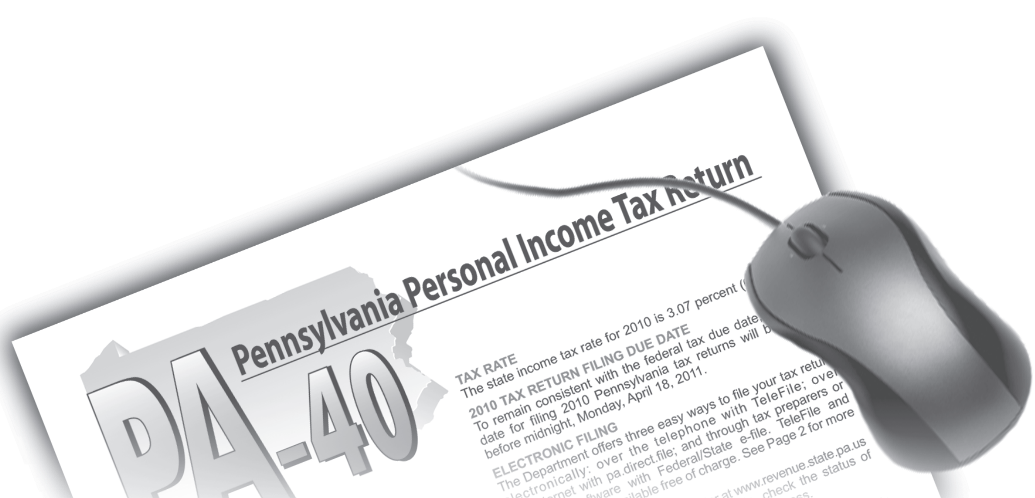
PERSONAL INDIVIDUAL TAX PREPARATION GUIDE

pennsylvania

DEPARTMENT OF REVENUE



FOR PERSONAL INCOME TAX RETURNS PA-40

DFO-02 (01-11)

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
STRAWBERRY SQUARE
HARRISBURG, PA 17128-1100

THE SECRETARY

(717) 783-3680

November 2010

Dear Volunteer:

On behalf of the Department of Revenue, thank you for volunteering to help Pennsylvania residents file their personal income tax returns.

You will find the enclosed publication and web-based training session are excellent resources in helping Pennsylvania's taxpayers.

When possible, please encourage taxpayers to explore filing electronically, since it is the most cost-effective way for the Department to process the millions of tax returns it receives each year from businesses and individuals. Electronic filing also minimizes common filing errors and expedites the refund and tax collection processes.

I encourage you to stay informed of tax law changes and other Revenue Department news by visiting our website, www.revenue.state.pa.us, and signing-up to receive our bi-monthly e-newsletter, the *Pennsylvania Tax Update*.

Thank you again for giving your time and effort this tax season. I am sincerely grateful for your efforts that benefit so many Pennsylvanians.

Sincerely,

C Daniel Hassell

C. Daniel Hassell
Secretary of Revenue

Enclosures

Before getting into how to assist taxpayers in the preparation of the PA personal income tax return, some key principles must be emphasized.

CONFIDENTIALITY AND INTEGRITY

As a tax preparer through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, you have a special trust from the taxpayers who seek your help. To maintain the integrity of this program and to respect the trust placed in you, tax information must be treated as confidential at all times. Also remember that VITA/TCE tax preparers are prohibited from accepting compensation from taxpayers for preparing PA personal income tax returns.

QUALITY SERVICE

Quality service to taxpayers is our goal. It is important to check your work for accuracy. Use a calculator to verify mathematical calculations. If you are uncertain of the proper method of reporting any transaction, consult your immediate supervisor.

Your success as a tax preparer largely depends on your ability to establish rapport with taxpayers and interview taxpayers effectively. First, it is important to put the taxpayer at ease. You will ask questions to determine not only tax liability but also benefits and credits. For example, many taxpayers are not aware of the special tax forgiveness provision or the exclusion of a gain realized on the sale of a principal residence. If filing a paper return, you should have the taxpayer sign and date the return upon completion and provide them with the proper address to which the return should be mailed.

INTERVIEWING TECHNIQUES

Introductory Stage

It is important to establish a good relationship with the taxpayer. Greet the person you will be helping in a friendly way and introduce yourself. Smile and make eye contact. If anyone has waited for a long time, apologize for the delay. Many people are nervous when it is time to prepare their income tax return, so take a few minutes to chat informally if necessary. Remember, good humor and a readiness to help is the essence of courtesy. If a taxpayer starts complaining, do not take it personally. Listen to the entire complaint. Do not interrupt as that will only make the taxpayer more upset.

Questioning Stage

As an interviewer, you must control the conversation and keep the taxpayer from asking unrelated questions. It will be helpful to follow these guidelines:

- Phrase questions very clearly, avoiding multiple questions.
- Repeat questions if necessary. Keep in mind not everyone understands technical tax terms.
- Listen carefully to the taxpayer's responses and be patient.
- To the extent possible, explain the return as it is completed.
- Encourage people to ask questions if they do not understand.
- If you cannot answer a question, say "I do not know but will find out."
- Research difficult questions in available tax books, consult with your immediate supervisor or contact your local Department of Revenue district office.

NOTE: Questioning can be effective in determining sources of income, however it is the taxpayer who is responsible for the accuracy of the information provided. You, as a preparer, are not accountable for any misinformation given by the taxpayer.

Summary Stage

When the return(s) is/are completed, you will need to give the taxpayer some additional information.

- Have the taxpayer sign and date the return. If filing a paper return and the filing status on the return is Married, Filing Jointly, make sure both taxpayers sign the return. If one taxpayer is not present, remind the taxpayer to have his/her spouse sign the return.

- If there is an overpayment and the taxpayer plans to move, advise the taxpayer to notify the local Department of Revenue district office immediately to have the address updated. This will ensure the refund is sent to the appropriate address. The post office may not forward refund checks.
- If a balance is due, advise the taxpayer of payment options. If filing a paper return, payment may be remitted by check or money order made payable to the PA Department of Revenue. Instruct taxpayers to include the last four digits of the primary Social Security number (SSN) and tax year on the front of the check or money order. If your volunteer site e-files returns using special software, the taxpayer may be able to remit the tax payment online.
- If a paper return is being prepared, instruct the taxpayer to mail the return by midnight on the due date, along with any monies due.
- If filing more than one tax return for a taxpayer, advise the taxpayer to mail each return separately.
- Ask if the taxpayer has any last questions. Be sure to return all tax materials to the taxpayer, and give the taxpayer a copy of the filed return to keep with his/her records.
- Thank the taxpayer and remember to respect the taxpayer's privacy. Keep all tax information confidential.

TAX ASSISTANCE GUIDELINES

When assisting a taxpayer with the preparation of a tax return, you should not hesitate to contact your immediate supervisor for guidance. Our main objective is to provide quality service, which can only be achieved by working together.

If guidance is needed for an unusual situation, it may be obtained by requesting a letter ruling. These requests should be forwarded to the following office and should include all related documentation:

PA DEPARTMENT OF REVENUE
OFFICE OF CHIEF COUNSEL
PO BOX 281061
HARRISBURG, PA 17128-1061

A written response to your request or the taxpayer’s request for a letter ruling should be received within 30-40 days.

FEDERAL/STATE ELECTRONIC FILING (e-file)

Taxpayers may file federal and PA income tax returns electronically, either through a tax preparer or by purchasing software.

VITA/TCE sites that e-file returns using special software should mail Form PA-8453 or PA-8879 to the following address:

PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
ELECTRONIC FILING SECTION
PO BOX 280507
HARRISBURG, PA 17128-0507

These forms should be submitted to the department at the end of the tax preparation season with a note stating they are from a volunteer site.

A PA-8453 is not required if a taxpayer signs the federal return with a federal self-select PIN and that PIN is carried over to the PA return. If the practitioner’s PIN is being used or someone else other than the taxpayer is entering the taxpayer’s PIN on the federal return, PA-8879 must be signed. The PIN does not need to be entered twice and can be carried over from the federal return as long as the taxpayer understands he/she is signing both returns.

The department also allows statements to be filed electronically through the electronic return originators (ERO) with the return. These statements describe why certain income was or was not reported or why a particular paper document is being retained by the ERO (i.e. military orders, stipend, extension form). Electronic filing provides the following benefits:

- **Accuracy**. Computer programs catch mistakes before they become problems.
- **Acknowledgement**. The department electronically notifies the preparer or ERO that the return was received and accepted.
- **Refunds**. With electronic filing, the taxpayer has the option to receive a refund via direct deposit. This service is not available when filing a paper return.
- **File Now, Pay Later**. A return can be filed anytime before the due date. If tax is owed, payments may be made by authorizing an electronic funds withdrawal. This withdrawal can be scheduled for a later date and may be paid from the taxpayer's checking or savings account. The taxpayer may also choose to remit payment via check or money order with the pre-printed PA-V Payment Voucher, which should be mailed by midnight on the due date of the return.

ADDITIONAL INFORMATION FOR EROS

The department requires all participants planning to file PA electronic returns to be accepted by the Internal Revenue Service (IRS). Once accepted by the IRS, the ERO does not have to register separately with the PA Department of Revenue. This information will be obtained from the IRS and will be automatically approved.

ACKNOWLEDGEMENT OF PA ELECTRONIC RETURNS

The PA acknowledgment system is designed to inform transmitters that the PA return data has been retrieved by the PA Department of Revenue. Upon retrieval of the PA return from the IRS, the PA Department of Revenue will generate acknowledgment records and post the records for retrieval by transmitters through the IRS Electronic Management System. The PA acknowledgment is separate from the federal acknowledgment and the codes are different from those used by the IRS. PA will acknowledge state-only returns with the same codes as used for the Federal/State e-file returns. Refer to software instructions or contact your software representative for information regarding your responsibilities for accessing and retrieving state acknowledgments.

Pennsylvania Acknowledgment Codes

Ack Code	Error Code	Form	Field No.	Description
A				The electronic return was accepted by the PA Department of Revenue and will be forwarded for processing to the Personal Income Tax master file.
R	001	PA-40	024 030 035 040 048	When a Direct Deposit or Electronic Funds Withdrawal indicator is present, the following fields must be greater than zero: state routing transit number, state deposit account number and type of account.
R	002	PA-40	024 027 305-1	If the Electronic Funds Withdrawal indicator is present, then the Requested Payment Date is required. The Requested Payment Date cannot be earlier than the current date. The Requested Payment Date must be a valid date in the current processing year.
R	003	PA-40	060-1	The Primary Last Name is a required field. A hyphen (-) is the only allowable special character in the Primary Last Name. No more than one space may exist between characters in the Primary Last Name. The Primary Last Name must be left-justified.
R	004	PA-40	060-2	If the Primary Suffix is present, the Primary Last Name must be present. The Primary Suffix must be left-justified. Only the following values are valid in the Primary Suffix: JR, SR, I, II, III, IV, V, 1ST, 2ND, 3RD, 4TH and 5TH.
R	005	PA-40	070-1	The Primary First Name is a required field. A hyphen (-) is the only special character permitted in the Primary First Name. The Primary First Name must be left-justified.
R	006	PA-40	065-1 065-2	If the Spouse's Suffix is present, the Spouse's Last Name must be present. The Spouse's Suffix must be left-justified. Only the following values are valid in the Spouse's Suffix: JR, SR, I, II, III, IV, V, 1ST, 2ND, 3RD, 4TH and 5TH.

Ack Code	Error Code	Form	Field No.	Description
R	007	PA-40	075 077	Address Line 1 is a required field if a Foreign Street Address is not present. Periods (.) and commas (,) are not permitted in Address Line 1. More than one space cannot exist between characters in Address Line 1.
R	008	PA-40	085 087	The City is a required field if the Foreign City or Province is not present. Only the following characters are permitted in the city: Alpha, Hyphens (-) and Ampersands (&). The City must be left-justified.
R	009	All	All	The software used to submit the state electronic return is not yet approved by the PA Department of Revenue.
R	010	PA-40	310-4	If a School Code is entered, it must be valid or equal "99999".
R	011	PA-40	350 355	If Unreimbursed Business Expenses are present, then the Gross PA Taxable Compensation must be greater than zero and a PA Schedule UE is required.
R	012	PA-40	350 355 360	Gross Compensation minus the Unreimbursed Employee Business Expenses must equal the Net Compensation. If the Unreimbursed Employee Business Expenses are greater than the Gross Compensation, then the Net Compensation must equal zero.
R	013	PA-40	360 365 370 375 380 385 390 395 400	The Total PA Taxable Income must equal the sum of Net Compensation; Interest Income; Dividend and Capital Gains Distribution Income; Net Income or Loss from the Operation of a Business, Profession or Farm; Net Gain or Loss from the Sale, Exchange or Disposition of Property; Net Income or Loss from Rents, Royalties, Patents and Copyrights; Estate and Trust Income; and Gambling and Lottery winnings. Only numbers greater than zero can be included in the Total PA Taxable Income.
R	014	PA-40	430 435 440 445 450	The Total Estimated Payments & Credits must equal the sum of the Credit from the previous year's PA Tax Return plus the Estimated Payments, the Payment with Extension and the Nonresident Tax Withheld.

Ack Code	Error Code	Form	Field No.	Description
R	015	PA-40	400 460	If the Eligibility Income or the Tax Forgiveness Credit from PA Schedule SP is greater than zero, a PA Schedule SP is required. The Eligibility Income From PA Schedule SP must be equal to or greater than the Total Adjusted PA Taxable Income.
R	016	PA-40	415 470	If a Resident Credit is present, it cannot be greater than the Total PA Tax Liability.
R	017	PA-40	425 450 465 470 475 495	The Total Payments and Credits must equal the sum of Total PA Tax Withheld, Total Estimated Payments & Credits, Tax Forgiveness Credit, Resident Credit and Total Other Credits.
R	018	PA-40	415 495 500 515 520 525	If the Total Payments and Credits equal the Total PA Tax Liability, the following fields cannot be greater than zero: PA Tax Due, Overpayment, Refund Check and Credit to your Estimated Tax Account.
R	019	PA-40	415 495 500	The PA Tax Due must equal the Total PA Tax Liability minus the Total Payments and Credits. If the Total PA Tax Liability is greater than the Total Payments and Credits, then the PA Tax Due must be greater than zero.
R	020	PA-40	500 505 510	If the PA Tax Due is greater than zero, the Total Payment must be greater than zero.
R	022	PA-40	515 520 525 530 535 540 545 550	The sum of the Amount of your Refund Check, Amount of Estimated Tax, Amount to donate to Wild Resource, Amount to donate to Military Relief, Amount to donate to Organ & Tissue, Amount to donate to Juvenile Diabetes and Amount to donate to Cancer Research must equal the Overpayment.
R	023	All	All	The form byte count must be correct.
R	024	All	All	The form header must be valid.

