

# VITA Tax Training for Pennsylvania and Local Taxes, Deceased Taxpayers and Military



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## Filing Requirements for State and Local

- **PENNSYLVANIA**

- **You must file a return for 2024 if**

- You received total Pennsylvania gross income in excess of \$33 during 2024 even if no tax is due with your return.
    - You incurred a loss from any transaction as an individual, sole proprietor, partner in a partnership or a Pennsylvania S corporation shareholder.
    - Pennsylvania law does not exempt a minor from these filing requirements even if claimed as a dependent on a federal return.

- **LANCASTER COUNTY**

- **You must file a local return for 2024 if**

- You lived in Lancaster County or the Octorara Area School District in Chester County for all or part of 2024 **AND**
    - You had any earned income or net profits in 2024 from employment or from any transaction as a sole proprietor or an active partner in a partnership.
    - Tax applies for individuals ages 16 and older.

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## Pennsylvania Tax Issues

Pennsylvania imposes tax based on eight different classes of income

- Wages
- Interest
- Dividends
- Business Income
- Gains or Losses from Sale of Property
- Rents and Royalties – outside the scope of VITA returns
- Estate and Trust Income – outside the scope of VITA returns
- Gambling and Lottery Winnings (***including*** winnings paid by Pennsylvania Lottery and Powerball and Mega Millions prizes)

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## Pennsylvania Tax Issues

Pennsylvania does not tax the following income sources:

- Social Security Benefits
- Railroad Retirement Benefits
- Pension Distributions\*
- Retirement Distributions\*
- Unemployment Compensation
- Sick Pay and Disability Payments
- Alimony
- Inheritances and Death Benefits
- Active Duty Military Pay

\*After employee has reached eligible retirement age and retired, benefits are not taxable. Early retirement contributions are not taxable until the initial contributions have been recovered.

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## PA Tax Issues – Gross Compensation

### Schedule W-2S

- Generally, PA taxable income is different from federal taxable income on box 1 of Form W-2
  - Pennsylvania does not allow deductions for retirement plan contributions
- If you enter the W-2 information on the W-2 worksheet in TaxSlayer, the correct state wages and withholding should flow to the return
  - State wages are on W-2 Box 16
  - State withholding are on W-2 Box 17
  - Please watch that LST (local services tax) entries are not entered for local wages or withholding

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## PA Tax Issues – Gross Compensation

### Reciprocal Agreements

- Pennsylvania tax can be withheld for residents working in the following states:
  - Indiana
  - Maryland
  - New Jersey
  - Ohio
  - Virginia
  - West Virginia
- If the above state's tax was withheld, an out-of-state return must be filed to get a refund for taxes paid.

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## PA Tax Issues – Schedule UE

### Unreimbursed Employee Expenses

- Pennsylvania allows a deduction for employee business expenses without a requirement to itemize deductions for federal tax purposes
- The expenses must be:
  - Ordinary, customary and accepted in the industry or occupation that you work
  - Actually paid while performing duties of your employment
  - Reasonable in amount and not excessive
  - Necessary to enable you to properly perform the duties of your employment
  - Directly related to performing the duties of your occupation or employment

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## PA Tax Issues – Schedule UE

### Unreimbursed Employee Expenses

- Common expenses include:
  - Union dues
  - Work clothing and uniforms (must be required to be purchased by employer and not adaptable to general use)
  - Small tools and supplies
  - Professional license fees not reimbursed by an employer
  - Vehicle expenses that are not commuting costs
  - Parking fees, tolls and transportation
  - Travel expenses while away from home overnight
  - Meals and entertainment expenses at 100% of incurred amount

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## PA Tax Issues – Interest Income

Pennsylvania does not tax interest from the following sources:

- U.S. Government (savings bonds, etc.)
- Commonwealth of Pennsylvania
- Municipal governments of Pennsylvania (municipal bond interest)
- Interest from bonds or obligations of Puerto Rico, Virgin Islands or Guam

In TaxSlayer, you would modify the amount of interest taxable to Pennsylvania on the tax-exempt interest worksheet by clicking the Add/Edit button. Enter the amount of Pennsylvania taxable income in the Amount box.

