

LOCAL EARNED INCOME TAX RETURN

1301
9/07

A. GENERAL INSTRUCTIONS

1. **WHEN TO FILE:** This return must be completed and filed by all persons subject to the tax on or before April 15 (unless the 15th is a Saturday or Sunday then file the next business day), regardless of whether or not tax is due. If you file a Federal or State Application for Extension, check the extension box on the front of the form and send this form along with your estimated payment by April 15, unless the 15th is a Saturday or Sunday, then by the next business day. If you use a professional tax preparer, please verify whether you need to file your return by mail or whether you have filed your return online.
2. **WHERE TO FILE:** Remit to the address printed on the tax return or see if you are eligible to file online at www.hab-inc.com.
3. **EFFECTIVE DATES:** January 1 through December 31, unless otherwise noted on your Local Earned Income Tax Return.
4. **AMENDED RETURN:** If a taxpayer amends his federal income tax return, an amended Local Earned Income Tax Return must also be filed with this office.
5. **RECEIPT / COPY:** Your cancelled check is sufficient proof of payment. **The Question & Answer sheet is your copy of your tax return.** Any individual requesting a photocopy of their return will be charged a \$5.00 administrative fee. Please submit your request and payment along with a self-addressed stamped envelope.
6. **PENALTY AND INTEREST:** If for any reason the tax is not paid when due, Penalty and Interest will be charged.
7. Use exact figures. Do not round.
8. **USE BLACK INK OR #2 PENCIL ONLY WHEN COMPLETING THIS FORM.**

B. REGULATIONS/LINE BY LINE INSTRUCTIONS

LINE 1: GROSS EARNINGS FOR SERVICES RENDERED

DOCUMENTATION REQUIRED: W-2(S) must be enclosed (photocopies are accepted).

TAXABLE INCOME INCLUDES: Salaries; Wages; Commissions; Bonuses; Tips; Stipends; Fees; Incentive Payments; Employee Contributions to Retirement Accounts; Compensation Drawing Accounts (If amounts received as a drawing account exceed the salaries or commission earned, the tax is payable on the amounts received. If the employee subsequently repays to the employer any amounts not in fact earned, the tax shall be adjusted accordingly); Benefits accruing from the employment, such as: Annual Leave, Vacation, Holiday, Separation, Sabbatical Leave; Income from patents and royalties; Compensation received in the form of property shall be taxed at its fair market value at the time of receipt; Jury Duty Pay; Payments received from weekend meetings for National Guard or Reserve Units; Sick Pay, if employee received a regular salary during period of sickness or disability by virtue of his agreement of employment; Taxes assumed by the Employer.

NONTAXABLE INCOME INCLUDES: Social Security Benefits; Unemployment Compensation; Pensions; Public Assistance; Death Benefits; Gifts; Interest; Dividends; Boarding and Lodging to employees 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 and summer encampment; personal use of company cars; cafeteria plans; and clergy housing allowance. All forms of payments from Individual Retirement Programs, such as Keogh, Tax Shelter Annuity, IRA, and 401K are not taxable. Taxpayer should refer to the PA Department of Revenue regulations regarding taxable compensation.

LINE 2: ALLOWABLE EMPLOYEE BUSINESS EXPENSES

DOCUMENTATION REQUIRED: Pennsylvania form PA-UE must be enclosed (photocopies are accepted).

LINE 3: **TAXABLE EARNINGS:** Subtract line 2 from line 1.

LINE 4: NET LOSS FROM BUSINESS

DOCUMENTATION REQUIRED: PA schedules C, E, F, or K-1 must be enclosed (photocopies are accepted).

RULE: A taxpayer may offset a business loss against wages and other compensation (W-2 earnings -- line 1). "Pass-through" income from an S-Corporation is NOT taxable and loss is not deductible. A taxpayer may not offset a loss from one business entity against a net profit from another business entity. If the taxpayer is in the business of renting real estate then file page 1 of Schedule E. All allowable business losses must be reported on line 4.

LINE 5: **SUBTOTAL:** Line 3 minus Line 4. If less than zero, enter zero.

LINE 6: NET PROFITS FROM BUSINESS

DOCUMENTATION REQUIRED: 1099(s), PA Schedules C, E, F, or K-1 must be enclosed (photocopies are accepted).

