

## **WHAT IS THE EARNED INCOME TAX?**

A non-discriminatory tax applying to gross compensation and/or net profits which is commonly referred to as a "Wage Tax." It is a tax levied against an individual's earned income and/or net profits whether the income is from the operation of a business or from wages, commissions, or other sources.

## **WHY WAS THE EARNED INCOME TAX NECESSARY? WHY NOT INCREASE TAXES ON REAL ESTATE?**

The Earned Income Tax is necessary due to the increased costs associated with providing and maintaining local governmental services. As a result, all local governments have had to explore alternative sources to bear a share of the local tax burden. The real estate tax is the largest source of our general fund or operating revenues, it is no longer feasible to continue to impose additional taxes only upon real estate.

The Earned Income Tax will reach, on a more equitable basis, only those persons most capable of assuming the tax liabilities. The elderly living on pensions, unemployed and others on fixed income would have no additional tax liability except where they have income that would be classified as earned income and/or net profits. In effect, for many residents the portion of the tax burden that they share will be reduced.

## **WHO MUST PAY THE TAX?**

- \* All residents are subject to the tax. The earned income tax is generally paid to the community in which one lives. If an employer is deducting the tax, residents must check with their payroll department to be sure that their deductions are being remitted to the proper municipality.
- \* All non-residents who are employed or working in the municipality are generally subject to the tax.
- \* For newcomers to the municipality or school district, only income earned after becoming a resident or employed within the district is taxable.
- \* Residents who work outside Pennsylvania or in the City of Philadelphia must check with the tax office for special provisions.

## **WHAT DEDUCTIONS ARE ALLOWABLE?**

Generally, for employed persons paid on a salary, wage or commission basis, there NO allowable deductions from gross compensation. **THE ONLY EXCEPTIONS ARE BUSINESS EXPENSES WHICH MEET ALL THREE OF THE FOLLOWING TESTS:**

1. No reimbursement is made by the employer and the expenses are required as a condition of employment.
2. The expenses were normal, necessary, reasonable and actually incurred.
3. The expenses are recognized as allowable deductions by State Department of Revenue and the IRS for federal tax purposes.

**WHEN DEDUCTIONS ARE TAKEN**, an itemized list must accompany the return along with a letter from your employer stating that expenses incurred are required as a condition of employment.

For persons who are self-employed and pay the tax on a net profit basis, the deductions allowable on Schedule C (or equivalent) for determining net profit for federal tax purposes are also allowable for determining net profit for local tax purposes.

The following are examples of items which are NOT DEDUCTIBLE:

IRA Contributions	Keogh Plan Contributions	Interest Expenses
Tax Expenses	Medical Expenses	Moving Expenses
Deferred Income	Reimbursed Business Expenses	Travel to and from work

**HOW WILL THE EARNED INCOME TAX BE COLLECTED?**

From some, it will be collected at the source of their income through withholding by their employers. From others, it will be collected by direct payment from the individual taxpayer either in full or in installments.

**WHEN IS THE TAX DUE?**

The quarterly due dates payment periods are due as follows per tax period or fractional period as follows:

Quarter	Period Covered	Due Date
1	Jan., Feb., March	April 30
2	Apr., May, June	July 31
3	July, Aug., Sept.	October 31
4	Oct., Nov., Dec.	January 31
<b>Final Return</b>	Full Tax Year	April 15

**HOW IS THE TAX PAID?**

- \* For persons whose employers withhold the tax, a FINAL RETURN form is mailed each year and must be filed with the Tax Office by April 15th for the prior year ended December 31st.
- \* For persons whose employers do not withhold the tax, a QUARTERLY RETURN reporting taxable income must be filed with the Tax Office on or before each April 30, July 31, October 31, and January 31 for the quarters ended March 31, June 30, September 30, and December 31, respectively. Payment of the tax due must accompany the return. If there are no taxable earnings for a particular quarter, a return indicating such must be filed.
- \* For SELF-EMPLOYED persons who pay the tax on a net profits basis, an annual estimate of net profits must be filed on the QUARTERLY TAX RETURN with the Tax Office on or before April 30th for the current year. The taxpayer may elect to pay the entire estimated tax when it is filed, or pay it in four (4) equal quarterly installments due on or before April 30, July 31, October 31, and January 31. On or before April 15 of the succeeding year, a FINAL RETURN must be filed showing actual net profits. At the time of filing a final return, the taxpayer shall pay the balance of the tax due or receive a credit/refund in the case of an overpayment. TAXPAYERS WHO UNDERESTIMATE THEIR TAX LIABILITY BY MORE THAN 25% SHALL BE CHARGED INTEREST AND PENALTY AT THE RATE OF 12% PER ANNUM, COMPUTED UPON THE AMOUNT AND DURATION OF UNDERPAYMENT.

NOTE: Unsigned, improperly completed, or unsubstantiated tax returns will be considered incomplete and will not be considered as filed.

**IS ALL INCOME SUBJECT TO THE TAX?**

No, only EARNED INCOME/NET PROFITS are subject to this tax. Unearned Income such as pensions, sick or disability payments, public assistance, and so on, are not subject to the tax. However, income received from rentals, stocks, bonds, and insurance are subject to the tax where the taxable is licensed as a dealer or engaged in these activities for profit or where otherwise classified as earned income by the Income Tax Officer, the Ordinance or the Rules and Regulations.

