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Comptroller

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Withholding Of Pennsylvania State / Local Taxes

Central Payroll recently completed a review of the following question: Why doesn't the State of Maryland withhold Pennsylvania State Tax for our government employees who work here in Maryland yet live in Pennsylvania.

Central Payroll Bureau and representatives from our Information Technology Division, The Revenue Administration Division, and the Comptroller's Office of Legal Counsel have discussed the many pros and cons of taking on such a task. In these discussions we have evaluated the following:

1. The numerous computer system modifications and personnel expense necessary to accomplish such a task
2. Our reciprocal agreement between Maryland and Pennsylvania, signed in March of 1990 by the late Louis L. Goldstein, then Comptroller of Maryland.
3. Our current knowledge of Pennsylvania's Local Taxing Authority which allows local taxing against Maryland residents working in certain Pennsylvania townships.
4. Maryland's retaliatory taxing where we impose a county tax on the earnings of some Pennsylvania residents (see Tax General §10-806 for general application).
5. The most recent updates concerning Pennsylvania's passage of the Local Tax Enabling Act, known as Act 32 and
6. The potential risks to the State of Maryland's current sovereign immunity with Pennsylvania.

As a result of our joint detailed research, related webinar attendance and numerous discussions, we have identified many high impact differences between the withholding requirements of Pennsylvania and those currently being used for Maryland, West Virginia, and/or the District of Columbia. To accomplish such a service, we would need to modify over 200 highly used calculation modules, implement many new tax processes, create new user fields within the appropriate Master Files, and allocate significant annual resources to update Pennsylvania's individual Tax bulletins, not to mention the on-going task of adverse impact testing the entire system every time a tax rate changed.

After careful evaluation of the many changes that would be mandated by such a task, Central Payroll has decided not to withhold Pennsylvania State / Local Tax. Pennsylvania residents will still have the option of voluntarily withholding Maryland Tax (and the filing of Maryland's 505 Non-Resident return) and/or the use of Pennsylvania's quarterly estimated tax payments.

Thank you,

A handwritten signature in black ink that reads "Robert J. Murphy".