



# Lancaster County Tax Collection Bureau

1845 William Penn Way  
Lancaster, PA 17601  
Phone (717) 569-4521

[www.lctcb.org](http://www.lctcb.org)

January 2011

## **Important Information Regarding Earned Income Tax and Act 32 of 2008** **Please read this correspondence and attachments in their entirety.**

Dear Employer:

2011 brings important changes for businesses related to withholding of earned income taxes. Act 32 of 2008 mandates that every employer withhold earned income tax from each employee and remit the withheld tax on a quarterly or monthly basis to the appropriate collector. The act also requires that employees complete a Certificate of Residence at the time of initial employment and whenever there is a change of residence address.

The governing body of the Lancaster County Tax Collection Bureau (LCTCB) as tax collector for the Lancaster Tax Collection District has adopted **mandatory earned income tax withholding effective January 1, 2011.**

Our goal for 2011 is to assist employers in meeting fully the requirements of Act 32. These requirements include:

- Required Certificate of Residence.
- Mandatory earned income tax withholding from employees.
- Employer reporting of data and remittance of local earned income taxes.
- Letter of Intent to file with collector.

### **Certificate of Residence**

Enclosed is a copy of the Certificate of Residence for use by employers. The certificate is also available on our website at [www.lctcb.org](http://www.lctcb.org). Employers may also use the new eReporting System to input, submit, and track employees' Certificate of Residence information. Please go to <http://www.lctcb.org/employer/> and follow the links for the Employer eReporting System. You will be required to register as an employer, then click on the "Residence" tab.

***Per Act 32 Employers are required to have the Certificate of Residence completed by each current employee, each new employee, and by each employee whenever their residence address changes.***

***Why is this important?*** First, it provides the information needed by the employer to determine the correct municipality and school district where the employee is domiciled and the Political Subdivision Code (PSD Code) for the domicile address. This information is necessary for the employer to determine the correct earned income tax withholding rate.

Second, the Certificate includes information on the employee's place of employment address and includes information on the PSD Code of the physical location where that individual employee works. Finally, the Certificate provides the date when an employee moved to a new domicile address.

**All of this data is required as part of the monthly or quarterly reporting to LCTCB.** The completed Certificate of Residence should be scanned and emailed to LCTCB or a hard copy should be mailed to LCTCB. The Certificates will be maintained by LCTCB for reference purposes only should a question arise upon receipt of employer data. The manual submitting of the Certificate of Residence is not required if the employer uses the eReporting System to maintain their employees' Certificate of Residence.

### **Mandatory Earned income Tax Withholding**

**ALL employers are required** to withhold local earned income tax from **each** of their **employees** and the Lancaster County Tax Collection District has adopted this as mandatory beginning January 1, 2011. In addition, the withholding is employee specific and must be at the correct withholding rate which is the higher of the resident rate or the nonresident rate.

**Per Act 32, it is the employer's responsibility to determine the correct Political Subdivision Code (PSD Code) and the correct earned income tax withholding rate for each of their employees.**

Determining the correct withholding rate is dependent on the information collected from employees as contained on the Certificate of Residence. The **Resident Rate** is the **combined rate** of the municipality and school district in which the employee resides (domicile). This is determined from information in Section 1 on the Certificate of Residence form.

The **Nonresident Rate** is the **nonresident rate** for the place of employment and is determined from the information in Section 2 on the Certificate of Residence form. **Please note**, the nonresident rate is only a municipal rate and is not combined with a school district resident rate. Only municipalities may implement a nonresident tax rate and it will appear as a separate rate on the Department of Community and Economic Development (DCED) website. See <http://munstatspa.dced.state.pa.us/Registers.aspx> to find withholding rate by address.

The nonresident rate is only applicable for those employees who reside in a municipality and school district that do not have a resident earned income tax or who reside in a municipality and school district where the combined resident earned income tax rate is less than the nonresident rate. In most cases, the combined resident rate for the employee will be equal to or greater than the nonresident rate.

