

Pennsylvania's New Local Earned Income Tax Collection System

On July 2, 2008 Pennsylvania Governor Edward G. Rendell signed Senate Bill 1063 into law which is now known as Act No. 32 of 2008. Act No. 32 completely restructures the collection of local earned income taxes in Pennsylvania.

The legislation follows a 2004 report published by the Pennsylvania Department of Community and Economic Development which claimed that the local earned income tax collection system in Pennsylvania was fragmented, complex, confusing and inefficient. Without a reduction in collectors, uniform forms and collection standards, companies doing business in multiple jurisdictions throughout Pennsylvania claimed they had to comply with a myriad of different rules, regulations and forms relating to the collection, payment and reporting of local earned income taxes. The Pennsylvania Economy League claimed that the collection system resulted in more than \$230,000,000 of uncollected taxes each year.

Act No. 32 reduces the number of local earned income tax collectors from approximately 560 to 69. A single tax collection district has been established in each county except in Allegheny County where there will be four tax collection districts. One district will represent the City of Pittsburgh. The rest of Allegheny County is divided up into three relatively equal districts using the County line and the commercially navigable rivers as the boundaries of each district. Philadelphia County is exempt from this legislation. The tax collection districts are not affiliated with County government.

Each tax collection district will establish a tax collection committee which is responsible for the appointment of a tax officer to provide for the collection of earned income taxes in each tax collection district. Each tax collection committee will be made up of delegates from each political subdivision located in the tax collection district. Political subdivisions must appoint voting and alternate members to the tax collection committee in their tax collection district by September 15, 2009. By April 15, 2010, bylaws must be adopted by each tax collection committee. By September 15, 2010, the tax collection committee must appoint a tax officer. A tax officer (i.e. "collector") can be a political subdivision, public employee, tax bureau, county or a private agency which administers and collects income taxes for one or more tax collection districts.

According to a July 2, 2008 press release issued by Governor Rendell, the legislation includes a number of important improvements, including: "(1) establishing uniform withholding, remittance and distribution requirements; (2) requiring that employers withhold all local income taxes imposed on the compensation of their employees and remit those taxes to only one collector, even if an employer operates in multiple counties; (3) instituting a continually updated, comprehensive tax register, maximum twice-yearly rate changes, a uniform definition of taxable income and a system of appeals; (4) strengthening reporting requirements so that each tax dollar is tracked from the time it is withheld until it is received by the appropriate taxing jurisdiction; (5) requiring that the Commonwealth issue one set of rules and regulations that apply to all collectors, taxpayers and employers; (6) requiring that the Department of Community and Economic Development develop uniform forms, notices, reports, returns, schedules, codes for school districts, municipalities and tax collection districts; (7) requiring that tax collectors keep a record

of all public monies received and distributed and submit monthly reports to each taxing jurisdiction and the tax collection district that must be reconciled with other records in an annual audit; and (8) providing for more accountability, transparency, oversight and enforcement.”

Local earned income tax collectors and their associations, as well as the Pennsylvania School Boards Association, agreed that there was a need for local earned income tax collection reform in Pennsylvania but disagreed on the manner of reform. For example, the local tax collectors lobbied for tax collection districts for each Pennsylvania school district which would include the municipalities located within that school district. The Pennsylvania School Boards Association raised a number of issues, including: (1) that Act No. 32 is another state mandate without adequate or identified state dollars to reimburse each committee for startup costs; (2) that lengthy payment turn-around time and new collection system phase-in will negatively impact on local school district revenue flows; and (3) that the voting rights in each tax collection district are not weighted based upon the overall revenue of each participating political subdivision. In Allegheny

County, for example, there are some political subdivisions which have had considerable success in collecting local earned income taxes. There is concern amongst these jurisdictions that being grouped together with other political subdivisions which may not have had the same success will increase costs and negatively affect revenue flows for the political subdivisions which have historically been successful in earned income tax collection.

Act No. 32 becomes effective for the fiscal year beginning January 1, 2012.

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Mike represents individuals, businesses and municipal corporations in commercial and residential real estate matters, zoning, eminent domain, real estate related litigation and creditor’s rights. He also represents lending institutions in financing and real estate transactions. Mike is a solicitor to zoning hearing boards and counsel to several municipal corporations in eminent domain and in municipal creditor’s rights matters.

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