



TAXPAYER ANNUAL LOCAL EARNED INCOME TAX RETURN

INSTRUCTIONS

A. General Instructions

1. **When To File:** Pennsylvania residents with earned income or net profits must file a local earned income tax return online or by mail by April 15th (if the 15th is a Saturday, Sunday or official holiday, file the by next business day). Even if you have employer withholding or are not expecting a refund, you must still file a return. Late or incorrect filing/payment may result in additional collection costs. If you had no earned income or net profits in the tax year, please check the appropriate box to indicate reason (e.g., Retired) on the enclosed form. Checks returned for non-sufficient funds will be assessed a \$29 bank fee. If filing a federal or PA *Application for Extension*, see A.5 below.
2. **Where To File:** File with the local earned income tax collector serving your resident Tax Collection District. If the pre-printed address on your return is not your current address, contact your employer to ensure your withholding information is up to date.
3. **Part-Year Returns:** If you moved to another municipality during the year, you are responsible for tax on income earned while a resident of each respective municipality. Use the Part-Year Resident Schedule (on reverse side of tax return form) to calculate income and taxes owed for each taxing jurisdiction, or to allocate income and tax according to when income was earned. Provide supporting documentation, such as W-2s and pay stubs. Base calculations on full months; do not use fractions of a month. You must account for the entire (12 months) tax year. File one local earned income tax return for each municipality. Report separately your earned income, tax paid and tax liability for each municipality on each return. These calculations occur automatically when filing online.
4. **Effective Dates:** January 1 through December 31, unless you moved during the tax year, in which case you must file a part-year tax return for each municipality.
5. **Extension:** If you are requesting an extension of time to file, submit an Extension Request Form on or before the due date and pay any tax due, or you may be assessed penalty and interest. You are required to file the final return on or before October 15 or you may be assessed a late-filing fee. **Do not submit the return with the extension request.** Rather, file the completed return by the extension deadline.

File your extension request online at efile.KeystoneCollects.com Log in and select the button at the top of your screen.

Download an Extension Request/Payment Voucher form at KeystoneCollects.com Choose Individuals, click on Forms and select the Application for Extension of Time to File Local Tax Return form from the list.

6. **Resident PSD Code:** Taxpayers are required to provide a Resident PSD (political subdivision) Code identifying where the taxpayer resided during the year. Keystone's *e-file* will automatically include your PSD Code when filing online. Keystone also includes your Resident PSD Code on your pre-printed tax form. To locate your PSD Code, you may also go to KeystoneCollects.com choose Individuals and select "Political SubDivision (PSD) Code" link on the left.
7. **Amended Return:** When amending your PA Income Tax Return (PA-40), you must also file an amended local earned income tax return. Be sure to check the "Amended Return" box on the Form.
8. **Receipt/Copy:** An online confirmation or canceled check is sufficient proof of payment. Keep a copy for your records.
9. **Interest:** If the tax is not paid when due, interest accrues at the statutory rate. Late or incorrect filing/payment may also result in statutory collection costs.
10. **Penalty:** If the tax is not paid when due, penalty may be imposed at the statutory rate 30 days after notice to take corrective action. Late or incorrect filing/payment may also result in statutory collection costs.
11. **Round Cents** to the nearest whole dollar. For instance, amounts under 50 cents are rounded down to the nearest whole dollar. Likewise, increase amounts from 50 to 99 cents to the next dollar amount.
12. **Use Black or Blue Ink Only:** Do not use pencil or red ink when completing form.

B. Regulations/Line-by-Line Instructions (Include supporting schedules and documentation with tax return.)

LINE 1: Gross Compensation as reported on W-2: Use PA State Wages: W-2 Box 16 (if W-2 has PA in Box 15).

In most cases, PA calculates state taxable wages based on W-2 Box 5 (Medicare Wages), minus the amount(s) in W-2 Box 12 (Code C and/or Code Y only; if zero, then use figure from Box 5). If you are claiming out-of-state tax credits, calculate PA taxable wages using the above formula. Do not use the figure in W-2 Box 1.

