



PAYROLL OFFICE

TO: All Employees / All Student Employees
FROM: Payroll Office
DATE: December 19, 2011
RE: 2012 Local Tax Withholding Changes

In late October, all employees should have received an e-mail notification requesting the completion and submission of a new Residency Certification Form to assist in identifying the county, school district, and municipality of the employee's permanent/home address.

Starting on January 1, 2012, the local income tax withholding system that was created by Pennsylvania Act 32 of 2008 will become effective. This new structure is designed to better distribute withheld tax dollars from the employer to the collection agency and ultimately to school districts and municipalities.

For the employee, the most significant change is in how the tax withheld from the paycheck is calculated. **Prior to 2012**, Messiah College was only required to withhold 1.7% on employees residing in Upper Allen Township (based on permanent address, not temporary on-campus address). For all other employees, prior legislation only required the College to withhold a flat 1.0% "non-resident" tax rate, as approved by Upper Allen Township. **Starting in 2012**, employers are now required to withhold the greater of the employee's resident tax rate (based on the employee's *residence*) and the employee's work location non-resident tax rate (based on the employee's *work location*). There was—and will still be—an exception for those employees who live and/or work at the Philadelphia Campus.

Many employees will not experience a change in the local tax withholding rate as a direct result of this legislation. However, there are scenarios whereby there will be a change in tax withheld. Below are some likely scenarios, along with the tax impact. **Please note that municipalities/school districts may, semi-annually, choose to modify a tax withholding rate—separate from this legislation. In these cases, an employee's tax withholding will change based on this modification.**

1. Student employees who live outside of the local area have been taxed at a 1.00% non-resident tax rate. With the change, the tax withheld will now be the greater of 1.00% or the actual resident tax rate. While this represents a per-pay tax increase, there is no annual tax increase, since the additional tax was paid at the time of year-end local tax filing.
2. Employees who lived in the local area in 2011 (typically Cumberland and adjacent counties) will not experience a tax increase directly from this legislation, as Payroll typically withheld the actual resident tax rate from these employees.
3. Out-of-State employees will not be affected, as the 1.00% non-resident tax rate will be withheld.

Please feel free to contact the Payroll Office with any questions. References related to the local income tax are listed below for your convenience.

- <http://www.newpa.com/get-local-gov-support/tax-information/dceds-act-32-eit-collection-system/>
- <http://www.newpa.com/get-local-gov-support/tax-information>
- <http://munstatspa.dced.state.pa.us/FindLocalTax.aspx>