

Earned Income Tax – Township Overview

Why is the Township Board of Supervisors considering an Earned Income Tax (EIT) starting in January 2026?

As costs have increased in recent years for all Americans, expenses have also increased for the township government of East Marlborough in the following areas: utilities, maintenance, fire and emergency services, and capital expenditures.

What is Earned Income Tax (EIT)?

Under Act 511 of 1965, Pennsylvania municipalities and school districts have the legal authority to levy a local Earned Income Tax (EIT) on individuals' gross earned income/compensation and net profits up to 1%. EIT is separate from the Pennsylvania personal income tax. In most cases, when the place of residence and employment both have an EIT, the person pays the EIT where they live. **They are not taxed twice.**

Is EIT a new tax?

It is new to East Marlborough Township but has existed since 1965 throughout the state. 94% of the municipalities in the state, including 70 of 73 municipalities in Chester County, use the EIT as a revenue source.

What types of income will be taxable?

EIT is levied against a person's earned income or net profits. Taxable income includes salaries, wages, commissions, bonuses, tips, stipends, fees, incentive payments, employee contributions to some retirement accounts, jury duty pay, military pay for services other than active duty, and sick pay.

What types of income are not taxable?

EIT is *not* levied on Social Security benefits, unemployment, public assistance, alimony, child support, death benefits, gifts, interest, dividends, lottery winnings, Supplementary Unemployment benefits, capital gains, disability benefits, active military service, and summer encampment, pensions and individual retirement programs (such as Keogh, Tax Shelter Annuity, IRA and 401K) and some other non-taxable earnings. These sources of income are exempt from EIT.

How will the tax be collected?

For most people, the tax will be withheld from their paycheck by their employer, just as the state and federal income taxes already are.

What if I work in the state of Delaware?

It is also likely that some of the Township's residents work in the State of Delaware, where they are subject to that state's income tax. A resident who works in Wilmington is also subject to Wilmington's local income tax. Pennsylvania residents who pay their income tax to Delaware (and Wilmington) are permitted a credit on double-taxed income.

How will a 1% EIT impact me as a resident of East Marlborough Township?

Based on the most recent tax data available, Keystone estimates approximately 1,100 East Marlborough Township residents already pay the tax because they work in taxing jurisdictions that currently levy the earned income tax. These figures include only those East Marlborough Township residents who commute to work in a taxing jurisdiction where Keystone is the Act 32 Tax Officer (in this instance, Bucks, Chester, Delaware, and Northampton counties). *Those residents who work in Montgomery County are not included in these estimates, as the Keystone Collections Group is not the Act 32 Tax Officer there.*

A reported 1,144 residents of East Marlborough Township that work in communities where Keystone is the collector paid nearly \$713,026.32 to these other communities in non-resident EIT taxes in 2023, the latest year for which figures are available. Virtually all this revenue would revert to East Marlborough Township if the Township imposed the 1% EIT tax in addition to the other EIT revenue sources.

In most cases, East Marlborough Township residents working in communities that levy the non-resident tax where Keystone is the collector would see no increase in their current local earned income tax payments.

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If you are a resident who works in another Pennsylvania municipality that levies at a 1.0% EIT, you already pay this tax to your workplace municipality. You would not see a tax increase- instead, your taxes would go to East Marlborough Township.

An employer is to submit both the resident local taxes and the non-resident local taxes (i.e., work location); they are to withhold the higher of the two tax rates and submit the amount withheld to the Tax Administrator.

The Tax Administrator will then remit the taxpayers' funds first to the resident municipality, and the remainder of funds withheld, if higher than the resident rate, will be applied to the non-resident (work location) municipality.

If an East Marlborough resident works in the City of Philadelphia, they will continue to pay the City's EIT rate and not see a tax rate change. By state law, the City of Philadelphia continues to receive that tax revenue, and East Marlborough would not collect EIT from them.

East Marlborough residents who do not have an earned income would not be affected. This includes anyone whose sole source of revenue comes from Social Security benefits, pensions, unemployment, and other non-taxable earnings, as listed above.

The law permits municipal taxing authorities to concurrently enact a non-resident, or commuter tax, on individuals who work in one taxing jurisdiction but live elsewhere. Most municipalities that enact the earned income tax throughout Chester County also impose non-resident tax.

Most Chester County municipalities (i.e., 70 of 73 municipalities) levy the EIT and concurrently impose a non-resident rate of 1%. The same applies to communities within Bucks, Montgomery, and Northampton counties.

Therefore, enacting a concurrent non-resident EIT may generate additional revenue for East Marlborough Township only from those Pennsylvania residents of nearby communities who work in the Township but live in taxing jurisdictions that do not impose the EIT.

How much revenue will EIT generate for the Township?

Data suggests that the maximum revenue that East Marlborough Township could receive from a 1% EIT is approximately \$3,745,000.00. Conversely, if the Township implemented a 0.5% EIT, it would receive an estimated \$2,110,000.00. Because residents work in Delaware and Philadelphia and several are retired, the amount collected would be less than that stated amount.

In 2023, East Marlborough residents who reside in the Kennett Consolidated School District paid EIT for \$889,812.95, of which if the township had an EIT, it would have received half the EIT, totaling \$444,906.48.

Currently, the Unionville-Chadds Ford School District does not impose a local earned income tax, which allows the Township to set its rate at the statutory maximum of 1%. The school district may impose its EIT up to 0.5% by state law. With the statutory maximum rate of 1%, the Township would be limited to a 0.5% rate. The Township is reviewing these options with the Township solicitor.

Meetings on the EIT

East Marlborough Township will have information on the EIT at its monthly meetings and the township website.

Thank you,
Township Board of Supervisors
East Marlborough Township