

\*\* The above jurisdictions are within our collection area. For residents of these jurisdictions withhold the EIT Resident rate indicated. For your employees that work within our collection area; but residing elsewhere withhold the EIT non-resident rate indicated with the following caveats. (1) There is one small voting precinct in Guilford Township that is in the Waynesboro Area School District (Guilford 5<sup>th</sup>). If you have employees that reside there, they are only liable for a 1% earned income tax. (2) To simplify withholding and/or as a convenience to your employees, it is recommended that you withhold the amount of resident tax your employees owe where they live; however, the local ordinances/resolutions applicable to these work locations do not require withholding from employees who reside outside the school district in which your business is located. (3) To simplify withholding and/or as a convenience to your employees, it is recommended that you withhold the amount of resident tax your employees owe where they live; however, the local ordinances/resolutions applicable to these work locations only require that you withhold ½ of 1% from employees that reside outside the school district in which your business is located. (4) This Tuscarora School District jurisdiction exempts residents who are under the age of 18 from the local earned income tax. Therefore, if you hire an employee who is under 18 who is a resident of this jurisdiction, you do not need to withhold the 1% earned income tax. If you do withhold, the employee may apply for a refund from the tax office at year-end. Begin withholding from the first pay on or after the employee's 18<sup>th</sup> birthday.

If you have non-resident employees who reside in an area that currently levies the EIT at more than 1%, we encourage you to withhold at the higher rate. Under a new state law, Act 32 of 2008, beginning in 2012, you will be required to. All amounts withheld should be submitted to this office and we will forward the withholdings to the proper jurisdictions based on where each employee lives. If you are not sure how much to withhold from a particular employee, call our office with the name of the county, school district, and municipality (township or borough) where the employee resides and we should be able to provide you with the employee's tax rate. We have a list available of nearby school districts that levy higher tax rates on our website at <http://www.fcatb.org>. The following link to Pennsylvania's Department of Community and Economic Development website may help you in determining the correct tax to withhold as well: <http://munstatspa.dced.state.pa.us>. Click on "Find Your Withholding Rates by Address."

### **Local Taxable Compensation (Earned Income) Subject To Withholding**

The basis for local taxable compensation (earned income) is the same as the basis for the Pennsylvania state personal income tax with only a couple of exceptions. Clergy housing allowance and active military pay for service within Pennsylvania are both taxable for the state income tax but are not taxable for Pennsylvania local income tax. Taxable compensation includes, but is not limited to: salaries, wages, tips, gratuities, commissions, bonuses, incentive payments, fees, tips, termination pay and other amounts received for performing services. Qualified and non-qualified salary deferral plans provided for under the Internal Revenue Code (e.g. Section 401k's, 403b's, 457b's etc.) are taxed for the Pennsylvania local tax the same way they are taxed for Pennsylvania state income tax purposes. Except for the two items indicated above, if you must report the income as Pennsylvania Taxable Wages on the W-2, it must also be reported as Local Taxable Wages.

### **What Is NOT Local Taxable Compensation (Earned Income)**

Items that are not taxable as compensation for Pennsylvania local tax include the same items that are not taxable for the Pennsylvania state income tax. Non-taxable items include employee IRC Section 125 payroll deductions to cover health insurance premiums and/or medical expense reimbursements, and non-cash compensation in the form of personal use of company property such as a company car.

### **Local Services Tax (LST)**

The LST is based on work location! The LST rates for each jurisdiction within our collection area are listed on the first page of these instructions. Employers that have multiple business locations will receive separate tax returns for reporting LST you withheld at each work location. This is necessary to assure the proper taxing authority receives the tax.

For individuals **employed within a jurisdiction that levies the LST at a \$10.00 rate**, the full \$10.00 tax is to be deducted from the first paycheck you issue to an employee during the calendar year.

For individuals **employed within a jurisdiction that levies the LST at a \$52.00 rate**, a pro rata share of the tax is assessed for each payroll period in which the person is engaging in an occupation. Employer withholding shall be made on a payroll period basis for each payroll period, beginning with the first payroll period in which the person is engaging in an occupation.

The most common payroll periods and the amounts to withhold per pay are indicated below:

ANNUAL TAX LIABILITY	Number of Payroll Periods and Amount to Withhold Per Pay					
	52*	26*	24	12	6	4
	Weekly	Bi-Weekly	Semi-Monthly	Monthly	Bi-Monthly	Quarterly
52.00	1.00	2.00	2.16	4.33	8.66	13.00

\*For weekly and bi-weekly payrolls, there are calendar years where 1 extra pay is issued. For such years, set a maximum deduction amount of \$52.00 in your payroll system.

### **Exemptions to the Local Services Tax:**

The Local Services Tax (LST) shall be no more than \$52 on each person for each calendar year, irrespective of the number of political subdivisions within which a person may be employed. When the tax is levied in excess of \$10.00, there is a mandatory \$12,000 low-income exemption from the tax. Greencastle-Antrim School District area jurisdictions only levy the LST at \$10.00 and are not subject to the mandatory \$12,000. “up-front” low-income exemption. However, they do provide a low income exemption of \$500. If you have employees working in the Greencastle-Antrim School District, you must withhold the \$10.00 LST; but an employee may apply to the tax bureau for a refund of the tax at the end of the year if they have not earned over \$500.00.

All jurisdictions that levy the LST within the Chambersburg Area School District, Tuscarora School District and Waynesboro Area School District exempt any person whose total earned income and net profits from all sources within the political subdivision is less than \$12,000 for the calendar year.

