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## Is your PA business ready?

DIGITAL & TECHNOLOGY, TAX  
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Starting in 2018, Pennsylvania is requiring businesses to withhold state income tax of 3.07% from all non-resident Form 1099 recipients paid over \$5,000 per year. As a business, you will want to assess how much of an impact this will have on your organization and develop a process to manage the withholding moving forward. Looking over your prior years' Forms 1099 can provide insight as to the volume of out of state vendors paid by your organization. Even if you have few or none, there may come a time where a vendor fits into this category, and you will want to prepare for it. Below are some considerations to take into account.

The amounts withheld for PA income tax are to be paid and reported on the same tools used for payroll tax reporting, e-TIDES and REV-1667. You can use the same Tax ID, but we recommend you avoid combining accounts payable data with payroll data. This is particularly important if you are using a third-party payroll processor to submit tax forms on your behalf. To avoid issues, you can create a specific 1099-MISC withholding account with the State. Fill out Form PA-100 found at [www.pa100.state.pa.us](http://www.pa100.state.pa.us) to create the new account. The Tax ID assigned will be required to show in Box 17 on the Forms 1099.

Additionally, you will want to review your process to collect the tax withholding and also to report the amounts properly at year-end. The amount paid to the individual or business, including the amounts withheld for state income tax, will need to show in the appropriate boxes. The most common of these being targeted are: Box 1 – Rents and Box 7 – Nonemployee compensation. The income amount of the recipient will also need to show on Box 18 – State income. In addition, the amount withheld for PA State Tax is required to show in Box 16.

More sophisticated accounting systems should be able to handle the reporting issues, but may require customizations. Others systems may need manual inputs and overrides throughout the year and at year-end to correctly report the amounts on the form. Questions pertaining to your specific accounting software should be directed to a software consultant familiar with your application. Understanding the process prior to entering invoices or checks for these vendors will save pain at year-end.

If you have yet to start withholding, there is no need to worry. The PA Department of Revenue has stated that they will not apply assessments for payments made prior to July 1, 2018.

Additional information can be found at [www.revenue.pa.gov](http://www.revenue.pa.gov). Find their fact sheet on the topic [here](#).

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