

# Capital Tax Collection Bureau

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## EMPLOYER INSTRUCTIONS FOR WITHHOLDING, REPORTING, AND PAYING LOCAL EARNED INCOME TAX (EIT) December 2008

For additional information and copies of forms and instructions please visit our website at [www.captax.com](http://www.captax.com)

### **SPECIAL INFORMATION FOR THOSE EMPLOYERS EMPLOYING INDIVIDUALS AT WORK SITES IN DAUPHIN BOROUGH, LOWER PAXTON TOWNSHIP, MIDDLE PAXTON TOWNSHIP OR SWATARA TOWNSHIP, DAUPHIN COUNTY**

Beginning with the first quarter of 2009 H.A. Berkheimer Associates (BERKHEIMER) will become the EIT collector for Central Dauphin School District, Dauphin Borough, Lower Paxton Township, Middle Paxton Township and Swatara Township. Because of this change employers now have to differentiate whether their employees working at a worksite, in one of these municipalities, are residents or non-residents of that municipality. You may use the Bureau prescribed "Certificate of Residence" to make that determination.

Employees working at a worksite in Dauphin Borough, Lower Paxton Township, Middle Paxton Township or Swatara Township will have the EIT withheld and all of these withholdings and reporting will be made to BERKHEIMER starting with the first quarter of 2009.

**PAXTANG BOROUGH, PENBROOK BOROUGH AND WEST HANOVER TOWNSHIP** employers will have to differentiate whether your employees, working at a worksite in one of these three municipalities, are residents or non-residents of one of these municipalities and Central Dauphin School District. If they are non-residents of the municipality and Central Dauphin School District, the full amount of the withholding must be paid to our bureau (CTCB, Central Dauphin Division). If the employee works and resides in Paxtang Borough, Penbrook Borough or West Hanover Township, or if the employee resides in Central Dauphin school district, you are required to withhold the EIT at a 2% rate. The total of 2% is comprised of 1.5% levied by the Central Dauphin School District and .5% levied by the municipality. The municipality portion of the withholding must be remitted to the bureau (CTCB, Central Dauphin Division). The school district portion must be remitted to (BERKHEIMER)

Please remember that this transition does not take effect until the first quarter of 2009. The fourth quarter withholding remittance along with the W-2s and reconciliation for 2008 will be submitted to our bureau at the Central Dauphin Division.

### **SPECIAL INFORMATION FOR THOSE EMPLOYERS EMPLOYING INDIVIDUALS AT WORK SITES IN DICKINSON TOWNSHIP, MT. HOLLY SPRINGS BOROUGH OR NORTH MIDDLETON TOWNSHIP, CUMBERLAND COUNTY**

Beginning with the first quarter of 2009, Central Tax Bureau of Pennsylvania, Inc. (CENTAX) will become the EIT collector for Dickinson Township, Mt. Holly Springs Borough and North Middleton Township. Because of this change employers now have to differentiate whether your employees working at a worksite in one of these municipalities are residents or non-residents of that municipality. You may use the Bureau prescribed "Certificate of Residence" to make that determination.

Non-resident employees in this category will continue to have a minimum of 1.0% of their gross pays withheld for the EIT. You may withhold more than 1.0% for these non-resident employees, on the employee's request, to

satisfy a higher tax levy at their place of residence. All of the withholdings and reporting for these non-resident employees have to be made to CENTAX.

Employees that work and reside in Dickinson Township, Mt. Holly Springs Borough or North Middleton Township or employees that live in Carlisle Borough and work in Dickinson Township, Mt. Holly Springs Borough or North Middleton Township are required to have 1.60% of EIT withheld from their gross pays. This total of 1.60% is made up of a 1.10% EIT levied by the Carlisle Area School District and a .50% (1/2%) EIT levied by the municipality. The school's portion of this withholding (1.10%) must be remitted and reported to our Bureau (CTCB, Carlisle Division). The Municipality's portion of this withholding (.50%) must be remitted and reported to CENTAX.

Please remember that this transition does not take effect until the first quarter of 2009. The fourth quarter withholding remittance along with the W-2s and reconciliation for 2008 will be submitted to our bureau at the Carlisle Division.

IMPORTANT NOTE! CTCB based employers not employing individuals at a work site in Dickinson Township, Mt. Holly Springs Borough and North Middleton Township **DO NOT** have an option of sending local tax withholdings' of Dickinson Township, Mt. Holly Springs Borough and North Middleton Township resident employees directly to Centax – all such withholding must be paid directly to CTCB.

