Earned Income Tax – Borough Overview

Why is the Borough Council 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 government of Langhorne Manor Borough 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 or compensation and net profits, up to 1%. EIT is separate from the Pennsylvania personal income tax. In most cases, when a person's place of residence and employment both have an EIT, they pay the EIT where they reside. **They are not taxed twice.**

Is EIT a new tax?

It is new to Langhorne Manor Borough but has existed throughout the state since 1965. Ninety-four percent of the state's municipalities (2,408 of 2,562), including 92.72% in Bucks County (51 of 55), utilize EIT as a revenue source to offset property taxes.

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 are taxable, just as employee contributions to 401(k) plans are. Employee Stock Options are taxable when exercised by the taxpayer.

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:

- Federal active-duty military pay inside or outside of PA.
- GI Bill benefits, including tuition and living expenses.
- Alimony, Child support, and foster care.
- Inheritance, and Income in respect of a decedent.
- Social Security, and public assistance.
- Railroad retirement benefits.
- Unemployment compensation.
- Occupational Disease Act benefits (if included on W–2).
- Meals and lodging provided to an employee by the employer.
- Personal use of employer-owned or leased property and/or services at no or reduced cost.
- 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.
- Employer-provided parking facilities. These amounts are nontaxable fringe benefits.
- Employer-provided professional services that are paid for directly by the employer. These are nontaxable fringe benefits.
- Premiums an employer pays for group term life insurance (no limit).
- Housing allowance paid to members of the clergy.

- Amounts received for permanent loss of body function, disfigurement, or reimbursed medical expenses.

- Disability payments paid by the employer arising under occupational disease acts or other legislation.
- Strike benefits.
- Life insurance proceeds or settlements.
- Distributions from eligible Pennsylvania retirement plans after retirement age.

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 outside of Pennsylvania?

Residents of LMB who work outside of PA will owe the tax just the same as residents who work in PA. That said, there is no onus placed on employers located outside of PA to withhold and remit the local EIT; however, some do it voluntarily. New Jersey and Maryland are reciprocal states, meaning that they will not impose a state or local tax on 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 having to remit payment of 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 credit.

Residents who live out of state and fail to remit local EIT can become entangled in the delinquent process when we compare local filing data with state filing data, as provided by the Pennsylvania Department of Revenue.

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 a Langhorne Manor Borough resident works in Delaware (but not Wilmington), they can claim income credit for double-taxed income, which excludes 401(k) contributions. They would owe EIT to Langhorne Manor Borough 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 LMB resident working in Delaware but not Wilmington will see their tax obligation increase based on the income not already taxed by Delaware.
2) An LMB resident working in Wilmington will likely see no change in their tax obligation, as Wilmington's taxed income probably matches the income subject to LMB local tax.
3) An LMB resident working in a Pennsylvania municipality with a non-resident EIT of 1.0% will have the same tax obligation.
4) An LMB 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 LMB 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.

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

Why Keystone Collections and not another tax collector?

Under Act 32, the borough is required to use the EIT collector appointed by the Bucks County Tax Collection Committee (TCC), which is currently Keystone. The current fixed rate, as reported by Keystone, is 1.34%.

How much revenue will EIT generate for the Borough?

Data suggests that the maximum revenue that Langhorne Manor Borough could receive from a 1% EIT is approximately $317,156. Conversely, if the Borough implemented a 0.5% EIT, it would receive approximately half of the estimated 1% (e.g., $158,578). Because residents work in Philadelphia and are out of state, as well as several being retired, the amount collected may vary.

Meetings on the EIT

Langhorne Manor Borough will have information on the EIT at its monthly meetings and on the Borough website.

Thank you,
Borough Council
Langhorne Manor Borough