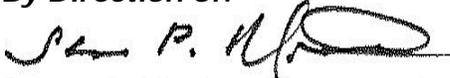


MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania Governor's Office

Subject: Local Services Tax	Number: 315.30
Date: August 29, 2016	By Direction of:  Sharon P. Minnich, Secretary of Administration
Contact Agency: Office of Administration, Office for Human Resources and Management, HR Service Center, Telephone 717.787.8001	

**This directive establishes policy, responsibilities, and procedures
for the withholding of Local Services Tax from employee pay.**

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for the withholding of Local Services Tax from employee pay.
- 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. OBJECTIVE.** To provide for the allocation of functions between the Office of Administration, agencies and employees to ensure consistency and appropriate withholding of Local Services Tax from employee pay.

4. DEFINITIONS.

Local Services Tax (LST). A tax levied by a political subdivision pursuant to the Local Tax Enabling Act, Act of December 31, 1965, P.L. 1257, *as amended*, 53 P.S. §§ 6924.101-6924.901 to provide local services.

5. POLICY.

- a.** All employees employed by work sites within LST taxing jurisdictions will have LST tax deducted from their pay.
- b.** LST withholding will be pro-rated 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. If an employee changes work location during the calendar year, the tax paid to one municipality does not transfer to a second or additional municipality. If the combined rate of a municipal and school LST exceeds \$10, it must be assessed and collected in installments based on payroll periods.
- e. The annual LST amount deducted should not exceed the maximum amount established by the municipality in which the employee works per calendar year. If an employee's total calendar year LST deduction exceeds for all employers the maximum annual liability of the municipality with the highest established LST, then the employee should complete the Local Service Tax Refund Application. Refunds of less than \$1 will not be paid by municipalities. (Refer to Procedures, Section 7c.)
- f. Employers are required to stop withholding the LST if an employee provides an exemption certificate (Refer to Procedures, 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 appropriate low income exemption (\$12,000 or \$15,600) and earn beyond the exemption amount will have deductions re-started along with any arrears. (Refer to Procedures, Section 7.b.)
- g. 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.
- h. A new exemption certificate is required each calendar year. LST exemption certificates should be retained in the Official Personnel File for two years.
- i. 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, the employee is liable for the entire annual tax amount.
- j. 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 taxpayer resides and works; and

(c) Where the taxpayer is employed that is nearest in miles to the taxpayer's 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. Where a political subdivision has adopted an ordinance, and received court approval, to impose an LST in excess of \$52 pursuant to *Section 123(d) of the Municipalities Financial Recovery Act, Act of July 10, 1987, P.L. 246, as amended, 53 P.S. § 11701.123(d)*, the political subdivision is *required* to exempt any person from the LST whose total earned income and net profits from all sources is less than \$15,600 for the calendar year in which the LST is levied.

(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.

6. RESPONSIBILITIES.

a. **Employee** shall:

(1) Complete the exemption form each year and submit it to the HR Service Center or Agency Human Resource Office.

(2) Advise the HR Service Center or Agency Human Resource Office when the exemption is no longer valid.

b. **HR Service Center or Agency Human Resource Office** shall create/delimit exemptions on IT0235 – Other Taxes.

c. **Bureau of Commonwealth Payroll Operations (BCPO)** shall:

(1) Audit exemption end dates to ensure correctness.

(2) Audit \$12,000/\$15,600 yearly threshold.

7. 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) Complete the exemption form and submit it to the HR Service Center or Agency Human Resources Office. A new exemption form and appropriate documentation must be supplied for each year an exemption is being requested.
- (b) 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
- (c) 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 HR Service Center or 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.
- (e) 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 HR Service Center or Agency Human Resource Office.
- (e) 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 HR Service Center or Agency Human Resource Office.

(2) HR Service Center or Agency Human Resource Office.

- (a) Create the exemption using a current start date and a delimit date that is equal to the end of the applicable calendar year (i.e. 12/31/20##).

(b) Maintain text to define the type of exemption being claimed. Text is mandatory for all exemptions and is particularly necessary for the low income exemption in order for BCPO to track employees who have exceeded the \$12,000/\$15,600 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/\$15,600
- 3 Active Duty
- 4 Military Veteran or 100% Disabled

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

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

(1) **Employee.** Notify the HR Service Center or Agency Human Resource Office and taxing authority if an exemption previously claimed is no longer applicable.

(2) **HR Service Center or Agency Human Resource Office.** Perform the necessary action to delimit IT0235 and restart withholding if:

- (a) Instructed to do so by the taxing authority levying the LST.
- (b) Notified by the employee that they are no longer eligible for the exemption.
- (c) The employee does not provide a new exemption form for the new calendar year.
- (d) An employee is paid in excess of \$11,999/\$15,599, perform the necessary action to delimit IT0235 (Other Taxes). Notify IES Payroll that the IT0235 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 the amount established by the municipality in a calendar year.

(1) **Employee.** 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) **HR Service Center or Agency Human Resource Office.** 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 Employee)

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

(2) HR Service Center or Agency Human Resource Office.

(a) Create the exemption on the temporary position using a current start date and a delimit date that is equal to the end of the applicable calendar year (i.e. 12/31/20##).

(b) If an employee has paid an amount greater than the amount established by the municipality, advise the employee of the Request for Refund procedure and location of the form.

e. Dual Employment (Permanent Employee). The employee must complete the 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.

This directive replaces, in its entirety, *Management Directive 525.20*, dated October 10, 2008.