



# TAXPAYER ANNUAL LOCAL EARNED INCOME TAX RETURN

## INSTRUCTIONS

### A. General Instructions

1. **When To File:** Pennsylvania residents with earned income, wages or net profits must file a local earned income tax return online or by mail by April 17, 2018. Even if you have employer withholding or are not expecting a refund, you must still file a return. If using a professional tax preparer, confirm that the tax preparer submits your final return by the statutory deadline. Late or incorrect filing/payment may result in additional collection costs. 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. Complete the part-year resident address fields only if you moved during the year. 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.  
**Part-Year Returns:** If you moved during the year use the Part-Year Resident Schedule (on reverse side of tax return form) to calculate income and taxes owed for each taxing jurisdiction. 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.
3. **Effective Dates:** January 1 through December 31, unless you move during the tax year, in which case you must file part-year residential tax returns.
4. **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 the PSD Code when filing online. Keystone includes your Resident PSD Code on your pre-printed tax form. To locate your PSD Code, go to [www.KeystoneCollects.com](http://www.KeystoneCollects.com), choose Taxpayer Resources and select the "Find PSD Code" link on the left.
5. **Extension:** If you are requesting an extension of time to file, submit an Extension Request Form on or before April 17 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 [www.KeystoneCollects.com](http://www.KeystoneCollects.com). Select the *e-file* button at the top of your screen.  
Download an Extension Request/Payment Voucher form at [www.KeystoneCollects.com](http://www.KeystoneCollects.com). Choose Taxpayer Resources, click on the Forms Download link at the left and select the Application for Extension of Time to File Local Tax Return form from the menu.
6. **Amended Return:** When amending a 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.
7. **Receipt/Copy:** An online confirmation or canceled check is sufficient proof of payment.
8. **Penalty and Interest:** If the tax is not paid when due, penalty and interest may accrue. 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 appropriate penalty and interest.
9. **Round Cents** to the nearest whole dollar. For instance, amounts under 50 cents should be rounded down to the nearest whole dollar. Likewise, increase amounts from 50 to 99 cents to the next dollar amount.
10. **Use Black or Blue Ink Only:** Do not use pencil or red ink when completing form.



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**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)

If you are claiming out-of-state tax credits (see Line 12), use the figure in W-2 Box 5 (Medicare Wages) and subtract the amount in W-2 Box 12 (Code C and/or Code Y only; if zero, then just use Medicare Wages).

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. Benefits accruing from employment (*such as: annual leave, vacation, holiday, separation, sabbatical leave, dependent care benefits 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. 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. 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 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 Earned 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. Copies are 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 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.

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. Copies are accepted. Do not photocopy or print more than one Form or Schedule on the same page.

**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. To find the rate for your taxing jurisdiction, visit [www.KeystoneCollects.com](http://www.KeystoneCollects.com). Select the Taxpayer Resources tab and then click the "Find Municipality" link on the left. *e-file* automatically calculates the rate for you.**LINE 10: Earned 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.

File online. Use *e-file* to automatically enter the correct figure 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.

**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 with *e-file*, or use Quarterly Estimate Earned Income Tax Vouchers.



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

**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 base 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 Dependent Care Benefits, if any (W-2 Box 10). Subtract any amount included in W-2 Box 12 (Code C and/or Code Y). Credit for taxes paid out of state apply only against income amounts levied and otherwise payable under the authority of Chapter 3 of the *Local Tax Enabling Act*, and do not apply against any amounts levied pursuant to another authority. For further guidance, see Frequently Asked Questions at [www.KeystoneCollects.com](http://www.KeystoneCollects.com) under Taxpayer Resources.
- (2) Credit for income taxes paid to political subdivisions located in states outside of Pennsylvania or for wage taxes paid to Philadelphia may be taken directly against local earned income tax liability.
- (3) 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.
- (4) **Credit for income taxes paid to another state or political subdivision, including Philadelphia, may not exceed total local earned income tax liability.**
- (5) 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.



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**Example:** If wages/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, as illustrated 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 <b>lesser</b> 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 base tax rate of 1%; \$50,000 x 1%)	
Local Earned Income Tax Credit for Line 12 .....	\$500.00
(Enter the <b>lesser</b> of the Balance from PA state tax credit and the Local rate multiplier on Line 12)	

**Credit for tax paid out of state is applied only to the local PA resident taxing jurisdiction's base EIT rate.**

**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), then subtract figure(s) in W-2 Box 12 (Code C and/or Code Y). To calculate local credit, use figure in W-2 Box 18 (Local Wages earned out of state) and multiply by PA resident base local tax rate. Credit cannot exceed local tax withheld out of state from W-2 (Box 19). **Credit cannot exceed PA resident base local earned income tax liability** (see Line 9 of the PA taxpayer *Annual Local Earned Income Tax Return*). Credit is available only on income subject to tax in both states. Credit will be denied if taxpayer fails to provide supporting documentation, including W-2 and/or other verification of tax paid. Credit is not transferrable to the tax liability of a spouse. **Taxpayer may not claim a refund in excess of the base local tax liability.** 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 base tax rate. (*Example: \$50,000 x 1% = \$500.*) This taxpayer may claim a maximum \$500 in out-of-state local wage tax credit on Line 12. For further guidance, see Frequently Asked Questions at [www.KeystoneCollects.com](http://www.KeystoneCollects.com) under Taxpayer Resources.