Ack Code	Error Code	Form	Field No.	Description
R	025	All	All	The length of the field is longer than the maximum allowed.
R	026	All	All	The field type must be valid.
R	027	All	All	A field number cannot be repeated on the same occurrence of the same form.
R	028	All	All	The field numbers must be in the sequence specified.
R	029	All	All	The field number must be valid.
R	030	PA-40	077 087 095	If the Foreign Street Address and the Foreign City or Province is not present, the State Abbreviation must be present.
R	031	PA-40	095 100	If the State Abbreviation is present, the ZIP Code must be present.
R	032	PA-40	024 028 510	If the Electronic Funds Withdrawal indicator is present, the Total Payment must be present and greater than zero.
R	033	PA-40	024 510	If the Electronic Funds Withdrawal indicator is present, the Amount of Refund Check must be blank.
R	034	PA-40	400 405 410	The adjusted PA Taxable Income must equal Total PA Taxable Income minus Other Deductions.
R	035	PA-40	365	Interest Income must be greater than or equal to zero.
R	036	PA-40	370	Dividend and Capital Gains Distribution Income be greater than or equal to zero.
R	037	PA-40	390	Estate or Trust Income must be greater than or equal to zero.
R	038	PA-40	395	Gambling and Lottery Winnings must be greater than or equal to zero.
D	039	PA-40	003	A return for the Primary Social Security Number was previously electronically filed.
D	040	PA-40	055	A return for the Secondary Social Security Number was previously electronically filed.
D	041	PA-40	020	The electronic return has been assigned a Declaration Control Number already associated with another return.

Ack Code	Error Code	Form	Field No.	Description
R	042	PA-40	350	PA Gross Compensation (Line 1a) must be greater than or equal to zero.
R	043	PA-40	355	Unreimbursed Employee Business Expenses (Line 1b) must be greater than or equal to zero.
R	044	PA-40	360	PA Net Compensation (Line 1c) must be greater than or equal to zero.
R	045	PA-40	425	PA Tax Withheld must be greater than or equal to zero.
R	046	PA-40	430	Credit from the previous year's PA Income Tax return must be equal to or greater than zero.
R	047	PA-40	435	Estimated Installment Payments must be greater than or equal to zero.
R	048	PA Sch SP	230 280 330 380	The following cannot be claimed as a dependent relationship on PA Schedule SP: niece, nephew, husband, wife, aunt, uncle, spouse, mother, father or parent.

FILING AN ELECTRONIC RETURN

The following Pennsylvania forms may be transmitted electronically (refund, equal and balance due, with or without payment), and payment must be made by electronic fundswithdrawal, check, money order or credit card.

- Form PA-40 - Pennsylvania Individual Income Tax Return (includes nonresident and Part-Year Resident returns)
- PA Schedule A - Interest (40 schedules or less)
- PA Schedule B - Dividends (40 schedules or less)
- PA Schedule C - Profit or Loss From Business or Profession (five schedules or less)
- PA Schedule C-EZ - Profit from a Business or Profession (one per taxpayer)
- PA Schedule D - Sale, Exchange or Disposition of Property (100 schedules or less)
- PA Schedule D-1 - Computation of Installment Sale Income (six schedules or less)
- PA Schedule D-71 - Sale or Exchange of Property Prior to June 1, 1971 (two schedules or less)
- PA Schedule E - Rent, Royalty, Patent and Copyright Income or Loss (10 schedules or less)
- PA Schedule F - Farm Income and Expenses (two schedules or less)
- PA Schedule G-S - Out-of-State Credit, Short Form (20 schedules or less)
- PA Schedule G-L - Out-of-State Credit, Long Form (20 schedules or less)
- PA Schedule J - Estate & Trust Income (two schedules or less)
- PA Schedule W-2S - Wage Statement Summary (five schedules or less)
- PA Schedule SP - Tax Forgiveness Credit (one schedule)

- PA Schedule RK-1- Resident Schedule of PA S Shareholder/Partner Pass-Through
- Income, Loss and Credits (100 schedules or less)
- PA Schedule NRK-1- Non-Resident Schedule of PA S Shareholder/Partner Pass-
- Through Income, Loss and Credits (100 schedules or less)
- PA Schedule UE - Allowable Employee Business Expenses (four schedules or less)
- PA Schedule OC (one schedule)
- PA Schedule O (one schedule)
- PA Schedule T - Gambling and Lottery Winnings (one schedule)
- PA REV-1630 - Underpayment of Estimated Tax by Individuals (one schedule)
- PA Schedule 19 - Sale of a Principal Residence (one schedule)
- PA Schedule G-R - Reconciliation of Taxes Paid to Other States or Countries (four schedules or less)
- PA Schedule NRH - Apportioning Income by Nonresident Individuals (10 schedules or less)
- W-2 Forms (50 or less)
- 1099-R Forms (20 or less)
- W-2G Forms (20 or less)
- Statement Schedule (four or less)

EXCLUSIONS FROM ELECTRONIC FILING

The following documents are excluded from Federal/State electronic filing:

- Returns for any period other than Jan. 1 to Dec. 31 of the current tax year
- Non-calendar (fiscal) year returns
- Prior year Amended Individual Income Tax Returns
- Form PA-40NRC - Nonresident Consolidated Income Tax Returns
- Form PA-41 - Fiduciary Income Tax Returns
- Form PA-40 KOZ – PA Income Tax Keystone Opportunity Zone Return
- Prior year resident returns or multiple year returns
- Returns containing more than the allowable amount of schedules, W-2s, W-2Gs or 1099-Rs
- Returns containing forms or schedules not listed under the Filing an Electronic Return section.

CONTACT INFORMATION FOR E-FILE INQUIRIES

The PA Department of Revenue has telephone lines for exclusive use by EROs, transmitters and software developers participating in the Federal/State e-file program. The operating hours are Monday through Friday, 7:30 a.m. to 5:00 p.m. (except holidays).

NOTE: The following phone number is not to be provided to taxpayers.

Help Desk 717-787-4017.

You may forward correspondence for the electronic filing program to the following address:

PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280507
HARRISBURG PA 17128-0507
FAX: (717) 772-4193 or (717) 787-2840

For a full explanation of the Federal/State e-file program, please request the Handbook for Electronic Filers of PA Individual Income Tax Returns, PA-1345. This booklet may be downloaded from the Department of Revenue’s Web site, **www.revenue.state.pa.us**.

PA FAST FILE/TELEFILE

Taxpayers who previously filed by telephone will receive booklets and instructions to allow them to file their PA income tax returns by phone. Those who receive the Fast File booklet and choose to file by telephone must follow the instructions provided in the booklet.

Those who do not receive the Fast File booklet and report only compensation, unreimbursed employee business expenses, interest and dividends and claim credit for PA withholding and/or tax forgiveness may request a Fast File booklet from the department.

In order to file via PA Fast File/TeleFile, the following conditions must be met:

- Taxpayer must have filed a return for the prior year.
- Taxpayer must have access to touch-tone telephone service.
- Taxpayer must have been a resident of Pennsylvania for the entire tax year.
- The information on the pre-printed label must be correct.
- If the taxpayer has compensation, it must have been reported on Wage and Tax Statements (W-2 Forms) and may not exceed seven in number. If claiming PA withholding, the tax withheld must appear on the W-2 Form.
- If claiming unreimbursed employee business expenses, these expenses can only be for union dues, small tools and supplies and/or work clothes and uniforms.
- If claiming interest and/or dividends, all of this income must have been reported on a 1099 or similar statement and neither the total interest nor total dividends can exceed $2,500.
- If claiming Tax Forgiveness, the taxpayer must have claimed Tax Forgiveness the prior year and cannot have any dependent children.

A taxpayer may not use PA Fast File/TeleFile if any of the following applies:

- The address and/or name(s) are incorrect on the label at the time of the filing.
- Filing status changed from the prior year.
- PA taxable income as reported in Box 16 of the W-2 is being adjusted or more than 3.07 percent in PA withholding was deducted from compensation.
- Estimated installment payments were made.
- No Tax Forgiveness was claimed the prior year, but the taxpayer wishes to claim it this tax year, or the taxpayer is eligible for tax forgiveness and is claimed as a dependent on his/her parent's current-year federal return.
- The taxpayer is deceased.

Those who can file by telephone are strongly encouraged to do so. This filing method expedites the review and processing of a return with minimal cost to the taxpayer and the commonwealth. When using TeleFile, the taxpayer will receive instant confirmation the department received the return. The department's records will be updated within two days to reflect the return. If there is a refund due the taxpayer, it will generally be received by the taxpayer within four weeks. The taxpayer has the option to receive a refund through direct deposit, whereas this service is not available when filing a paper return. A balance-due return may be filed at any time prior to or on the due date and payment may be made any time before or on that date.

Payment may be sent along with Form PA-V. If Form PA-V was not received, it may be completed online, printed and mailed to the department with payment.

The following information should be included on all checks or money orders, regardless of whether PA-V is submitted with the payment: (1) current tax year followed by "PA-V"; (2) the last four digits of the primary Social Security number, confirmation number from TeleFile or pa.direct.file or the Declaration Control Number (DCN) from the e-file return; and (3) the taxpayer's daytime telephone number. All checks and money orders should be made payable to the PA Department of Revenue. Taxpayers should mail payments to:

PA DEPARTMENT OF REVENUE
PAYMENT ENCLOSED
1 REVENUE PLACE
HARRISBURG PA 17129-0001

NOTE: There is no charge to taxpayers who use TeleFile to file their returns.

PA.DIRECT.FILE

Another free filing method is pa.direct.file. This electronic filing method is available online at **www.revenue.state.pa.us**. When filing using pa.direct.file, taxpayers must have their Social Security numbers and either the prior year's tax liability or PA driver's license/identification number.

Pa.direct.file may be used by taxpayers who use the following forms and/or schedules:

- PA Schedule W-2S (up to 20 W-2 Forms)
- PA Schedule UE (up to four)
- PA Schedule A (up to four)
- PA Schedule B (up to four)
- PA Schedule C or C-EZ (one per filer)
- PA Schedule D (up to five)
- PA Schedule E (up to five)
- PA Schedule J (up to five)
- PA Schedule T (only one)
- PA Schedule SP (only one)
- PA Schedule O (no more than eight beneficiaries)
- Statement Schedule (up to four)
- Can also report PA estimated tax payments that were paid

Pa.direct.file may not be used if any other schedules, types of income or credits are applicable. Complete instructions for pa.direct.file are located on the Department's Web site.

FORM PA-40 GENERAL INSTRUCTIONS

Filing Due Date
The due date for filing the PA Personal Income Tax return is April 15 or the next business day if April 15 falls on a Saturday, Sunday or holiday.

Extension
A taxpayer may request an extension of time to file, however this does not extend the payment deadline. If the taxpayer anticipates a tax balance due, he/she should submit payment with the extension request.

Extensions may be rquested in two ways:

- The taxpayer can submit Form REV-276, Application for Extension of Time to File, postmarked on or before the April 15 due date.
- The taxpayer may submit a copy of a federally approved extension of time to file with his/her state return.

An extension grants an individual an additional six months to file a return. People outside the country are automatically granted a two-month extension to file by June 15.

Who must file?
Any PA resident, nonresident or part-year resident individual who:

- Received total PA gross taxable income in excess of $33 during the tax year, even if no tax is due; and/or
- Incurred a loss from any transaction as an individual, sole proprietor, partner in a partnership or PA S corporation shareholder.

Minors. PA law does not exempt a minor from the above requirements to file a PA tax return even if claimed as a dependent on a federal return.

Decedents. The executor, administrator, or other person responsible for the affairs of a decedent must file a PA tax return if the decedent met the above requirements.

Determining Residency

An individual may have to pay income tax as a PA resident even if he or she is not considered a PA resident for other purposes. For income tax purposes, one must consider both where he or she is domiciled and where he or she maintained a permanent place of abode during the taxable year.

An individual's 'domicile' is their fixed and permanent home to which they always have the intention of returning to whenever absent, even though they may live elsewhere. An individual can have only one state of domicile at any given time. Below are some factors to consider when determining an individual's place of domicile:

- Where does the taxpayer spend the greatest amount of time during the taxable year?
- Where does the taxpayer maintain a permanent abode for the longest amount of time during the taxable year?
- Where does the taxpayer support his or her spouse and children?
- Where does the taxpayer purchase the necessities of life?
- Where does the taxpayer have doctors, lawyers and accountants?
- Where does the taxpayer house his or her pets?
- Where does the taxpayer have active banking accounts?
- Where does the taxpayer worship regularly?
- Where does the taxpayer participate in social, fraternal or athletic organizations, lodges or country clubs?
- Where does the taxpayer have works of art, expensive furniture, family portraits or heirlooms?
- Where does the taxpayer fulfill local tax obligations?
- Where is the taxpayer employed?
- Where does the taxpayer own real estate fit for year-round living?
- Where does the taxpayer maintain a driver's license and vehicle registration?
- Where does the taxpayer maintain professional licenses?
- Where does the taxpayer maintain union membership?
- Where does the taxpayer declare residency for fishing or hunting licenses, income tax returns or school tuition?
- Where does the taxpayer conduct his or her business?
- Where does the taxpayer receive mail?
- Where does the taxpayer receive unemployment?
- Where does the taxpayer record his or her address for insurance policies, deeds, mortgages, leases, passport, federal and local tax returns, etc.?
- Where was the taxpayer domiciled at birth?
- Where does the taxpayer maintain safe deposit boxes?
- Where does the taxpayer own a cemetery plot?
- Where is the taxpayer listed in the telephone directory?
- Where has the taxpayer obtained a homestead exemption?
- Where does the taxpayer gather for family and social events?
- Where is the taxpayer registered to vote?

In order to establish a new domicile, the following three conditions must be met:

- There must be evidence of a firm and definite present intention to discontinue making the former domicile one’s primary base of operations;
- There must be evidence of a firm and definite present intention to make the new domicile one’s primary base of operations; and
- There must be evidence of actual physical presence and actual abode (transient, temporary or permanent) in the new location.

If all three requirements are met, the date of the change is the first day of actual physical presence in the new location.

If an individual left their domicile to seek new employment and intended to remain in the other location only if they were to find employment, there is no change in domicile.

Once established in a locality or state, the domicile continues there until a new one is established. It is not dependent upon continuous physical presence. It is not abandoned by absence or even by presence in a former domicile, no matter how long continued, if, in leaving and during the absence, there is not firm, sincere, unconditional intention of remaining in the other jurisdiction for an indefinite and uncertain period.