The net profits of a business, trade, profession, or other activity shall be computed by subtracting from gross receipts the cost of goods sold and all ordinary and necessary expenses of doing business. Generally, a business deduction which is not permitted by the Federal Government for income tax purposes will not be allowed. Not all self-employed income is includable as taxable earnings: Rentals from real estate and from personal property leased with the real estate is not included, unless reportable on Schedule C, or if the taxpayer is in the business of renting real estate then file page 1 of Schedule E. Gain or loss from the sale of capital assets is not included in the computation of net profits.

LINE 7: **TOTAL EARNED INCOME** subject to tax: Add lines 5 and 6.

LINE 8: **TAX LIABILITY:** Multiply line 7 by tax rate printed on the tax return. For example, if 1% use .01, if 1/2% use .005.

LINE 9: **QUARTERLY ESTIMATED PAYMENTS:** List any quarterly estimated payments made to date for appropriate filing year. Do not include any penalty and interest amounts that may have been made with the quarterly payments.

LINE 10: **EARNED INCOME TAX WITHHELD:** You may claim credit for local tax withheld as shown on your W-2 form, but only up to the rate of tax printed on line 8 of the tax return. Do not claim entire amount of tax withheld if it is greater than the tax rate for your resident taxing jurisdiction.

LINE 11: **PRIOR YEAR CREDIT:** State the amount of tax overpaid as listed on your previous year's return to be applied to current tax liability.

LINE 12: MISCELLANEOUS CREDITS

GENERAL RULES APPLICABLE TO ALL LINE 12 CREDITS: (1) Credits for income taxes paid to other states must first be used against your Pennsylvania state income tax liability; any credit remaining thereafter may be used against your local earned income tax liability. (2) Credits for income taxes paid to political subdivisions located outside of Pennsylvania or for wage taxes paid to Philadelphia may be taken directly against your local earned income tax liability. (3) In calculating your credit for income taxes paid to another state or to a 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) **No credit for income taxes paid to another state or political subdivision may exceed your total local earned income tax liability.**

CREDIT FOR TAXES PAID TO OTHER STATES: You may take a credit based upon the gross earnings taxed both in another state and in Pennsylvania that is in excess of Pennsylvania state personal income tax rate. **THIS CREDIT WILL BE DISALLOWED IF THE FOREIGN STATE RETURN AND YOUR W-2 FORM SHOWING STATE INCOME TAX WITHHELD IS NOT PROVIDED. No credits are given for state income taxes paid to states that reciprocate with the Commonwealth of Pennsylvania. These states are: Maryland, New Jersey, Ohio, Virginia, West Virginia, and Indiana.**

EXAMPLE: Taxpayer earned wages of \$10,000.00 in Delaware and paid an income tax liability to that state of \$317.00. Assuming the current Pennsylvania state tax rate is 3.07% for the tax year in question, since the \$317.00 exceeds 3.07% (PA Tax) amount of \$307.00 by \$10.00, the \$10.00 may be credited against your local income tax.

Gross Income	(1)	\$10,000.00
Local Tax 1%		<u>x .01</u>
	(2)	100.00
Tax paid to Delaware	(3)	317.00
PA Income Tax (3.07% x \$10,000.00)	(4)	<u>307.00</u>
Credit to be used against Local Tax (Line 3 minus Line 4)		
On Line 12 of the tax return, enter this amount or the amount on Line 2 of worksheet, whichever is less	(5)	<u>10.00</u>

If all your wages or gross earnings are subject to Delaware State Income Tax (not PA), use the above example to complete your tax obligation on Worksheet located on the reverse side of the tax return.

If you had earned income *NOT* taxed by Delaware, this income would be subject to the earned income tax effective in your district and must be shown separately on the Local Earned Income Tax Return. You may not use any tax paid to another state as credit on earnings outside the other state.

