



TAXPAYER ANNUAL LOCAL EARNED INCOME TAX RETURN

INSTRUCTIONS

A. General Instructions

1. **When To File:** This return must be filed online or by mail on or before April 15. If filing a Federal or State Application for Extension, check the extension box on the front of the form and submit along with estimated payment. If using a professional tax preparer, confirm that the tax preparer timely submits your final return.
2. **Where To File:** File with the local earned income tax collector for each tax collection district in which you lived during the year. If you moved during the year, use the Part-Year Resident Schedule (*on reverse of tax return form*) to calculate income and taxes owed for each taxing jurisdiction in which you lived during the year. File a local earned income tax return for each taxing jurisdiction.
3. **Effective Dates:** January 1 through December 31, unless otherwise noted on the local earned income tax return. (*For example, if you are filing part-year resident tax returns.*)
4. **Amended Return:** When amending a PA Income Tax Return (PA-40), accordingly amend and re-file a local earned income tax return.
5. **Receipt / Copy:** An online confirmation or cancelled check is sufficient proof of payment.
6. **Penalty and Interest:** If the tax is not paid when due, penalty and interest will be charged. Penalty and interest accrues on late-filed final returns and any late-filed quarterly estimates, if applicable. Late or incorrect filing/payment may result in additional collection costs. Use Line 17 and Line 18 to calculate penalty and interest.
7. **Round Off Cents** to the nearest whole dollar. Do not include amounts under 50 cents. Increase amounts from 50 to 99 cents to the next dollar amount.
8. **Use Black or Blue Ink Only:** Do not use pencil or red ink when completing form.
9. **Resident PSD Code:** Taxpayers are required to provide a Resident PSD (political subdivision) Code. Keystone's e-file will automatically include the proper PSD Code when filing online. The PA Department of Community and Economic Development (DCED) provides a web page for taxpayers to locate their PSD codes and other tax rate information. For taxpayer convenience, Keystone provides a link to the DCED tax information website. To locate your Resident PSD go to www.KeystoneCollects.com and follow the steps below:
 - 1) Click on the "Taxpayer Resources" tab
 - 2) Select "Helpful Links" and
 - 3) Choose "Tax Rate Lookup by Address" (*clicking this link will connect you to the DCED website*).

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

LINE 1: Gross Compensation as Reported on W-2: Use the following guidelines to determine earnings and compensation. If you moved during the tax year, complete the Part-Year Resident Schedule on back of tax return form to calculate income and taxes owed for each jurisdiction in which you lived. File a separate local earned income tax return for each taxing jurisdiction. Use the appropriate PSD Code for each.

Documentation Required: Enclose Forms W-2 and any other form indicating compensation received. Do not submit more than one W-2 on the same page. If claiming out-of-state credits (*see Line 12*), complete the Non-Reciprocal State Worksheet on back of return form; use Medicare wages (*W-2 Box 5*). Subtract taxable cost of group life insurance over \$50,000, if applicable (*see item C in W-2 Box 12*).

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, adjust the tax accordingly*). 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. Jury duty pay, payments received from unit training assembly for National Guard or Reserve Units, 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. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer if you have any questions.

Non-Taxable Income Includes: Social Security Benefits, Unemployment Compensation, pensions, public assistance, death benefits, gifts, interest, dividends, boarding and lodging for convenience of employer, lottery winnings, Supplementary Unemployment Benefits (*sub pay*), capital gains (*capital 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 outside of PA including annual training (*provide orders; include leave and earnings statement*), personal use of company cars, cafeteria plans, and clergy housing allowance. Some forms of payments from individual retirement programs (*such as Keogh, Tax Shelter Annuity, IRA and 401K*) are not taxable. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer if you have any questions.

LINE 2: Allowable Employee Business Expenses

Documentation Required: PA Schedule UE must be enclosed (*legible photocopies accepted*). Include a copy of taxpayer's PA Income Tax Return (PA-40) to verify business expenses.

LINE 3: Other Taxable Earned Income: Include income from work or services performed, which has not been included on Line 1 or line 5. Do not include interest, dividends or capital gains. Include supporting documentation, such as Form 1099 (*legible photocopies accepted*). Do not submit more than one Form 1099 on the same page.

LINE 4: Total Taxable Earned 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.

Documentation Required: Form 1099(s), Schedules C, E, F, K-1 or RK-1, whichever is appropriate, must be enclosed (*legible photocopies accepted*).

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 (*any earned income is taxable*). A taxpayer may offset a loss from one business entity against a net profit from another business entity.

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

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

LINE 9: Tax Liability: Multiply Line 8 by local earned income tax rate. Visit www.newPA.com and follow instructions to find the applicable rate for your taxing jurisdiction.

LINE 10: Earned Income Tax Withheld: A taxpayer may claim credit for local tax withheld as shown on the W-2 form (Box 19), but only up to the amount of local tax liability on Line 9 of the return. Do not claim entire amount of tax withheld if it is greater than the tax liability for your resident taxing jurisdiction, unless the tax withheld also exceeds the non-resident tax liability where you work (*by law your employer must withhold the highest rate between the PA jurisdiction where you reside and the PA jurisdiction where you work*). If the amount of local taxes withheld listed in Box 19 of the W-2 is higher than the local tax liability on Line 9 of this return, use the "Local Earned Income Tax Withheld Worksheet" on the reverse of the return to calculate total tax liability, which may include the non-resident tax withheld based on where you work. Do not include withholdings to Philadelphia (*see Line 12*).

LINE 11: Quarterly Estimated Payments/Credit From Previous Tax Year: Self-employed taxpayers, and taxpayers having taxable earnings not subject to withholding (*for example, U.S. government employees and those who work for out-of-state employers*) must report and pay taxes quarterly. List any quarterly estimate payments made for the appropriate filing year. Do not include any penalty and interest that may have been applied to late-filed quarterly estimate payments. Include any tax overpayment credit from the previous year's filing.

