

Individual Taxpayer FAQ regarding Earned Income Tax

1. What is the Earned Income Tax?

The local Earned Income Tax (EIT) was enacted in 1965 under Act 511, the state law that gives municipalities and school districts the legal authority to levy a tax on individual gross earned income/compensation and net profits. **The tax is based on the taxpayer's place of residence (domicile) and NOT their place of employment.** The EIT is separate from the Pennsylvania personal income tax (your state income tax).

2. Who must pay this tax?

Any resident of a municipality and/or school district who was employed during the calendar year, and/or received taxable income during the calendar year is subject to the tax. In most cases, your employer already deducts the EIT from your regular paycheck. If your employer did not deduct the tax, you were self-employed, or you withdrew money from a deferred compensation plan, you are responsible for filling out the appropriate EIT forms and making payment on said amounts.

3. What is considered earned income?

Earned income is salaries, wages, commissions, bonuses, incentive payments, tips, fees and other income. Net profits is income from the operation of a business, profession, active duty military earned inside PA or other activity, after provisions for cost and expenses have been incurred, and for which no taxes have been deducted.

4. What income is not taxable?

Interest earnings, dividends, social security, capital gains, lottery winnings, unemployment, 3rd party sick pay, insurance proceeds, gifts, bequests, inheritances, and active military duty pay earned outside of PA are not taxable.

5. What income figure from my W2 Form do I use to complete the local EIT form?

With your return, you must provide a copy of your W-2 or other proof of earnings/net profits. Generally speaking, the amount of local income to be reported will be the same as the amount to be reported to the Commonwealth of Pennsylvania (normally the highest wage amount on the W-2 form). Using the Federal Wage from Box 1 will usually result in your local tax form being incorrect, especially if you have an IRA, 401K or other deferred compensation plan.

The local definition of taxable "compensation" is the same as the PA Department of Revenue's

definition of compensation with the exception of Clergy Housing allowances. Because not every employer does the W-2 form the same, we cannot give you specific information on completing the tax form without seeing the actual W-2 forms.

If you prefer, we can complete the form for you. Our office hours are generally 8 a.m. to 4:00 p.m. Walk-in assistance is provided, but lines can be long if it is close to a filing deadline.

6. Who must file a tax return?

Any resident of a municipality and/or school district whether for all or part of the tax year, who has taxable net profits and/or earnings must file their tax return by April 15. If you receive a tax return from CTCB in the mail, you should file a tax return. If you had no earned income, indicate the reason why on your final return.

7. When is my local tax return due?

You must file or mail your local tax return by April 15 of each year, the same day as your federal and state income taxes are due, for the preceding calendar year. If April 15th is a Saturday, Sunday or Federal holiday, then your return is due the next business day. The postmark determines the date of mailing. If you wish to file an extension for the Local Earned Income Tax, you must fill out an Application for Extension of Time to File Earned Income Tax along with estimated payment by April 15. This form is located on our website under Earned Income Tax.

You may file your and pay online at www.captax.com. Click on the "Individual online filing" tab on the home page.

8. What documentation do I need to submit with the final return?

You should submit documentation which sufficiently supports the amount reported on each line of your return, including but not limited to, W-2s, State business reporting schedules, expense schedules, etc. Refer to each line of the enclosed tax return and instructions for the specific form or schedule required. Photocopies are acceptable.

9. When are my quarterly payments due?

If you are self-employed, or your tax is not withheld in full by your employer, you are required to pay quarterly and must pay by the following dates:

1ST QUARTER IS DUE APRIL 30th OF THE TAX YEAR
2ND QUARTER IS DUE JULY 31st OF THE TAX YEAR

3RD QUARTER IS DUE OCTOBER 31st OF THE TAX YEAR
4TH QUARTER IS DUE JANUARY 31st FOLLOWING THE TAX YEAR

10. How do I pay?

You may pay by personal check, cashier's check, dedicated money order, or by credit card. Credit card payments may also be made online. All credit card payments are subject an additional processing fee. All other forms of payment may be mailed in or processed over the counter at each of our offices. Make checks payable to "CTCB".

11. Where do I get local tax forms?

If you are a registered resident of one of the jurisdictions for which CTCB collects, you will be mailed a CTCB Earned Income Tax return.

