

Pennsylvania Requires Income Tax Withholding on PA Source Lease Payments and Nonemployee Compensation Paid to Nonresidents

Beginning January 1, 2018, any person that makes annual payments of compensation or business income to a nonresident individual or a disregarded entity owned by a nonresident will be required to withhold and deduct from those payments tax at the rate in effect for the tax year (3.07% for calendar year 2018), if the payments are otherwise required to be reported on Form 1099-MISC and meet or exceed \$5,000 for the year. Certain government payors are exempt from these requirements.

DISCLAIMER: This client advisory is for general information purposes only. It does not constitute legal or tax advice, and may not be used and relied upon as a substitute for legal or tax advice regarding a specific issue or problem. Advice should be obtained from a qualified attorney or tax practitioner licensed to practice in the jurisdiction where that advice is sought.

Similarly, every lessee of Pennsylvania real estate who makes any lease payments to a nonresident lessor (that is an individual, trust or estate) in the course of a trade or business must withhold Pennsylvania personal income tax on those rental payments if the lessor receives from the lessee \$5,000 or more during the tax year.

While the withholding requirements mentioned above are optional for payments to each nonresident that total less than \$5,000 annually, if it at the time payments commence it is unclear whether this threshold will be met, it may be advisable to withhold tax from the outset since withholding is required on every dollar once the threshold is reached.

Any person required to withhold tax on payments will need to register for an account with the Pennsylvania Department of Revenue and make periodic filings and remittance of amounts withheld.

If you have questions about the applicability of, or compliance with, Pennsylvania reporting or withholding obligations, or if you are seeking assistance with any other aspect of Pennsylvania taxes, please contact [Tiffany Donio, Esq.](#), or any other member of [Archer's Tax Group](#), in Haddonfield, N.J., at (856) 795-2121, or in Philadelphia, PA, at (215) 963-3300.