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Employer Withholding For Pennsylvania Taxable Compensation Guide

DIRECTIONS

for

COMPLETING
FEDERAL FORM W-2
BLOCK 16



www.revenue.state.pa.us



This booklet contains information that will help you determine what income items must be reported in Block 16 (state wages, tips, etc.) of your employees' W-2 Wage and Tax Statement. It also contains instructions to help you determine which reportable income items are subject to Pennsylvania Personal Income Tax withholding.

Pennsylvania Personal Income Tax rules vary from federal income tax rules in many ways. This booklet assumes that:

- You have already correctly determined the employment status under federal income tax rules of each employee and non-employee with federally taxable wages.
- You have already correctly computed the amount of each employee's Block 1 (federal wages, tips, etc.) but do not know Pennsylvania Personal Income Tax rules.
- Your employee is not a statutory employee or statutory non-employee for federal income tax purposes.
- Your employee is not a post-doctoral research fellow.

The booklet lists each adjustment to the amount of an employee's Block 1 (federal wages, tips, etc.) that is necessary to compute the correct amount of the employee's Block 16 (state wages, tips, etc.) subject to Pennsylvania Personal Income Tax. Part I lists the items that are taxable for Pennsylvania purposes but not for federal purposes. The amount of these items must be added to the federal income amount. Part II lists the items that are not taxable for Pennsylvania purposes, but are taxable for federal purposes. The amount of these items must be subtracted from the federal income amount you computed.

Many amounts, of course, are taxable for both Pennsylvania and federal purposes. If you have correctly computed the employee's federal wages, tips, etc., no adjustment for these items will be necessary.

This booklet does not contain instructions covering information returns corresponding to federal Form 1099R or Form 1099-MISC. It also does not contain information concerning non-payroll items such as pensions, annuities, or other payments from any trust described in IRC §401(a) which is exempt from tax under IRC §501(a) at the time of such payment (unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust) and IRAs, military retirement, gambling winnings, and items subject to federal backup withholding such as interest, dividends, rents, royalties, commissions, and non-employee compensation. The booklet also does not identify which expenses may be deducted on **PA Schedule UE**. For more information on these matters, consult the PA PIT Guide available through the Department's Web site www.revenue.state.pa.us.

Effective January 1, 1998

Start with Box 1 (Wages, tips, other compensation) of Federal Form W-2 (Wage and Tax Statement). The following adjustments are required to determine Box 16 (state wages, tips, etc.):

Part A-ADD the following items to the Box 1 amount (unless already included) in the circumstances noted:

	Item	Withhold	When	Amount
1	Tuition reimbursement	Yes	All payments made by employers to employees for actual, vouchered educational expenses they incur unless the education is required by law or is required by employer of the employee to retain the specific skills needed for his present position.	Total amount of reimbursements neither used for allowable employee business expenses nor returned to the employer.
2	Educational assistance program	Yes	The education is not required by law or is not required by employer of the employee to retain the specific skills needed for his present position.	All amounts received by an employee for tuition, books, fees, supplies, etc. less than the federal exclusion amount (\$5,250 for 2000 tax year).
3	Dependent care assistance/day care	Yes	All instances other than when: a) Service is provided by employer or co-employee; b) Rights to service were procured beforehand by employer (not by employee); and c) Employee has no option to receive additional cash compensation in lieu of assistance.	Amount paid by employer and/or through employee contributions pursuant to salary reduction agreement or payroll deductions.
4	Employee reimbursements	Yes	To the extent that the reimbursement is excluded from federal income, but not from Pennsylvania income. Example: payments received under educational assistance plan when the training is not business related.	Amount not included in Box 1 federal wages. Arbitrary or lump sum reimbursements are taxable.
5	Prizes and awards, including length of service or safety achievement	Yes	Winner is required to render services as a condition to receiving prize or award or when awarded in recognition of years of service or safe work record.	To the extent not already included in block 1.

