

Self-Reporting Local Earned Income Taxes

If you are self-employed, Pennsylvania law requires you to remit local earned income taxes for East Whiteland Township four times a year.

Income earned and reported on Schedule C, Schedule E, Form 1099 and any other earnings that are not subject to employer withholding must be self-reported quarterly.

“You would be surprised how many otherwise well-informed individuals claim not to know they have to pay quarterly earned income taxes at the local level,” said Rose M. Harr, vice president of community relations at Keystone Collections Group, the local earned income Tax Officer for East Whiteland Township’s 0.5 percent earned income tax.

“We have partnered with local communities to help taxpayers learn about the tax and ensure that they have easy, reliable tools to file and report, including secure online filing,” Harr said. “Despite our best efforts, some individuals neglect to pay their local taxes, only to face penalties and interest for delinquent taxes.”

While most of the residents of East Whiteland have the tax withheld by their employers, independent contractors who report income from 1099s and the self-employed who file federal and state returns reporting earned income on Schedule C or Schedule E must make estimated quarterly earned income tax payments at the local level and file an annual return by mid April or, if filing an extension, by mid October.

Income reported on 1099s and Schedule C is usually taxable at the local level. Income from Schedule K-1 and Schedule E is not always subject to local earned income taxes, said Thomas J. Kratzenberg, president of Keystone Collections Group.

“The thing to remember is that we are talking about a tax on earned income, not passive income,” said Kratzenberg, a tax attorney and CPA.

“There is no clearly defined time when you move from Schedule E income to Schedule C earned income,” Kratzenberg said. “But if you are taking a net loss, your tax advisor may recommend you file on Schedule C.”

A net loss on earned income from one Schedule C business may be used to offset earned income from another, Kratzenberg said. “But state law does not permit offsetting a business loss against wage income.” Wage income is usually reported on a W-2.

When in doubt, consult a tax preparation professional.

“What is important is: If you have earned income where the tax is not withheld, you have to pay quarterly,” said Harr. Quarterly local earned income tax estimates must be paid within 30 days following the close of a calendar quarter. The first quarterly payment for 2016 is due on May 2 because April 30 falls on a Saturday this year.