What is the Act 205 tax and why do I have to pay it?

Act 205, the Distressed Municipal Pension Recovery Tax Act, was signed into law in 1984 and allows certain municipalities to increase their earned income tax rates to fund their municipal pension liabilities. The State of Pennsylvania must approve all requests to implement Act 205.

Act 205 of 1984 was approved for the City of York starting January 1, 2015. The City of York resident and non-resident EIT tax rate increased from 1% to 1.25%. The increase must be used for the City of York's distressed pension system. This increase pertains to the City of York and not the County of York.

What does this mean? Anyone residing in and/or working in York City will have a tax rate of at least 1.25% starting January 1, 2015.

An individual's resident tax rate always takes precedence over the ACT 205 increase. If an individual works in the City of York but lives in an area with a resident tax rate higher than 1.25% the higher resident rate will be used. For example a Dover resident working in the City of York will continue to have a tax liability of 1.4% - the City of York does not receive any portion of the tax in this situation.

Conversely, if an individual lives in an area where the resident tax rate is less than 1.25% the withholding would be at the higher York City non-resident rate of 1.25%. For example a Dallastown Borough resident working in the City of York will have 1.25% tax rate – 1% to Dallastown and the remaining .25% will be to the City of York. In this case the City of York portion is not refundable – it is allocated to the City's distressed pension recovery.

It is important to understand that this rate increase only applies to the City of York. It does not apply to surrounding municipalities and is not determined by your zip code. Many municipalities have a York, PA address and zip but are not located within the City of York. Only those residents or non-residents who live or work within the City's municipal boundaries are subject to the tax increase.