For example, temporary absence from a new domicile in a former domicile for the purpose of transacting business or for the sake of health, pleasure, or education, with a definite intention of returning to the new domicile does not affect a person's domiciliary status.

A retired couple with two permanent homes, one inside Pennsylvania and one outside of Pennsylvania, can only have one state of domicile. The state of domicile does not change until there is a move to another state or country with the sincere intention of making a "new" permanent home there and abandoning the previous domicile. The determination as to their state of domicile should be made based on the factors above.

A ‘permanent abode’ is a house, apartment, dwelling place or other residence an individual maintains as his or her household for an indefinite period, whether he or she owns it or not. An abode is not permanent if it is occupied only during a fixed or limited period of time for a particular purpose. Barracks, bachelor officer's quarters, quarters on ships and other living accommodations provided by one’s employer for a definite period do not qualify as permanent dwelling places; nor do college dormitories, fraternity houses, sorority houses and off campus rentals by enrolled college students qualify as a permanent abode.

PA Resident

Residency in Pennsylvania, for tax purposes, may be established in two ways:

Domicile in Pennsylvania: If an individual is domiciled in Pennsylvania, he or she is considered a resident unless he or she meets all three of the following conditions:

- He or she did not maintain a permanent abode in Pennsylvania for himself/herself or his/her family;
- He or she did maintain a permanent abode outside Pennsylvania throughout the entire taxable year; and
- He or she did not spend in the aggregate more than 30 days of the taxable year in Pennsylvania.

Day Test: If a taxpayer maintains a permanent abode in Pennsylvania and spends a total of 183 days or more of the taxable year in Pennsylvania, even though he or she is not domiciled in the Commonwealth, he or she is considered a resident.

Nonresident

An individual is a nonresident for PA tax purposes if he/she is not a resident as defined above.

After determining the location with the greatest connection, it is necessary to see if a new domicile outside of Pennsylvania has been established.

Part-Year Resident
A part-year resident is an individual who moved to or from Pennsylvania during the taxable year with the intent of permanently changing domiciles. A person moving into Pennsylvania with the intent of residing here permanently becomes a resident on the first day he or she lives here regardless of reason or housing arrangement (such as employer provided housing, living with relatives, etc).

Persons in the Military or Foreign Service
Unless there is an intention to change domiciles, a person generally does not acquire a new domicile by entering the armed forces or lose the domicile that the person had upon entering. A person on military duty is not prohibited, however, from acquiring a new domicile where his or her family is stationed. A person in the military and foreign service, or living in a foreign country for other than a temporary or transitory purpose while a lawful permanent resident or citizen of the country, is treated as a domiciliary of that country if the person:

- Is not an employee of the U.S., its agencies or instrumentalities (including members of the armed forces and career appointees in the U.S. foreign service); and
- Does not hold an appointive office in the executive branch of the government of the U.S.

However special rules may apply if the employee or officer maintains a permanent place of abode there. An individual who is domiciled in Pennsylvania is considered a nonresident if meeting all three of the requirements listed in the prior sections on Pennsylvania residency and domicile.

For tax years 2008 and prior, the spouse of a service member serving in Pennsylvania was taxed on any PA-sourced income that he/she may have earned. Under the new Military Spouses Residency Relief Act, income earned by the spouse of a service member shall not be considered taxable income in the state that the service member is stationed if that state is not considered the spouses resident or domiciliary state.

If a PA resident service member is serving outside of the Commonwealth of Pennsylvania and his/her spouse realizes income in that other state, the spouse's income is only taxable to PA (if the spouse maintains his/her PA residency). A resident credit will not be allowed for taxes paid to the other state. If the spouse receives income which is subject to employer withholding tax, he/she should request a refund of that withholding from the other state.

If the service member is a nonresident serving inside the Commonwealth of Pennsylvania and his/her spouse realizes income in PA, that income is not taxable to PA as long as the spouse is considered a resident of another state. If the spouse receives income which is subject to employer withholding tax, he/she should request a refund of that withholding. This may be done by filing a PA personal income tax return and by only reporting the PA tax that was withheld (shown in Box 17 of their W-2). They must also provide a copy of their spouse's military orders showing they were ordered to service in PA, and a copy of their resident state's driver's license.

College Student
Generally, a child has the same domicile as his or her parents or legal guardian. Becoming a legal adult does not by itself separate a child from the parent or legal guardian's domicile. The child merely acquires the power to establish a separate or new domicile.

Minor Child
The domicile of a minor child is the same as the domicile of the child's parents. If the parents are separated, the child's domicile is the domicile of the parent with whom the child lives or that of the child's legal guardian.

Dual Residency
A dual resident is an individual who is considered a resident of two states for taxing purposes. If an individual is a dual resident, he or she should report the income that was earned during the

taxable year from sources both within and outside of PA on both states tax returns. This individual would then request a resident credit for income sourced to the state of statutory residence in the state that he/she is domiciled in.

NOTE: Special rules apply for PA residents working in states with reciprocal tax agreements with Pennsylvania: Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia. If a taxpayer is a PA resident and also a tax resident for income tax purposes of a reciprocal state, he/she may claim the PA resident credit. The reciprocal agreement with these states is not applicable since the taxpayer is subject to tax as a resident in both Pennsylvania and the other state. The taxpayer must file PA Schedule G-R, PA Schedule G-S or PA Schedule G-L for each state a resident credit is being requested and enclose a copy of the resident tax return filed with the other state. This documentation will serve as proof that the other state taxed him/her as a resident in that state and did not allow a credit for tax paid to PA.

For example, Dan is a domiciliary of Pennsylvania for the entire taxable year. He leased an apartment in Maryland and worked 230 days in Maryland. Maryland considers Dan to be a Maryland resident for income tax purposes. He earned $10,000 in compensation for working in Maryland. Dan must report his compensation as PA taxable income. Because he is a PA domiciliary, Dan may claim the PA resident credit for taxes paid to Maryland as long as he does not claim a credit on his Maryland return for taxes paid to PA.

How Residents are Taxed

A PA resident is taxed on all taxable income received from sources inside and outside Pennsylvania.

A PA resident may claim a resident credit for any tax imposed by and paid to other states or countries based upon income which is not from Pennsylvania sources and is subject to PA personal income tax. The appropriate schedules (PA Schedule G-R and PA Schedule G-S or PA Schedule G-L) must be completed to claim this credit.

How Nonresidents are Taxed

Nonresidents are taxed on the following types of income derived from sources within Pennsylvania:

- **Compensation**
  Pennsylvania taxes nonresidents on compensation for services performed in Pennsylvania, unless the taxpayer is a resident of one of the reciprocal agreement states.

- **Net Income or Loss from the Operation of a Business, Profession or Farm**
  Pennsylvania taxes nonresident owners on all allocated, or apportioned, income from the operation of a business entity in Pennsylvania. If an individual derives income from sources inside and outside Pennsylvania, separate accounts and records that clearly reflect the PA business activity should be maintained. Otherwise, that individual must file PA Schedule NRH to apportion the income.

- **Net Income or Loss from the Sale, Exchange or Disposition of Property**
  Pennsylvania taxes nonresidents on the gain from the sale of any real or tangible personal property located in Pennsylvania. Pennsylvania does not tax nonresidents on the gain from the disposition of intangible property nor allow the use of any loss from such a disposition to reduce other PA taxable gains. If a taxpayer sells property in his or her former state before moving into Pennsylvania, no gain or loss on that sale is reportable to PA. However, if the taxpayer moved from Pennsylvania to another state and then sold property or any other tangible property in Pennsylvania, the gain must be reported.

- **Income or Loss from Rents, Royalties, Patents and Copyrights**
  Pennsylvania taxes nonresidents on the net income from the use of property located or used in Pennsylvania.

- **Interest on Installment Sales**
  Pennsylvania taxes nonresidents on interest from Installment Sales as PA Schedule D-1 Income.

- **Interest on Business Accounts**
  Pennsylvania taxes nonresidents on interest on business accounts such as accounts receivable or a business checking account that is included in business income.

- **Mortgage or Security Interests**
  Pennsylvania taxes nonresidents on mortgage or security interests on installment sales that are reported as such utilizing PA Schedule D-1. If PA Schedule D-1 is not used and the entire gain is reported in the year sold, interest on an installment sale is not subject to tax.

- **Intangible Personal Property**
  Pennsylvania taxes nonresidents on intangible personal property employed in a trade, profession, occupation or business carried on in Pennsylvania. The nonresident taxpayer does not report such a sale on a PA Schedule D, but includes the gain (loss) in determining net income or loss from the operation of a business, profession or farm.

- **Estate or Trust Income**
  Pennsylvania taxes nonresident beneficiaries on income from an estate or trust only to the extent the PA-source income to the beneficiaries is taxable to nonresidents.

- **Gambling and Lottery Winnings**
  Pennsylvania taxes nonresidents on gambling and Lottery winnings by reason of a wager placed in this commonwealth, the conduct of a game of chance or other gambling activity located in this commonwealth or the redemption of a Lottery prize from a Lottery conducted in this commonwealth, other than prizes of the Pennsylvania Lottery. Nonresidents are not subject to PA taxes on gambling or Lottery winnings, by reason of a wager placed outside this commonwealth, the conduct of a game of chance or other gambling activity is located outside this commonwealth or the redemption of a Lottery prize from a Lottery conducted outside this commonwealth.

NOTE: Nonresidents are not subject to PA tax on ordinary interest and dividends from investments or gains realized on the sale, exchange or disposition of intangible property. Losses on the sale of intangible property may not be used to offset any taxable gain.

Apportioning PA Taxable Income
A nonresident employee who performs services inside and outside Pennsylvania is subject to PA personal income tax on the net compensation for services performed within Pennsylvania. Usually the employer will allocate and separately report on federal Form W-2, Wage and Tax Statement, the PA gross compensation.

If the employer did not report PA gross compensation on the W-2; or reported an incorrect amount as PA gross compensation on the W-2; or the taxpayer incurred unreimbursed employee business expenses in earning or receiving PA gross compensation, PA Schedule NRH, Compensation Apportionment, must be completed.

A separate schedule must be completed for each employer for whom services within and outside Pennsylvania were performed.

If a nonresident taxpayer has income from a business, profession or farm derived from sources both within and outside Pennsylvania and has records and accounts that accurately reflect the income from Pennsylvania, he or she should report as PA taxable income those amounts based on these accounts and records. If the accounts and records do not clearly reflect the PA-source income, the section titled Net Profits from Business or Farm Apportionment Formula on PA Schedule NRH must be completed.

EXCEPTION: Residents of a Reciprocal State
Residents of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia are not subject to tax on compensation for services performed inside Pennsylvania on which federal withholding is

required such as wages and salaries. However, if an Ohio resident holds 20 percent or more share interest in a Subchapter S corporation and receives wages or salary from that corporation, he or she will be subject to PA income tax on the wages or salary from said Subchapter S corporation. This exception does not apply to income reported as compensation such as executor fees on which there is no federal withholding requirement, nor does it apply to any other class of income.

Residents of these states must file Form REV-420, Employee's Statement of Nonresidence in Pennsylvania, with their PA employers to be exempt from having PA tax withheld. In this situation, the PA employer should withhold and remit tax to the employee's state of residency.

A resident of one of these reciprocal states whose employer withheld PA income tax must file Form PA-40 reflecting no compensation on Line 1a and the PA tax withheld on Line 13. In addition, a signed copy of the other state's resident income tax return (without any supporting documents) along with a copy of the actual W-2 and a statement that the taxpayer was a resident of a reciprocal state must be submitted.

A PA resident working in one of these reciprocal states should request to his or her employer that they withhold PA income tax. If the employer withholds the tax for the reciprocal state, the taxpayer must file for a refund from that state. If the PA resident expects to receive income of $8,000 or more and the employer does not withhold PA income tax, the individual is required to make quarterly estimated payments. Failure to make these payments will result in being assessed an estimated underpayment penalty.

How Part-Year Residents are Taxed
A part-year resident is subject to PA personal income tax as a resident for the portion of the year they resided in Pennsylvania. The same taxpayer is subject to PA personal income tax as a nonresident for the remaining portion of the year if he or she continues to work in Pennsylvania unless he or she becomes a resident of a reciprocal state.

Members of Partnerships and Subchapter S Corporations
A member of a partnership or a shareholder in a Subchapter S corporation must report his or her share of income, whether it was distributed or not. The income or loss from the partnership or Subchapter S corporation must be reported in the same class from which the partnership or Subchapter S corporation received the income. A line is provided on PA Schedules A, B, D, E and J specifically for partnership or Subchapter S corporation income. Ordinary business income, farm income, dividends, interest and rental income should be added to any similar class of income and included on the appropriate line of Form PA-40. Composite returns can be filed on behalf of the nonresident shareholders or partners. Sometimes an individual partner or shareholder pays an expense of a partnership or Subchapter S corporation, such as interest expense. In this case, the individual may deduct the expense from his/her income only if the partnership agreement or articles of incorporation require that the member or shareholder pay the business or rental expenses out of his or her personal assets. These expenses must be noted on a separate attachment and do not relate to any existing schedule.

Do not add health care benefits to the PA wages of shareholder-employees of PA S corporations as long as the plan is non-discriminatory, even though such benefits must be added to federal wages.

Each partner in a business, profession or farm must attach to Form PA-40 a copy of the PA RK-1 for residents or PA NRK-1 for nonresidents. A separate PA RK-1/PA NRK-1 must be Submitted for each partnership in which the taxpayer is a member. If a partnership fails to provide such forms, the taxpayer must attach a copy of the federal Schedule K-1 and classify the income or loss according to PA instructions for that class.

Each shareholder in a PA S corporation must attach to Form PA-40 a copy of PA-20S/PA-65 RK-1 for residents or PA-20S/PA-65 NRK-1 for nonresidents. A separate PA-20S/PA-65 RK-1/NRK-1 must be submitted for each PA S corporation in which the taxpayer is a shareholder.

A PA return must be filed even if the PA-20S/PA-65 RK-1 or PA-20S/PA-65 NRK-1 shows a loss.

Members of the Armed Forces and Nonmilitary Persons on Federal Active Service
For PA personal income tax purposes, armed forces include the Army, Navy, Air Force, Marine Corps and Coast Guard They do not include the Merchant Marines, Public Health Service or National Oceanic and Atmospheric Administration, except if/when any of these are incorporated into the armed forces in times of war or emergency. Further, civilian employees for the Department of Defense, such as teachers, are not considered members of the armed forces.

