



# Township of Middletown

3 Municipal Way Langhorne, PA 19047-3424  
Ph: 215-750-3800 Fax: 215-750-3801  
[www.middletowntwpbucks.org](http://www.middletowntwpbucks.org)

## Middletown Township Local Earned Income Tax

On January 23, 2014, the Middletown Township Board of Supervisors adopted an amended 2014 Budget that enacts and sets the rate of the Earned Income Tax at one-half percent (.5%).

Residents of Middletown Township and nonresidents working in the Township are subject to the new tax, which is effective **January 1, 2014**. There is an exemption from the Earned Income Tax for any individual earning less than \$12,000 annually.

### **If you are an Employee:**

All employers in Pennsylvania are required by law to withhold the tax on employee compensation. To do so, your employer must obtain and report certain information about your residence and your work location, and withhold the correct amount of earned income tax. You should provide this information by completing a *Certificate of Residency* form (available from your employer, or the Keystone Collections Group website [www.keystonecollects.com](http://www.keystonecollects.com)) and submitting the form to your employer. To avoid penalty and interest, you should review your pay stubs to be sure your employer is withholding the new tax at the correct rate.

**The Middletown Township PSD code is: 090805**

### **If you are Self-Employed or Employed Outside of PA:**

If you are self-employed, have earnings reported on Form 1099, or work outside of PA and your employer will **not** withhold your earned income tax, you must report your income and pay your tax on a quarterly basis. Quarterly reporting forms are available at the Keystone Collections Group website [www.keystonecollects.com](http://www.keystonecollects.com) or you may contact Keystone by phone at (888) 519-3898 to register as a taxpayer and request forms to be mailed to you.

**The Middletown Township PSD code is: 090805**

### **If you are Retired:**

If you are retired and received no compensation from earned income or net profits as defined in the FAQs below, you are not subject to the earned income tax. If a retiree receives filing forms from Keystone Collections Group, they should indicate they are retired by checking the appropriate box on their return and file the return before the due date. Once the return is filed with that information, Keystone will update the account to no longer be mailed forms. If the retiree does begin to earn income again in the future, the retiree will be responsible to contact Keystone and have their account coded to reflect the change.

**If you are an Employer in Middletown:**

You should register as an employer with the Earned Income Tax Administrator, Keystone Collections Group. Employers may register with Keystone by calling their Employer Help Line at (724) 978-0328. Keystone's website has an "Employer Resource" link page [www.keystonecollects.com/page/business](http://www.keystonecollects.com/page/business) which contains tax resources and information geared to help Businesses and Employers.

## **Frequently Asked Questions – Earned Income Tax**

**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).

It is a tax applying to gross compensation and/or net profits which is commonly referred to as a "Wage Tax." It is levied against an individual taxpayer's earned income and/or net profits whether the income is from the operation of a business [including home occupations] or from wages, commissions, or other sources.

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.

**Who is Taxable?**

All residents of Middletown Township regardless of age would be taxed. In addition, non-residents working in the Township of Middletown are taxed, unless they have a similar tax at a place of residence in Pennsylvania. A nonresident employee shall be deemed to be employed in Middletown Township, if the employee reports to and/or receives work assignments from, the employer's office located within Middletown Township.

### **Is All Income Subject to the Tax?**

No, only EARNED INCOME/NET PROFITS are subject to this tax. Earned Income Tax is defined as: Salaries, wages, commissions, bonuses, incentive payments, fees, tips and other compensation received by a person or his/her personal representative for services rendered, whether directly or through an agent, and whether in cash or in property, **but not including:**

- periodic payments for sickness and disability other than regular wages received during a period of sickness, disability or retirement;
- payments arising under worker's compensation acts, occupational disease acts and similar legislation;
- payments commonly recognized as old-age benefits, retirement pay or pensions paid to persons retired from service after reaching a specific age or after a stated period of employment; or payments commonly known as public assistance;
- unemployment compensation payments made by any governmental agency; or payments to reimburse expenses;
- payments made by employers or labor unions for wage and salary supplemental programs, including, but not limited to programs covering hospitalization, sickness, disability or death, supplemental unemployment benefits, strike benefits, social security and retirements.
- Compensation received by Pennsylvania residents from active service in the armed forces of the United States and earned while serving outside of Pennsylvania;
- Compensation of non-residents of Pennsylvania (residents of other states) on active military service in Pennsylvania.