Additionally, the tax return, schedules and other forms are located on our website under the tab marked "Individuals".

12. I'm a student, do I have to pay?

Yes. If you are a legal resident (registered to vote, registered for driver's license, or use as home address) of the taxing body, and earned income from any source, you are required to report the income and pay the appropriate tax.

13. I'm retired, do I have to pay?

Yes. Taxpayers who are retired but working part time must still file a local tax return. If you received a tax form from CTCB, you must still file that form. Taxpayers who are retired fulltime will be registered accordingly and removed from CTCB's list of taxpayers.

14. Is deferred compensation (401(k), 457(b) plans) taxable?

Yes. Employee contributions to an employer-sponsored deferred compensation plan are taxable in the year in which they are made, unlike the tax deferral offered at the federal level. The Internal Revenue Service taxes deferred compensation when it is withdrawn from your account, but local taxes are imposed before the deferred amount is deposited into your retirement account.

15. What Military Pay is taxable for local income purposes?

All military pay, other than what is considered active duty outside of Pennsylvania, is taxable.

16. How are interest and penalties calculated?

Payment made after the due date may be subject to interest at the rate of six percent (6%) per year (i.e., tax x .005). An additional penalty of one-half of one percent (1/2%) may apply to the amount of the unpaid tax for each month (or partial month) during which the tax remains unpaid (i.e., tax x .005 x # months). The jurisdiction may impose a late fee on each quarter and any return filed after the due date(s).

17. I lived in different municipalities during the tax year – where should I file?

You must file in both municipalities. Partial year residents should list the date they moved into or out of our jurisdiction on the reverse side of the tax return. Your most current address should be listed under the new address on the front of the tax return. This will ensure that all future correspondence, including refunds, are mailed to the proper address.

You will need to file a return with each tax office where you lived. All amounts used should be prorated (wages, tax withheld, net and employee business expense, profits/losses). The Part-Year Resident Worksheet must be used for all prorated tax returns.

Provide CTCB with a copy of the final return for each jurisdiction, designate your part-year residence status on the local return where indicated and complete the Part-Year Resident Worksheet with your return. If you moved to or from an area, where you are not required to file a final return, provide CTCB with documentation, such as a lease or utility bills, showing the other address and duration of residence.

18. If I work in Philadelphia, am I subject to both the Philadelphia tax and my local tax?

If you work and are taxed in the City of Philadelphia, you may apply a credit to your local tax for the amount paid on Philadelphia wage tax. The credit may not exceed the amount of your local tax liability. You may not transfer the credit to your spouse. You are still required to complete the local final return for the community where you live and provide documentation showing the amount of wage tax paid to Philadelphia.

19. How do I receive credit for the wage tax I paid on earnings in Philadelphia?

Wage taxes paid to Philadelphia may apply as a credit directly against the local tax liability. The credit will only apply to the taxpayer who has paid Philadelphia wage or net profits taxes on earnings. The Philadelphia credit permitted is limited to the lesser of the actual earned income tax (taxable earned income, to include earnings in Philadelphia, at the applicable earned income tax rate) or the Philadelphia wage or net profits tax withheld and paid.

20. How do I receive credit for the tax I paid to a municipality in another state?

Taxes paid to local municipalities in other states may apply as a credit directly against local tax liability. To claim this credit for income taxes paid to a local municipality in another state, income must be subject to both the out-of-state municipal tax and the earned income tax where you reside.

21. How do I receive local credit for income tax paid to another state?

You must first apply credit for income taxes paid to another state against your Pennsylvania state income tax liability. You may use any remaining credit against local earned income tax liability. The same dollar of the out-of-state tax cannot be claimed as credit against liability for both state and local taxes in Pennsylvania.

No credit is given for state earned income tax paid to states that reciprocate with the Commonwealth of Pennsylvania. For instance, if you work in and pay state tax to the state of New Jersey, you cannot apply credit for the New Jersey state tax against your home municipality's local tax. To recover tax paid to a reciprocating state you must apply to that state for a refund. Reciprocal states include: Maryland, New Jersey, Ohio, Virginia, West Virginia and Indiana. No credit is allowed for tax paid outside of the United States.

To assist you in computing your out-of-state credit, CTCB provides a schedule (Schedule G) for download on our website.