Resident Members of the Armed Forces
Compensation earned by residents of Pennsylvania in the armed forces serving on federal active duty outside Pennsylvania is not taxable as compensation in Pennsylvania. This includes housing allowances and a reserve unit's two-week summer training. Military pay -- including housing allowances received by a PA resident while not on federal active duty or not on federal active duty training -- is fully taxable regardless of where the military service is performed. For example, all income received for inactive duty while attending weekend drills is taxable. Also, compensation earned by a PA resident for military service on active duty in Pennsylvania is subject to personal income tax. Under Act 182 of 2006, PA residents called to active military duty for disaster relief of emergency management assistance inside or outside of Pennsylvania are exempt from taxation on the compensation paid to them by either the U.S. Government or the commonwealth. The taxpayer has the burden of establishing that income received for military service outside the commonwealth was earned while on federal active duty. The Department of Revenue will accept as proof the authority section of the military orders directing the taxpayer to federal active duty outside the commonwealth. If authority for the active duty is based upon a federal statute, such as 32 U.S.C. §§ 316, 502, 503, 504 or 505, federal active duty will be presumed and the income is excludable from taxable compensation. To exclude income from serving on active duty in the military outside of the commonwealth, residents must file a PA personal income tax return and include their military W-2 Forms and copies of their orders as evidence of active duty military pay earned outside Pennsylvania. If PA tax was withheld for active duty service outside the commonwealth, the taxpayer will be given a full refund of their withholding. If a portion of the military service is active and a portion inactive, the taxpayer should provide documentation which gives a detailed breakdown of active duty pay while outside of the commonwealth, combat zone pay (if applicable) and all other military compensation. The sum of these items must equal the reportable wages shown in Box 16 of the individual's military W-2 Form. In addition, the documentation must state the dates during which each component of compensation was received and must include a copy of the individual's military orders ordering him or her to a combat zone and/or placing him or her on active duty as a member of the U.S. armed forces at a military facility outside the commonwealth during the year. A W-2 Form that identifies income as active duty pay is not sufficient because it does not explain where the active duty occurred. The taxpayer may reduce the amount of reportable military compensation on Line 1a of his or her Form PA-40 by the sum of the compensation received as combat zone pay and/or active duty pay received as a member of the U.S. armed forces outside the commonwealth. If authority for active duty is based upon a PA statute, such as 51 P.S. §§ 508 or 3102, state active duty will be presumed and the income received is taxable.

Nonresident Members of the Armed Forces
Nonresident military personnel who are serving on federal active duty in Pennsylvania in compliance with military or naval orders are exempt from PA personal income tax on their military pay and housing allowances because of federal law. They and their family members are, however, subject to tax on any other PA-source income

normally taxable to nonresidents. This includes non-active duty pay such as weekend drills.

National Guardsmen and U.S. Reservists
National Guardsmen and U.S. Reservists ordered to active duty for training at a two-week summer encampment pursuant to Title 10 or Title 73 of the U.S. Code are presumed to be on federal active duty. Military pay received for such service is excludable from taxable compensation provided the active duty training is performed outside the commonwealth. In addition, scholarships or remuneration received by cadets and midshipmen at U.S. military academies is not taxable because none of these academies are within Pennsylvania and such individuals are on federal active duty.

When a civilian employer either makes up the difference in a National Guard member's or U.S. Reservist's regular wages or continues full pay for the Guardsman or Reservist during the term of active duty, the differential or full pay continuation is considered taxable compensation. The Heroes Earnings Assistance and Relief Tax Act (HEART) of 2008 is an exception to this. If the differential pay is earned while in a combat zone or hazardous duty zone, the income is not taxable.

A full-time member of the PA National Guard is taxed on all of the following components of military compensation:

- Inactive state duty pay received for services both within and outside the commonwealth;
- Inactive federal duty pay received for services as a member of the U.S. armed forces both within and outside the commonwealth;
- Active federal duty pay received for services within the commonwealth, unless called to active military duty for disaster relief of emergency management assistance; and
- Active state duty pay received for services both within and outside the commonwealth, unless called to active military duty for disaster relief of emergency management assistance.

Nonmilitary Persons on Federal Active Service
A PA resident on federal active duty outside Pennsylvania is not subject to tax on his or her compensation. The taxpayer must provide a written explanation instead of a copy of the orders in order to exempt this compensation from taxation. **NOTE**: A PA resident in the U.S. foreign service is not on active duty for PA purposes, and his or her compensation is subject to tax.

Members of the Merchant Marines, Employees of the U.S. Public Health Service and National Oceanic and Atmospheric Administration
PA residents serving in the Merchant Marines, the U.S. Public Health Service or the National Oceanic and Atmospheric Administration are subject to tax on compensation whether earned within or outside PA unless the U.S. President declares them by Executive Order to be a military service during times of war or national emergency. Also included in this category are those individuals who are employed by the Department of Defense as school teachers. They are not covered under the Soldiers' and Sailors' Civil Relief Act as they are civilian employees of the Department of Defense and not members of the armed forces.

Military Spouses Residency Relief Act
The Military Spouses Residency Relief Act (MSRRA) affects the treatment of residency and income for spouses of military personnel for state and local tax purposes for tax year 2009 and after.

The MSRRA permits a service member's nonmilitary spouse to retain status as an out-of-state resident and source any nonmilitary compensation to the state of residence under the following circumstances:

- The service member must be in Pennsylvania in compliance with military orders.
- The service member's spouse must be in Pennsylvania solely to be with his/her spouse.

- The service member's spouse must have the same domicile (legal residence) as the service member.

Conversely, if a Pennsylvania resident service member is serving outside Pennsylvania and his/her nonmilitary spouse earns income in that other state – and the spouse claims relief under the MSRRA – the spouse's income is only taxable to Pennsylvania.

I. Domicile/Legal Residence
A person generally does not acquire a new domicile or legal residence by entering the armed forces. Until a service member intentionally changes his/her domicile, a service member's domicile is the state he/she called home when he/she entered the military. This is the state where the service member files income tax returns (if that state has an income tax) and where the service member intends to return upon leaving the military.

Under MSRRA, a service member's spouse neither loses nor acquires domicile or residency by being absent or present in any U.S. tax jurisdiction solely to be with a service member complying with military orders.

II. Nonmilitary Spouses and Pennsylvania Income Taxation
For tax years beginning on or after Jan. 1, 2009, compensation or other income earned in Pennsylvania for services rendered by a service member's nonmilitary spouse is not taxable by Pennsylvania, when:

- The nonmilitary spouse and service member have the same out-of-state domicile;
- The spouse is in Pennsylvania solely to be with the service member (see note below); and
- The service member is in Pennsylvania complying with military orders.

However, a nonmilitary spouse's other income from Pennsylvania sources is subject to Pennsylvania personal income tax to the extent it is earned, received or acquired from sources within the commonwealth as follows:

- By reason of ownership or disposition of an interest in real or tangible personal property in Pennsylvania;
- In connection with a trade or business in Pennsylvania, except to the extent the trade or business receives income for services performed by the MSRRA-qualifying service member's spouse; and/or
- From intangible personal property employed in a trade, profession, occupation or business carried on in Pennsylvania (see note below).

A qualifying nonmilitary spouse must have moved to Pennsylvania from another state, be in Pennsylvania solely to accompany his/her active duty service member spouse stationed in Pennsylvania in accordance with military orders and have the same state of residency as the service member.

Taxpayers claiming relief under MSRRA and a refund of Pennsylvania income tax withheld must provide the following, in addition to a standard personal income tax return and appropriate schedules:

- A copy of the service member's current military orders showing the order to serve in Pennsylvania;
- A copy of the service member's military identification card;
- A copy of the nonmilitary spouse's driver's license from the resident state;
- A copy of the nonmilitary spouse's W-2, issued by the employer;
- A copy of the nonmilitary spouse's tax return filed for the resident state;
- A copy of the nonmilitary spouse's military ID card, identifying the card-holder as the spouse; and
- A copy of the service member's federal

Department of Defense Form 2058, State of Legal Residence Certificate (see note below).

Taxpayers filing electronically should fax these documents within two to three days of e-filing to 717-772-4193, noting the taxpayer's name and Social Security number on each document. Those filing paper returns should write "MSRRA" across the top of Page 1 of the PA-40.

Spouses of service members who meet these requirements and who either had Pennsylvania income tax withheld from wages or made other Pennsylvania income tax payments for the tax year may receive refunds of such taxes paid by filing a Pennsylvania personal income tax return, PA-40. The nonmilitary spouse should report zero wages on Line 1 of his/her Pennsylvania personal income tax return, and include the total Pennsylvania taxes withheld (Box 17 of Form W-2) on Line 14.

NOTE: A nonmilitary spouse working in Pennsylvania but living in a neighboring state whose spouse is stationed in the neighboring state, may also be eligible if the service person is required to be there per military orders and all other requirements are met for state of domicile and reason for being in the location with the military service person.

III. Discontinuation of Pennsylvania income Tax Withholding

The nonmilitary spouse of a service member whose wages/salary is exempt from Pennsylvania personal income tax under MSRRA should file a Pennsylvania Form REV-419 with his/her Pennsylvania employer, claiming exemption from Pennsylvania income tax withholding.

IV. Taxation of Service Members' Military and Nonmilitary Pay

MSRRA does not exempt from Pennsylvania personal income tax nonmilitary income earned by a service member. However, a nonresident service member's active duty military income continues to be exempt from Pennsylvania personal income tax.

Combat Zones

Combat zone pay received by a U.S. service member is not taxable for PA personal income tax purposes (see Title 72 P.S. § 7301(d)(vii)), nor is it considered poverty income for purposes of the special tax forgiveness provisions (see Title 72 P.S. § 7301 (o.2)(vii)).

For PA personal income tax purposes, combat zones include any area designated by the U.S. President by Executive Order as a combat zone for any time period as the period of combatant activities. PA National Guard members and U.S. Reservists are U.S. service members while they are serving in a combat zone for purposes of this exclusion. The $500 combat zone pay exclusion limit for military officers contained in the Internal Revenue Code is not in the state taxing statute. Refer to **www.irs.gov** for a listing of current combat zones.

PA residents serving in combat zones or qualified hazardous duty areas designated by the U.S. President are given the same additional time to file their PA personal income tax returns and make payments as allowed for federal income tax purposes. The deadline is automatically extended to 180 days from the last day of service or the last day of continuous hospitalization for injuries incurred in one of these areas. Print "Combat Zone" at the top of the return and mail it along with the military orders to:

REGARDING COMBAT ZONE
PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280600
HARRISBURG PA 17128-0600

If the return is filed electronically, a copy of the military orders must still be submitted. Print "Combat Zone" at the top of the orders and fax them to 717-772-4193 or mail them to:

REGARDING COMBAT ZONE
PA DEPARTMENT OF REVENUE
ELECTRONIC FILING SECTION
PO BOX 280507
HARRISBURG PA 17128-0507

Retirement Income
If a member of the armed forces receives retirement pay after completing 20 years of service, the retirement pay is not taxable. Likewise, the retirement pay of any commissioned officer or warrant officer who retires at the age of 62 is not subject to tax. Also not taxable is any retirement pay received in regularly recurring intervals during a period of disability by reason of that disability.

However, if the serviceman leaves the military prior to normal retirement the amounts are taxable to the extent the service member did not pay PA personal income tax on the contributions into the plan. That is payments received before a member of the armed forces completed 20 years of service or before reaching age 62. Included in this category are separation incentives called Voluntary Separation Incentives (VSI). These are not considered part of a PA qualifying retirement program and are taxable under the cost recovery method.

Taxable Income Classes
PA personal income tax is levied at a flat rate on eight separate classes of income:

- Compensation
- Interest
- Dividends and Capital Gains Distributions
- Net Income or Loss from the Operation of a Business, Profession or Farm
- Net Gains or Loss from Sale, Exchange or Disposition of Property
- Net Income or Loss from Rents, Royalties, Patents or Copyrights
- Estate or Trust Income
- Gambling and Lottery Winnings

Gains and Losses
A gain in one class of taxable income cannot be offset against a loss in any other class of taxable income, nor may gains or losses be carried back or forward to another tax year. If a taxpayer has a net loss in any income class, enter the amount of the loss on the appropriate line on Form PA-40; use the actual dollar figure and fill in the oval indicating loss for that category. A completed schedule must be submitted even if the taxpayer incurred a loss in a class of income. A spouse may only offset losses against his or her own profit/gain/income. A spouse may not offset a loss against the other spouse's profit or gain. However, if spouse A and spouse B jointly own a business which incurred a loss, they may each take their share of the loss against their other business gains.

Joint Income
If two or more persons, such as a taxpayer and spouse, own income-producing property -- including real estate, savings accounts or stock -- as joint tenants, tenants by the entirety or tenants in common, each person must report his/her proportional share of income from the property, even

if only one Social Security number and name appears on the statement. Generally, such income is divided equally between the owners.

In the case where a husband and wife and a third party own real estate, such as parents and a son or daughter, the husband and wife are jointly liable for one-half of any gain on the sale, and the child is liable for the other half (unless the deed stipulates that the property is held as tenants in common). However, for any other property, such as bank accounts, each individual person is considered an equal owner. In the case of ownership by a husband and wife and a child appearing as owners on a bank account, each would be liable for one-third of the interest earned.

INSTRUCTIONS FOR PREPARING FORM PA-40

If filling out a paper Form PA-40, be sure to fill in all requested information by typing or printing legibly.

Only taxpayers who requested a PA-40 book be mailed to them or who are not eligible to file via

TeleFile will receive a PA-40 book by mail. These books should include a preprinted label. If any of the information on the label is incorrect, the label should be discarded and the information printed on the tax return. If the preprinted label is incorrect, the taxpayer or his preparer should fill in the oval marked “Identification Label Change” so the information is corrected.

The Department of Revenue uses electronic data imaging to enter tax returns into its computer system. Follow these instructions for entering Social Security numbers, names, addresses and amounts to help ensure personal income tax returns are processed accurately and quickly.

- Print in black ink.
- Use UPPER CASE (CAPITAL) letters.
- Print one number or letter in each box.
- Leave a blank box between whole words.
- Print the taxpayer’s name – last, first, middle initial and suffix on the correct lines.
- Print the taxpayer’s correct address.
- Print the taxpayer’s apartment number, suite number, room number, rural route, floor, etc on the first line.
- Print the taxpayer’s PO Box on the second line.
- Fill in all appropriate ovals completely.
- Show money amounts in whole dollars. Eliminate any amount less than $0.50 and increase any amount between $0.50 and $0.99 to the next highest dollar.
- Prepare a copy for the taxpayer’s records before submitting.

If the name, address or city begins with Mc, Van, O’, etc, do not enter a space or a punctuation mark.

There are two lines to enter the address. Use the postal format of apartment number, suite, room number, rural route, box number, floor, etc. on the first line and the street address on the second line. If there is only a street address, it may be entered on either line.

