

The New Act 7 Local Services Tax

What does the new Local Services Tax mean to my business?

The Local Services Tax (the "LST") is payable by all individuals who hold a job or otherwise work within a LST taxing jurisdiction. The LST is due quarterly on a pro rated basis, as determined by the total number of payroll periods for the year.

What information do I need to provide for my business?

Along with completed LST-1 form (filed on or before the quarterly due dates), you are required to include a listing of all employees with their addresses and social security numbers.

Am I required to withhold for the employees in my business?

If the total annual LST due is \$10.00 or less, the tax may be collected in one lump sum. If the municipality's and school district's combined LST rate is *more than* \$10.00, employers must withhold the tax based upon the number of annual payroll periods. Businesses are prohibited from withholding the tax in a lump sum payment in such cases. The new law requires that if an employer pays its employees weekly, the tax must be withheld weekly. For example, a \$52.00 tax will be collected at \$1.00 per week for employees paid weekly or at \$4.33 per month for employees paid monthly.

When do I report the withheld LST?

If the enacted rate is \$10.00 or less, the tax may be remitted in one lump sum during the first quarter of employment. If the municipal and school district combined LST is more than \$10.00, employers must submit the tax within thirty (30) days of the end of each quarter. If you report your earnings as a business profit or loss to the Federal or PA taxing authorities (such as on a Schedule C or a Schedule E), you will report the LST on a new form called the LST-3, which is also filed quarterly if the enacted rate is greater than \$10.00. Submit the form LST-3 to report your business earnings, along with the form LST-1 to report your employees' tax. If your business has no employees, indicate "no employees" on the first quarter LST-1 form. If, as an employer, your income is reported on a W-2, do not file the LST-3, but rather report your own LST along with your employees on the LST-1 form.

What if an employee resigns?

If an employee quits, his or her previous employer need only withhold the tax for the payroll period during which he or she was employed. The new employer will be responsible for withholding any further tax due from future paychecks.

Should employers withhold the LST from employees who earn less than the \$12,000 low-income exemption?

Employers will not withhold from an employee who files an upfront exemption certificate (filed with both the employer and the municipality) stating that he or she reasonably expects to earn less than \$12,000.00 during the subject calendar year. If that person's earned income in fact exceeds \$12,000.00 or the municipality's tax collector informs the employer that the employee's income has reached \$12,000.00, employers will "restart" withholding the LST in accordance with the Act 7 schedule.