Note: If the calculation of PA state wages differs from the state wages listed on your PA W-2 in Box 16, use the above formula to report wages on Line 1 of the tax form and notify your employer; do not use the figure listed on your PA W-2 in Box 18 to report taxable wages on Line 1 of the tax form. If the calculation of PA state wages differs from the state wages listed on your PA W-2 in Box 16, due to restricted stock units, use state wages Box 16 and include supporting documentation.

Documentation Required: Enclose Form W-2 and any other form indicating compensation received. Do not photocopy or print more than one W-2 on the same page. Do not staple.

Taxable Income Includes: Salaries, wages, commissions, bonuses, tips, stipends, fees, incentive payments, employee contributions to retirement accounts, compensation drawing accounts (*if amount received as a drawing account exceeds the salary or commission, the tax is payable on the amount received. If the employee subsequently repays to the employer any amount not in fact earned, reduce the income figure accordingly*), jury duty pay, military pay for services other than active duty, sick pay (*if employee received a regular salary during period of sickness or disability by virtue of agreement of employment*), and taxes assumed by the employer. Executor fees are taxable as earned income or net profits depending on whether one's profession is that of an executor. Restricted stock units are taxable at time of vesting. Benefits accruing from employment (*such as: annual leave, vacation, holiday, separation, sabbatical leave and compensation received in the form of property*), shall be taxed at fair market value at the time of receipt. Deferred compensation typically is taxable at the time and place of receipt, unless taxed previously. Some forms of early withdrawal from retirement programs are taxable. Stock options are taxable at the time of exercise. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer with questions.

Non-Taxable Income Includes: Social Security benefits, Unemployment Compensation, public assistance, alimony, child support, death benefits, gifts, interest, dividends, boarding and lodging for convenience of employer, lottery winnings, Supplementary Unemployment benefits, capital gains (*capital or business losses may not be used as a deduction against other taxable income*), disability benefits (*periodical payments received by an individual under a disability insurance plan*), active military service and summer encampment (*provide orders; include leave and earnings statement*), personal use of company cars, cafeteria plans, and clergy housing allowance. Some forms of payments from pensions and individual retirement programs (*such as: Keogh, Tax Shelter Annuity, IRA and 401K*) are not taxable. Pennsylvania law excludes up to \$5,000 of dependent care benefits from compensation. Amounts received in excess of \$5,000 should be reported as taxable compensation. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer with questions.

LINE 2: Allowable Unreimbursed Employee Business Expenses: **Documentation Required:** Enclose copy(ies) of PA Schedule UE for each place of employment. You may include a copy of your PA Income Tax Return (PA-40) to verify business expenses.

LINE 3: Other Taxable Income: Include income from work or services performed, which has not been included on Line 1 or Line 5. Include supporting documentation, such as Form 1099. Legible copies accepted. Do not copy or print more than one Form 1099 on the same page. Do not include interest, dividends, capital gains, or other non-taxable income.

LINE 4: Total Taxable Income: Subtract Line 2 from Line 1 and add Line 3.

LINES 5 and 6: Net Profit/Net Loss From Business: Use Line 5 for profit and Line 6 for loss.

A taxpayer may not offset a business loss against Gross Compensation as Reported on W-2 (Line 1). Passive or unearned income from an S-Corporation is not taxable and loss is not deductible, and no amount should be entered (check box on Line 5). Pass-through earned income is taxable. A taxpayer may offset a loss from one business entity against a net profit from another business entity.

Documentation Required: Enclose copy of Schedule(s) C, E, F, K-1 or RK-1, if applicable. Legible copies accepted. Do not photocopy or print more than one Form or Schedule on the same page. Do not staple.

LINE 7: Total Taxable Net Profit: Subtract Line 6 from Line 5; if less than zero, enter "0".

LINE 8: Total Taxable Income and Net Profit: Add Line 4 and Line 7.

LINE 9: Tax Liability: Multiply Line 8 by local earned income tax rate. Visit KeystoneCollects.com to find the rate for your taxing jurisdiction. Select "Individuals" and then click the "Local Municipal Tax Rate" link on the left. When filing online, *e-file* automatically calculates the rate for you.