Part B-ADD the following items to the Box 1 amount:

	Item	Withhold	Amount
1	Elective employee contributions made under a salary reduction agreement or cash or deferred arrangement:		Amount to the extent not already included in block 1
	a) 401 (k) Plan	Yes	Amount to the extent not already included in block 1
	b) 403(b) Pure annuity plan, including plans sponsored by exempt organizations described in IRC § 501(c)	Yes	Amount to the extent not already included in block 1
	c) 403(b) Plan plus another deferred plan	Yes	Amount to the extent not already included in block 1
	d) 408(k) Simplified Employee Pension plan	Yes	Amount to the extent not already included in block 1
	e) 457 Plan	Yes	Amount to the extent not already included in block 1
	f) A trust established by an employer or other payer to fund federally nonqualified deferred compensation payments	Yes	Amount to the extent not already included in block 1
2	Elective contributions made under a salary reduction agreement or cash or deferred arrangement credited by an employer or other payer toward non-qualified deferred compensation payments	Yes	Amount to the extent not already included in block 1
3	Elective contributions made under a salary reduction agreement or cash or deferred arrangement credited by an employer or other payer toward the payment of federally qualified transportation fringes	Yes	Amount to the extent not already included in block 1
4	Elective contributions under a cafeteria plan when the employee elects federally excludible non-cash benefit, which is taxable for PA purposes (i.e., dependent care assistance or adoption assistance)	Yes	Amount to the extent not already included in block 1
5	Treaty exempt income when employee is PA resident	Yes	Amount to the extent not already included in block 1 as a result of federal treaty, unless treaty specifically says "State Tax Exempt"
6	Mustering out pay excludible under IRC § 113 when serviceman is PA resident	Yes	Amount to the extent not already included in block 1
7	Rental allowance paid to minister (Value of a parsonage is exempt beginning 1/1/98)	Yes	Entire allowance
8	Peace corps volunteers, basic living allowance	Yes	Entire allowance
9	Foreign earned income	Yes	Amount not subject to withholding because of federal exclusion
10	Veterans' bonus, state wages	Yes	Amount of bonus
11	Employer pickups	Yes	Amount treated as employer contribution for federal purposes pursuant to IRC §414(h)(2)

Part B continued-ADD the following items to the Box 1 amount:

	Item	Withhold	Amount
12	Reimbursements for employee business expenses reimbursed under an accountable plan	Yes	To the extent the item is an allowable deduction for federal income tax purposes, but not for PA purposes. Such items include: a. Job hunting and travel expenses incurred by an individual seeking new employment in the same trade or profession. b. Taxes based on income. c. Commerce or trade association dues, country club dues, etc. d. Fees incurred for seeking or securing new employment or different job with current employer. e. Travel expenses incurred for travel between different employments.
13	Educational assistance plan tuition	RESERVED	
14	Education and related travel expenses incurred by an individual seeking new employment	Yes	Amount to the extent not already included in block 1
15	Difference between FMV of federal non-qualified stock option at exercise and any amounts paid for the stock or the option when the option had a readily ascertainable value at the time it was granted and there are no substantial limitations or restrictions on transferability or alienability of the stock	Yes	Amount to the extent not already included in block 1
16	Difference between FMV of federal non-qualified stock option at lapse of limitations or restrictions and any amounts paid for the stock or option when the option had a readily ascertainable value at the time it was granted and there are substantial limitations or restrictions on transferability or alienability of the stock	Yes	Amount to the extent not already included in block 1
17	Difference between FMV of federal non-qualified stock option at disposition and any amounts paid for the option when the option had a readily ascertainable value at the time it was granted and the option was disposed of before exercise	Yes	Amount to the extent not already included in block 1
18	Difference between FMV of incentive stock option at disposition and any amounts paid for the option when the option was disposed of before exercise	Yes	Amount to the extent not already included in block 1
19	Difference between FMV of incentive stock option at the time it was exercised and the amounts paid for the option when the option was exercised before it was disposed of	Yes	Amount to the extent not already included in block 1

Part B continued-ADD the following items to the Box 1 amount:

