

Primer

From the House Appropriations Committee

JOE MARKOSEK, DEMOCRATIC CHAIRMAN January 27, 2014



Tax Forgiveness for Personal Income Tax

The Special Provisions (SP) for Poverty enacted in 1974, commonly referred to as “tax forgiveness”, allows eligible taxpayers to eliminate or reduce their state personal income tax liability. The amount of tax forgiveness is based on the taxpayer’s income and number of dependents.

CALCULATION OF TAX FORGIVENESS

Taxpayers can apply for tax forgiveness by completing a PA Schedule SP along with their state personal income tax return.

Complete Tax Forgiveness

The eligibility income limit for 100 percent tax forgiveness is \$6,500 for the claimant (\$13,000 for married couples), plus \$9,500 for each dependent. For example:

- A two-parent family with two children and eligibility income up to \$32,000 would owe no state personal income taxes.
- A single parent with two children and eligibility income up to \$25,500 would owe no state personal income taxes.

Partial Tax Forgiveness

Taxpayers may receive partial tax forgiveness, which ranges between 10 percent and 90 percent, of their state personal income tax liability. The level of tax forgiveness decreases by 10 percent for every \$250 increase in eligibility income, phasing out altogether when eligibility income exceeds the 100 percent tax forgiveness limit by more than \$2,250. For example:

- A two-parent family with two children can claim 90 percent tax forgiveness if their eligibility income is more than \$32,000, but no greater than \$32,250.
- That same family of four with eligibility income more than \$34,000, but no greater than \$34,250 can claim 10 percent tax forgiveness.

However, the family does not qualify for any tax forgiveness when their eligibility income exceeds \$34,250.

DEFINITION OF ELIGIBILITY INCOME

Qualifying criteria for tax forgiveness is determined by the taxpayer’s eligibility income, which is different from (and greater than) taxable income.

Eligibility income starts with taxable income reported on the state personal income tax return and includes many nontaxable forms of income, such as:

- Nontaxable interest and dividends (i.e., from tax-exempt securities);
- Alimony;
- Life insurance and inheritance proceeds;
- Gifts, awards and prizes, including PA Lottery winnings; and
- Educational stipends, fellowships and scholarships.

Eligibility income does not include qualified retirement payments, Social Security benefits, unemployment compensation, child support, military combat pay or public assistance.

WHO IS ELIGIBLE

A taxpayer is eligible for tax forgiveness if he/she:

1. Has taxable income (i.e. wages, interest and dividends, net gains, net profits, etc.);
2. Provides at least one-half of his/her support; and
3. Meets eligibility income limitations (see state personal income tax form Schedule SP).

WHO BENEFITS

Approximately 1.4 million low-income Pennsylvanians currently benefit from the special

poverty provisions in the tax code, which entitles them to full or partial forgiveness of their state personal income taxes. Approximately one out of every five state personal income tax returns includes tax forgiveness, which totaled \$301 million in fiscal year 2011/12.

Many Pennsylvania seniors benefit from tax forgiveness because most retired seniors do not pay state personal income taxes (provided their interest, dividends and other earnings on taxable investments do not exceed \$6,500 for an individual or \$13,000 for a married couple).

ELIGIBILITY INCOME TABLES

The nearby tables are used by the PA Department of Revenue to determine the amount of tax forgiveness. Table 1 is for those who are unmarried; Table 2 is for married couples.

To use Tables 1 and 2, start by finding the number of dependent children claimed for federal income tax purposes in the first column (on the left side of the table). Then move across the row to find eligibility income. At the bottom of each column is the percentage of tax forgiveness allowed.

History

Table 3 shows a history of eligibility income allowances for the personal income tax special poverty (SP) provisions.

Act 46 of 2003 expanded the provisions for tax forgiveness by increasing the eligibility income allowance for each dependent from \$9,000 to \$9,500 beginning Jan. 1, 2004.

Prior to 1999, the "First Dependent" could be either a spouse or a child. Beginning in 1999, the "First Dependent" is the spouse only and all children fall under "Each Additional Dependent".