LINE 10: Local Income Tax Withheld: Enter local tax withheld, as shown on your PA W-2 (Box 19). unless you work in Philadelphia or in an out-of-state municipality that imposes a local income tax (if this is the case, see Instructions for Line 12).

Non-resident (workplace location) tax. Do not enter the entire amount from Box 19 if your workplace location jurisdiction's "non-resident" tax rate is higher than the resident tax rate where you live. *By law your employer must withhold the higher of the two rates.* If the workplace location ("non-resident") tax rate is higher than the tax rate where you live, complete the "Local Earned Income Tax Withheld" worksheet on the back of the Final Return Form to determine the amount of the tax withholding you may enter on Line 10.

Philadelphia or out-of-state withholdings: If the tax was withheld to Philadelphia, to a state other than Pennsylvania, and/or to an out-of-state municipality that imposes a local income tax, enter applicable amount on Line 12, as allowed by law. See instructions for Line 12. To automatically enter the correct figure on Line 10, file online.

LINE 11: Quarterly and Extension Payments/Credit From Previous Tax Year: List quarterly estimated payments made to date for the appropriate filing year. Do not take credit for penalty or interest amounts that may have been imposed on quarterly payments submitted after the statutory due date(s). Include any tax credit from previous year AND any additional payments made for the filing year, including amount paid when requesting an extension.

NOTE: Self-employed taxpayers who expect to report net profits, or taxpayers with earnings not subject to employer withholding must report and timely pay quarterly estimate tax payments (for example: U.S. government employees or those who work out of state; see reciprocity rules - Line 12). Pay online or use Quarterly Estimate Earned Income Tax Vouchers.

LINE 12: Credits: Out-of-State Tax, Philadelphia Tax and Act 172 (Active volunteer firefighter and volunteer EMT municipal credit)

Mark the box(es) that apply to your credit claim.

Reciprocity Rule: No credit is given for state income taxes paid on wages to states that reciprocate with the Commonwealth of Pennsylvania. These states are: Maryland, New Jersey, Ohio, Virginia, West Virginia and Indiana.

Documentation Required: W-2(s) showing out-of-state withholding and Schedule G-L; or W-2(s) showing out-of-state withholding and out-of-state non-resident return.

- (1) Credit for income tax paid to non-reciprocal states must first be applied to Pennsylvania state income tax liability. Remaining credit may be used to offset local earned income tax liability, limited to the local EIT rate multiplied by the out-of-state wages. To calculate credit, complete the Out-of-State Tax Credit Worksheet on the back of the return form. Wage earners must use figure in W-2 Box 5 (Medicare Wages) plus W-2 Box 10 (Dependent Care Benefits, if any). Subtract any amount included in W-2 Box 12 (Code C and/or Code Y). Do not use the figure in W-2 Box 1. For further guidance, see *Frequently Asked Questions* at KeystoneCollects.com
- (2) In calculating your income taxes paid to another state or political subdivision, note that the same items of income must be subject to both your local earned income tax and the out-of-state tax.
- (3) Credit for income tax paid to another state or political subdivision, including Philadelphia, may not: (1) exceed total local earned income tax liability, (2) be transferred to a spouse, or (3) be applied to next year's tax liability.
- (4) Income tax deductions and exemptions differ among the various states. As such, the taxable income figure may likewise vary from state to state. The same items of income must be subject to both local earned income tax and the out-of-state tax. In PA, a tax credit is allowed only against that earned income subject to tax in another state and in PA.

Example: If earned income/net profits subject to tax in another state total \$50,000 (use figure from PA Schedule G-L), and if these wages/net profits were taxed by the non-reciprocal state at 5%, the total out-of-state tax is \$2,500 (use figure from PA Schedule G-L, Line 4.c). Apply out-of-state credit first against PA state income tax liability. Any remaining credit may be applied against local tax, but credit may not exceed local tax liability. In this example, if the local resident tax is 1%, the taxpayer has a maximum of \$500 available to credit against local tax (see below).