To be exempt from having the tax withheld during the year, an upfront exemption certificate must be completed by the employee each calendar year and submitted to their employer and to the Franklin County Area Tax Bureau. A copy of the standardized exemption certificate to be used by all taxing entities within Pennsylvania is available on our website. Upon receipt of the exemption certificate the employer shall not withhold the tax from the person during the calendar year or remainder of the calendar year for which the exemption certificate applies. With respect to a person who claimed an exemption from the Local Services Tax, upon notification to an employer by the person that he/she has received earned income and net profits from all sources within the jurisdiction equal to, or in excess of \$12,000, or upon an employer’s payment to the person of earned income in an amount equal to or in excess of \$12,000 in that calendar year, an employer shall withhold the Local Services Tax from the person as follows:

The employer shall withhold from the person, for the first payroll period after receipt of the notification under the above paragraph, a lump sum (catch-up) equal to the amount of the tax that was not withheld from the person due to the exemption certificate filed by the person, plus the per payroll amount due for that first payroll period.

In the event the employment of a person subject to withholding of the Local Services Tax under the above “catch-up” provision is severed in that calendar year, the person shall be liable for any outstanding balance of tax due and the political subdivision levying the tax may pursue collection.

Each political subdivision levying the Local Services Tax shall also exempt the following persons from the Local Services Tax:

- Any person who has multiple concurrent employers and is subject to a LST at their “Primary” job is not subject to the LST at their secondary employer(s).
- Any person who is an honorably discharged veteran with 100% service-connected disability.
- Any person on active military duty.

Employers shall be responsible for retaining a copy of all exemption certificates filed by employees within a given calendar year for a minimum of three (3) years. Employers who have failed to withhold the Local Services Tax from an employee or employees, AND do not have copies of the employee exemption certificate or certificates, will be held responsible for the payment of the Local Services Tax as if the tax had been originally levied against the employer.

### **Reporting Procedures - Completing the Enclosed Return**

## Form 511 – Employer Earned Income Tax and Local Services Tax Quarterly Return

Remit the taxes withheld each quarter using Form 511 (Employer quarterly tax return). If you generate your own report that contains all the information required on Form 511, complete the “header” information and attach Form 511 as a cover to your own report.

For each quarter, report all Earned Income Tax withheld in the EIT column and all Local Services Tax in the LST column of the return. Add interest and penalty if paying late. To adjust a reporting error from a previous quarter in the same year, increase or decrease the reported withholdings on the current return and attach an explanation of the adjustment. Verify all information for accuracy, sign the return and return with a check made payable to the Franklin County Area Tax Bureau. You may issue one check for both the EIT and the LST due. **BE SURE TO ADD THE TOTAL FIGURES FROM BOTH COLUMNS TOGETHER WHEN ISSUING ONE CHECK!**

For employers with work locations that levy a \$52.00 LST, you will likely always have LST to report each quarter since you are to withhold a pro-rated portion of the \$52.00 tax from each paycheck you issue. Employers subject to withholding a \$10.00 LST who have withheld and reported the \$10.00 for all their employees in a previous quarter may not have LST to report in a given quarter. If this is the case, enter “NONE” or 0.00 on the return for the amount of LST withheld.

If you have multiple work locations within different taxing jurisdictions you should receive separate reporting forms for each location. Make sure you report withholdings for each location on the correct return. The work location of an employee determines who receives the LST you withhold and the work location can be a factor in who receives the EIT for an employee if the employee is a non-resident of our collection area.

## Form 541 – Annual Reconciliation of Earned Income Tax and Local Services Tax

At year-end, you must reconcile the total EIT and LST payments you made quarterly. You will receive an Annual Reconciliation of Earned Income Tax and Local Services Tax (Form 541) with your 4<sup>th</sup> quarter tax return.

Follow the line-by-line instructions on the form. Be sure to enclose a copy of every W-2 you issued to employees who worked within our collection area EVEN if the employee had no tax withheld because you were not required to withhold. Please put the W-2's in either alphabetical order by last name or in social security number order and include a calculator tape to verify the total “Local Income Tax” withheld on all W-2's.

If you do not report the total LST you withheld during the year on the employee's W-2 form, then you must submit an annual listing of LST withheld for each work location that reconciles to the total quarterly figures reported on your Form 541.

### **Other forms you may need (Available on our website)**

Certificate of Residence - Any time you hire a new employee, or you have an employee that moves from one residence to another, or has a name change, you MUST have the employee complete a Certificate of Residence. Send a copy of the completed Certificate of Residence form to the tax office as they are completed, or you may submit them quarterly with your Form 511. This form has been redesigned and is available on our website.

LST Exemption Certificate – To be used by employees requesting an exemption of the tax for one of the 4 reasons indicated on the form. For the low-income exemption (Reason 2), where it asked for the “municipality or school district,” enter the name of the municipality where the employee works. Please note that the low-income exemption rate for Greencastle-Antrim School District jurisdictions is \$500.00. (See “Exemptions to the Local Services Tax” above.) It must be one of the municipalities on page one of these instructions where a local services tax is levied. **When the form is completed and signed, send the original form and documentation to the tax office.** If the form is not completed accurately, it will be returned and withholding (including catch-up withholding) must be resumed until the form is resubmitted accurately. Make a copy of the form and documentation for your files.

If you have questions, please contact Sandy at (717) 263-5141 extension 25 – Monday thru Thursday 8 a.m. to 6 p.m.