

**HANOVER AREA EARNED INCOME TAX BUREAU  
M&T BANK  
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HANOVER, PA 17331**

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**IMPORTANT 2003 TAX CHANGES  
PA ACT 166 OF 2002**

The definition of earned income tax has changed. With a few exceptions, the law changes the definition of earned income and net profits to mirror that of the state's definitions for compensation and net profits as used for Pennsylvania Personal Income Tax purposes. Below is a chart summarizing the changes.

<u><b>COMPENSATION ITEM</b></u>	<u><b>TREATMENT UNDER ACT 511</b></u>	<u><b>TREATMENT UNDER ACT 166</b></u>
Back pay	Taxable	Taxable
Bonuses	Taxable	Taxable
Business Net Loss	Allowable Offset of Earned Income	<b>NO CHANGE</b>

<u><b>CAFETERIA PLANS</b></u>	Taxable	<b>NOT TAXABLE</b>
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Note: Cafeteria plans under Act 166, is only those items with a qualified Section 125 Plan that are for hospitalization, sickness, disability of death, supplemental unemployment benefits or strike benefits.

<b>DEPENDENT CARE &amp; LEGAL AID</b>	Taxable	Taxable
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<u><b>CLERGY HOUSING</b></u>	Taxable	Not Taxable
Clergy Pay	Taxable	Taxable
Commissions	Taxable	Taxable

<b>COMPANY AUTOMOBILE (Personal Use)</b>	Taxable	<b>NOT TAXABLE</b>
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Deceased Taxpayer's (Wages or Earnings)	Taxable	Taxable
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401(k) Distributions		
Employee Contributions	Taxable	Taxable
Employer Contributions	Taxable	Taxable
<u><b>INTEREST EARNED</b></u>	Not Taxable	Taxable

(Contributions not taxed when earned are taxable **IF** early distribution **ONLY**).

Fees for Services	Taxable	Taxable
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<b>GUARANTEED PAYMENTS TO PARTNERS</b>	Taxable as Earned Income	<b>INCLUDED WITH PA RK-1</b>
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Holiday Pay	Taxable	Taxable
Honoraria	Taxable	Taxable
Incentive Payments	Taxable	Taxable
Jury Duty Pay	Taxable	Taxable

Non-Cash Payment for services rendered	Taxable	Taxable
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Non-Qualified <b>DEFERRED COMPENSATION</b>	Taxable	Taxable
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Overtime Pay	Taxable	Taxable
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Executor Fees	Taxable	Taxable
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Qualified Deferred Compensation	Taxable	Taxable
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Salaries & Wages	Taxable	Taxable
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Salary Advances	Taxable	Taxable
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<u>COMPENSATION ITEM</u>	<u>TREATMENT UNDER ACT 511</u>	<u>TREATMENT UNDER ACT 166</u>
Severance Pay	Taxable	Taxable
Sick Pay (regular wages)	Taxable	Taxable
Sick Pay (Third party)	Not Taxable	Not Taxable
Stock Bonus Plans	Taxable	Taxable
Stock Options	Taxable	Taxable
<u>SUPPLEMENTAL WAGE PLANS</u>	Not Taxable	Taxable
Tips	Taxable	Taxable
Vacation Pay	Taxable	Taxable

**UNREIMBURSED EMPLOYEE BUSINESS EXPENSES**

Unreimbursed Employee Business Expenses, as determined by Pa. Department of Revenue Regulations & Rulings, must be allowed as a deduction against Earned Income.

**PA. DEPT. OF REVENUE UNREIMBURSED BUSINESS EXPENSE FORM(S) ARE TO BE USED FOR REPORTING ON LOCAL INCOME TAX FORMS & RETURNS.**

Reimbursements in excess of actual expenses are taxable as earned income.

Tax Officer retains right to verify amounts reported on tax forms & returns.