Out-of-state wages/net profits	\$50,000.00
(Use figure from PA Schedule G-L)	
Out-of-state tax paid	\$2,500.00
(Use figure from PA Schedule G-L, Line 4.c)	
PA state income tax liability	\$1,535.00
(\$50,000 x 3.07%)	
Credit available against PA state tax liability	\$1,535.00
(Choose the lesser of the out-of-state tax paid and the PA state income tax liability)	
Balance from PA state tax credit	\$965.00
(Subtract out-of-state tax paid from PA income tax liability; \$2,500 minus \$1,535)	
Out-of-state income	\$50,000.00
(Use figure from PA Schedule G-L)	
Local rate multiplier	\$500.00
(Out-of-state income times PA local tax rate on Line 9 of preprinted return; here: \$50,000 x 1%)	
Local Earned Income Tax Credit for Line 12	\$500.00
(Enter the lesser of the Balance from PA state tax credit and the Local rate multiplier on Line 12)	

Credit for tax paid out of state may not be transferred to spouse or applied to next year's tax liability

Credit for Tax Paid to an out-of-state municipality in a reciprocal state: Wage tax paid to an out-of-state municipality in a reciprocal state may be applied directly as a credit toward PA local earned income tax liability. To calculate Gross Compensation (Line 1), use figure in W-2 Box 5 (Medicare Wages) plus W-2 Box 10 (Dependent Care Benefits, if any). Subtract any amount included in W-2 Box 12 (Code C and/or Code Y). Do not use the figure in W-2 Box 1. To calculate local credit, use figure in W-2 Box 18 (Local Wages earned out of state) and multiply by PA resident local tax rate (see Line 9 of the PA taxpayer *Annual Local Earned Income Tax Return*). Credit cannot exceed local tax withheld out of state from W-2 (Box 19). Credit is available only on income subject to tax in both states. **Credit may not exceed PA resident local earned income tax liability.** Credit will be denied if taxpayer fails to provide supporting documentation, including W-2 and/or other verification of tax paid. Credit may not be transferred to spouse or applied to next year's tax. Enter credit on Line 12. **Example:** Taxpayer earned \$50,000 in taxable wages/net profits in Youngstown, Ohio, and paid local Youngstown tax of \$625. Multiply the Youngstown local wages times PA local resident tax rate. (Example: \$50,000 x 1% = \$500.) This taxpayer enters \$500 in out-of-state local wage tax credit on Line 12. For further guidance, see *Frequently Asked Questions* at KeystoneCollects.com

Credit for Tax Paid to an out-of-state municipality in a non-reciprocal state: Wage tax paid to an out-of-state municipality in a non-reciprocal state (such as Wilmington, DE or New York, NY) may be applied directly as a credit toward PA local earned income tax liability. State income tax paid outside PA must first be applied against PA state tax liability; remaining state income tax credit may be applied against PA local tax liability. To calculate Gross Compensation (Line 1), use figure in W-2 Box 5 (Medicare Wages) plus W-2 Box 10 (Dependent Care Benefits, if any). Subtract any amount included in W-2 Box 12 (Code C and/or Code Y). Do not use the figure in W-2 Box 1. To calculate local credit, use figure in W-2 Box 18 (Local Wages earned out of state) and multiply by PA resident local tax rate (see Line 9 of the PA taxpayer *Annual Local Earned Income Tax Return*). Credit cannot exceed local tax withheld out of state from W-2 (Box 19). Credit is available only on income subject to tax in both states. **Credit may not exceed PA resident local earned income tax liability.** Credit denied without supporting documentation. Credit may not be transferred to spouse or applied to next year's tax.

Credit for Tax Paid to Philadelphia: Wage tax paid to Philadelphia may be applied as a credit toward local earned income tax liability. This credit will be denied if taxpayer fails to provide supporting documentation, including a W-2 and/or other verification of tax paid to Philadelphia. No refund or credit will be allowed for any overpayment made to Philadelphia. **Credit cannot exceed local tax liability.** Credit may not be transferred to spouse or next year's tax liability. **Example:** Taxpayer's employer withheld \$400 in Philadelphia wage taxes, and the taxpayer's local resident tax liability on Line 9 is \$100. This taxpayer enters \$100 in Philadelphia wage tax credit on Line 12.

