

THE EARNED INCOME TAX

THE BASICS

- Most communities have a local earned income tax on wages and net profits to pay for community services and not add to the real estate tax
- Many Lansdowne Borough residents already pay a local income tax:
 - ✓ To other Pennsylvania communities where they work
 - ✓ To Philadelphia
 - ✓ To another state
- If Lansdowne adopts the EIT, money now being paid by Lansdowne residents to other communities would return to Lansdowne
 - ✓ There is no double taxation
- Your employer withholds the tax from payroll
- Most New Jersey employers withhold the tax from payroll
- Self-employed individuals report quarterly
- Residents can file on paper or online
 - ✓ Use the same tax forms to you already use to file your state tax return
 - Wage-earners use the W-2
 - Out-of-state taxpayers use PA Schedule G-L
 - Self-employed taxpayers use Schedule C or RK-1
- Many who commute to work in Lansdowne will pay the tax as non-residents, especially if they live in New Jersey, Delaware or a PA community that does not levy the tax

FREQUENTLY ASKED QUESTIONS

For tax advice, contact your professional tax preparer.

WAGES, SALARIES AND PAYROLL WITHHOLDING

Do I have to ask my employer to withhold the tax?

No. Businesses with employees working in Pennsylvania are required by law to withhold the local earned income tax from payroll.

Will my PA employer know to withhold the tax?

Yes. The Tax Officer, Keystone, sends annual updates to employers informing them of changes to local payroll withholding. The PA Department of Community and Economic Development maintains an official tax register that includes local tax rates and other local information, including where the employer should send your tax withholding.

Is there an easy way for me to ensure my employer is withholding the tax properly?

Yes. Employers require employees to file a state Certificate of Residency, which contains the resident and workplace information necessary to ensure correct payroll withholding. Local earned income tax withholding is also listed on your pay stub. Employers report local withholding to you annually on your W-2.

If my employer makes a mistake with my withholding, is there an easy fix?

Yes. If your employer over-withholds the tax, you can request a refund when you file your local tax return. *e-file* is the easiest way to file your tax return and is the fastest way to get your refund. You may also contact your employer to report withholding errors. If the employer does not take corrective action, contact the Tax Officer.

Does Keystone have the legal authority to ensure my employer withholds correctly?

Yes. State law provides enforcement mechanisms for local payroll tax withholding. Keystone has an automated system that alerts employers to errors when reporting payroll taxes and offers an online corrective action mechanism. Employers who do not withhold correctly are subject to fines and penalties.

Am I required to file a local tax return?

Yes. Pennsylvania residents with earned income, wages or net profits must file a local tax return online or by mail by April 15. Keystone offers a user-friendly *e-file* application that asks you to provide only what is necessary to file a local return, such as name, address, income, employer and payroll withholding.

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SELF-EMPLOYED TAXPAYERS

I am self-employed, is there an easy way for me to pay my tax?

Yes. *e-file* is the easy way for self-employed individuals to pay the tax. Simply estimate your quarterly earnings and *e-file* will calculate the tax due. You can schedule your payment to arrive on or before the due date.

Is there a safe harbor for filing estimates to avoid underpayment penalties?

Yes. Quarterly payments must total 90% of tax by the fourth quarter due date, and the remainder of the tax balance due paid on or before April 15. Alternatively, the taxpayer may make four equal and timely payments totaling 100% of the prior tax-year liability by the fourth quarter and pay the remainder of the tax balance due on or before April 15.

Do I need special forms to file my tax return?

No. In most cases you will use the same forms to file your local tax as you use for your PA state tax return. Most self-employed taxpayers use Schedule C or PA Form RK-1.

Is S-Corp passive or unearned income taxable?

No. Passive or unearned income from a Subchapter-S corporation is not taxable and loss is not deductible. Pass-through earned income is taxable. A taxpayer may offset loss from one business entity against a net profit from another business entity.

I am a sole proprietor. Am I taxed on gross profits?

No. EIT liability is based on net profits.

My business takes me to multiple jurisdictions, does this affect how I report the tax?

No. In most cases, you will report the tax based on where you have your office or base of operations. If you work in a taxing jurisdiction for 90 days or more, you may be subject to that jurisdiction's commuter, or non-resident tax, but only if it is higher than your resident tax rate. Consult your professional tax preparer.

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WORK OUT OF STATE — DELAWARE AND NEW YORK

I pay the tax in Delaware or New York. Can I claim out-of-state tax credits?

Yes. Credit for income tax paid out of state is first applied to your PA state tax liability. Remaining credit may be applied against your local tax liability.

Is there an easy way to calculate out-of-state wages and applicable credits?

Yes. Keystone's *e-file* automatically calculates your local tax liability and applies out-of-state tax credits accurately based on information you provide from your W-2.

WORK OUT OF STATE — NEW JERSEY

I work in New Jersey, am I subject to tax there?

No. Pennsylvania has a special reciprocal agreement with New Jersey. Under the terms of this agreement, Pennsylvania residents employed in New Jersey are not subject to the New Jersey state income tax.

Can New Jersey employers withhold the EIT for PA residents?

Yes. Most New Jersey employers already withhold the Pennsylvania Income Tax. Many of these employers also withhold the local EIT. Simply inform your payroll department that you are subject to the EIT in Lansdowne, tell them the tax rate, and ask if they will withhold the tax from payroll for you.

If my employer declines to withhold the tax, is there an easy way for me to pay?

Yes. If your New Jersey employer does not withhold the EIT from payroll, you may file quarterly using Keystone's *e-file*. After you set up your account, simply provide your quarterly earnings and *e-file* will calculate your tax liability.

WORK IN PHILADELPHIA

I work in Philadelphia. Am I required to pay both the Philadelphia commuter tax and my local earned income tax?

No. If you pay the Philadelphia commuter tax, you may claim credit against your local tax liability. Credit for tax paid to Philadelphia may not exceed local tax liability, be transferred to a spouse, or be applied to next year's tax liability.

FREQUENTLY ASKED QUESTIONS

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WORKPLACE (COMMUTER) TAXES

I work outside of Lansdowne, where I currently pay a commuter tax. Will I be double taxed if Lansdowne adopts the EIT?

No. But if the community where you commute to work has a commuter tax rate that is higher than Lansdowne, your employer is required to withhold at the higher of the two rates. For instance, if Lansdowne levies the tax at 0.5% and the jurisdiction where you work has a 1% non-resident tax rate, your employer will continue to withhold 1% from payroll. What will change is half of the tax you now pay will be sent to Lansdowne Borough.

I work in multiple locations every month, am I subject to a different rate in each place?

No. If your employer has a central business location but you “float” or are transferred to multiple work sites on a regular basis, your employer uses the central or main employer business location as your workplace. If you work from home and receive your orders there, this is considered your workplace location. If you are currently subject to payroll withholding of the commuter tax where you work, your withholding should not change. What will change is that all or part of the tax you now pay will remain in Lansdowne Borough.

Is there an amount of time I have to I work in a community to be subject to the commuter tax?

Yes. Generally, you must be employed continuously for at least 90 days in a jurisdiction to be subject to its commuter tax. And then only if the commuter rate is higher than rate levied in your resident jurisdiction.