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Senate of Pennsylvania

January 13, 2011

MEMORANDUM

TO: All Senators

FROM:  Senator Lisa Baker

SUBJECT: **Local Earned Income Tax Exemption for Active-Duty Military Pay**

Please join me in co-sponsoring legislation to ensure all active duty military pay continues to remain exempt from local income tax. Although this income is currently exempt in most cases, the National Guard Association is concerned that comprehensive revisions to the Local Tax Enabling Act signed into law under Act 32 of 2008 will in the future require all active duty military pay earned within the Commonwealth to become subject to local income taxes beginning in 2012.

The prior definition of "earned income" in the Local Tax Enabling Act excludes wages paid to all individuals on active military service, but the new definition for earned income under Act 32 reverts to language used in the Tax Reform Code of 1971. This language only excludes active duty pay received outside Pennsylvania.

Act 32 provided many beneficial changes in our local tax system, but I believe its effect on active duty military pay should be reconsidered. The military operations of the PA National Guard have increased exponentially over the last few years while more and more Guard personnel have been ordered to serve active duty either abroad or at state installations in support of major deployments. These soldiers are required to take leave from their families and professional careers – often at lower pay – to serve our country and I believe the wages they earn for this service should not become subject to new taxation.

The legislation I plan to introduce will amend the definition of "earned income" in the Local Tax Enabling Act to explicitly exempt wages paid to individuals on active duty military service, regardless of whether it is earned inside or outside the Commonwealth.

If you wish to co-sponsor this proposal, please contact Liz Clancy at lclancy@pasen.gov or by phone at 787-7428. If you have any questions on this legislation, please contact Aaron Shenck of my staff at ashenck@pasen.gov or by phone.

Thank you.

LB/ams