***If you as an employer are not withholding earned income tax from all of your employees, you are required to begin withholding as soon as possible. This will put you in compliance with the mandatory withholding requirements of Act 32.***

**See enclosed Employer Instructions for additional detailed information.**

### **Employer Reporting and Remittance of Earned Income Taxes**

Employers are required to report and remit earned income tax to the appropriate tax collector as determined and selected by each Tax Collection District. The Lancaster Tax Collection District has appointed the Lancaster County Tax Collection Bureau (LCTCB) as the collector.

**Data Reporting Requirements.** Employer reporting is required on either a monthly or quarterly basis depending on the type of employer. These reports must also contain more detailed, employee specific information than has been previously reported. Data that must be reported for each employee include:

<ul style="list-style-type: none"> <li>Employee Name</li> </ul>	<ul style="list-style-type: none"> <li>Total local earned income tax deducted &amp; paid for the employee with the return</li> </ul>	<ul style="list-style-type: none"> <li>PSD Code of political subdivision imposing <b>non-resident income tax</b></li> </ul>
<ul style="list-style-type: none"> <li>Employee resident address (number, street, city, state, zip) <b>(not PO Box)</b></li> </ul>	<ul style="list-style-type: none"> <li>PSD Code of political subdivision imposing <b>resident income tax</b></li> </ul>	<ul style="list-style-type: none"> <li>Name of municipality imposing non-resident income tax</li> </ul>
<ul style="list-style-type: none"> <li>Employee Social Security Number</li> </ul>	<ul style="list-style-type: none"> <li>Name of municipality &amp; school district of political subdivision imposing resident income tax</li> </ul>	<ul style="list-style-type: none"> <li>Total Compensation of <b>ALL</b> employees for report period (preceding month or quarter)</li> </ul>
<ul style="list-style-type: none"> <li>Compensation for the employee for report period (preceding month or quarter)</li> </ul>	<ul style="list-style-type: none"> <li>Employment Place address (number, street, city, state, zip) <b>(not PO Box)</b></li> </ul>	<ul style="list-style-type: none"> <li>Total local earned income tax deducted &amp; paid for <b>ALL</b> employees with the return</li> </ul>

See enclosed Employer Instructions for additional detailed information.

**How to file reports and remit withheld tax.** Reporting and remittance will be made electronically through LCTCB’s new Online eReporting System. Data reporting formats are either EFW2 (MMREF) or an Excel Spreadsheet. Both of which are able to be uploaded to the eReporting website. Payment methods will be ACH Debit or ACH Credit also accessible through the eReporting website. Specifications for these formats are available at the LCTCB website <http://www.lctcb.org/employer/>.

Electronic reporting and remittance is required for all employers reporting on a monthly basis and for all employers with more than fifteen (15) employees.

Please check at [www.lctcb.org](http://www.lctcb.org) frequently for updated information. Click on tabs “Employer” and “Employer Act 32.”

**Important Electronic Reporting Note.** LCTCB will have a new eReporting System for 2011. Please check the LCTCB website for more information on the eReporting System including training dates and the effective date for the new system. The reporting formats posted will be used in the new eReporting system and are accepted by the current electronic reporting system.

**Employer Registration.** Employers may begin registering to use the new eReporting System immediately. Please go to <http://www.lctcb.org/employer/>. Select the eReporting link and go to the “Registration” tab. ALL employers will be required to register in order to use the eReporting System. Employers who use a payroll service will need to register in order for that payroll service to report and remit using the eReporting System.

**First Time Electronic Reporting Employers.** You should only begin eReporting using the “new” system. Please contact our Employer Department for information on reporting by disk/cd-rom in the interim.

**Current Electronic Reporting Employers.** You should continue to use the current electronic reporting system. You will be transitioned to the new eReporting System when detail & payment submissions become available.

## **Employers that are required to or may report and remit earned income tax to LCTCB.**

Below are the Employer types enumerated in Act 32 and the reporting and remittance requirements and/or options.