**SPECIAL INFORMATION FOR THOSE EMPLOYERS EMPLOYING INDIVIDUALS AT WORK SITES IN SOUTH MIDDLETON TOWNSHIP, CUMBERLAND COUNTY**

Since tax year 2005 our Bureau only administrates the EIT for South Middleton School District. In 2005 the Central Tax Bureau of Pennsylvania, Inc. (CENTAX) became the EIT collector for South Middleton Township. Because of this, employers now have to differentiate whether your employees working at a worksite in South Middleton Township are residents or non-residents of South Middleton Township. You may use the Bureau prescribed "Certificate of Residences" to make this determination.

Non-resident employees in this category will continue to have a minimum of 1.0% of their gross pays withheld for the EIT. You may withhold more than 1.0% for these non-resident employees, on the employee's request, to satisfy a higher tax levy at their place of residence. All of the withholdings and reporting for these non-resident employees have to be made to CENTAX.

Employees that work and reside in South Middleton Township are required to have 1.60% of EIT withheld from their gross pays. This total of 1.60% is made up of a 1.10% EIT levied by the South Middleton School District and a .50% (1/2%) EIT levied by the South Middleton Township. The school's portion of this withholding (1.10%) must be remitted and reported to our Bureau (CTCB, Carlisle Division). The Township's portion of this withholding (.50%) must be remitted and reported to CENTAX.

If CENTAX requires W-2 reporting, you will have to furnish 2 sets of W-2's for your employees that both work and reside in South Middleton Township – The total gross annual wages subject to any EIT should be presented in both W-2's local wage boxes, with the school district's 1.10% withholdings showing only in the "Local Tax Withheld" box of the W-2 filed with CTCB, and the township's .50% withholding showing only in the "Local Tax Withheld" box of the W-2 filed with CENTAX (if such is required). For your employees in this category your payroll system must be able to separately identify local EIT withholding amounts for South Middleton School District versus South Middleton Township. These amounts will have to be listed on two separate 2008 W-2's or listed separately on a single 2008 W-2.

IMPORTANT NOTE! CTCB based employers not employing individuals at a work site in South Middleton Township **DO NOT** have an option of sending local tax withholdings' of South Middleton Township resident employees directly to Centax – all such withholding must be paid directly to CTCB.

**DISCLOSURE STATEMENT:** You are entitled to receive a written explanation of your rights with regard to the audit, appeal, enforcement, refund and collection of local taxes by calling Capital Tax Collection Bureau's Harrisburg Division at (717) 234-3217 during the hours of 8 a.m. – 4 p.m., Monday through Thursday and 8:30 a.m. – 4 p.m., Friday.

**STATUTORY WITHHOLDING REQUIREMENT:** The requirement of withholding the local earned income tax (EIT) is imposed on every employer having an office, factory, workshop, branch, warehouse, or other place of business within any of the Capital Tax Collection Bureau member municipalities and/or school districts who employs one or more persons, for a salary, wage, commission or other compensation.

**EMPLOYER IDENTIFICATION NUMBER:** An employer should use his Federal Employer Identification Number (EIN) to report all EIT withholding to the Capital Tax Collection Bureau. The Bureau will assign new employers who have not yet received a Federal EIN a temporary number until the Federal EIN is obtained, at which time the Bureau must be notified. If an employer has multiple divisions using the same EIN but remitting and reconciling withholding tax separately, the employer may request, or be assigned, separate Bureau assigned account numbers for each division.

**AMOUNTS TO WITHHOLD:** If an employee is a resident of the municipality and/or school district where he or she works the employer is required to withhold the tax at the rate specified in the accompanying "EIT Rate Chart" for his/her municipality of residence. If an employee is a non-resident of the municipality and/or school district where he or she works, the employer is required to withhold, at a minimum, the non-resident tax rate for the municipality where the employee is working (all of the municipalities in CTCB's jurisdiction levy a 1.0% "non-resident tax"). Optionally, an employer and employee may agree to a higher rate of withholding for a non-resident that would equate to the employee's local earned income tax rate where he or she lives. Many employees in this situation prefer this, since it prevents the taxpayer from possibly having to pay the tax directly to the tax collector quarterly, or in a lump sum at the year-end filing time. In cases where the employee does not pay direct quarterly payments where required, it also alleviates subjectivity to interest and penalties being applied for late payment.