### **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. Compensation received by Pennsylvania residents for active service in the armed forces of the United States and earned while serving outside of Pennsylvania is exempt, and compensation of non-residents of Pennsylvania (residents of other states) on active military service in Pennsylvania is exempt.

### **Is Compensation received for active service in the Armed Forces of the US taxable for EIT?**

#### **According to PA Act 32, active duty pay is treated as follows:**

- Compensation received by Pennsylvania residents for active service in the armed forces of the United States and earned while serving in Pennsylvania is taxable;
- Compensation received by Pennsylvania residents for active service in the armed forces of the United States and earned while serving outside of Pennsylvania is not taxable;
- Compensation of non-residents of Pennsylvania (residents of other states) on active military service in Pennsylvania is not taxable.

**If the tax is withheld in another PA community where I work, must I also pay an additional tax to the PA District in which I live?**

No. Generally, the tax withheld by your employer will be remitted to your resident jurisdiction. It is recommended that you notify your employer of Middletown’s Earned Income Tax, its rate of .5% (.005), and the Middletown PSD code which is 090805. In addition, you are required to file an annual tax return with your resident taxing jurisdiction. Annual Tax Return Forms are available at [www.keystonecollects.com](http://www.keystonecollects.com).

**If I am subject to the Philadelphia wage tax, must I 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 your resident jurisdiction tax rate. No refund or credit can be taken for any withholding greater than the tax rate for your resident taxing jurisdiction. Philadelphia wage tax credits may not be applied to your spouse’s liability.

Please be advised that per a court decision passed down in January 2013, individuals who have City of Philadelphia Non-resident wage tax withheld may apply the taxes paid as credit against wages earned OUTSIDE the city as well. Refunds will not be issued for Philadelphia wage tax withheld in excess of the taxpayer’s liability. This decision returns the crediting provisions to how they were applied for tax year 2011 and prior.

**How will the Earned Income Tax be collected?**

For most, it will be collected at the source of their income by means of **withholding by their employers**. If not withheld by your employer, it will need to be paid in quarterly installments. The Township has engaged the services of Keystone Collections Group to serve as the Township agent for the collection of this tax. Keystone can be reached at (888) 519-3898 or on line at [www.keystonecollects.com](http://www.keystonecollects.com).

**When are the quarterly estimates due?**

The due dates for quarterly estimated payments are as follows per tax period or fractional period:

Quarter	Period Covered	Due Date
1	Jan., Feb., March	April 30
2	Apr., May, June	July 31
3	July, Aug., Sept.	October 31
4	Oct., Nov., Dec.	January 31
Final Return	Full Tax Year	April 15

**Will I be notified when each quarterly installment is due?**

Once you are registered with Keystone Collections Group, you will be mailed an annual packet of forms which must be completed and returned as the appropriate returns are due. The failure to receive notification will not relieve the taxpayer of his responsibility for making payments or filing the required notices.

**Must all taxpayers file a final return?**

Yes. A local earned income 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 your final return.

**What happens if I do not pay or file the required returns?**

Late payments are subject to interest of three percent (3%) per annum on the amount of the tax and an additional Penalty of one percent (1%) of the amount of the unpaid tax for each month or fraction thereof during which the tax remains unpaid. These rates are set by the Commonwealth of Pennsylvania.

**What happens if I overestimate or underestimate my income?**

Adjustments will be made on the following Quarterly or Final Return. Any overpayment on the final return can be refunded, credited to spouse, or credited the following year. Underpayment may be subject to interest and penalty charges.

**Is there any minimum income or age group?**

Yes, there is an exemption from the Earned Income Tax for those earning less than \$12,000 annually. There is no restricted age group.

**How do I file for the Low Income Exemption?**

There is not a form to complete for the EIT low-income exemption. This would be determined on your annual final tax return based on your income for the entire tax year. If an individual made under \$12,000, that person would not be liable for the Earned Income Tax and would be entitled to a refund of any withholding which would be requested on the final tax return.

**To claim the Low Income Exemption:**

Ascertain that your Total Taxable Earned Income on line 4 (per individual) falls below \$12,000.

If you qualify for the Low Income Exemption, you will need to file a paper return.

Write boldly across the top of the Annual Tax Return "Low Income Exemption".

In line 9, Total Tax Liability – place a zero ( 0.00) in the column.

On line 10 or 11, show your withholding amount and/or your estimated payments.

Then compute your refund on line 14.

Sign, date and file the return with Keystone Collects.