There are ovals present for “Extension”, “Amended Return”, “Residency Status”, “Filing Status”, “Identification Label Change”, “Farmers” and losses in certain income categories. If any of these apply, the oval(s) must be filled in completely. Do not use an X or a check mark. Also note that Form PA-40 is two-sided. Do not forget to complete both sides.

Social Security number

The taxpayer's correct Social Security number (SSN) must be verified and matched against the state copy of the Wage and Tax Statement, the W-2 Form. If a W-2 Form has an incorrect SSN, the taxpayer must obtain a corrected W-2 Form (Form W-2C) from his or her employer.

Returns completed for married taxpayers, even if filing Married, Filing Separately, must include the SSN of both spouses.

NOTE: By law (42 U.S.C. Sec. 405(c)(2)(C)(i); 61 Pa. Code Sec. 117.16) the PA Department of Revenue has the authority to use the SSN to administer PA tax laws to identify taxpayers and their incomes. PA law does prohibit the commonwealth from disclosing information individuals provide on income tax returns, including SSNs, except for official purposes.

Name

The complete name of the taxpayer must be entered. In completing a joint return, the spouse's first name must also be included. If a husband and wife use different last names, the person entering his or her name as the spouse must enter the last name he or she is using in the blocks designated as “Spouse’s Last Name”. Do not enter anything in these blocks if the husband and wife use the same last name.

Address

The address must be the current mailing address of the taxpayer. If using a military address, the APO or FPO address should be used.

If filing for a taxpayer who is using an address that is out of the country, the format established by the U.S. Postal Service must be followed. The proper format is to enter the name(s) in the spaces provided. The house number and street, apartment number and street or postal delivery location is to be entered in the spaces for the first line of the address. The city, state/province and foreign postal code (the equivalent of ZIP code) should be entered on the second line of the address. The name of the country should be entered in the spaces provided for City or Post Office on the Form PA-40. Do not enter any information in the state or ZIP Code spaces.

Daytime Telephone Number
Provide a telephone number where the taxpayer can be reached during the day.

School Code and School District Name
The five-digit code and name of the school district where the taxpayer lived on Dec. 31 of the tax year must be entered. If the taxpayer was a nonresident of Pennsylvania on the last day of the tax year, enter 99999 in the school code area. If the taxpayer died during the tax year, enter the information applicable at the time of death. This information must be entered. Using an incorrect school code may affect the school district's funding. Failure to enter this information may delay the processing of the return and delay the issuance of any refund.

Some examples of what to consider when entering the school code on a return are as follows:

- Any military personnel should use the school code for the domicile of his/her spouse (if the spouse lives in Pennsylvania), parents (if entering the military while domiciled in Pennsylvania), or the code for the school district in which he/she live while on federal active military duty while stationed in Pennsylvania (if a PA resident).
- A person residing in a nursing home or other care facility who plans to return to his/her principal residence after a temporary stay in such facilities should enter the school code for the physical address of his/her principal residence and not the nursing home or care facility.
- A person who resides in a nursing home or care facility on a permanent basis and has made the decision to do so (assuming mentally capability to make this decision) should use the school code for the physical address of the nursing home or care facility.
- A PA resident attending college inside or outside Pennsylvania should use the school code for the physical address of the domicile or primary residence of his/her parents.
- A nonresident or part-year resident who did not reside in the state as of Dec. 31 of the tax year should enter 99999 in the school code field.
- A part-year resident who resided in Pennsylvania as of Dec. 31 of the tax year should enter the school code of the physical address of his/her domicile or primary residence on Dec. 31.
- A person who uses a mailing address other than the physical address of the domicile or principal residence should enter the school code for the physical address of his/her domicile or primary residence.
- A person who works outside Pennsylvania,--but maintains a permanent place of abode inside PA during absences from Pennsylvania -- or a person who plans to return to Pennsylvania after a temporary relocation to another state or country and is still considered a PA resident should use the school code for the physical address of his/her permanent place of abode or the school code of his/her physical address prior to moving out of Pennsylvania.

Extension
If an extension of time to file has been granted, this oval must be filled in. If tax is owed, a copy of the federal extension should be submitted with the taxpayer's return if a PA extension was not filed.

An extension of time to file does not extend the payment deadline. Any tax reasonably expected to be due must be paid with Form REV-276, Application for Extension of Time to File, by the April 15 due date. If at least 90 percent of the total tax liability was paid in four quarterly estimated installment payments by the due date of each installment payment and all additional tax was paid with the extension on or before the April 15 due date, an underpayment of tax penalty will not be charged. However, interest will be imposed if the total tax balance is not paid by the April 15 due date.

For federal extensions over four months where additional money is due with the filing, enclose a copy of the extension granted by the Internal Revenue Service (IRS). Do not place this document in front of the return. No extension will be granted for more than six months unless the taxpayer continues to reside outside the U.S. Persons working out of the country are granted an automatic two-month extension of time to file until June 15.

NOTE: Do not include a copy of Form REV-276 when filing the return, as the department codes the taxpayer’s account upon receipt of PA extension requests.

Amended Return

If filing an amended return, it is necessary that this oval be filled in. In addition, please write “Amended Return” across the top of the return. It is very important that if an amended return is being filed, you use a return that is for the same tax year that is being amended. Failure to do so will result in the amended return being processed for the wrong tax year. Crossing out the tax year and writing in the year intended to be amended will not suffice. Pennsylvania does not have a separate return specifically for amending a tax year.

Residency Status

If the taxpayer was a resident, fill in the “R”, Pennsylvania Resident oval in the residency status section. If the taxpayer is a nonresident of Pennsylvania, fill in the “N”, Nonresident oval. If the taxpayer was a part-year resident, fill in the “P”, Part-Year Resident oval and indicate the length of time he or she was a resident of PA during the taxable year.

Filing Status

Single (S) – You must file as single if:

- On Dec. 31 of the tax year you were not married; or
- During the tax year, you divorced or became a widow or widower and did not remarry.

Married, Filing Jointly (J) – You and your spouse, even if living apart, can file a joint return for convenience. To file jointly, you must meet ALL of the following conditions:

- Your taxable years end on the same date;
- You and your spouse elect to have the same residency period (earliest starting date if you moved into PA and latest ending date if you moved out of PA) if you are part-year residents;
- Neither of you is individually claiming one or more of the credits on PA Schedule OC;
- Your spouse is still living; and
- Neither of you is individually liable for the payment of child or spousal support, or another liability to the PA Department of Public Welfare.

NOTE: Married taxpayers who file joint PA personal income tax returns are jointly and individually responsible for the taxes and any interest or penalties due on joint returns, even if they later divorce. Any taxpayer who filed a joint PA personal income tax return with his/her spouse can request relief from joint liability through the department's Taxpayers' Rights Advocate. Three types of relief from joint liability are available: innocent spouse relief, separation of liability and equitable relief. Each type of relief has different requirements. For more information, see Spousal Relief from Joint Liability, Form

REV-971, available on the department's Web site. Any questions concerning this program should be referred to the Office of Taxpayers' Rights Advocate by e-mailing pataxadvocate@state.pa.us; faxing 717-787-8264; or calling 717-772-9347.

Married, Filing Separately (M) – You and your spouse have the option to file separate returns. However, you and your spouse must file separate returns if:

- Your taxable years end on different dates;
- Your taxable years begin on different dates for part-year residents;
- Either of you is claiming one or more of the credits on PA Schedule OC;
- Either of you is individually liable for the payment of spousal/child support, or another liability to the PA Department of Public Welfare; or
- One of you is a PA resident and the other is not. However, you can file jointly if you both elect to file as PA residents and meet all other requirements for filing jointly.

Final Return (F) – Use this filing status if you lived in Pennsylvania during the tax year, but permanently moved away or if for any other reason, you will not have any PA taxable income (or loss) in the following tax year. Provide the reason, such as you moved to another state.

Deceased (D) – Use this status if the taxpayer died during the tax year. Enter the date of death. The surviving spouse, the executor or other person responsible for the affairs of the decedent should use this filing status to complete, sign and file a separate return for the decedent. The return must report all the decedent's income, payments, and credits. The person signing the decedent's return must indicate his or her relationship to the decedent (surviving spouse, executor or person responsible for the affairs of the decedent).

If the decedent was married, the surviving spouse should file a separate return and use the Single (S) filing status. If the decedent made PA estimated payments, the surviving spouse may submit Form REV-459B to reconcile the estimated payments to the separate PA tax returns. This form may be requested from the Department's Web site, or through one of the Forms Ordering Services.

If a taxpayer died after Dec. 31, but before filing his or her PA tax return, the surviving spouse, executor or other person responsible for the affairs of the decedent has the option to file the current year return as:

- Single, for a single taxpayer. If choosing this filing status option, the responsible person will then have to file a PA tax return for the decedent for the following tax year using the Deceased (D) filing status and report any income that the decedent earned, received or realized in that tax year.
- Married, Filing Jointly for a married taxpayer. If choosing this filing status option, the surviving spouse or other responsible person must file a separate tax return for the decedent for the following tax year as Deceased, reporting any income that the decedent earned, received or realized in that tax year.
- Married, Filing Separately for a married taxpayer. If choosing this filing status, the surviving spouse or other responsible person must file a separate tax return for the decedent for the following tax year as Deceased, reporting any income that the decedent earned, received or realized in that tax year.
- Final, for a taxpayer that died after Dec. 31 and had no PA taxable income (loss) after Dec. 31.

Identification Label Change
This oval should be filled in if any of the information on the preprinted label is incorrect, or if the taxpayer did not file a PA income tax return in the prior year.

Farmers
This oval should be filled in if at least two-thirds of an individual's gross income is from farming.

Occupation
Enter the primary occupation of the taxpayer and his or her spouse.

CLASSES OF INCOME

Gross Compensation (Line 1a)
Compensation for PA personal income tax purposes is remuneration received for services rendered by an individual whether directly or through an agent and whether in cash or in property. Compensation paid in any medium other than cash is valued at its fair market value. The term compensation may include cash, foreign currency, check or other negotiable instruments, freely transferable readily marketable obligations or other cash equivalents, property interests, below-market-rate loans and discharge of liabilities.

Income items that are always taxable as compensation include:

- Salaries
- Wages
- Tips received directly by the employee or through his or her employer
- Gratuities
- Commissions
- Bonuses
- Incentive payments
- Vacation/holiday pay
- Termination/severance pay
- Payments for unused vacation or sick leave
- Payment incentives for early retirement
- Reimbursements and allowances in excess of allowable business expenses
- Damage awards to the extent that they represent lost profits, age discrimination or sex discrimination
- Directors' fees (unless one's profession if being an outside board director, in which case income would be taxable as business income on PA Schedule C)
- Jury fees
- Witness fees (unless testifying as an expert in a field which is considered one's line of business, in which case income would be taxable as business income on PA Schedule C)
- Eligible reimbursed moving expenses in excess of allowable expenses on PA Schedule UE, UE-1
- Honoraria (unless one's profession is being a professional speaker, in which case income would be taxable as business income on PA Schedule C)
- Fellowships if the recipient is required to provide a substantial service such as advanced research or teaching
- Tuition assistance or educational benefits unless the training or education is either 1) required by law or regulation; or 2) required of the employee by the employer in order for the employee to retain the skills necessary for his/her present position. If the course, degree program or training is designed to enable the employee to enter a new field or profession or to obtain a promotion, the reimbursement is taxable
- Executor or administrator fees (unless one's profession is being an executor or administrator, in which case income would be taxable as business income on PA Schedule C)

- Covenant not-to-compete or payments received as consideration for refraining from the performance of services
- Proceeds from an employee stock ownership plan to extent of excess computed under the cost-recovery method
- Cash allowances for rent, utilities or other expenses received by ministers
- Reimbursements made by an employer for dependent care, legal services or other personal services
- National Service Education Awards
- Income from Peace Corps, VISTA Job Corps and Americorp
- Distributions from a pension plan for any reason other then death, disability or retirement, to the extent the distribution exceeds the taxpayer's contributions
- Employee contributions to an eligible PA retirement plan
- Premature withdrawals from an IRA or 401K to the extent not previously taxed, unless rolled over

Income items that are never taxable as compensation include:

- Federal active-duty pay earned outside PA
- GI Bill benefits including tuition and living expenses
- Alimony
- Child support
- Income in respect of a decedent
- Inheritance
- Social Security
- Railroad retirement benefits
- Public assistance
- Unemployment compensation
- Occupational Disease Act benefits (if included on W–2 Form, attach explanation)
- Meals and lodging provided to an employee by the employer
- Personal use of employer-owned or leased property and/or services, at no cost or at a reduced cost. These amounts are not taxable fringe benefits for PA personal income tax.
- Employer-provided parking facilities. These amounts are nontaxable fringe benefits for PA personal income tax.
- Employer-provided professional services paid for directly by the employer. These amounts are nontaxable fringe benefits for PA personal income tax.
- Premiums paid by an employer for group term life insurance (no limit)
- Rental value of parsonage owned by the congregation and required to be occupied by the cleric
- Foster care
- Amounts received for permanent loss of body function, disfigurement or reimbursed medical expense
- Disability payments paid by employer arising under occupational disease acts or other legislation
- Strike benefits
- Life insurance proceeds or settlements
- Employee contributions to a nonqualified deferred compensation plan
- Distributions from eligible PA retirement plans after retirement age

NOTE: There are significant differences between PA personal income tax and federal income tax regulations. Certain income items not taxable for federal purposes are taxable for PA purposes, and vice versa.

W-2 Forms/PA Schedule W-2S, Part A
Every taxpayer should receive a W-2 Form from each employer he/she works for. This form will show the amount of employee compensation received and taxes withheld during the tax year. The taxpayer has the option of either submitting a copy of the W-2 form(s) with the tax return or completing and submitting Part A of PA Schedule W-2S, Wage Statement Summary. This information must be submitted with the tax return to serve as evidence of compensation paid and taxes withheld by an employer. Part A of Schedule W-2S has enough room for the entry of ten W-2 forms. If the taxpayer worked for more than ten employers in any given tax year, he/she should attach additional PA Schedule W-2S forms. While this form may be used in place of submitting W-2 form(s), the department reserves the right to request a copy of the actual W-2(s). When calculating PA compensation from a W-2 Form, it is important to use the state wages from Box 16 of the W-2, not the federal wages. This is a common mistake. The state amount is often higher because Pennsylvania taxes the employee's contribution into his/ her retirement plan at the time contributed, where the federal taxing authority does not.