Act 172 Municipal Credit for Certified Active Volunteer of a volunteer fire company or non-profit emergency medical service agency: Where a municipal jurisdiction authorizes an earned income tax credit for active volunteers, and taxpayer is duly certified by the municipal jurisdiction to receive such credit, indicate the credit on Line 12. The credit applies only to the municipal portion of the local earned income tax as defined under Chapter 3 of the *Local Tax Enabling Act*. Credit shall not apply to school district portion of the earned income tax. Credit shall not exceed the amount established by municipal ordinance in the subject taxing jurisdiction. **Credit cannot exceed municipal tax liability.** The municipal taxing authority shall provide a list of certified volunteers to the Tax Officer no later than December 31.

Example: An active volunteer's earned income/net profits total \$120,000. This taxpayer's resident municipal tax rate is 0.5%. The portion subject to the Act 172 credit for this taxpayer is \$600 (\$120,000 x 0.5% = \$600). If the municipality sets a maximum flat dollar credit of \$500 in its ordinance, this taxpayer would qualify for a \$500 credit.

Earned income/net profits..... (use figure from Line 8 of the Local Earned Income Tax Return)	\$120,000.00
Municipal <u>base</u> EIT rate applicable to Act 172 credit..... (wages/net profits x 0.5%)	\$600.00
Credit limit set by local ordinance..... (In this example)	\$500.00
Act 172 Credit for Line 12..... (choose the lesser of municipal EIT and the Credit limit set by local ordinance)	\$500.00

LINE 13: Payments and Credits: Enter the sum of Line 10, Line 11 and Line 12.

LINE 14: Refund: If the amount on Line 13 is \$2 or more than the amount on Line 9, choose one of the following options.

- Refund entire amount of the overpayment (Line 14); **or**
- Apply entire amount of the overpayment to next year's tax (Line 15); **or**
- Apply entire amount of the overpayment to spouse's current-year tax (Line 15); **or**
- Apportion overpayment between next year's tax and spouse's current-year tax (Line 15).

Leave Line 14 blank if claiming a credit on Line 15. Tax officer will issue Form 1099 to the federal government for any credit or refund exceeding \$10. If the tax overpayment is less than \$2, no refund or credit will be issued.

LINE 15: Credit: If the amount on Line 13 is \$2 or more than the amount on Line 9, taxpayer may split the amount of the overpayment between next year's tax liability and spouse's current-year tax. Tax officer will issue Form 1099 to the federal government for any credit or refund exceeding \$10. If the tax overpayment is less than \$2, no refund or credit will be issued.

LINE 16: Tax Balance Due: If Tax Liability (Line 9) is greater than Payments and Credits (Line 13), enter amount of tax due. If Balance Due is less than \$1 enter "0".

LINES 17 and 18: Penalty and Interest: Penalty and interest accrue on late-filed final returns, late-filed quarterly estimates, and late-filed extension payments. Late or incorrect filing/payment may result in additional collection costs if (i) less than 90% of quarterly tax liability for the current tax year remains unpaid by the end of the fourth-quarter filing deadline, or (ii) the taxpayer has not made four equal and timely estimate payments totaling 100% of prior tax year liability.

LINE 19: Total Payment Due: Enter the sum of Line 16, Line 17 and Line 18. Balance due includes tax, statutory interest and Act 192 cost (if filed late). If balance due is more than \$1, payment is required. Enclose check made payable to Keystone Collections Group with return. No payment is required for a balance of \$1 or less.

W-2 and/or supporting schedules must be enclosed with tax return (Do Not Staple)

Do not copy or print more than one Form W-2 or Form 1099 on the same page • DO NOT ENCLOSE CORRESPONDENCE

All payments will be applied to earned income taxes • All tax returns are subject to audit and review

Make check payable to **Keystone Collections Group**

When filing
by mail,
send to:

No Payment / No Refund Keystone Collections Group PO Box 549 Irwin PA 15642-0549	Refund or Credit Due Keystone Collections Group PO Box 509 Irwin PA 15642-0509	Payment Enclosed Keystone Collections Group PO Box 529 Irwin PA 15642-0529
---	---	---