## **WHO MUST FILE A QUARTERLY RETURN?**

In effect, each resident will be responsible for filing a tax return upon actual or estimated income each quarter. To be relieved of this obligation every resident whether working, unemployed, or retired including non-working housewives, must file the RESIDENT QUESTIONNAIRE provided by the Tax Collection Office. Residents who are temporarily unemployed are still required to file returns quarterly, whether they have income to report or not. Residents subject to the total withholding of their tax by employer must complete the "Resident Questionnaire." Generally, these residents will not receive or be required to file Quarterly Returns unless they have additional income to report which is not subject to withholding by employer.

## **WHO MUST FILE A FINAL RETURN?**

Every resident who has earned income or could reasonably be expected to have had earned income during the succeeding year must file a Final Return whether there is any tax due or not.

## **MUST I FILE IF I RECEIVE NO TAXABLE INCOME?**

Yes, write the facts, on the Report Form, sign, and return to the Income Tax Office.

## **WHAT HAPPENS IF I DO NOT PAY OR FILE THE REQUIRED RETURNS?**

Late payments are subject to penalty and interest of One Percent (1%) per month with a minimum penalty of One Dollar and Fifty Cents (\$1.50). Persons, who refuse or fail to file the Returns or otherwise comply with the terms of the Ordinance or Resolution, may upon conviction be sentenced to pay a fine or not more than Five Hundred Dollars (\$500.00) for each offense, and costs. In default of payment of said fines and costs, the taxable may be imprisoned for a period not exceeding Thirty (30) Days for each offense.

## **WHAT EMPLOYERS ARE REQUIRED TO WITHHOLD THE TAX FROM THEIR EMPLOYEES?**

All employers doing business in the Township must withhold the tax from all employees subject to the tax - THERE IS NO OPTION!!

## **MUST THOSE SUBJECT TO WITHHOLDING DO ANYTHING ELSE?**

Yes, they must file a Final Return on or before April 15, on the forms provided, showing total earnings received and tax withheld. Their employers are required to pay to the Tax Officer, on a quarterly basis, all taxes withheld, and on or about February 28 of the succeeding year the employer will reconcile all earnings paid and taxes withheld for each employee.

## **IF MY WORK STATUS SHOULD CHANGE FROM AN EMPLOYER WHO HAS BEEN WITHHOLDING, TO AN EMPLOYER IN AN AREA WHO DOES NOT WITHHOLD - WHAT MUST I DO?**

At such time as you are no longer subject to withholding, it becomes the responsibility of the taxpayer to notify the tax office and make future payments and returns yourself.

## **WHAT HAPPENS IF I OVERESTIMATE OR UNDERESTIMATE MY INCOME?**

Adjustments will be made on the following Quarterly or Final Earned Income Tax Returns.

## **ARE NON-RESIDENTS TAXABLE?**

Yes, persons residing in other communities and working in the District are liable for the tax unless they pay the same tax to their resident community in the Commonwealth.

Residents now paying the tax in another community will not have any additional tax to pay unless the tax levied at their

place of employment is less than One Percent (1%) of their income earned in that community. The taxpayer's place of residence takes precedence over the place of employment, except in Philadelphia, persons who work in other municipalities will not be paying the tax where they live instead of where they work.

### **WHY SHOULD NON-RESIDENTS BE SUBJECT TO THE TAX?**

They, as "daytime citizens," share in the benefits and services such citizenship provides and therefore must bear their share of the cost of providing them with these services.

### **IS THERE ANY MINIMUM OR MAXIMUM INCOME OR AGE GROUP?**

No, under state law all earned income is taxable no matter who earns it. The tax is levied on the income not the person.

### **ARE EARNINGS VERIFIED?**

RANDOM AUDITS will be performed on taxpayers to assure accurate reporting of all income.

\* VERIFICATION OF EARNINGS OR NET PROFITS reported to the Tax Office must be filed on or before April 15 for the prior year ended December 31. Suitable verification is Form W-2 for employed taxpayers or the appropriate federal schedule (e.g. Schedule K, C, F etc.) for self-employed taxpayers.

\* PENNSYLVANIA DEPARTMENT OF REVENUE information will be utilized, when available, to verify the accuracy of information on the tax returns.

### **WHAT IF THE TAX IS NOT PAID WHEN DUE?**

If, for any reason, the tax is not paid when due, interest at the rate of six percent (6%) per annum on the amount of the tax, and an additional penalty of one-half of one percent (1/2%) of the amount of the unpaid tax for each month or fraction thereof during which the tax remains unpaid, shall be added and collected.

Delinquent taxpayers will, at additional cost, initially be notified by mail of unpaid taxes and given the opportunity to pay. If the tax return is still not completed properly and filed with the office serving your District, CENTAX will file civil charges against the taxpayer with the District Magistrate.

If full payment is not received by due date, CENTAX will:

1. Demand the employer to withhold the amount of unpaid taxes, penalty and interest and costs from the taxpayer or his or her spouse.
2. File civil action against the taxpayer, which may result in the taxpayer's personal property being sold to pay the taxes.
3. Take any other appropriate action necessary to promulgate payment of the amount due.

NOTE: Failure to receive a tax reporting form is NOT reason to fail to pay earned income and net profits taxes. Residents have the responsibility of obtaining a form from the tax office if one is not received in the mail.

Random compliance audits will be conducted to assure that residents are accurately reporting income.

All payments, inquiries, and tax returns are to be returned to the Central Tax Bureau of Pennsylvania, Inc. (CENTAX) office serving your district.