If the taxpayer was not furnished with or was unable to obtain a W-2 Form, he/she must provide a copy of federal Substitute W-2, Form 4852, or copies of evidence of compensation paid and tax withheld such as pay stubs and a statement identifying the employer and the reason no W-2 Form is available.

Any additional compensation not reflected on a W-2 Form must be substantiated with an explanation as to its source.

1099 Forms/PA Schedule W-2S, Part B
A taxpayer who receives miscellaneous and/or non-employee compensation, such as pensions, retirement plan distributions, executor fees, jury duty pay, etc, during the tax year will receive a federal Form 1099-R, 1099-MISC and other statements. Copies of all 1099-R, 1099-MISC and other statements must be submitted with an individual's tax return if he/she files a paper return. 1099-MISC forms need not be submitted if the income is being reported in another category of income such as Net Income or Loss from the Operation of a Business, Profession or Farm. Part B of PA Schedule W-2S may be completed and submitted when reporting miscellaneous and/or non-employee compensation, however federal Form 1099-R, 1099-MISC and other statements must still be submitted. Part B of PA Schedule W-2S has enough room for the entry of ten 1099 forms. If the taxpayer has more than ten 1099 forms in any given tax year, he/she should attach additional PA Schedule W-2S forms. All 1099 forms, whether or not they show taxable income, must be submitted and/or included in Part B of PA Schedule W-2S.

Instructions for completing Part B of PA Schedule W-2S are as follows:

Column A. Taxpayer or Spouse

Enter a T if the payment or distribution was to the primary taxpayer shown first on the PA-40 or S if the payment or distribution was to the spouse.

Column B. Type

Enter the letter designation for the type of payment from the list of payment types shown at the bottom of PA Schedule W-2S, Wage Statement Summary. If the taxpayer does not know the type of payment listed on form 1099-R, he/she may need to contact the payer for more information regarding the distribution to properly report the type of payment. For distributions from an IRA, the box next to Box 7 on the 1099-R will have an X entered to indicate a distribution from a Traditional IRA, SEP IRA or Simple IRA. Distributions from Roth IRAs will have Code J or T included in Box 7 of the 1099-R. Distributions from qualified deferred compensation plans should be listed on Form W-2.

Column C. Payer Name

Enter the payer's name.

Column D. 1099R Code

If the payment being reported is from federal Form 1099-R, enter the distribution code listed in Box 7 of the 1099-R.

Column E. Total Federal Amount

Enter the total amount of payment from federal Form 1099-MISC or from another document and/or any distribution from federal Form 1099-R Box 1. If the payment is from federal Form 1099-MISC or from another document other than a 1099-R, enter the same amount in Column G.

Column F. Adjusted Plan Basis

If the distribution code in Column D is 1, 2, J, L, S or U from the 1099-R, enter the amount of the adjusted basis in the plan. The adjusted basis in the plan or IRA is generally equal to the sum of the contributions to the plan or IRA minus the sum of prior distributions which were previously treated as nontaxable as a recovery of such contributions.

Column G. PA compensation

If Code 1, 2, 8, 9, J, L, S or U from a 1099-R is entered in Column D, subtract the amount in Column F from Column E and enter the resulting amount (but not less than zero) here. If any other 1099-R code is entered in Column D, enter a zero in Column G, meaning there is no PA taxable compensation from these codes. If the distribution code in Column D is a 7 and the payment type listed in Column B is K or L, these types of payments are not taxable as compensation, but are taxable as interest income to the extent there is income included in federal gross income. Although not taxable as compensation, they must be included to allow for reconciliation with amounts reported for federal income tax purposes.

Column H. PA Tax Withheld

If the payer withheld PA state income tax from the distribution or payment, enter the amount withheld from that distribution or payment.

Filing Tips:

- A taxpayer with a distribution Code 2 on Form(s) 1099-R must determine if he/ she received the distribution from a pension or retirement plan eligible for PA tax purposes. Additionally, the taxpayer must have been eligible by meeting the age or service conditions of the plan. If these conditions are met, the taxpayer should input the same amount in Column F as was reported in Column E. Otherwise, the cost or adjusted basis of the plan must be included.
- A taxpayer with distribution code 1 or 2 on Form(s) 1099-R from a retirement plan from the State Employees' Retirement System (SERS), the Pennsylvania School Employees' Retirement System (PSERS), the Pennsylvania Municipal Employees' Retirement System (PMERS) or the U.S. Civil Service Commission Retirement Disability Plan should input the same amount in Column F as was reported in Column E.

Stock Options

Incentive and statutory stock options are taxable as compensation on the earliest of the following dates:

- Date of exercise of the option, unless there are substantial restrictions;
- Date that substantial restrictions on the option lapse; or
- Date of sale of the option.

Nonstatutory stock options are taxable as compensation-upon grant if the option has an ascertainable value

- Date of exercise of the option, unless there are substantial restrictions;
- Date that substantial restrictions on the option lapse; or
- Date of sale of the option.

The difference between the fair market value of the stock on the date of exercise or lapse as applicable and the amount paid by the employee to obtain the option, if any, is the amount subject to PA tax when sold before lapse or exercise.

Pennsylvania's Tax Reform Code, unlike the Internal Revenue Code (IRC), does not contain provisions that distinguish between or among various types of stock options. There is no distinction drawn between qualified and nonqualified (sometimes referred to as "statutory" and "non-statutory") stock options. Moreover, there are no PA provisions that distinguish between qualified stock options and those options granted under employee stock purchase plans.

For PA personal income tax purposes, a stock option is compensation in the form of intangible property. By regulation, a qualified stock option is taxable and subject to withholding on the date of exercise if the employer is required to withhold tax from the wages of its employee. The difference between the fair market value of the stock on the date of exercise and the amount paid by the employee to obtain the option, if any, is the amount subject to PA tax. A non-qualified stock option is taxable when it has a readily ascertainable fair market value or when it is no longer subject to a substantial risk of forfeiture.

Clergy

If a member of the clergy is considered a common law employee, the cleric's occupancy of a parsonage owned by the congregation and provided for the convenience of the congregation is not taxable as compensation. All housing allowances provided to clergy are taxable as compensation.

If a member of the clergy is not a common law employee and is a sole proprietor who offers his services in a market place (i.e. to a nonexclusive, indefinite number of individuals or congregations), income is considered to be derived from a business or profession and is reported on PA Schedule C.

Summary:

- Where the employer provides housing for the clergy, the value of the housing is not taxable.
- Where the employer pays the costs of housing directly and not as a reimbursement to the clergy, the direct costs are not taxable.
- Where the employer pays a housing allowance to the clergy for living in provided housing on the employer's property, the payments are taxable – cash is always taxable.
- Where the employer pays a housing allowance to the clergy for living in housing that the clergy obtains, the housing allowance is fully taxable as PA compensation, and the clergy may deduct directly related business expenses allowed on PA Schedule UE.

Executor Fees

Executor fees are taxable as compensation. This includes executor's fees paid to nonresident executors and administrators for estates in Pennsylvania. It is presumed that these fees are received for services performed in Pennsylvania by the executor and/or his or her agent (such as an attorney) and the burden of proof falls upon the taxpayer to prove otherwise. Any apportionment must be reported on PA Schedule NRH.

An executor or executrix for an estate in Pennsylvania would be required to visit Pennsylvania to complete his or her duties. The fact that the executor or executrix may use an agent to do the duties does not take away the fact that they had a presence in Pennsylvania and are subject to tax on that income. The only apportionment to be done is to exclude that portion of the executor fee that represents the services performed outside of Pennsylvania for the convenience of the estate and by necessity out of Pennsylvania. An example would be an appearance in court outside of Pennsylvania involving the estate. The remainder of the fee would be taxable as compensation for Pennsylvania purposes by nonresident executors. Apportionment can only be done by the number of days required out of Pennsylvania over total days spent working on the estate, including the time of the agent. The executor or executrix may be able to receive some credit from another state for the income taxed by both states.

Household Employees
Household employees include babysitters, caretakers, nannies, health aides, private nurses, housekeepers, cleaning people, drivers, yard workers and any person hired to do any sort of household work as long as the employer retains the right to control the details of how the work is done. This differs from house workers obtained through an agency or self-employed workers who retain control of how the work is done. Generally a self-employed worker provides his or her own tools and offers services to the public as an independent business. These individuals must file and report his/her income through the appropriate business schedule.

Since household employees are not subject to federal income tax withholding (although they may be subject to Social Security withholding), they are not subject to PA income tax withholding.

Statutory Employee
For federal employment tax purposes, a statutory employee is defined as an individual that performs services for remuneration for any person:

- As an agent-driver or commission-driver engaged in distributing meat products, vegetable products, fruit products, bakery products, beverages (other than milk) or laundry or dry-cleaning services, for his principal;
- As a full-time life insurance salesman;
- As a home worker performing work, according to specifications furnished by the person for whom the services are performed, on materials or goods furnished by such person which are required to be returned to such person or a person designated by him; or
- As a traveling or city salesman, other than as an agent-driver or commission driver, engaged on a full-time basis in the solicitation on behalf of, and the transmission to, his principal (except for sideline sales activities on behalf of some other person) of orders from wholesalers, retailers, contractors or operators of hotels, restaurants or other similar establishments for merchandise for resale or supplies for use in their business operations. If the contract of service contemplates that substantially all of such services are to be performed personally by such individual; except that an individual shall not be included in the term employee under the provisions of this paragraph if such individual has a substantial investment in facilities used in connection with the performance of such services (other than in facilities for transportation), or if the services are in the nature of a single transaction, not part of a continuing relationship with the person for whom the services are performed.

Income received by statutory employees can be reported in one of two ways. If the statutory employee receives a W-2 Form and there is federal tax and Social Security tax withheld, the income must be reported on Line 1 of the return, and any expenses attributable to this income must be shown on PA Schedule UE. If the statutory employee receives a W-2 Form and there is no federal withholding, but there is an amount for Social Security tax paid, PA Schedule C should be completed, taking expenses attributable to this income. The net income would then be reported on Line 4 of the return.

Scholarships/Fellowships and Stipends
Generally, a scholarship or fellowship award made on the basis of need or academic achievement is not taxable if awarded to encourage or allow the recipient to further his or her educational development. If the recipient is required to apply his skill and training to advance creative worth or some other project, the scholarship may be taxable.

In order to substantiate that a scholarship or fellowship is not taxable, include a letter with an original signature of the department head or other official detailing the description of the program under which the award was received. A form letter is not acceptable.

Stipends paid to medical interns and residents pursuant to internships or residency programs that conform to “Essentials of an Approved Internship” or “Essentials of an Approved Residency” as established by the American Medical Association are taxable.

Fellowship awards and stipends do not constitute taxable compensation for services if the recipient is required to apply his skill and training to advance research, creative work, or some other project or activity, and the recipient can show that:

- The benefits resulting from the services of the recipient are so minimal, given the actual services performed or expected to be performed, that they constitute no realistic basis for compensation by the institution sponsoring the fellowship or stipend;
- The activities of the recipient are so closely and directly supervised and immediately controlled by regular faculty members so as to constitute a burden on the institution which would offset any benefit it receives from the recipient's activities; or
- The recipient is a candidate for a degree and the same activities are required for all candidates for that degree as a condition for receiving such a degree.

The recipient must substantiate one of the above with a letter featuring an original signature of the department head of other official.

CANCELLATION OF DEBT

Insolvent individuals not filing for bankruptcy recognize cancellation of debt as income. The reportable amount is the lesser of:

- The amount of indebtedness forgiven or discharged; or
- The taxpayer's net worth as calculated using generally accepted accounting principals (GAAP) immediately after the cancellation.

If an insolvent individual is not rendered solvent by the cancellation of debt, no income is recognized.

Solvent individuals would report the amount of indebtedness forgiven or discharged as income.

The basis of an insolvent debtor's property must be reduced, but not below its fair market value. Basis reductions for amounts canceled shall be allocated in any manner that has the effect of reducing the difference between the fair market value and the adjusted basis of the properties.

Individuals Who File for Bankruptcy

Unless the case is dismissed, an individual bankruptcy filed under Chapter 7, 11 or 12 of the Bankruptcy Act leads to the creation of a bankruptcy estate, and no income shall be considered to have been realized by reason of discharge of indebtedness under bankruptcy laws.

If cancellation of debt is excluded from income based on the insolvency or bankruptcy exclusions, the taxpayer must reduce his or her tax attributes, including his or her adjusted basis in property.

Income from cancellation of debt is taxable to Pennsylvania when:

- Under GAAP, the debt forgiven was considered a liability
- Where the debt forgiven constitutes a quid pro quo or incentive that would be taxable under PA personal income tax regulations if it had been paid to the debtor in cash or in property

Class of Income

- If debt forgiveness relates to an employee/employer relationship, it is reported as compensation.
- If debt forgiveness relates to business, profession or farm income, it is reported in that class.
- If debt forgiveness relates to the sale, discontinuation or abandonment of a business or segment thereof, it is reported as gain on the sale of property.

- If the debt forgiveness relates to rent, royalty, patent or copyright income, it is reported in that class.

For more detailed rules on cancellation of debt, please refer to Personal Income Tax Bulletins 2009-2 through 2009-6 on the department's Web site.

NON-EMPLOYEE COMPENSATION

Reimbursable expenses, even if not reimbursed, may not be deducted.

Unreimbursable expenses incurred for realizing non-employee compensation (e.g. executor fees, administrator fees, etc.) may be claimed on PA Schedule UE as long as:

- The agreement contemplates that a portion of the director/executor's fee is intended to reimburse the director/executor for his or her actual expenses; and
- The expenses are ordinary, actual, reasonable and necessary (i.e. no commuting or personal expenses may be deducted).

CAFETERIA PLANS

Cafeteria plans are federal plans pursuant to Internal Revenue Code (IRC) Section 125 under which employers sponsor benefit packages that offer employees choices between cash and qualified benefits. If the employees choose cash, the cash amounts are included in taxable compensation. If the employees choose qualified benefits, the values of the benefits are not included in gross income. Qualifying benefits include:

- Accident coverage
- Health coverage
- Group-term life insurance coverage
- Dependent care programs
- Certain employer payments for educational expenses
- On-site athletic facilities provided and operated by the employer
- A profit-sharing or stock bonus plan or rural cooperative plan as defined in IRC Section 401(k)(7) that includes a qualified cash or deferred arrangement as defined in IRC Section 401(k)(2).

If a taxpayer's employer maintains a federally qualified cafeteria plan pursuant to IRC Section 125, certain amounts deducted from the taxpayer's salary (e.g., health/accident insurance) are not subject to PA personal income tax to the extent excluded for federal purposes.