**WITHHOLDING DOCUMENTS:** The following documents are used with transmitting and reporting withheld Earned Income Tax:

**Form 501 (Employer's Depository Receipt)** - This form, along with the EIT withheld, is due monthly (15 days after the end of the month in which the tax was withheld) if the quarterly withholdings equal or exceed \$300 (i.e., average monthly withholdings equal or exceed \$100). Otherwise, this form and the withheld tax are due quarterly (the last business day of the month following each calendar quarter). EIT withholdings may be made by ACH (automated clearinghouse) transfer. Please call our Harrisburg Division at (717) 234-3217 for details if interested. Please mail 501 payments to the appropriate CTCB Division's PO Box address that we use for payments.

**Form 512 (Employer's Annual Reconciliation)** - This form is due along with copies of the W-2s 60 days after the calendar year or 60 days after the termination of the business, whichever occurs first. Please mail Form 512 and the associated W-2s to the appropriate CTCB Division's STREET ADDRESS – do not use our PO Boxes – PO boxes are for payments only.

**Form W-2 (Employee's Wage and Withholding Statement)** - Note: Employers reporting 250 or more W-2s are required to submit the W-2 information via magnetic media in lieu of paper W-2 Forms. Employers reporting less than 250 W-2s also may do the reporting via magnetic/optical media. For more information on this topic see the next section. W-2 forms must be completed and returned along with Form 512. Our Bureau makes "8-part, 1-wide" W-2s Forms available to our employers at no cost while our supplies last. The last sheet of the Form 512 packet is an employer's request form for W-2's. Please follow the instructions contained therein to receive W-2 forms. Remember to complete box 20 (Locality name) on the W-2. All employers that report earned income tax withholding to our Bureau must place "CTCB" in the "Locality Name" box of the W-2.

**Reporting W-2 Information Electronically or by Magnetic or Optical Media** - If you filed 200 or more W-2 forms with our bureau for the 2007 tax year we have enclosed a separate set of instructions covering this topic and a FORM MAG-1 which is used when transmitting the magnetic media reporting. If you need, or would like, a copy of these items and they are not enclosed please request them by contacting our Harrisburg Division office.

**EMPLOYERS ARE REQUIRED TO HAVE CERTAIN EMPLOYEES COMPLETE A CERTIFICATE OF RESIDENCE AND SUBMIT SUCH CERTIFICATE TO THE CAPITAL TAX COLLECTION BUREAU:** The Certificate of Residence ("COR") is a tool that both the employer and Capital Tax Collection Bureau can use to help insure that we have current information about your employee. It is mandatory that a COR is completed by every new employee hired and by every existing employee when they change either their name or permanent physical resident

address. The form will be used by the Bureau to help insure that withheld local income tax will be distributed to the correct taxing jurisdiction.

Completing the COR completely and supplying the correct information is very important. The area that may cause questions from your employees is asking them for their legal residence or domicile. For this question it is important that the employee answers with their permanent physical address and not temporary residence such as college dorms or temporary worksites. There is a comprehensive definition of domicile provided on the back of the COR for you and your employees to follow. If the employee is not sure of his or her municipality or school district you can access the US Census Bureau website and enter their street address to determine the correct information. The website is located at <http://factfinder.census.gov> then click on "Address Search - **Enter a street address** to find Census 20XX data" as found in the left hand margin of the web page.

After completion you may submit the form to our office either with your next scheduled remittance of local withholding or it may be faxed or mailed prior to that date. If you would like a MS Word or Adobe Acrobat version of the form, please contact the Harrisburg Division for information. Please remember you must also send a COR on any new hire or employee that has made a change to their name or permanent legal residence. If you need any additional forms you may contact the office or visit our website at [www.captax.com](http://www.captax.com).

**EARNED INCOME SUBJECT TO WITHHOLDING:** Earned income includes salaries wages, commissions, bonuses, incentive payments, fees, tips and other compensation received by a person or his personal representative for services rendered, whether directly or through an agent, and whether in cash or property. Compensation paid in any medium other than cash is valued at fair market value.

We have found, and continue to find, payments and benefits to employees that are incorrectly being excluded from local wages reported on W-2s by employers. When excluded from local wages, the earned income tax is also not being withheld on these items. Compensation subject to the Pennsylvania Personal Income Tax and earned income are similar in many respects.

Please be warned that if an employer does not withhold the earned income tax where it should have been withheld, and if attempts to collect the tax directly from the taxpayer are unsuccessful, the employer is responsible for the tax as though it had been levied against them.

The last section of this letter lists popular employee benefits and other types of compensation showing whether they are, or are not, taxable at the earned income tax level. If you have a particular type of benefit or compensation that is not included in this list, please contact the bureau's director, William V. Harbeson, at (717) 234-3217 and we will provide you with additional information.

