

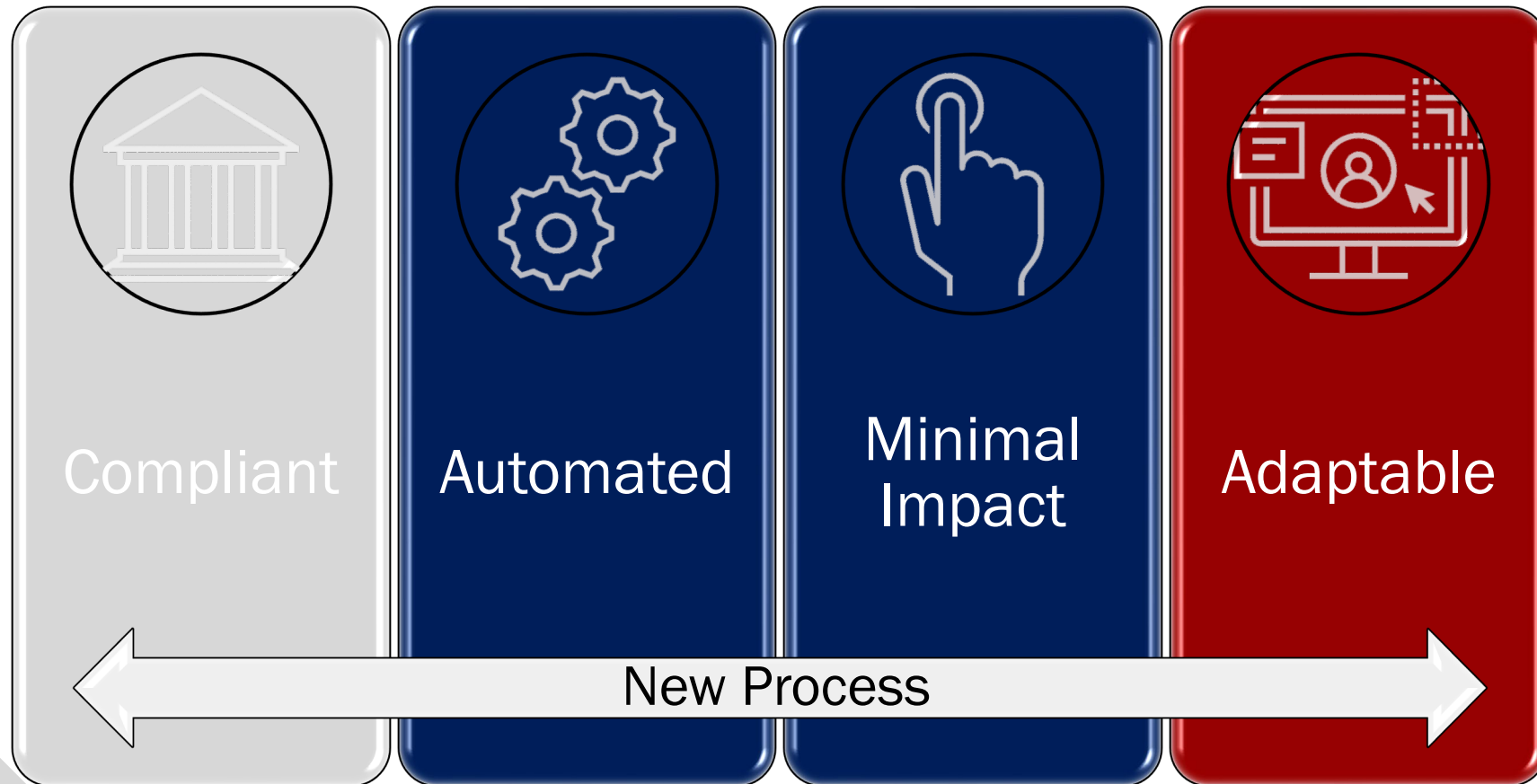
State Withholding on Nonemployee Compensation

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Senior BA Meeting
December 12, 2023

Background

- Effective 1/1/18, Pennsylvania required withholding on individuals who were non-Pennsylvania residents performing services in Pennsylvania
 - Penn began withholding PA tax at that time
 - Manual process
- California, North Carolina and South Carolina also have withholding requirements on services provided by non-residents individuals or organizations
- Team to develop process to become compliant in additional states
 - Procurement Services; ISC; Financial Systems; Corporate Tax, Compliance & Payroll, and Financial Training



Background

- Two project phases:
 - Phase I – Capture the Location of Service (LOS)
 - Currently captured on non-PO payment requests
 - Capture LOS for Purchase Order suppliers
 - Phase II – Calculate and withhold tax
 - Expand current process for PA withholding to include other states

Phase I – Capture LOS

- Capture state of location of services:
 - PO suppliers – Added new required field to be completed when requisition is created for service object codes
 - Cannot advance through the requisition unless field is entered
 - For services provided in multiple states, enter the state where the predominance of services are provided
 - Notice to supplier of LOS & potential tax withholding on the PO
 - Non-PO payment requests – captured in current process
 - Integrate with BEN Financials
 - FRES
 - Construction POs – LOS added during approval process
 - Maintenance POs – LOS defaults to Pennsylvania
 - Implementation date: January 16, 2024

Phase II – Tax Calculation

- Compare LOS and tax location of supplier
 - Calculate tax on nonresidents performing services in PA, CA, NC and SC
 - Tax will be withheld at the first dollar
 - State withholding rates range from 2% to 7%
- Implementation Date: April/May 2024
 - POs created after 1/15/24 – withholding will begin upon implementation
 - POs created before 1/16/24 – no withholding as no LOS
 - Nonresidents of PA performing work in PA will be subject to PA withholding as the current manual process will continue during the transition period
 - Change POs created after 1/15/24 will also require LOS
 - Non-PO payment requests – withholding will occur upon implementation

Communication Plan

- Presentations to BAB, Procurement Council, Senior BA, and ABA groups – November through December 2023
- Communications to Senior BA, ABA, and Research – December 2023
- Notification to Suppliers regarding location of services on PO – December 2023

Questions?