Employer-provided flex dollars that an employee must use to pay for PA-exempt benefits, such as health insurance or life insurance, are excludable from income taxation. Employee contributions to a qualified IRC Section 125 plan for coverage for hospitalization, sickness, disability or death, supplemental unemployment benefits or strike benefits -- like employer contributions -- are exempt, but only to the extent they are exempt for federal income tax purposes. If an employer has an employee benefit plan that is not a qualified IRC Section 125 plan, employee contributions, even for the same kinds of coverage, are not excludable from PA taxable compensation.

Employee payments and contributions for other benefits, including dependent care and contributions to an IRC Section 401 plan, are not excludable from PA taxable compensation. If the employer's plan provides life insurance coverage that includes coverage for an employee's dependent child and the employee pays a portion of the premium for that coverage, that portion of the employee's payment is not excludable.

For PA personal income tax purposes, all benefits other than for death, disability, hospitalization and sickness are taxable.

DEFERRED COMPENSATION

Compensation includes distributions from nonqualified deferred compensation plans attributable to an elective deferral of income, regardless of whether the distribution is paid during employment or retirement. PA's constructive receipt rules (with certain exceptions noted below) are the same as the federal constructive receipt rules in determining when compensation is received by a taxpayer.

These rules apply to taxable years 2003 and after. If the taxpayer chooses he/she may file an appeal for the years in which the tax was paid on the contributions to these nonqualified deferred compensation plans.

Following the federal constructive receipt rule, deferrals to nonqualified deferred compensation plans are not includible in compensation. However, the monies distributed from these plans do become taxable when paid, either while still working or after having retired. The deferred compensation is taxable for work performed in Pennsylvania regardless of the residency of the person receiving the compensation when it is paid, unless the taxpayer is a nonresident at the time of receipt and the payment is part of a series of substantially equal periodic payments for a period of not less than 10 years.

The exception to this rule applies to employee payments made to recognized retirement plans, 401(k) plans, contributions by self employed persons to their retirement plans and to IRS's, whether traditional or Roth. See the treatment of these plans below.

If distributions were made that have previously been taxed under a nonqualified deferred compensation plan attributable to elective deferrals, the PA-40 W-2 Reconciliation Worksheet must be completed and included with the return. This form is available through one of the forms ordering services.

SICK AND DISABILITY PAY

Compensation does not include periodic payments for periods of sickness or disability paid by or on behalf of the employer unless the payments are for regular wages. This exclusion from compensation also includes any amount received if pain and suffering, emotional distress or other non-economic element is a factor in determining the amount of payment. However, any amount that qualifies as payment of regular wages is subject to tax.

Determining if a payment is considered payment of regular wages:

- No payments made by a third-party insurer for periods of sickness or disability are considered payment of regular wages.
- In addition, payments of any plan where the following occurs are not considered payment of regular wages:

  The periodic payments have no direct relationship to the employee's usual rate of compensation.

  The payments are calculated based on the nature of the sickness or disability without regard to the employee's job classification.

  The amount of the payments is reduced by payment from Worker's Compensation Acts, Occupational Disease Acts, Social security Disability or similar legislation.

  The payments exceed the employee's usual compensation for the period.

- Payments made under the following circumstances are benefits subject to withholding and income tax:

  Amounts received during a period of sickness or disability for services performed during another period, to which the individual would have been entitled regardless of whether he/she was sick or disabled. In other words, this would be in the nature of payment for work performed prior to the period of illness or disability.

  Payments for unused sick leave

  Payments in lieu of regular wages for a period during which an employee is absent from work due to injury or sickness, when the payment amounts are determined by time the employee is absent from work and the employee's regular rate of compensation, regardless of the nature of the injury or illness. These payments are made by an employer who has no legal or moral duty to make payments beyond an agreement between the employer and the employees. Further, they were not related to the actual employment (i.e. Worker's Compensation) and are of temporary, non-chronic and short duration with no permanent impact.

Payments made without regard to the nature of the injury or illness.

RETIREMENT PLANS

Retirement plans including simplified employee pension (SEP) plans, Keogh plans, federally qualified tax sheltered annuities, 457 plans, 401(k) plans and other retirement plans are not taxable if they meet the following requirements:

- The plan is formalized in writing and communicated to the participants;
- The plan establishes eligibility requirements for separation from service by retirement on the basis of old age, infirmity, long-continued service or a combination of old age or infirmity and long-continued service or distributions are subject to IRC Sec. 72(t) penalty if distributed prematurely;
- The plan must make provisions for payments to be made at regularly recurring intervals after separation from service by retirement, and which continue at least until death. An option for a lump-sum payment or payments does not disqualify the retirement nature of the plan as long as the above provision is also provided;
- The plan does not permit the distribution of program benefits to any employee until termination of employment except for:

  Incidental disability benefits paid at regularly recurring intervals during the period of disability by reason of said disability (this may not be in the form of a lump sum payment); or

  The return of the employee's previously taxed contributions and income or gains thereon in the case of a contributory retirement benefit plan.

  NOTE: A lump-sum distribution from an employer-sponsored retirement plan made prior to the normal retirement age or length of service requirement under the plan for disability is taxable to the extent it was not previously taxed. Payments made to the participant's estate or designated beneficiary as a consequence of the participant's death are not taxable.

Program benefits from SEP plans, Keogh plans, federally qualified tax sheltered annuity programs and tax deferred custodial accounts cannot be paid before death, disability, separation from service, unforeseeable emergency or the attainment of age 59 ½, without being subject to substantial penalty when so paid.

- If it is a premature withdrawal, the taxable portion would be determined as any other annuity.
- Rollovers from an IRA or qualifying retirement program into another IRA or qualifying retirement program -- unless taxable for federal purposes -- are not taxable.
- Non-employee benefit annuities, e.g., insurance company annuities are not taxable compensation, but interest income.
- Insurance policies surrendered are not taxable compensation, but interest income.
- A subsequent beneficiary receiving the benefits of a retirement plan does not change the nontaxable character of the income.

NOTE: All distributions from the State Employees' Retirement System (SERS), Public School Employees' Retirement System (PSERS), the Pennsylvania Municipal Employees' Retirement System (PMERS) and U.S. Civil Service Commission Retirement Disability Plans are exempt from PA income tax regardless of the coding on Form 1099R. Payments received by a member or former member of a uniform service that are taxable as calculated under Chapter 71 of Title 10, U.S. Code, as amended, are also exempt.

INDIVIDUAL RETIREMENT ARRANGEMENTS AND ROTH INDIVIDUAL RETIREMENT PLANS

Contributions

No exclusion is provided for contributions to an individual retirement arrangement except:

- Direct employer contributions; and/or
- Amounts rolled over from another IRA or from a qualifying old age or retirement benefit program where the transferred amounts are not includable as income for federal income tax purposes.

Undistributed Income on IRA Assets

Undistributed income on assets held is not includable in income.

Withdrawals from IRAs

Amounts withdrawn from an IRA are includable in income to the extent that contributions and income earned on such contributions were not taxed previously except:

- Payments, including lump sum distributions, made on or after reaching the age of 59 ½ years;
- Payments paid to the estate or designated beneficiary of the participant by reason of the participant's death; or
- Payments rolled over into another IRA or into a qualifying old age or retirement benefit program where the transferred amounts are not includable in income for federal income tax purposes.

NOTE: Withdrawals from an IRA for disability are taxable on a cost recovery basis.

Distribution of an IRA or Retirement Plan Incidental to Divorce

Note that divestiture of an IRA (or any other retirement plan) pursuant to a divorce is taxable to the extent it has not previously been taxed.

In Pennsylvania, a distribution from a retirement or pension plan to a spouse or ex-spouse of a plan participant -- pursuant to orders of state divorce courts incident to annulment, divorce or separation -- that would have been taxable to the plan participant had it been made directly thereto, is taxable to the participant and not to the spouse or ex-spouse. However if the Qualified Domestic Relations Order expressly provides that the participating spouse assigns all or part of his/her interest in a retirement plan to his/her spouse or ex-spouse, the department would honor this assignment and the ex-spouse will be treated as the plan participant for those benefits that would be taxable to the participating spouse.

General Rules for Roth IRAs

Most of the personal income tax rules that apply to individual retirement accounts, annuities or simplified employee pensions also apply to Roth IRAs. For example:

- An exclusion is allowed for payments made by employers directly to Roth IRA trustees or issuers for the benefit of employees.
- No exclusion or deduction is allowed for contributions to a Roth IRA made by, on behalf of or attributable to an employee or self-employed person, directly or indirectly, whether through payroll deduction, salary reduction agreement or otherwise.
- Income on assets held in a Roth IRA is not taxable.
- Distributions are includable in income to the extent that contributions were not previously included, if they were made before the individual for whom the account is maintained obtains age 59 ½ or retires from service. Further, such distributions are includable as income if the plan makes no provision for payments at regularly recurring intervals continuing at least until the participant’s death.
- The cost recovery method is used to determine the portion of a distribution to be included in income.

Special Rules for Transfers to Roth IRAs

For federal tax purposes, amounts rolled over into Roth IRAs from traditional IRAs are includable in income, but the income from rollovers before Jan. 1, 1999, may be spread out over four tax years beginning with the distribution year. For PA income tax purposes, the following rules apply:

- Amounts rolled over into a Roth IRA from an individual retirement plan other than a Roth IRA are includable in income for the year of distribution to the extent that contributions were not previously included, unless the plan provides that the distributee may elect to have such distribution paid directly to another federally qualified retirement plan maintained for his benefit, and such distribution is made in the form of a direct trustee-to-trustee transfer to the Roth IRA.
- Amounts rolled over into a distributee's Roth IRA from a federally qualified retirement plan other than an individual retirement plan are includable in income for the year of distribution to the extent that contributions were not previously included, unless the entire amount received is paid into the Roth IRA not later than the 60th day after the day on which the distributee receives the payment of distribution. If you did not roll the entire distribution into another IRA, you must report PA taxable income to the extent the distribution exceeds your contributions.
- If either of the foregoing exceptions applies, the amounts rolled over shall be excludable from personal income tax.

Special Rules for Converting Traditional IRAs to Roth IRAs

For PA personal income tax purposes, the conversion of a traditional IRA to a Roth IRA is not treated as a distribution and is not otherwise taxable if the individual for whom the traditional IRA and Roth IRA are maintained receives no payment or distribution.

Inasmuch as financial service companies report only the full amount of the withdrawal on the Form 1099R they issue to the state, without breaking down the contributions that have already been taxed, the Department of Revenue may request proof that the tax has been paid or the IRA has been rolled over.

ANNUITIES

Premature distributions from recognized employer-sponsored annuities are reported as compensation. The taxable amount is the amount of the distribution in excess of the employee's contribution.

1099R

Per the following guidelines, all Forms 1099R must be submitted if a Form PA-40 is required to be filed, whether the distribution is taxable or not. In addition, the information must be entered on Part B of Form PA-40 W-2S or Form PA-40MC.

Federal Form 1099R is used to report income received from pensions, annuities, profit sharing plans, IRAs, insurance contracts, etc. The form designates the taxable amount for IRS purposes but not for PA. You have to apply PA rules to determine what portion if any is taxable for PA.

The codes in Box 7 of the 1099R can be any of the following:		Taxable for PA
A	May qualify for special averaging five or 10 years	n/a
B	May be eligible for death benefit exclusion	n/a
C	May qualify for A & B	n/a
D	Excess contribution	*
E	Excess annual additions	No
F	Charitable gift annuity	Yes
G	Direct rollover to IRA	No
H	Direct rollover to qualified plan or tax sheltered annuity	No
P	Excess contribution	No
S	Early distribution	Yes **
U	Dividends distributed from an Employee Stock Option Plan (ESOP) under Section 404(K)	Yes
1	Early distribution calculate 10 percent penalty (under 59½)	Yes **
2	Early distribution exception applies no penalty (under 59½)	Yes ** (unless taxpayer meets retirement requirements)
3	Disability	No
4	Death	No
5	Prohibited transaction	Yes
6	Section 1035 exchange	No
7	Normal distribution	***
8	Excess distribution	*
9	PS 56 costs	No

* Not taxable if employer included this amount in wages, otherwise taxable on a cost recovery basis.

** Not taxable if rolled over and no penalty imposed by the IRS.

*** Not taxable if a distribution from a recognized employer-sponsored retirement program or from a recognized individual retirement account such as an IRA. However, if the distribution is from a non-recognized annuity or life insurance annuity not federally recognized, the taxable amount in Block 2a of Form 1099R is taxable as interest.

The following guide should be followed in submitting copies of Form 1099R:

- TeleFile: Nontaxable income from 1099R Forms is not reported, and such forms showing only nontaxable income do not need to be submitted. If the taxpayer has any 1099Rs showing taxable income or any 1099MISC Forms, TeleFile cannot be used.
- pa.direct.file: The W-2S Form is not the same as in the PA-40 Booklet. The pa.direct.file W-2S is for reporting W-2 income only. Form PA-40MC exists unchanged from previous years other than including the additional filing type codes. If income from a 1099R is taxable, pa.direct.file cannot be used. No 1099 Forms are required to be submitted through pa.direct.file, although all are to entered on the PA-40MC and "0" is entered as PA taxable income. The department does have the right to request any 1099 Forms upon review.
- PA-40 Paper Returns: When filing a paper return, all 1099R and 1099MISC Forms must be submitted. When completing Part 2 of the W-2S, all 1099 MISC Forms not reported on PA Schedule C and all 1099R Forms must be entered. The code appearing in Block 7 of 1099R must be entered in Column D of Part B of PA Schedule W-2S. If the income is not taxable to Pennsylvania, enter "0" in Column G of this schedule.
- e-file: When using e-file, follow the paper return requirements for completing PA Schedule W-2S. However copies of 1099R Forms need not be submitted.

If the code in Block 7 of Form 1099R is 1, 2, 8, 9, J, L, S or U, there may be taxable income. This is determined by subtracting the amount of the adjusted basis in the plan (Column F, Part B of PA Schedule W-2S) from the total federal amount (Column E, Part B of PA Schedule W-2S). The adjusted basis is generally the taxpayer's actual contributions to the plan, less any prior distributions. The taxpayer must provide this information. The maximum allowable basis cannot be greater than the total federal amount.

If the code in Block 7 of Form1099R is 6 or F, there may be taxable income to report on PA Schedule D. Refer to the PA Personal Income Tax Guide for information regarding these codes.

REMINDER: Distributions from SERS, PSERS, PMERS and U.S. Civil Service Commission Retirement Disability Plans are not subject to tax. These still must be shown on Part B of PA Schedule W-2S, and "0" must be entered in Column G.