LINE 12: Out-of-State and Philadelphia Credits:

Reciprocity Rule: No credit is given for state income taxes paid to Maryland, New Jersey, Ohio, Virginia, West Virginia or Indiana.

Documentation Required: W-2(s) showing out-of state withholding, copy of out-of-state or Philadelphia non-resident return.

- (1) Credit for income tax paid to other states must first be applied to Pennsylvania state income tax liability. Any credit remaining may be used to offset local earned income tax liability, limited to the local tax rate multiplied by the out-of-state wages. To adjust Gross Compensation (Line 1), complete the Non-Reciprocal State Worksheet on back of return form. Wage earners must use Medicare wages (W-2 Box 5). Subtract taxable cost of group life insurance over \$50,000, if applicable (*see item C in W-2 Box 12*).
- (2) Wage taxes paid to Philadelphia may be applied to local earned income tax liability. Include W2(s) showing taxes withheld to Philadelphia (W-2 Box 19).
- (3) Only income that is taxable at the local level in Pa may be used to calculate any out-of-state credit (*see taxable and non-taxable income included in these instructions for Line 1*).
- (4) **Credit for income taxes paid to another state or political subdivision, including Philadelphia, may not exceed total local earned income tax liability.**

Credit for Taxes Paid to Other States: Taxpayer may take a local earned income tax credit for gross earnings taxed in both another state and in PA when the credit exceeds taxpayer's PA state personal income tax liability. *This credit will be denied if taxpayer fails to provide supporting documentation, including the other state's completed tax return and W-2 form showing other state's income tax withheld.*

No credit is given for state income taxes paid to: Maryland, New Jersey, Ohio, Virginia, West Virginia or Indiana.

Example: Taxpayer earned \$10,000 in Delaware and paid \$317 in income taxes to Delaware. At a 3.07% Pennsylvania state tax rate, the \$317 Delaware tax exceeds the \$307 PA tax by \$10. The excess \$10 may be available to use as a credit against the local income tax.

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|---|-----|-------------|
| Delaware Income | (1) | \$10,000.00 |
| Local tax rate at 1% | | <u>x.01</u> |
| Local tax | (2) | 100.00 |
| Tax paid to Delaware | (3) | 317.00 |
| PA Income Tax (3.07% x \$10,000.00) | (4) | 307.00 |
| <i>Subtract Pa Income Tax (4) above from out-of-state tax (3) above</i> | | |
| Credit to be used against Local Tax | (5) | 10.00 |
| <i>Enter credit amount (5) on Line 12 of the tax return</i> | | |

Credit for Taxes Paid to Political Subdivisions Outside of PA: Credit is allowed based upon the gross earnings taxed by both the political subdivision where the taxpayer works outside of PA and the municipality where the taxpayer lives in PA. This credit will be denied if taxpayer fails to provide supporting documentation, including the out-of-state municipal return and W-2 form showing out-of-state municipal tax withheld.

Credit for Taxes to Philadelphia: Wage tax paid to Philadelphia may be applied as a credit toward local earned income tax liability. To claim this credit, complete the Local Earned Income Tax return. This credit will be denied if taxpayer fails to provide supporting documentation, including a W-2 and/or other verification of taxes paid. No refunds or credits will be allowed for any overpayment made to Philadelphia. Credit cannot exceed local tax liability and is not transferrable to the tax liability of a spouse. Taxpayer may not claim a refund in excess of the local tax liability under PA Act 32 of 2008, which amended the Pennsylvania Local Tax Enabling Act. As such, adjust Line 14 as necessary.

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

LINE 14: Refund: If tax (Line 9) is less than credit (Line 13), and more than \$1 enter amount of refund. Taxpayer may elect to apply refund as a credit against the next year's local earned income tax liability (Line 15). Form 1099 will be issued to the Federal Government for any credit or refund exceeding \$10. Do not enter an amount in Line 14 if crediting entire tax overpayment to spouse or next year's tax liability (Line 15).

LINE 15: Credit: If tax (Line 9) is less than credit (Line 13) enter amount of credit and check the applicable box for credit to next year's local earned income tax liability or credit to spouse. Form 1099 will be issued to the Federal Government for any credit or refund exceeding \$10.

LINE 16: Amount of Tax Due: If tax (Line 9) is greater than credits (Line 13), enter amount of tax due. If less than \$1 enter "0".

LINE 17 and 18: Penalty and Interest: If the tax is not paid when due, penalty and interest will be charged. Penalty and interest accrues on late-filed final returns and any late-filed quarterly estimates, if applicable. Late or incorrect filing/payment may result in additional collection costs.

LINE 19: Total Amount Due: Add Line 16, Line 17 and Line 18. If less than \$1 enter "0".

Note: All tax returns are subject to audit and review. Local or city copy of W-2 and/or supporting schedules must be enclosed with tax return. **Submit each W-2 and 1099 on a separate sheet.**

Payment: Follow online instructions when paying on  When filing by mail, use the preprinted Payment Voucher. Send to

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| <p>Refund or Credit Keystone Collections Group PO Box 509 Irwin, PA 15642-0509</p> | <p>Payment Enclosed Keystone Collections Group PO Box 529 Irwin, PA 15642-0529</p> | <p>No Payment or Refund Keystone Collections Group PO Box 549 Irwin, PA 15642-0549</p> |
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When paying by mail, make check payable to "Keystone Collections Group"

Save Time – File Your Taxes Online. It's Easy ... Fast ... Secure



Follow the easy instructions on the next page.
For additional help, see "Frequently Asked Questions" on Keystone's website
www.KeystoneCollects.com