

MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania
Governor's Office

Subject:
Implementation & Maintenance of
Local Service Tax

Number: MD525.20

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By Direction of: 
Naomi Wyatt, Secretary of Administration

Contact Agency: Office of Administration, Bureau of Systems, Policy and Program
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1. **Purpose.** Establishes policy, procedures and responsibilities for the deduction of Pennsylvania Local Service Tax regulations outlined in Act 7 of 2007.
2. **Scope.** Applies to all departments, boards, and commissions under the Governor's jurisdiction and to those independent agencies using SAP (hereinafter referred to as agencies). It is recommended that other agencies adopt similar procedures.
3. **Objectives.** To provide for the allocation of functions between the Office of Administration, agencies and employees to ensure consistency and compliance with Local Service Tax regulations as established in Act 7 of 2007.
4. **Definitions.**
 - a. **Local Service Tax (LST).** Effective calendar year 2008, LST will be levied for all employees working in affected municipalities. This will replace the Emergency and Municipal Service Tax (EMST).
 - b. **Eligible exemptions to the LST include:**
 - (1) **Multiple Employer Exemption.** If the taxpayer has two or more jobs in different political subdivisions during a payroll period, the priority of claim to collect the LST is as follows:
 - (a) Where the taxpayer maintains his or her principal office or is principally employed;
 - (b) Where the taxpayers resides and works; and
 - (c) Where the taxpayer is employed that is nearest in miles to the taxpayers home.

- (2) **Low-Income Exemption.** Political subdivisions that levy an LST at a rate of \$10 or less are *permitted* to exempt those taxpayers whose total earned income and net profits from all sources within the political subdivision is less than \$12,000. Political subdivisions that levy an LST at a rate exceeding \$10 are *required* to exempt persons whose total earned income and net profits from all sources within the political subdivision is less than \$12,000 for the calendar year in which the LST is levied. "Income from all sources" is defined as the same "earned income" and "net profits" that are used to determine the local earned income tax.
 - (3) **Active Military Exemption.** Political subdivisions must exempt from the LST members of a reserve component of the armed forces called to duty.
 - (4) **Military Disability Exemption.** Political subdivisions must exempt from the LST honorably discharged veterans who served in any war or armed conflict who are blind, paraplegic, or a double or quadruple amputee as a result of military service or who are 100% disabled from a service connected disability.
- c. **Installment Collection.** If the combined rate of a municipal and school LST exceeds \$10, it must be assessed and collected in installments based on payroll periods.

5. Policy

- a. All employees employed by work sites within LST taxing jurisdictions will have LST tax deducted from their pay effective January 1, 2008.
- b. LST withholding will be prorated for each pay period an employee works in the calendar year. (26 or 27 for an employee paid bi-weekly.)
- c. The pro-rated amount withheld for each pay period is based on the work location municipality and school district assignment effective for that pay period. Therefore, the amount withheld biweekly is subject to change due to any employee work location changes.
- d. The annual LST amount deducted should not exceed the \$52.00 maximum per calendar year. If an employee's total calendar year LST deduction exceeds for all employers the maximum annual liability of \$52.00, then the employee should complete the Local Service Tax Refund Application. Refunds of less than \$1 will not be paid by municipalities (*see procedure cc – Request for Refund.*)
- e. Employers are required to stop withholding the LST if an employee provides an exemption certificate (*see procedure aa – Exemption from LST.*) A copy of the employee's last pay statement or W-2 forms from employment within the political subdivision for the prior year must be attached to the exemption certificate. If an employee does not have prior employment, their first Commonwealth pay statement should be attached. Employees who claimed an exemption based on the \$12,000 low income exemption and earn beyond \$12,000 will have deductions re-started along with any arrears (*see procedure bb – Restoration of Withholding.*)

- f. The Commonwealth is not required to process refunds due to late or inaccurate filing of an Exemption Certificate by an employee. Exemptions will be started prospectively with the next pay period after the Exemption Certificate is received.
- g. A new exemption certificate is required each calendar year. LST exemption certificates should be retained in the Official Personnel File for two years.
- h. Employees are not exempt from the LST due to separation from employment or Leave Without Pay that occurs during the calendar year. If an employee is paid anytime during the tax year for work performed in that tax year then they are liable for the entire annual tax amount.

6. Procedures

- a. **Exemption of LST.** This procedure is to be followed when an employee is claiming one or more of the four types of exemptions: Multiple Employers, Low Income, Active Duty Military, or Military Disability Exemption. Procedures may vary based on the type of exemption being claimed.