CREDIT FOR TAXES PAID TO POLITICAL SUBDIVISIONS OUTSIDE OF PENNSYLVANIA: You may take a credit based upon the gross earnings taxed in both another political subdivision and in your home taxing district in Pennsylvania. **THIS CREDIT WILL BE DISALLOWED IF THE FOREIGN CITY RETURN AND OR YOUR W-2 FORM SHOWING CITY INCOME TAX WITHHELD IS NOT PROVIDED.**

CREDIT FOR TAXES TO PHILADELPHIA: You may use any wage tax paid to Philadelphia as a credit on wages, salaries and commissions, etc., or net profits earned outside Philadelphia. You are not liable for duplicate payment of a Wage Tax to your resident district. You must complete the Local Earned Income Tax Return. **A COPY OF YOUR W-2 AND/OR VERIFICATION OF TAXES PAID MUST BE ENCLOSED WITH THE FORM OR CREDIT WILL BE DISALLOWED.** No refunds or credits will be allowed for any overpayment made to Philadelphia. On line 12 of the tax return, enter the amount of Philadelphia wage tax paid.

CREDIT FOR TAXES PAID TO PITTSBURGH: If you work in the City of Pittsburgh and the Pittsburgh Earned Income Tax was withheld by your employer for the City of Pittsburgh, you must apply for a refund directly from the City. Earned Income Taxes are due to the municipality/school district in which you reside, not where you work. To obtain refund forms from the City of Pittsburgh, you may call 412-255-2524. You can download the form from their website at www.city.pittsburgh.pa.us/finance. The City tax office will supply you with the proper forms to be filed with them for a refund. Before these refund forms can be filed with the City, they must be signed by the tax collector in your municipality/school district verifying that taxes for the year in question have been paid to the proper taxing authority. You may come into our office to have this form signed or mail it with a self-addressed, stamped envelope. We will return it to you as soon as possible.

LINE 13: TOTAL: Enter the sum of lines 9+10+11+12.

LINE 14: OVERPAYMENT OF TAX: If you have an overpayment of taxes in excess of \$1.00, you may elect to receive a refund or take same as credit against the next year's tax liability. A 1099 will be issued to the Federal Government for any credit or refund in excess of \$10.00. *Refunds:* If you fail to check either box under line 14 to indicate either a credit or a refund, a refund will be issued to you. If you elect to take a credit against next years liability, a Federal 1099 for the amount of the credit given for the next tax year will be issued to you and to the Federal Government.

LINE 15: AMOUNT OF TAX DUE: If tax (line 8) is larger than your credits (line 13), enter amount of tax due. If less than \$1.00, ENTER ZERO.

LINE 16: INTEREST AND PENALTIES: If for any reason the tax is not paid when due, interest at the rate of six percent per annum on the amount of said tax, and an additional penalty of one-half of one percent of the amount of the unpaid tax for each month or fraction thereof during which the tax remains unpaid, shall be added and collected. Additional costs will be charged for any return received after the due date.

LINE 17: TOTAL AMOUNT DUE: The sum of lines 15 + 16. OMIT IF LESS THAN \$1.00.

LINE 18: Write each account total Earned Income Tax (figures from line 7 on front of form) on line 18.

BOX 19: Write each account total amount due on line 19.

BOX 20: Write each total amount of enclosed check in line 20.

NOTE: All accounts are subject to audit and review. Local or city copy of W-2 and/or supporting schedules must be enclosed with tax return. (Photocopies of W-2s and schedules are accepted).

QUESTIONS AND ANSWERS ABOUT THE EARNED INCOME TAX

(YOUR TAX RETURN COPY IS ON THE BACK OF THIS FORM)

I306-2

I302-2

09/07

What Is The "Earned Income Tax?"

Earned Income is defined as compensation as determined under section 303 of the act of March 4, 1971 (P.L. 6, No.2), known as the Tax Reform Code of 1971, 'and regulations in 61 PA. Code Pt. I subpt. B. Art. V (relating to personal income tax). Employee business expenses are allowable deductions as determined under Article III of the Tax Reform Code of 1971.' The amount of any housing allowance provided to a member of the clergy shall not be taxable as earned income. Net profits are defined as the net income from the operation of a business, profession, or Tax Reform Code of 1971,' and regulations in 61 PA. Code Pt. I subpt. B. Art. V (relating to personal income tax). The term does not include income which is not paid for services provided and which is in the nature of earnings from an investment. For taxpayers engaged in the business, profession or activity of farming, the term shall not include:

- (1) any interest earnings generated from any monetary accounts or investment instruments of the farming business;
- (2) any gain on the sale of farm machinery;
- (3) any gain on the sale of livestock held twelve months or more for draft, breeding or dairy purposes; and
- (4) any gain on the sale of other capital assets of the farm.