	Item	Withhold	Amount
20	Difference between FMV of employee stock purchase plan stock option at the time limitations or restrictions on transferability or alienability of the stock lapse and the amounts paid for the option	Yes	Amount to the extent not already included in block 1
21	Dues paid for a membership in a business, athletic, country, social, hotel, airline, luncheon or sporting club when the employer elects not to treat the club usage as compensation for federal income tax purposes, membership is not in the name of the employer, and the club is not used primarily for trade or business	Yes	Amount to the extent not already included in block 1
22	Reimbursements for home office expenses when the employee has a principal place of work separate from the home office	Yes	Amount to the extent not already included in block 1

Part C-DEDUCT the following items from the Box 1 amount:

	Item	Withhold	
1	Fair market value of personal use of employer's vehicle	No	Irrespective of whether employer elects not to withhold federal tax
2	Personal use of company owned or commercial transportation unless already excluded as federal no-additional-cost service	No	
3	Personal use of property belonging to, or held under a lease by, the employer, such as educational or training facilities, housing, clothing, day care facilities, passenger cars and commuter high way vehicles, aircraft or watercraft, construction or recreation vehicles, athletic facilities or equipment, entertainment facilities or equipment, parking facilities, eating facilities, office facilities or equipment, tools, equipment or supplies	No	To the extent taxable for federal income tax purposes
4	Third party sick payments: a. Third party sick payments when premium is paid by employer under nondiscriminatory plan	No	
	b. Third party sick payments are subject to state withholding if third party is administrator/agent of employer for employer's sick leave plan (When employer bears insurance risk of extent of payment of benefits).	Yes	
5	Premiums paid by employer for nondiscriminatory term life insurance coverage when they exceed the cost (based on the IRS uniform premium cost tables) of more than \$50,000 of group-term life insurance provided by employer. If program discriminates in regard to eligibility to participate, coverage or entitlement to benefits, then no adjustment to federal box 1 wages.	No	
6	Income in respect of a decedent includible in income for federal income tax purposes, including after death payments of wages earned through the date of death or for vacation or time off with pay accumulated to date of death	No	

Part C continued-DEDUCT the following items from the Box 1 amount:

	Item	Withhold	
7	Nondiscriminatory split dollar life insurance coverage when the excess of the amount of the one-year term cost of the declining life insurance protection to which the employee is entitled exceeds the amount of the premiums he/she paid	No	
8	Campus lodging provided to employees of a primary or secondary school, college or university or their dependents if it discriminates in favor of highly compensated employees	No	To the extent not excludible as a de minimis fringe for federal income tax purposes
9	Nonqualified stock options (those not governed by IRC §§ 421-424) when amounts are required under the IRC to be included in income upon grant	No	
10	Direct employer contributions to an IRA or SEP when they exceed federal limitations on employer contributions and not made pursuant to employee election	No	To the extent of the excess
11	Meals and lodging not provided for the employer's convenience	No	To the extent not excludible as a de minimis fringe for federal income tax purposes

Part D-DEDUCT the following items from the Box 1 amount in the circumstances noted:

	Item	Withhold	When
1	Financial planning assistance	No	Service is purchased directly by the employer or is provided by the employer's own employees.
2	Retirement counseling fees	No	Service is purchased directly by the employer or is provided by the employer's own employees.
3	Other life insurance, including term, whole, under nondiscriminatory plan when premiums paid by employer	No	Except group term life insurance coverage on an employee's dependent.
4	Split dollar life insurance	No	To extent employer pays premiums for life insurance coverage element in policy
5	Campus lodging	No	Irrespective of whether for employer's convenience (Act 45 of 1998). (If cash allowance, it is subject to withholding)
6	Meals and lodging not provided for the employer's convenience	No	
7	Amount of tuition reduction or waiver	No	When the reduction or waiver discriminates in favor of highly compensated employees of the primary or secondary school, college or university
8	Supplemental unemployment benefits paid under nondiscriminatory plan	No	or the student is a graduate student not engaged in teaching or research activities for the employer – after 1/1/98 (Act 45)
9	Amount reportable for federal income tax purposes at grant of nonqualified stock option	No	When the option has a readily ascertainable value

Part D continued-DEDUCT the following items from the Box 1 figure in the circumstances noted:

