

Examples of Credits that may be taken against Earned Income Taxes

Taxes paid to another United States political subdivision may be used as a deduction against the earned income and/or net profits taxes owed to the Township of Richland on the same earnings or profits as is provided by Act 511. The allowable credit will be allowed up to the maximum effective rate of the tax levied by the Township and the School District against the identical income and/or net profits earned in the other political subdivision. Taxes paid to another political subdivision may not be credited against income and/or net profits earned outside of the taxing political subdivision. Evidence of the amount of gross earnings and payments of the applicable tax on earned income and/or net profits is required before this credit will be allowed. Below are two examples that explain how this credit process works:

EXAMPLES:

1. A taxpayer who is a resident of Richland Township works in Philadelphia and pays the Philadelphia income tax. Currently the tax rate for Richland Township residents is 1.6%. The taxes paid to Philadelphia may be taken as a credit against the Richland Township taxes owed on the money earned in Philadelphia. Since the tax rate imposed on earned income and/or net profits of persons working in Philadelphia is at a higher rate than the Richland Township tax rate, the person may take a credit for the full value of the taxes paid on the Philadelphia income and will not be liable for the payment of taxes on that income. Should the same individual also have additional earned income and/or net profits earned outside of Philadelphia, that income or profits will not be subject to Philadelphia's tax but will be subject to the Richland Township tax. The amount of the Philadelphia tax in excess of the Richland Township tax on the money earned in Philadelphia may not be taken as a credit against the tax owed to Richland Township on the earnings or profits from outside of Philadelphia.

In this example the Richland Township resident earns \$50,000 working in the City of Philadelphia and \$10,000 working outside of Philadelphia. In this case the taxes would be as follows:

Philadelphia tax on \$50,000 @ 3.9127% = \$1,956.35
Richland Township tax on \$50,000 @ 1.6% = \$800.00
Richland Township tax on \$10,000 @ 1.6% = \$160.00

Since the Philadelphia tax on the \$50,000 earned in Philadelphia exceeds the amount of the Richland Township tax on the same \$50,000 there would be no Richland Township tax owed on the \$50,000 of earnings. However, the \$160.00 of tax on the \$10,000 earned outside of Philadelphia would be owed.

2. In this example a Richland Township resident is a partner in a national CPA firm with offices in Richland Township plus Chicago, New York and Los Angeles. The taxpayer pays taxes on income earned in all of those cities. The taxpayer may take a credit towards the tax using the following method:

a) First determine the income earned in each locality during the tax year.

\$50,000 earned in Richland Township
5,000 earned in New York City
15,000 earned in Chicago
10,000 earned in Los Angeles
\$80,000 total gross income

b) Second determine the maximum credit that can be taken for taxes paid in the other cities.

\$ 5,000 x 1.6% = \$ 80.00 for New York City
\$15,000 x 1.6% = \$240.00 for Chicago
\$10,000 x 1.6% = \$160.00 for Los Angeles
\$480.00 maximum allowable credit that can be
applied towards Richland Township Tax

c) List the amount of tax paid to each locality.

\$ 400 was paid to New York City
600 was paid to Chicago
500 was paid to Los Angeles
\$1,500 is the total taxes paid to the other cities

d) Use the credit that was taken on the PA State Return PA-40 to determine the remaining credit as follows:

\$1,500 the total taxes paid to the other cities
- 921 minus the credit taken on PA-40
\$ 579 is the remaining credit

e) Since the remaining credit of \$579 exceeds the amount of the maximum credit of \$480.00 from (b) above the entire amount of the maximum credit of \$480.00 may be applied towards the earned income tax as an out-of state/miscellaneous credit. However, had the amount of the credit remaining after completing step (d) been less than the maximum credit from step (b), then the lesser amount would be the amount allowed as a credit against the tax.

In order to take credit for taxes paid in other jurisdictions taxpayers shall provide the Richland Township Earned Income Tax Office with an exact duplicate copy of the

tax return as filed with the other taxing jurisdictions along with an exact duplicate copy of their Commonwealth of Pennsylvania Individual Income Tax Return (PA-40) and any additional documentation or schedules requested by the Tax Office.

Residents who pay taxes to “any foreign country” are not eligible for credits for any taxes paid in the foreign country.