(1) Employee

- (a) If claiming Multiple Employers Exemption, a copy of the current pay statement from the principal employer must be provided to the Agency Human Resource Office. The pay statement must show:
 - 1 Name of the employer
 - 2 Length of the pay period
 - 3 Amount of the Local Service Tax withheld
- (b) If claiming a Mandatory Low-Income Exemption, an exemption certificate along with last pay statements or W-2 forms for the year prior for that municipality or school district must be completed and provided to the agency human resource office **AND** to the tax office charged with collecting the LST for the municipality or school district in which the employee is primarily employed. If the employee does not have prior employment, their first Commonwealth pay statement should be attached.
- (c) If claiming an Active Duty Military Exemption, orders directing the employee to active duty status must be attached to the exemption certificate and provided to the agency human resource office.
- (d) If claiming a Military Disability Exemption, discharge orders and a statement from the US Veterans Administration documenting the disability must be attached to the exemption certificate and provided to the agency human resource office.

(2) Agency Human Resource Office

- (a) Follow Business Process Procedure "Maintain ITO235 (Other Taxes)" and delimit LST exemption with an applicable calendar year end date (i.e. 12/31/20##).

(b) Within the IT0235, use the Maintain Text functionality to define the type of exemption being claimed. This is particularly necessary for the Low Income Exemption in order for the Office of Administration to track employees who have exceeded the \$12,000 threshold. The following standard text must be used to ensure accurate reporting and to conform to character limitations:

- 1 Multiple Employers
- 2 Less than \$12,000
- 3 Active Duty
- 4 Military Veteran or 100% Disabled

(c) LST Exemption forms should be retained within the employee Official Personnel File for two years.

(d) A new exemption form and appropriate documentation must be supplied for each year an exemption is being requested.

b. Restoration of Withholding. This procedure is necessary to restore the holding of the LST for employees who no longer meet the requirements for exemption.

(1) Employee

(a) Notify the agency human resource office and taxing authority if an exemption previously claimed is no longer applicable.

(2) Agency Human Resource Office

(a) Perform Business Process Procedure to delimit IT0235 and restart withholding if:

- 1 Instructed to do so by the taxing authority levying the LST
- 2 Notified by the employee that they are no longer eligible for the exemption.

(3) Office of Administration, Operations Division

(a) Override exemption if employee is paid in excess of \$11,999, following Business Process Procedure to delimit IT0235 (Other Taxes) and notify IES Payroll that the ITO235 was delimited and to deduct retroactive LST withholdings during payroll processing.

c. Request for Refund. This procedure occurs if an employee pays any amount greater than \$52 dollars in a calendar year.

(1) Employee

(a) Employees entitled to a refund should complete the LST Refund Application. A copy of the application for a refund of the LST and all necessary supporting documents must be completed and presented to the taxing authority charged with collecting the LST.

(2) Agency Human Resource Office

- (a) Agency Human Resource Offices should provide employees with the location of the LST Refund Application and advise of the location of their taxing authority charged with collecting the LST.

d. Dual Employment (Temporary Employees)

(1) Employee

- (a) The employee must complete the LST Exemption Certificate and attach a copy of a current pay statement from their principal employer that shows that name of the employer, length of the payroll period and the amount of LST withheld.

(2) Agency Human Resource Office

- (a) Follow Business Process Procedure "Maintain ITO235 (Other Taxes) and delimit the LST with an applicable calendar year end date.
- (b) If an employee has paid an amount greater than \$52, advise the employee of the Request for Refund procedure and location of the form.

e. Dual Employment (Permanent Employees)

(1) Employee

- (a) The employee must complete LST Exemption Certificate and attach a copy of a current pay statement from the principal employer (*Commonwealth*) that shows that name of the employer, length of the payroll period and the amount of LST withheld. *This form should be provided to any supplementary employers to be exempt for dual deductions.*

7. Related Resources

- a. Department of Community and Economic Development website contains Act 7 of 2007 which amends the Local Tax Enabling Act, Act 511 of 1965 to make the following major changes to the Emergency and Municipal Service Tax (EMST) <http://www.newpa.com/default.aspx?id=257>
- b. Department of Community and Economic Development website contains Frequently Asked Questions <http://www.newpa.com/default.aspx?id=411>
- c. Revised BCPO Memo 97-1 Residence Information for Determining Taxing Jurisdiction