**Single-Site Employer.** An employer with a single place of employment or multiple work sites within the same TCD. For example, all work locations within the Lancaster TCD. This class of employer is **required** to file and remit to the Lancaster County Tax Collection Bureau. Reporting and remittance is required on a quarterly basis. Monthly reporting and remittance is optional.

**Multi-Site Employer.** An employer with multiple places of employment and in more than one TCD. For example, Lancaster Lebanon Intermediate Unit 13 (IU13). **Multi-Site employers are required to report and remit withheld taxes on a monthly basis and are required to file electronically.** This class of employer has two options.

**Opt. #1** – Report and remit for employees at all of their Pennsylvania locations (other than Philadelphia) to the TCD in which they have their headquarters/payroll operations. In the IU13 example that is the Lancaster TCD and the collector is LCTCB.

**Opt. #2** - Report and remit to multiple collectors based on the TCD of each specific work location. This is basically the current method of reporting.

**Out of State Employer.** An employer with its headquarters located outside of Pennsylvania. For example, Wal Mart. This class of employer may report and remit a consolidated return/payment with any tax collector for a TCD in which it has a work site (other than Philadelphia). **Multi-Site employers are required to report and remit withheld taxes on a monthly basis and are required to file electronically.** This type of employer may also use Opt. #2 above.

**Letter of Intent.** A Multi-Site Employer selecting Opt. #2 or an Out of State Employer who elects to report and remit a consolidated return must send a Letter of Intent to file a combined return with all collectors to which they previously reported and remitted local earned income taxes. A sample Letter of Intent is enclosed. The Letter of Intent is also available at the LCTCB website under the “Employer Act 32” tab.

**What is the Lancaster Tax Collection District (TCD)?** The Lancaster Tax Collection District includes all municipalities and school districts in Lancaster County and the Octorara Area School District and the Chester County municipalities of Atglen Borough, Highland Township, Parkesburg Borough, West Fallowfield Township, and West Sadsbury Township.

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

Many municipalities and school districts impose a Local Services Tax on persons who work within their political subdivision. Act 32 of 2008 does not affect this tax that must be withheld by employers from their employees. With the new eReporting System being implemented by LCTCB employers will be able to report and remit this tax together with the earned income tax. This will provide employers with the option to make one filing for both taxes.

**Please note** not all municipalities and school districts in Lancaster County or the Octorara Area School District in Chester County use LCTCB to collect their LST. Please refer to the LCTCB website [www.lctcb.org](http://www.lctcb.org) click on “LST” tab for a list of the municipalities and school districts that impose the LST, the rate of tax, and the collector used by each municipality and school district. The “LST” tab also contains information on the regulations that apply to the LST tax. **This combined reporting option is only available for those municipalities and school districts for which LCTCB is the named collector.**

### **Final Important Information**

1. If you utilize a payroll company for your tax reporting and remittance, please provide them with this information regarding changes in the way they report. **Please note, Act 32 places the responsibility for proper withholding, reporting and remittance of local earned income tax on the employer. All fees and penalties as referenced in #3 below will be assessed against the employer not the payroll company used by the employer.**
2. You will need to assign each of your employees to a specific work location for withholding and reporting purposes. See General employers' Instructions for more information on work location (employment Place).
3. **Act 32 includes significant fees and penalties on employers for not withholding, non-reporting and incorrect reporting. During 2011, LCTCB will consider waiver of penalties for employers that are in good faith attempting to comply with the requirements of Act 32 (see attached instructions for a list of these penalties). However, beginning January 1, 2012 all allowable fees and penalties will be strictly applied and enforced. It is important that employers are prepared to meet all of the data and reporting requirements during 2011 in order to avoid fees and penalties in 2012.**

We understand that Act 32 places significant new requirements on all Pennsylvania employers. LCTCB is being proactive in communicating with employers that are currently reporting to us. Our goal is to help employers to meet these new withholding and reporting requirements as quickly as possible. We look forward to working with all of our employers and to providing them with assistance in facilitating these changes.

***Lancaster County Tax Collection Bureau  
Management and Staff***