**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 as a credit toward PA local earned income tax liability only when the available state income tax credit is less than the local liability on the out-of-state wages. To calculate Gross Compensation (Line 1), use figure in W-2 Box 5 (Medicare Wages), then subtract figure(s) in W-2 Box 12 (Code C and/or Code Y). To calculate credit, use figure from W-2 Box 16 (State Wages earned out of state) and multiply by PA resident base local tax rate. Credit cannot exceed local tax withheld out-of-state from W-2 (Box 19). **Credit cannot exceed PA resident local earned income tax liability** (see Line 9 of the PA taxpayer *Earned Income Tax Return*). Credit is available only on income subject to tax in both states. Credit will be denied if taxpayer fails to provide supporting documentation, including W-2 and/or other verification of tax paid. Credit is not transferrable to the tax liability of a spouse. **Taxpayer may not claim a refund in excess of the base local tax liability.**

**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 is not transferable to the tax liability of a spouse. **Taxpayer may not claim a refund in excess of the local 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 may claim a maximum \$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. Credit shall apply only against income tax amount levied and otherwise payable under the authority of Chapter 3 of the *Local Tax Enabling Act* (LTEA). Credit shall not exceed the amount established by municipal ordinance in the subject taxing jurisdiction. **Credit cannot exceed the active volunteer's municipal tax liability.** Credit does not apply to school district portion of the earned income tax. The municipal taxing authority will provide a list of certified active-duty volunteers to the Tax Officer no later than December 31.

*Example:* An active volunteer's wages/net profits subject to local earned income tax total \$120,000. This taxpayer's resident municipal base tax rate is 0.5%, the municipal Open Space tax is an additional 0.25%. The school district earned income tax rate is 0.5%. The total tax rate in this example is 1.25%. This taxpayer's total local income tax liability is \$1,500 (\$120,000 x 1.25% = \$1,500). 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.

Wages/net profits subject to earned income tax.....	\$120,000.00
Total earned income tax liability.....	\$1,500.00
<small>(wages/net profits x 1.25%)</small>	
Subtract school district portion of earned income tax liability.....	(\$600.00)
<small>(0.5% not subject to Act 172 credit)</small>	
Subtract portion exceeding base tax as defined by Chapter 3 of the LTEA.....	(\$300.00)
<small>(Open Space tax add-on of 0.25% not subject to Act 172 credit)</small>	
Base municipal EIT.....	\$600.00
<small>(Amount available for Act 172 credit as defined by Chapter 3 of the LTEA)</small>	
Credit limit set by local ordinance.....	\$500.00
<small>(In this example)</small>	
Act 172 Credit for Line 12.....	\$500.00
<small>(Enter the lesser of the Base municipal EIT and the Credit limit set by local ordinance)</small>	

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

**LINE 14: Refund:** If Total Tax Liability (Line 9) is less than Total Payments and Credits (Line 13), 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.

**LINE 15: Credit:** If Total Tax Liability (Line 9) is less than Total Payments and Credits (Line 13), taxpayer may split the amount of the overpayment between next year's tax liability and to spouse's current-year tax. Tax officer will issue Form 1099 to the federal government for any credit or refund exceeding \$10.

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

**LINES 17 and 18: Penalty and Interest:** Penalty and interest accrues 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 less than 90% of quarterly tax liability remains unpaid by the end of the fourth-quarter filing deadline.

**LINE 19: Total Payment Due:** Enter the sum of Line 16, Line 17 and Line 18. If less than \$1 enter "0". If \$1 or more, make check payable to Keystone Collections Group and enclose check with return.

**All tax returns are subject to audit and review.**  
**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.**

When filing by mail, send to:	<b>No Payment or Refund</b>	<b>Refund or Credit</b>	<b>Payment Enclosed</b>
	Keystone Collections Group <b>PO Box 549</b> Irwin PA 15642-0549	Keystone Collections Group <b>PO Box 509</b> Irwin PA 15642-0509	Keystone Collections Group <b>PO Box 529</b> Irwin PA 15642-0529

Make check payable to **Keystone Collections Group**.  
 Include tax return and earned income tax forms only.  
 All payments will be applied to earned income taxes.