**In all cases below, if a type of compensation must be included in local wages the earned income tax must be withheld on the value of that compensation and vice versa.**

**Severance Payments:** Payments commonly referred to as severance or termination pay (including golden parachute payments) are taxable.

**Employee Contributions to Federally Qualified Retirement Plans:** Employee contributions to these plans (e.g., 401-k, 403 (b)), whether or not paid through a salary reduction program, are includable in local wages.

**Employee Contributions to Non-Qualified Retirement or Deferred Compensation Plans:** Elective deferrals or deductions of current compensation to employees to these types of plans are excluded from local wages until the time they are distributed (starting with tax year 2005).

**Reimbursement for Expenses:** You must report all reimbursements and allowances (including moving and education) paid employees unless:

1. The expenses that you reimburse are allowable business expenses (allowable business expenses for earned income tax purposes are the same as for the Pa. Personal Income Tax); and
2. Your employees are required to, and do, account for these expenses to you; and

3. You reimbursed your employees in the exact amount of the allowable business expense.

A fixed mileage allowance or a per diem living expense allowance that does not exceed applicable Federal limits also is not reportable compensation as long as the employee accounts to the employer as to the where, when, and why of the expense.

**Educational Assistance Plans (EAP's):** All payments made to employees, or on the employee's behalf, for education costs are taxable unless the education expenses would qualify as an allowable business expense using the guidelines of the Pa. Personal Income Tax. Free tuition provided to the employees, or dependents of employees, of educational institutions constitutes taxable compensation.

**Dependent Care Benefits:** Employer reimbursements for employees' dependent care expenses are taxable. An employee's dependent care provided, or expenses thereof paid directly by, the employer is not taxable.

**Incentive Stock Option Plans:** Taxable at time of exercise. Taxable portion is fair market value at exercise over the cost paid, (or that must be eventually paid) to obtain the stock. Costs of sales (commissions) or exercise transaction do not reduce the taxable portion.

**Cafeteria or Flexible Benefit Plans:** Employer or employee contributions to a cafeteria plan or flexible benefit plan after January 1, 2003 will be treated the same way as for Pa. Personal Income Tax purposes.

**Non-Cash Fringe Benefits:** The fair market value of compensation in the form of property must be included in local wages. Personal use of company owned or leased property is not included in income.

**Legal & Other Professional Services:** Employer reimbursements for employees' legal and other professional service expenses are taxable. An employee's legal or other professional services provided, or expenses thereof paid directly by, the employer is not taxable.

**Life Insurance:** Insurance premiums paid for by the employer for coverage on an employee should NOT be included in local wages regardless of the amount. Life insurance purchased by the employee, including through salary reduction, is taxable. Any life insurance purchased by an employer for an employee's dependent is taxable to the employee. Taxable life insurance benefits must be reported in local wages and the local tax must be withheld on these amounts.

**Prizes and Awards:** The fair market value of prizes and awards to employees are includable in local wages if they are given as part of an incentive program or the recipient was required to render any services as a condition of receiving the prize or award.

**Vacation and Holiday Pay:** Vacation and holiday pay must be included in local wages.

**Sick/Disability Pay:** Employer paid sick or disability pay is includable in local wages to the extent it must be included in State wages.

**Retirement and Deferred Compensation Distributions:** Distributions from Pennsylvania P. I. T. "qualifying" retirement plans upon retirement are not taxable. In the event the plan is not "qualified" (e.g., non-qualified deferred compensation) or the distribution is made for a reason other than retirement, the distribution is taxable to the extent it is not a return of an employee's previously taxed contribution.

**Health Insurance Premiums:** Health insurance premiums paid by an employer for an employee are excluded from local wages including those premiums paid on behalf of a more than 2% shareholder-employee of an S Corporation.

**Medical Savings Accounts (MSA's):** Employer contributions to an employee's MSA (or an employee's family member's MSA) are excluded from local wages and are not subject to withholding. Any contributions made by an employee (this includes through a salary reduction program) are excludable on contributions to the extent they do not exceed the Federally prescribed limit.

**Adoption Benefits:** Employer provided adoption benefits must be included in local wages and are subject to withholding.

**Moving expenses** reimbursed to, or paid by employer on behalf of, an employee, employed prior to and after the move (i.e., for the benefit of the employer), are excludable from wages if they made payments for moving the employee, his immediate family, his household goods, his personal effects, or the transportation to one's new home.