

QUESTIONS AND ANSWERS ABOUT THE EARNED INCOME TAX

What is the “Earned Income Tax?”

The earned income tax has been levied by your resident taxing jurisdiction (i.e., the township, borough or school district in which you live). Earned income is defined as salaries, wages, commissions, bonuses, incentive payments, fees, tips and/or other compensation for services rendered, whether in cash or property, and whether paid directly to you or through an agent. In addition, the net profits of a business are subject to a net profits tax. Net profits are defined as the net income from the operation of a business, profession, or other activity, except corporations, after deductions for all operating costs and expenses incurred in conducting the said business.

What income is specifically exempt from the Earned Income Tax?

Income such as dividends, interest, income from trusts, bonds, insurance and stocks is exempt. Also exempt are payments for third party sick or disability benefits, old age benefits, retirement pay, pensions – including social security payments, public assistance or unemployment compensation payments made by any governmental agency, and any wages or compensation paid by the United States for active service in the armed forces of the United States including bonuses or additional compensation for such service.

If the tax is withheld in another community where I work, do I also pay the district in which I live?

No. The tax withheld by your employer will be remitted to your resident taxing jurisdiction. It is still required that our Questionnaire be answered by **ALL** residents.

If I am subject to the Philadelphia Wage Tax, must I also pay this tax?

No. If employed in Philadelphia, you may use the Philadelphia Wage Tax as a credit against your liability to your resident municipality, but the credit may not exceed the current tax rate for your local taxing jurisdiction. No refund or credit can be taken for any withholding greater than the current tax rate for your resident municipality. Credit is allowed if income earned in another state is subject to a State Local Income Tax.

Whose Earned Income Tax will be withheld by their employer?

Any individual working in a jurisdiction that levies the tax on **residents and non-residents** will have the tax withheld by their employer. If you work in a jurisdiction that does **NOT** tax non-residents, your employer is only required to withhold for those individuals who live in that jurisdiction. Occasionally, employers located in a jurisdiction where the tax is not levied will volunteer to withhold if your resident jurisdiction levies the tax.

From whom will the Earned Income Tax be collected directly?

The earned income tax will be collected directly from those who are: 1) self-employed; 2) salaried but self-employed in a side business; or 3) work in a municipality where the tax is not in place, or out of state. Those persons must file a declaration of the total of such estimated net profits or income, together with the total estimated tax due, with the Earned Income Tax Collector. Proper forms for reporting the quarterly payments will be sent to each person so liable.

Must all taxpayers file a final return?

Yes. A Local Earned Income Tax Return must be filed annually by April 15th.

What if I neither file a return nor pay the tax due?

State Law, as well as the local tax resolutions and/or ordinances, make it a summary criminal offense if a taxpayer fails to file a tax return as required. This subjects the taxpayer to a fine not to exceed \$500.00 per offense, plus the cost of prosecution, in default of payment of said fine and costs, the taxpayer may be imprisoned for a period not exceeding thirty per offense. In addition, distress sale, wage attachment and/or civil suit proceedings may be used to collect any unpaid tax found to be due, and penalties and interest may also be assessed.