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## PA Tax Issues – Tax Forgiveness

### Schedule SP

- Credit that allows eligible taxpayers to reduce all or part of their Pennsylvania tax liability
- Certain nontaxable income is added back in the calculation of qualifying income
  - Alimony
  - Nontaxable interest
  - Inheritance
  - Nontaxable educational assistance
  - Excluded gain from the sale of a principal residence
- If the taxpayer is a dependent of another, that parent must be eligible for tax forgiveness for the dependent to also qualify

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## PA Tax Issues – Other Issues

### Annuities

- The earnings from privately purchased commercial annuities (such as insurance or mutual fund companies) or gift annuities is taxable in Pennsylvania.
- Cost basis is subtracted from distribution to determine earnings.
- Look for code 7D in Box 7 on Form-1099R

### Use tax question for all taxpayers

- Zero liability is an acceptable answer
- Estimated Use Tax based on income
  - \$15,000 or less - \$6 tax due
  - \$15,001 - \$30,000 - \$12 tax due
  - \$30,001 - \$50,000 - \$17 tax due

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## PA Tax Deductions

### Section 529 Contributions

- Taxpayer can deduct up to \$18,000 (\$36,000 for MFJ) in contributions per beneficiary per year
- Deduction is lower of contribution or PA taxable income

### HSA Contributions

- Taxpayer can deduct HSA contributions on Pennsylvania return if they were allowed a deduction for federal income tax purposes
- Contributions made on a pre-tax basis or made by the employer do not qualify for a deduction

### PAABLE Contributions

- Program provides a tax-free plan for disability-related expenses
- Recipient of funds maintains government benefits
- Taxpayer can deduct up to \$17,000 in contributions per beneficiary per year
- Deduction is lower of contribution or PA taxable income

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## PA Tax Credit

### Child and Dependent Care Enhancement Tax Credit

- Beginning in 2022, Pennsylvania residents who received a child and dependent care credit (Form 2441) may claim a credit against Pennsylvania taxes
- Credit is generally 30% of federal tax credit
- PA-40 Schedule DC should populate in TaxSlayer

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## PA Tax Issues – School Tax Codes

School District	Code
Cocalico	36130
Columbia Borough	36150
Conestoga Valley	36170
Donegal	36220
Eastern Lebanon County	36230
Elizabethtown Area	36240
Ephrata Area	36260
Hempfield	36310
Lampeter-Strasburg	36360

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## PA Tax Issues – School Tax Codes

School District	Code
Lancaster	36400
Manheim Central	36440
Manheim Township	36450
Octorara Area	15650
Penn Manor	36520
Pequea Valley	36530
Solanco	36700
Warwick	36900

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## PA Property Tax/Rent Rebate

- Rebate program benefits eligible Pennsylvanians
  - Seniors age 65 and older;
  - Widows and widowers age 50 and older; and
  - People with disabilities age 18 and older.
- Income limits
  - ***\$45,000 a year for homeowners (up from \$35,000)***
  - ***\$45,000 annually for renters (up from \$15,000)***
  - 50% of Social Security income and Railroad Retirement benefits are excluded
  - Inheritance, alimony, spousal support and gain from the sale of principal residence are included in income
- Benefits limits
  - ***\$1,000 is maximum standard rebate (up from \$650)***
  - Property tax rebates are increased by an additional 50% for senior households, so long as those households have income under \$30,000 and pay more than 15% of income in property taxes.

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## PA Property Tax/Rent Rebate

For both Homeowners and Renters

Income	Maximum Rebate
\$0 - \$8,000	\$1,000
\$8,001 - \$15,000	\$770
\$15,001 - \$18,000	\$460
\$18,001 - \$45,000	\$380

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## PA Property Tax/Rent Rebate

- Income attachments
  - If the taxpayer lives in Pennsylvania for the entire year, no Social Security income statement (SSA-1099) needs to be included
  - Form 1099 can be submitted for pension, annuity or other retirement income
  - Federal or state income tax returns may also prove income
- Homeowner attachments
  - Copies of the receipted tax forms need to be included
  - If taxes are not receipted, a copy of the tax bill and both sides of check may be submitted
  - A year end mortgage statement showing taxes paid also works
- Renter attachments
  - Landlord must complete the PA Rent Certificate form
  - Signed form needs to be included with rebate claim
  - VITA volunteer can complete as much of form as possible

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## PA Property Tax/Rent Rebate

- First time filers
  - Proof of age required for age 65 or older (copies only)
    - Birth certificate or hospital birth records
    - Driver's license
    - Passports
    - Pennsylvania ID card
    - Medicare card
    - PACE/PACENET card
  - Widow or widower age 50 to 64
    - Provide proof of age as above
    - Photocopy of spouse's death certificate
  - Permanently Disabled
    - For Social Security disability or SSI, provide a copy of the award letter
    - For Veterans Administration disability, provide a VA letter
    - For all others, provide a physician's statement (PA-1000 PS)