What Income Is Specifically Exempt From The Earned Income Tax?

Income such as dividends, interest, income from trusts, bonds, insurance proceeds and stocks (Schedule D) is exempt. Also exempt are payments for disability benefits, old age benefits, retirement pay, pensions, social security payments, public assistance or unemployment compensation payments made by any governmental agency, any wages or compensation paid by the United States for active service in the armed forces of the United States including bonuses or additional compensation for such service, supplemental unemployment compensation from employers or unions.

If The Tax Is Withheld In Another PA Community Where I Work, Do I Also Pay The PA District In Which I Live?

No. Generally the tax withheld by your employer will be remitted to your resident taxing jurisdiction. However, you are still required to file an annual tax return with your resident taxing jurisdiction.

If I Am Subject To The Philadelphia Wage Tax, Must I Also Pay This Tax?

No, but you are still required to file a final return. If employed in Philadelphia, you may use the Philadelphia Wage Tax as a credit against your liability to your resident jurisdiction, but the credit may not exceed the tax rate printed on the enclosed return. No refund or credit can be taken for any withholding greater than the current tax rate for your resident taxing jurisdiction. Philadelphia Wage Tax credits may not be applied to your spouse's liability.

Whose Earned Income Tax Will Be Withheld By Their Employer?

Any individual working in a jurisdiction that levies the tax on **residents and non-residents** will have the tax withheld by their employer. If you work in a jurisdiction that does **NOT** tax non-residents, your employer is only required to withhold for those individuals who live in that jurisdiction. Occasionally, employers located in a jurisdiction where the tax is not levied will volunteer to withhold if your resident jurisdiction levies the tax.

Must All Taxpayers File A Final Return?

Yes. A Local Earned Income Tax Return must be filed annually by April 15, (unless the 15th falls on a Saturday or Sunday then the due date becomes the next business day) for the preceding calendar year. If you had no earned income, state the reason on the enclosed tax return.

What Should I Do If I Lived In A Jurisdiction/Municipality For Only Part Of A Year?

You are required to file a return for any period of time you were/are a resident of a municipality for which Berkheimer is the Tax Administrator. You are required to file for the period of time that you lived in that municipality and prorate your income, expense, withholding, etc. Also you must complete the Part Year Resident Section on the top (front and back) of your Local Earned Income Tax Return to determine the tax liability to each taxing district.

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, Federal / 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.

Where Is My Earned Income Reported On My W-2?

Your local earned income should be reported in the box labeled "Local Wages, tips, Etc." (*Please note: If the amount reported in the Local box is substantially less than the amount reported as State Wages, Tips or other compensation, then you should submit an explanation for this difference*). Your local earned income should be reported in the box labeled "Local Income Tax." If this box is not completed, then you should refer to the box labeled "State Wages." Please note if you are employed out of state you should be referring to the box labeled "Medicare Wages."

What If I Neither File A Return Nor Pay The Tax Due?

State law, as well as the local tax resolutions and/or ordinances, make it a summary criminal offense if a taxpayer fails to file a tax return as required. This subjects the taxpayer to a fine not to exceed \$500.00 per offense, plus the cost of prosecution. In default of payment of said fine and costs, the taxpayer may be imprisoned for a period not exceeding thirty (30) days per offense. In addition, distress sale, wage attachment and/or civil suit proceedings may be used to collect any unpaid tax found to be due, and penalties and interest may also be assessed.

Can I file online?

Visit us at www.hab-inc.com for online filing eligibility.

What Return Address Label Do I use?

If there is a **PAYMENT DUE** for *one or both of the taxpayers*, then use the **PAYMENT ENCLOSED** label.

If there is **NO PAYMENT** enclosed with your return **AND** there is a **REFUND OR CREDIT DUE** for *one or both of the taxpayers*, then use the **REFUND OR CREDIT DUE** label.

If there is **NO PAYMENT** and **NO REFUND OR CREDIT** for *both of the taxpayers*, then use the **NO PAYMENT/NO REFUND** label.