Withholding on Non-Employee Compensation in Other States

Senior Business Administrators Meeting
February 7, 2023
Agenda

• Background
• Withholding in other states
• Determination for tax withholding
• Proposed process
• Alternate solutions not selected
• Proposed implementation timeline
Background

• Effective January 1, 2018 Pennsylvania required organizations to withhold on PA non-residents receiving non-employee compensation for services performed in PA.
  • Required for individuals and LLCs electing to be taxed as individuals

• Penn began withholding in January 2018
  • Process is currently handled manually by A/P
Withholding in states other than PA

- CA, NC, SC and PR also require withholding on non-residents performing services in those states
  - Required for individuals, partnerships and corporations
- Penn is now working to become compliant in those states and territory.
Determination of Tax Withholding

• Taxability is based on:
  • Residence – Supplier Record in BEN
  • Location of Services
    • PO invoices – new process to capture
    • Non-PO payment requests – currently captured
      • Requires integration into BEN Financials
Proposed Requisition/Purchase Order Process

• BEN Buys Requisitions/Purchase Orders:
  • Requisitions using Non-employee Compensation Object Codes
  • Requisitioner will be prompted to add the location where the services will be provided
    • State/US Territory
    • Country
  • If not captured on requisition, then PO workflow notification will require the PO Manager to supply that information
  • For individuals – from the SPQ
    • Form is being modified to capture this information
  • For Corporations/Partnerships – inquiry to the supplier
Alternate Solutions not Selected

- Collect location of services at the time of **supplier registration**
  - Requires supplier to update the supplier portal for changes in location of services
  - Inflexible process/inability to account for multiple locations of work

- Collect location of services at the **invoice level**
  - Requires invoice holds to collect location of service
  - 51,000 invoices (based on CY 21 data) would be placed on hold that would need to be cleared by the school/center
Proposed Implementation Timeline

• Phase I
  • Begin Capture of Location of Services – CY 23

• Phase II
  • Begin tax withholding for CA, NC, SC, and PR – January 1, 2024