	Item	Withhold	When
10	Amount reported for federal income tax purposes at sale of stock purchased under an employee stock purchase plan	No	
11	Amount reported for federal income tax purposes at sale of stock purchased under an incentive stock option	No	
12	Federally taxable compensation received while serving as a U.S. serviceman in a combat zone	No	When <i>NOT</i> for service in a combat zone or for a month during any part of which serviceman was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone
13	Federally taxable compensation received for active duty as a member of the Armed Forces of the U.S. outside PA	No	
14	Dues paid for a membership in a business, athletic, country, social, hotel, airline, luncheon or sporting club, to extent the employer elects to treat the club usage as compensation for federal income tax purposes	No	When the membership is titled in the name of the employer
15	Moving and relocation expense reimbursements	No	When both of the following apply: 1) The reimbursement would be wholly excludible for federal income tax purposes but for the fact that the new principal place of work is less than 50 miles farther from the individual's old residence than was his or her former principal place of work; and 2) The new principal place of work is at least 35 miles farther from the individual's old residence than was his or her former principal place of work

Part E-NO ADJUSTMENT is made for the following items:

1	a) Health and accident insurance plan premiums paid by the employer under nondiscriminatory health or accident plan b) Employer contributions to Medical Savings Account, if program is nondiscriminatory. If program in a. or b. is discriminatory, add to box 1 wages
2	Medical reimbursement account. Payments to reimburse the employee for expenses incurred for medical care under self-insured medical reimbursement plan under IRC § 105(h)(6) when employee precluded from receiving unused contributions or carrying benefit to subsequent taxable year
3	Awards, gifts, prizes and length of service achievement or safety with value in excess of \$400 or in excess of \$1,600 for qualified plan awards
4	Periodic sick or disability payments by employer if payment based on nature of sickness, injury or disability and not with reference to employee's absence from work. If in lump sum form or based on employee's rate of compensation, then subject to withholding

Part E continued-NO ADJUSTMENT is made for the following items:

5	Sick pay - employee receives the full amount or a percentage of his regular wages, the amount of leave is earned based on length of service, the employee may receive all or a portion of unused sick leave if he terminates employment after a specified time period, whether in years, days, or the employee can receive the benefits if he takes leave for regular physician or dental visits or for family bereavement
6	Interest from below market interest rate loans in excess of \$10,000
7	Employer provided facilities for vacations or use of other employer owned or leased property, including off-premises athletic facilities
8	Meals excludible as a de minimis fringe benefit for federal tax purposes.
9	Meals and lodging provided for the employer's convenience.
10	Uncollected company loans or other advances, discharge of indebtedness constituting compensation
11	Employee's withholding taxes paid by the employer for: <ul style="list-style-type: none"> a) Federal income tax b) Social Security Tax (OASDI) c) Social Security Tax (Medicare) d) State income tax e) State unemployment tax f) State disability tax g) County, city, borough, township, village, school district, or any other local tax
12	Tangible personal property awards and prizes
13	Tuition reimbursement exceeding \$5,250 for 2000 (course not required by law or for employee to maintain skills needed for present position)
14	Tangible personal property awards and prizes
15	Employee voluntary or required contributions to: <ul style="list-style-type: none"> a) IRA/SEP employee only b) IRA/SEP employee plus spousal arrangement
16	Excess contributions to: <ul style="list-style-type: none"> a) 401 (k) b) 403(b) annuity contract c) 403(b) (multiple annuity contracts of single employee) e. g. 408(k) or 457 Plan
17	Employer provided country club memberships, season tickets to sporting or other entertainment events (if reimbursement)
18	On-site day care or athletic facilities
19	Standard per diem and federal mileage allowance reporting of employee business expenses
20	Vacation pay
21	Property received as compensation
22	Vacation pay
23	Scholarship or fellowship grant or award requiring services to the employer unless recipient is a candidate for a degree and the same services are required of all students as prerequisite to receiving degree. If scholarship or fellowship awarded on condition for past or future employment services, then subject to withholding. If recipient is required to apply his skill and training to advance research, creative work or some other project or activity, award is subject to withholding unless the test in the first sentence of this paragraph is met.
24	Qualified employee discounts
25	No additional cost services
26	Severance or dismissal pay
27	Pay in lieu of time off for vocation or other earned absences

