

Earned Income Tax Overview

Why is the Township Board of Supervisors considering an Earned Income Tax (EIT) starting in January 2027?

A more forward-looking approach: the township is placing greater emphasis on integrating future capital and infrastructure needs into its financial planning. The goal is to shift from reacting to capital needs as they arise to planning for them in advance. This approach aims to reduce reliance on property taxes over time and to eliminate sudden, large property tax increases.

What is Earned Income Tax (EIT)?

Under Act 511 of 1965, Pennsylvania municipalities and school districts have the authority to levy a local Earned Income Tax (EIT) on individuals' net earned income, compensation, and net profits, up to 1%. The EIT is separate from the Pennsylvania personal income tax.

Is EIT a new tax?

It is new to East Marlborough Township but has existed statewide since 1965. Over 94% of the state's municipalities (more than 2,410 of 2,562), including 96% in Chester County (70 of 73), use EIT as a revenue source to offset property taxes.

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

If you are a township resident who works in another Pennsylvania municipality that levies 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 must submit both resident local taxes and non-resident local taxes (i.e., work location taxes); they must withhold the higher of the two tax rates and submit the amount withheld to the Tax Administrator. When a person's residence and employment are in different EIT jurisdictions, they pay the higher of the two rates. In most cases, however, they pay EIT where they reside. They are not taxed twice.

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

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 without 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 a non-resident tax.

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

Every situation is unique and can be influenced by individual factors, such as part-year residency, multiple jobs, or multiple workplace locations.

How much revenue will EIT generate for the Township?

Data suggest that East Marlborough Township could receive approximately \$1,760,000 in revenue from a 1% EIT. Conversely, if the Township implemented a 0.5% EIT, it would receive approximately half of the estimated 1% (e.g., \$880,000). Because residents work in Philadelphia and are out of state, and several are retired, the amount collected may vary.

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What types of income will be taxable?

EIT is levied on 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. Employee Contributions to 403(b) Plans- Employee contributions to 403(b) plans are taxable, just as employee contributions to 401(k) plans. Early distributions from employee retirement plans, such as 401(k), are taxable subject to the cost recovery method. Employee Stock Options are taxable when exercised by the taxpayer. Restricted stock unit (RSU) awards are taxable when they vest.

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.

Examples of items that are never considered earned income are:

- Strike benefits.
- Railroad retirement benefits.
- Unemployment compensation.
- Social Security and public assistance.
- Alimony, child support, and foster care.
- Inheritance and income in respect of a decedent.
- Housing allowance paid to members of the clergy.
- GI Bill benefits, including tuition and living expenses.
- Federal active-duty military pay, inside or outside of PA.
- Meals and lodging provided to an employee by the employer.
- Premiums an employer pays for group term life insurance (no limit).
- Occupational Disease Act benefits (if included on W-2, attach an explanation).
- Distributions from eligible Pennsylvania retirement plans after retirement age.
- Employer-provided parking facilities. These amounts are nontaxable fringe benefits.
- Personal use of employer-owned or leased property and/or services at no or reduced cost.
- Disability payments paid by the employer arising under occupational disease acts or other legislation.
- Amounts received for permanent loss of body function, disfigurement, or reimbursed medical expenses.
- Employer-provided professional services paid for directly by the employer. These are nontaxable fringe benefits.
- Personal use of company automobiles, airplanes, or other employer-owned or leased property. These amounts are not taxable fringe benefits for Pennsylvania Local Income Tax.

What if I work outside of Pennsylvania?

EMT residents who work outside PA owe the tax just like residents who work in PA. That said, employers located outside of PA are not required to withhold and remit the local EIT; however, some do so voluntarily. New Jersey and Maryland are reciprocal states, meaning that they will not impose a state-level income tax on the wages of PA residents. Delaware is not a reciprocal state and does impose state and/or local taxes on PA residents who work in Delaware; these tax payments can be used as a credit instead of remitting PA state or local taxes. This credit may or may not completely cover the residents' PA (state and local) tax liability. Philadelphia also imposes a tax on non-residents that can then be used as a credit.

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What-if scenarios?

General Rule: Taxpayers are generally not required to pay tax on the same income twice. However, all tax credits must first be applied to the Pennsylvania state-level personal income tax. The applicable credit for EIT is the lesser of the remaining state tax credit (out-of-state tax paid minus 3.07% of out-of-state taxed wages) or the local EIT liability for the out-of-state taxed wages (typically 1% of those wages).

Delaware: Delaware does not tax 401(k) contributions, whereas Pennsylvania taxes them for EIT purposes. If an East Marlborough resident works in Delaware (but not Wilmington), they can claim an income credit for double-taxed income, which excludes 401(k) contributions. They would owe EIT to East Marlborough Township on the 401(k) contributions that Delaware did not tax. Conversely, since Wilmington taxes 401(k) contributions, a similar taxpayer working in Wilmington can claim credit for all income taxed by Wilmington, covering all taxable income for EIT purposes.

- 1) An EMT resident working in Delaware but not Wilmington will see their tax obligation increase based on the income not already taxed by Delaware.
- 2) An EMT resident working in Wilmington will likely see no change in their tax obligation, as Wilmington's taxed income probably matches the income subject to EMT local tax.
- 3) An EMT resident working in a Pennsylvania municipality with a non-resident EIT of 1.0% will have the same tax obligation.
- 4) An EMT resident working in a Pennsylvania municipality with a non-resident EIT below 1.0% will see their tax obligation rise to 1.0%.
- 5) An EMT resident working in a Pennsylvania municipality without a non-resident EIT will have their tax obligation increase to 1.0%.

Philadelphia: Philadelphia's non-resident City Wage Tax or Net Profits Tax is directly compared to a taxpayer's EIT liability. The Philadelphia tax rate is so high that it usually offsets any EIT liability. Importantly, Philadelphia does not share income tax, so local communities receive no revenue from taxpayers working there. Additionally, Philadelphia taxes qualify for a large credit, which can be applied against other income sources earned outside Philadelphia.

New Jersey and Maryland: NJ and MD are reciprocal states, meaning they cannot assess state-level income tax on a PA resident's wages. Only local taxes in these states (mainly in MD) qualify for local credit. However, this restriction does not apply to net profit earners, who may claim out-of-state credits for taxes paid to reciprocal states.

New York: New York is a non-reciprocal state and generally follows the same rules as Delaware (except for the Wilmington local tax). NYC assesses a local commuter tax and an unincorporated business tax, but these are not eligible for credit because they are not equivalent taxes. Additionally, taxpayers cannot double-dip on credits, meaning they cannot claim double credits for the same income taxed multiple times. Since taxpayers receive a credit for New York state income tax, no additional credit is available for local taxes in New York.

How will the tax be collected?

For most people, their employer will withhold the tax from their paycheck, just as it does for state and federal income taxes.

Why Keystone Collections and not another tax collector?

Under Act 32, the township must use the EIT collector appointed by the Chester County Tax Collection Committee (TCC), which is currently Keystone. Keystone is under contract with Chester County TCC to collect the EIT through December 31, 2029. Keystone reports that the current fixed rate is 1.22% and will remain unchanged for the remainder of the contract.