YOU	\$6,500	\$6,750	\$7,000	\$7,250	\$7,500	\$7,750	\$8,000	\$8,250	\$8,500	\$8,750
DEPENDENT CHILDREN										
1	\$16,000	\$16,250	\$16,500	\$16,750	\$17,000	\$17,250	\$17,500	\$17,750	\$18,000	\$18,250
2	\$25,500	\$25,750	\$26,000	\$26,250	\$26,500	\$26,750	\$27,000	\$27,250	\$27,500	\$27,750
3	\$35,000	\$35,250	\$35,500	\$35,750	\$36,000	\$36,250	\$36,500	\$36,750	\$37,000	\$37,250
4	\$44,500	\$44,750	\$45,000	\$45,250	\$45,500	\$45,750	\$46,000	\$46,250	\$46,500	\$46,750
5	\$54,000	\$54,250	\$54,500	\$54,750	\$55,000	\$55,250	\$55,500	\$55,750	\$56,000	\$56,250
6	\$63,500	\$63,750	\$64,000	\$64,250	\$64,500	\$64,750	\$65,000	\$65,250	\$65,500	\$65,750
7	\$73,000	\$73,250	\$73,500	\$73,750	\$74,000	\$74,250	\$74,500	\$74,750	\$75,000	\$75,250
8	\$82,500	\$82,750	\$83,000	\$83,250	\$83,500	\$83,750	\$84,000	\$84,250	\$84,500	\$84,750
9	\$92,000	\$92,250	\$92,500	\$92,750	\$93,000	\$93,250	\$93,500	\$93,750	\$94,000	\$94,250
Your percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%

YOU &	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
DEPENDENT CHILDREN										
1	\$22,500	\$22,750	\$23,000	\$23,250	\$23,500	\$23,750	\$24,000	\$24,250	\$24,500	\$24,750
2	\$32,000	\$32,250	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250
3	\$41,500	\$41,750	\$42,000	\$42,250	\$42,500	\$42,750	\$43,000	\$43,250	\$43,500	\$43,750
4	\$51,000	\$51,250	\$51,500	\$51,750	\$52,000	\$52,250	\$52,500	\$52,750	\$53,000	\$53,250
5	\$60,500	\$60,750	\$61,000	\$61,250	\$61,500	\$61,750	\$62,000	\$62,250	\$62,500	\$62,750
6	\$70,000	\$70,250	\$70,500	\$70,750	\$71,000	\$71,250	\$71,500	\$71,750	\$72,000	\$72,250
7	\$79,500	\$79,750	\$80,000	\$80,250	\$80,500	\$80,750	\$81,000	\$81,250	\$81,500	\$81,750
8	\$89,000	\$89,250	\$89,500	\$89,750	\$90,000	\$90,250	\$90,500	\$90,750	\$91,000	\$91,250
9	\$98,500	\$98,750	\$99,000	\$99,250	\$99,500	\$99,750	\$100,000	\$100,250	\$100,500	\$100,750
Your percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%

Tax Year	ELIGIBILITY INCOME ALLOWANCE			100% TAX FORGIVENESS	
	Claimant	First Dependent	Each Additional Dependent	Two Parent Family with Two Children	One Parent Family with Two Children
2004 - present	\$6,500	\$6,500	\$9,500	\$32,000	\$25,500
2003	\$6,500	\$6,500	\$9,000	\$31,000	\$24,500
2002	\$6,500	\$6,500	\$9,000	\$31,000	\$24,500
2001	\$6,500	\$6,500	\$8,500	\$30,000	\$23,500
2000	\$6,500	\$6,500	\$7,500	\$28,000	\$21,500
1999	\$6,500	\$6,500	\$6,500	\$26,000	\$19,500
1998	\$6,500	\$6,500	\$6,000	\$25,000	\$19,000
1997	\$6,300	\$4,000	\$4,000	\$18,300	\$14,300
1996	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300
1995	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300
1994	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300

House Appropriations Committee (D)

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