Part E continued-NO ADJUSTMENT is made for the following items:

28	Allowance for employee's use of personal vehicle based on: A. Distance employee must drive to perform regular employment duties as required by employer B. Performing regular employment duties on regular day off, legal holiday, Saturday or Sunday.
29	Employee business expenses reimbursed by the employer under accountable plan
30	Value of parsonage furnished to clergy member
31	Commissions
32	Employee discounts, no additional cost services, working condition fringes, de minimis fringes or qualified transportation fringe benefits unless the employee has the choice between cash and the benefit. If so, e.g. qualified transportation fringe, the amount the employee could have received as cash compensation or received as a reimbursement for the expense is added to box 1 federal wages.
33	Bargain purchases - from employer
34	Payments received to cancel employment contract with employer
35	Armed force pay for service performed in Pennsylvania while on federal active duty
36	Regular pay by non-military employer to employees during period of military service
37	Group term life insurance coverage for dependents
38	Cafeteria or flexible benefit plan when employee elects a benefit that is taxable for federal tax purposes
39	Tuition reductions, beginning Jan 1, 1998, for employees and their dependents at primary, secondary and post secondary educational institutions for undergraduate courses
40	Mustering out pay when a Pennsylvania resident separates from active duty following service within Pennsylvania
41	Golden parachute payments

Part F-OTHER TOPICS that require separate treatment:

	Item	Withheld	Reporting	When	Amount
1	Tips	No	Yes	Received by employee directly from customers & not turned over to employer.	Report amount listed on federal information return.
		Yes	Yes	Tips received through the employer (i.e. fixed gratuity, service charge transfers, credit card tips or pooled fund tips maintained by employer.)	Total amount of tips.
2	Payments to statutory employees	No	Yes		
3	Health or Accident insurance plan	Yes	Yes	Employee actual cash, deductions or employee's unilateral selection of employer contributions, (this rule does not cover employee contributions to an IRC cafeteria plan or medical or dental reimbursement account (IRC § 105(b) when the employee cannot receive unused benefits as cash or carry them forward to a later tax year)	Amount of cash, deductions, or employer contributions.

Part F continued-OTHER TOPICS that require separate treatment:

	Item	Withheld	Reporting	When	Amount
4	Long term or short term disability payments under nondiscriminatory plan	No No	No No	If periodic payments from third party insurer under plan established by the employer. If periodic payments that are not regular wages, which means: a) Payments have no direct relationship to employee's usual rate of compensation; b) The payments are computed with reference to the nature of the sickness or injury and not based on the employee's job classification of title; c) The periodic payments would be reduced by payments under workmen's compensation laws, occupational disease acts, Social Security disability benefits or similar legislation by governmental entities; or d) The payments exceed the employee's usual rate of compensation.	Applies if employer pays for the insurance premium and does not bare the risk of extent of payment of benefits.
		Yes	Yes	If plan established by employer and if wage continuation plan. A wage continuation plan is one under which: 1 Employee will receive his regular wages even if he takes sick leave for family bereavement, sickness in the family, regular physician or dental visits; 2 The amount of sick leave earned by the employee is based on length of service with the employer; or 3 The employee may receive a portion or all of his unused sick leave if he terminates employment after a stated time period (<i>i.e.</i> expressed in years of service) with the employer.	Total amount paid to the employee. Total amount paid to the employee.

NOTE: If an item of compensation is not discussed in this document and is included in Box 1 and a question exists about whether it should be subject to withholding for Pennsylvania Personal Income Tax purposes, consult Departmental regulations (61 Pa. Code § 101.6 & 113.1) at www.pacode.com. If an issue and/or transaction is not covered by the regulations, employers may write to the Department's Office of Chief Counsel to request a private letter ruling. Send written inquiries to: PA Department of Revenue, Office of Chief Counsel, Attn: Personal Income Tax, Dept. 281061, Harrisburg, PA 17128-1061.

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