



York Office
1405 N. Duke St.
PO Box 15627
York, PA 17405-0156
Phone (717) 845-1584
Fax (717) 854-6376
<http://www.yatb.com>

Gettysburg Office
240 West Street
PO Box 4374
Gettysburg, PA 17325
Phone (717) 334-4000
Fax (717) 337-2565
email: info@yatb.com

MEMORANDUM

RE: Active Duty Military Pay
Act 6 of 2016

DATE: February 24, 2016

On February 23, 2016 Governor Wolf sign ACT 6 of 2016 into law. This ACT exempts all active duty military service from the Earned Income Tax, no matter where the active duty was served. The law is not retro-active. This ACT takes effect for taxes levied and collected after December 31, 2015. A copy of the law is attached.

Please note that prior to ACT 32 (before 2012) Active Duty pay, no matter where it was earned, was not-taxable. In 2012 ACT 32 made the definition of earned income mirror the PA Department of Revenue's definition of compensation (except for clergy housing) and as a result Active Duty pay earned in Pennsylvania became taxable for Local Income Tax purposes.

How does this affect Local Income Tax Returns?

For the years 2012 through and including 2015 active duty military pay earned in Pennsylvania is taxable.

For tax years **prior** to 2012 and **after** 2015 active duty military pay earned in Pennsylvania will not be taxable.

If a taxpayer files a return reporting active duty military pay, the Bureau may request copies of the military orders to verify eligibility under the Act.

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 561 Session of 2015

INTRODUCED BY KAUFFMAN, CONKLIN, KNOWLES, KORTZ, PASHINSKI, BARRAR, A. HARRIS, HARHART, MARSICO, D. MILLER, CUTLER, WATSON, MULLERY, KINSEY, BIZZARRO, GILLEN, TALLMAN, MURT, RAPP, MILLARD, METCALFE, SAYLOR, EVERETT, DeLUCA, GABLER, M. K. KELLER, HICKERNELL, GIBBONS, MOUL AND HEFFLEY, FEBRUARY 23, 2015

REFERRED TO COMMITTEE ON FINANCE, FEBRUARY 23, 2015

AN ACT

Amending the act of December 31, 1965 (P.L.1257, No.511), entitled "An act empowering cities of the second class, cities of the second class A, cities of the third class, boroughs, towns, townships of the first class, townships of the second class, school districts of the second class, school districts of the third class and school districts of the fourth class including independent school districts, to levy, assess, collect or to provide for the levying, assessment and collection of certain taxes subject to maximum limitations for general revenue purposes; authorizing the establishment of bureaus and the appointment and compensation of officers, agencies and employes to assess and collect such taxes; providing for joint collection of certain taxes, prescribing certain definitions and other provisions for taxes levied and assessed upon earned income, providing for annual audits and for collection of delinquent taxes, and permitting and requiring penalties to be imposed and enforced, including penalties for disclosure of confidential information, providing an appeal from the ordinance or resolution levying such taxes to the court of quarter sessions and to the Supreme Court and Superior Court," in consolidated collection of local income taxes, further providing for definitions.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. The definition of "earned income" in section 501 of the act of December 31, 1965 (P.L.1257, No.511), known as The Local Tax Enabling Act, added July 2, 2008 (P.L.197, No.32), is

amended to read:

Section 501. Definitions.

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

* * *

"Earned income." The compensation as required to be reported to or as determined by the Department of Revenue under section 303 of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971, and rules and regulations promulgated under that section[.] subject to the following:

(1) Employee business expenses as reported to or determined by the Department of Revenue under Article III of the Tax Reform Code of 1971 shall constitute allowable deductions in determining earned income.

(2) The term does not include [offsets]:

(i) Wages or compensation paid to individuals on active military service, regardless of whether it is earned for active military service inside or outside this Commonwealth.

(ii) Offsets for business losses.

(iii) The amount of any housing allowance provided to a member of the clergy [shall not be taxable as earned income].

* * *

Section 2. This act shall apply to income taxes levied and collected after December 31, 2015.

Section 3. This act shall take effect immediately.