

QUESTIONS AND ANSWERS ABOUT THE EARNED INCOME TAX

WHAT IS THE “EARNED INCOME TAX”?

The earned Income Tax, commonly called a “Wage Tax”, is usually a tax of one percent (1%) on gross wages and/or net profits from a business or profession. In Home Rule communities, the tax rate may vary and can even be higher than one percent (1%). Typically, individuals who receive “earned income”, including salaries, wages, commission, bonuses, incentive payment, fees, tips and/or other compensation for services rendered, whether in case or property, are subject to the tax. In addition, those who conduct businesses, professions and other activities for profit must pay tax on the net profit derived from their operation after deductions have been made of all cost and expenses incurred in conducting said business.

WHAT INCOME IS SPECIFICALLY EXEMPT FROM THE EARNED INCOME TAX?

Unearned income such as dividends, interest, and income from trusts, bonds, insurance and stocks is exempt. Also exempt are payments for third party sick or disability benefits, old age benefits, retirement pay, pensions – including social security payments, public assistance or unemployment compensation payments made by any governmental agency, and any wages or compensation paid by the United States for active service in the armed forces of the United States including bonuses or additional compensation for such service. In addition, net profits of corporations are exempt under state law.

IF THE TAX IS WITHHELD IN ANOTHER COMMUNITY WHERE I WORK, DO I ALSO PAY THE DISTRICT IN WHICH I LIVE?

No, the tax withheld by your employer will be remitted to your resident taxing jurisdiction. It is still required that our Registration Form be answered by ALL residents.

WHOSE EARNED INCOME TAX WILL BE WITHHELD BY THEIR EMPLOYER?

Any individual working in a jurisdiction that levied the tax will have the tax withheld by their employer. Occasionally, employers located in a jurisdiction where the tax is not levied will volunteer to withhold if your resident jurisdiction levies the tax.

FROM WHOM WILL THE EARNED INCOME TAX BE COLLECTED DIRECTLY?

The earned income tax will be collected from those who are 1) self-employed; 2) salaried but self-employed in a side business; or 3) work in a municipality where the tax is not in place. Those persons must file a declaration of the total of such estimated net profits or income, together with the total estimated tax due, with the Earned Income Tax Collector. Proper forms for the quarterly payments will be sent to each person so liable.

MUST ALL TAXPAYERS FILE A FINAL RETURN?

Yes, even if all tax is withheld, or quarterly payments are made, a Local Earned Income Tax Return must be filed by April 15th each year.

WHAT HAPPENS IF I NEITHER FILE A RETURN NOR PAY THE TAX DUE?

State law, as well as the local tax resolutions and/or ordinance, make it a summary criminal offense if a taxpayer fails to file a tax return as required, and subjects the taxpayer to a fine not to exceed \$500.00 per offense, plus the cost of prosecution; in default of payment of said fine and costs, the taxpayer may be imprisoned for a period not exceeding thirty (30) days per offense. In addition, distress sale, wage attachment and/or civil suit proceedings may be used to collect any unpaid tax found to be due, and penalties and interest may also be assessed.