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## Deceased Taxpayers

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- If taxpayers are MFJ, change the surviving spouse to primary taxpayer
  - Couple can still file MFJ if surviving spouse did not remarry before the end of the year
  - Surviving spouse may sign on behalf of deceased spouse
- Be sure to check "Taxpayer is deceased" box to generate date of death box
- If no surviving spouse exists, a personal representative will have to file and sign the return
  - Can be an executor, administrator or anyone who is in charge of the decedent's property
- Claiming a refund for a deceased person
  - Form 1310 must be completed
  - If Option A or B is selected, the return must be filed by paper

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## Military Tax Issues

- This is the ninth year that VITA will be preparing military returns
- If you see one, please ask for help
  - Not only will this help you prepare the return, but it will expose more VITA staff to military tax issues
- If you are unsure of something, don't be afraid to hold the return
- Because we do not live near any bases, this is not something that we will anticipate seeing on a regular basis
  - We will probably avoid the most complicated items such as combat pay and moving allowances
- 4491, Military section, is the best resource for these returns

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## Military Tax Overview

D-5

- DOD will issue a W-2 with includable income in box 1
  - 4012 D-5 indicates taxable and non-taxable Military Income
  - W-2s may have unfamiliar codes in box 12.
    - Be sure to enter them into the software
- Moving expenses can be deductible or taxable depending on the circumstances
- Service members can take employee expenses on schedule A in a similar way to civilian employees

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## Military Income

- Generally, taxable income will be reported on box 1 of the W-2
- Severance Pay vs. Disability Compensation
  - Severance pay due to separation as the result of medical reasons is taxable
  - If the VA determines disability compensation will be awarded, this compensation becomes excludable
  - An amended return should be prepared if this income was originally reported as taxable and then a VA determination letter was received
  - All payments after the determination letter was received will not be reported as taxable income
    - This this only becomes an issue in the year that the disability letter from the VA is received

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## Military Income (Continued)

- Combat Pay
  - If serving in a combat zone, combat pay is excludable
  - Combat pay will not be included in box 1, but it will be listed in box 12 with code Q
  - Combat pay listed in box 12 can be treated as taxable income to increase EIC
- Homeowners' assistance and basic allowance for housing are not taxable and will not be reported as taxable income
- In certain instances, moving expenses paid by the military can be taxable

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## Military State and Local Issues

- Compensation earned by Pennsylvania residents is generally taxable
- **Active** military duty pay earned while stationed or training outside Pennsylvania is exempt.
- Often the W-2 may be reported incorrectly or has Pennsylvania tax withheld
  - Send W-2 and copy of military orders (or commanding officer statement) with return
  - See PA REV-612 for brochure on military pay

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## Military Moving Expenses

- Expenses incurred as part of a permanent change of station (PCS) are deductible
  - This is not something that we will see typically as there are no bases in Lancaster County
  - Included here is the cost of moving household goods and personal effects, along with reasonable travel and lodging expenses
- Only expenses paid by the service member or family are deductible
  - Qualified amounts over the reimbursement are deductible
  - If the amounts are deducted and then reimbursed later, the reimbursement will become taxable
  - Form 3903 is required to report deductible moving expenses

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## Personally Procured Move (PPM)

If a service individual or family wishes to move themselves, the military will determine pay for 95% of the government's cost to move

- Movers will be required to submit all receipts to substantiate the actual expenses
- If the government incentive payment is greater than the actual cost incurred, the excess portion is taxable income and should be reported on a separate W-2
- Any amounts (mileage and lodging) incurred in excess in reimbursement may be deductible

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## Military Business Expenses

- This generally follows the rules for other business expenses
- Unreimbursed uniform expenses, including cleaning, can be deducted if they are specifically required for employment and not suitable to general use (usually must be prohibited for off-duty wear)
- Travel expense for reserve duty away from home are deductible
  - 100-mile rule to be deducted as an adjustment to income
- Professional dues follow the same logic as general expense, but officers club or NCO's club dues are non-deductible
- Education expenses can be taken as long as they are required for current trade or business
  - IE: the pilot studying to be an accountant cannot deduct expenses on Schedule A
- See 4491 for additional detail

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