LINE 1B PA-40 SCHEDULE UE

Pennsylvania's income tax law allows a deduction of allowable employee business expenses for which the taxpayer was not reimbursed. It is not necessary for these expenses to be required by the employer as a condition of employment. For example, purchases by teachers for materials to be used in the classroom that fall under the conditions of ordinary, necessary, reasonable, actually incurred on the performance of the duties of teaching and directly related to the present employment are allowable expenses for PA purposes, even though they may not be required as a condition of employment or continued employment. Unlike the federal allowance, there is no monetary cap as long as the expenses fulfill the above conditions and can be substantiated. In order to be claimed as an expense, the item must be ordinary, necessary, reasonable, actually incurred in performing the duties of the job and directly related to present employment.

Deductions that may be claimed on Schedule UE:

- Union dues/Agency fees/Initiation fees
- Work clothes not suitable for street wear that are required to be purchased. This includes cleaning, altering and repairs of such clothes.
- Small tools and supplies
- Professional license fees, malpractice insurance and fidelity bond premiums (where required by law or employer)

- Travel and mileage
- Moving Expenses, provided the transfer is from one permanent duty station to another and the difference in mileage between the residence and the old duty station and the original residence and the new duty station is 35 miles or more (the 35 mile rule is waived for military personnel and their families). Expenses are limited to those incurred in moving family, self and household goods from point of departure to point of arrival including lodging the night of arrival.
- Educational expenses, if required by law or employer to maintain or improve skills in present job
- Office work area expense
- Miscellaneous expenses such as:

  Breakage fees

  Cash shortages

  Costs incurred to pay readers for blind employees

  Business gifts

  W-2 fees that must be paid back to the employer (e.g. jury duty where employer continues full wages and requires repayment of monies received for jury duty)
- Reimbursements received that are not on a W-2 must be deducted from expenses claimed on Schedule UE.

Deductions that may not be claimed on Schedule UE:

- Personal, living and family expenses
- Dues to fraternal organizations, professional societies, chambers of commerce and recreational Clubs
- Dues and subscription costs to publications, even when the publications are related to your trade or profession
- Political candidate or campaign contributions
- Charitable contributions
- Commuting expenses
- Cost of meals while working late, unless while traveling overnight on business
- Occupational privilege taxes or assessments and other local, county, state, federal and foreign taxes
- Childcare or elder care expenses
- Life, disability and health insurance premiums
- Contributions to deferred compensation plans and other pension plans
- Legal fees (except to recover back wages), fines, penalties and bad debts
- Bribes, kickbacks and other illegal payments
- Job hunting or other employment pursuit expenses
- Malpractice insurance premiums, except when required by law or by the employer as a condition of employment
- Moving expenses for selling or purchasing a house; breaking a lease; house hunting; securing temporary lodging prior to moving; seeking new employment; moving for your own convenience; relocating to a new job or workplace less than 35 miles farther than your old commute from home to work; or moving anywhere other than within or into Pennsylvania
- Educational expenses, except when required by law or the employer
- Capital expenditures

A separate PA Schedule UE must be completed for each taxpayer and for each employer and occupation. The total amount of unreimbursed expenses must be entered on Line 1B of the PA-40.

If a taxpayer receives a fixed mileage allowance or per diem living expense not included in the PA taxable income in Block 16 of the W-2 form, these reimbursements may not be claimed on a PA Schedule UE. Neither can an employee deduct expenses if he/she was reimbursed by the employer for the exact amount of the expenses.

LINE 1C PA-40 TAXABLE COMPENSATION

Subtract the expenses shown from the total compensation and report the difference on this line. This represents taxable compensation.

Nonresidents must complete Schedule NRH, Nonresident Income Apportionment Schedule, if compensation was received from sources within and outside Pennsylvania if:

- The employer did not accurately apportion income on the W-2; or
- The taxpayer is claiming any unreimbursed business expense.

LINE 2 PA-40 INTEREST SCHEDULE A

All interest income must be reported on Form PA-40. However, interest from business accounts, working capital interests and accounts receivable are included on the appropriate business schedule as part of gross income. Interest received from an installment sale is included on PA Schedule D-1 and carried over to PA Schedule D. If the interest is on a rental security deposit, it is used in determining the gain or loss on PA Schedule D.

PA Schedule A must be completed and filed when interest income exceeds $2,500.

Include all interest income received during the taxable year from savings and loan associations, credit unions, bank deposits, bonds, certificates of deposit, interest-bearing checking accounts, tax refunds, mortgages or other obligations. Generally, federal Form 1099, issued by financial institutions, will indicate the interest received or credited from or by such institutions. Interest received on the following obligations is subject to tax, as the interest on these obligations is only guaranteed by the federal government. This list is not an exclusive list.

- Agricultural Credit Insurance Fund (Agricultural Credit)
- Bonneville Power Administration (Pacific Northwest Transmission)
- Electric and Hybrid Vehicle Development Fund
- Export-Import Banks
- Federal Financing Bank
- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Federal National Mortgage Association (Fannie Mae)
- Federal Ship Financing Fund (Merchant Marine Act)
- Geothermal Resources Development Fund (Geothermal Research)
- Government National Mortgage Association (Ginnie Mae)
- Merchant Marine Obligations (Maritime Administration)
- U.S. Housing Authority - Low-Rent Housing
- Pension Benefit Guarantee Corporation
- Rural Development Insurance Fund
- Rural Housing Insurance Fund
- Rural Telephone Bank
- Securities Investor Protection Corporation (Securities Investor Production Fund)
- Small Business Administration
- Synthetic Fuels Corporation
- U.S. Railway Association

Burial fund earnings are taxable income for PA residents when the funeral home holds the account in the name of the taxpayer to pay the future funeral expenses of the taxpayer. Irrevocable burial funds are not taxable to the taxpayer. The funeral home reports the income as the custodian of the account on PA-41.

Interest income on dividends from insurance companies, whether disbursed or not, are taxable as interest income.

Undistributed unearned income accruing on IRA, Keogh Accounts or pension trusts is not includable in income.

ANNUITIES, LIFE INSURANCE AND ENDOWMENT CONTRACTS

Distributions from non-recognized private annuities purchased by the taxpayer, including retirement annuities not part of an employer-sponsored retirement program, are reported as interest income. This includes an amount from a life insurance and/or endowment contract if required to report an amount for federal income tax purposes. The form indicates an amount for contributions and an amount for earnings. Report the earnings figure as interest income on Line 3 of PA-40 Schedule A.

Charitable Gift Annuities: If a taxpayer is receiving periodic payments from a charitable organization to which he/she established a gift annuity, there is taxable income. The amount reported is the gross amount reported for federal income tax purposes (including both the ordinary income and capital gains income). See also the instructions for PA Schedule D.

Exchange of Life Insurance Contracts: The taxability of life insurance contracts (e.g. where one company takes over another) follows the requirements of Section 1035 of the Internal Revenue Code. Under these rules, if there is no cash involved, the exchange is tax-free. If the exchange involves cash, it is reported as income on Line 10 of Schedule D.

DISTRIBUTIONS FROM IRC SECTION 529 QUALIFIED TUITION ACCOUNT PROGRAMS AND HEALTH/MEDICAL SAVINGS ACCOUNTS

Distributions from IRC Section 529 qualified tuition account programs are 100 percent taxable as interest income to the extent not previously subject to tax and are not used for educational purposes. This is reported on Line 5 of PA Schedule A. Likewise, any distribution from health and medical savings accounts that are included as federal taxable income is taxable as interest on Line 6 of PA-40 Schedule A.

UNIFORM GIFTS TO MINORS ACT

Interest, dividends or any other income earned by accounts set up under the Uniform Gifts to Minors Act must be reported on the tax return of the child.

NOTE: PA tax law does not allow for any deduction for contributions to accounts set up under this act.

IMPUTED INTEREST

Imputed interest is taxable for Pennsylvania. Imputed interest is the implied interest on an obligation where the instrument does not provide for interest or the interest rate is below the applicable federal rate. For example, on an original issue discount bond (OID), a stripped bond or a certificate of deposit (CD) maturing several years from now where interest is received at maturity, the imputed or accrued interest (discount on OID) is reported each year for Pennsylvania personal income tax purposes. Pennsylvania follows the federal rules for imputed and accrued interest.

TAX-EXEMPT INTEREST

Interest received from direct obligations of the Commonwealth of Pennsylvania, its political subdivisions and authorities, or the U.S. Government is not taxable income and should not be reported. Interest from Series E, F, G, H, EE and HH bonds; federal treasury bills and notes; Certificates of Accrual Treasury Securities (CATS); and Treasury Investment Growth Certificates (TIGERS) is not taxable. See the section on imputed interest for CATS and TIGERS that are zero coupon bonds, issued at a discount (a/k/a stripped bonds).

The tax-exempt portion of the stripped coupon or stripped bond OID is the excess of the stated redemption price at maturity (or in the case of a coupon, the amount payable on the due date of the coupon), over an issue price that would produce a yield to maturity as of the purchase date. The tax-exempt portion is equal to the lower of the coupon rate of the tax-exempt obligation from which the coupons were separated, or the yield to maturity (on the basis of the purchase price) of the stripped coupon or stripped bond. The taxpayer can elect to use the original yield to maturity instead of the coupon rate for these purposes.

Interest on obligations issued by the following federal instrumentalities are also not taxable:

- Banks for Cooperatives
- Federal District Banks For Cooperatives
- Central Banks for Cooperatives
- Commodity Credit Corporation
- Farm Credit System Capital Corporation: Consolidated Obligations
- Farm Credit System Joint Stock Banks
- Farm Credit System Land Banks and Land Bank Associations
- Federal Deposit Insurance Corporation
- Federal Farm Credit Banks
- Federal Financing Bank 12
- Federal Home Loan Banks
- Federal Crop Insurance Corporation
- Federal Land Bank Associations
- Financing Corporation
- General Insurance Fund:

  Armed Services Mortgage Insurance

  National Defense Housing Insurance

  Rehabilitation and Neighborhood Conservation Housing Insurance

  Rental Housing Insurance Fund

  Rental Housing Insurance Fund Mortgage Insurance

  War Housing Insurance Law

  Insurance of Loans for Manufacturer of Houses

  Mortgage Insurance Benefits

  Government of Guam 48

  Government of Puerto Rico
- Government of the Northern Mariana Islands and covenant to establish a Commonwealth of the Northern Mariana Islands in a political union with the U.S.
- Government of Virgin Islands
- Public Building Trust Participation Certificates
- Mutual Mortgage Insurance Fund
- National Credit Union Administration Central Liquidity Facility
- Production Credit Associations
- Public Housing Agencies
- Resolution Funding Corporation (REFCORP)
- Student Loan Marketing Association (Sallie Mae)
- Tennessee Valley Authority
- U.S. Postal Service
- U.S. Treasury Notes, Bonds, Bills, Certificates and Savings Bonds

Interest received from obligations of other states or municipalities located in other states or foreign countries is taxable income.

DISTRIBUTIONS FROM MONEY MARKET AND MUTUAL FUNDS AND OTHER INVESTMENT COMPANIES

Taxable distributions from the earnings and profits of money market or mutual funds and investment trusts and companies must be reported as dividend income and are not considered interest income.

FORFEITED INTEREST PENALTY

Forfeited interest penalty incurred for premature redemption or withdrawal of a time savings account or certificate of deposit may be offset against interest income from the source instrument. If the penalty exceeds the interest income, the excess may be taken as a loss on PA Schedule D, provided there is a gain from which the (loss) can be offset.

EXCHANGE OF LIFE INSURANCE ANNUITY CONTRACTS

The taxability of an exchange of life insurance annuity contract follows the requirements of Section 1035 of the Internal Revenue Code. Under these rules, if there is no cash involved, the exchange is tax-free and need not be reported. However, if the exchange involves a cash payment, the amount of the cash received will be taxable as interest income. This applies to those exchanges which occur in tax years beginning Jan. 1, 2005, and later.

LINE 3 PA-40 DIVIDENDS SCHEDULE B

All dividend income must be reported on Form PA-40.

When dividend income exceeds $2,500, PA Schedule B must be completed and filed. The federal Schedule B cannot be used.

All dividend income is reported on this line. A resident shareholder must report as taxable dividend income, for the taxable year in which it is received or credited, any distribution by a business corporation or business association out of its earnings and profits without regard to the manner in which the business derived the income. For PA tax purposes, a business association is an unincorporated business enterprise organized in a manner similar to a business corporation. Business corporations or business associations include business trusts, agricultural cooperatives, electric cooperatives, federally qualified real estate investment companies, mutual funds and other federally regulated investment companies.

DIVIDEND INCOME DOES NOT INCLUDE:

- Dividends distributed by a corporation to its stockholders in the form of stock, if the distribution is not treated as income for federal income tax purposes. If the stock distribution is not taxable, the tax basis of the old stock is adjusted to reflect the additional shares.

- Distributions designated "return of capital" by utility companies or other corporations. Such distributions serve to reduce the basis of stock in the corporation. Once a taxpayer's basis is reduced to zero, any further distributions are taxed as gain from the sale or disposition of property.

- Dividends paid by savings and loan associations, mutual savings banks, cooperative banks and credit unions on deposits or withdrawals from accounts must be reported as interest.

- PA exempt-interest dividends paid after Jan. 1, 1993. Ordinary dividends paid by a mutual fund or a registered investment company and designated as exempt-interest dividends for PA purposes in a written notice. Exclude that portion of the total dividends designated as being from exempt PA and federal obligations.

  IMPORTANT: The amount designated as capital gain is fully taxable as dividend income for PA purposes.

- Dividends paid by mutual insurance companies are a return of premium only. Dividends paid by companies other than mutual insurance companies are taxable dividends.

- Undistributed capital gains made by a regulated investment company.

Any gain derived from the sale, exchange or disposition of the underlying shares in the fund or trust will be a taxable gain for PA personal income tax purposes. Any loss incurred from the sale, exchange or disposition of the underlying shares is recognized, but may only be offset against a shareholder's taxable gain for the taxable year.

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PA law was changed for the reporting of gain (loss) from the sale of direct obligations of the U.S. Government, the Commonwealth of Pennsylvania and its political subdivisions and authorities. If these obligations were originally issued on or after Feb. 1, 1994, upon subsequent sale of such obligations, any gain or loss must be reported. This does not apply to redemption of these obligations, which is not taxable for PA purposes. If these obligations were originally issued before Feb. 1, 1994, the gain or (loss) is not reported when sold.

LINE 4 PA-40 NET PROFITS FROM A BUSINESS, PROFESSION OR FARM SCHEDULES C/C-EZ AND F

All net profit or loss from a business, profession, farm, partnership or PA S corporation must be reported on Form PA-40/PA-40NRC. If a net loss occurs, enter the actual dollar figure of the loss on Line 4 of the Form PA-40 and fill in the oval to indicate loss.

Pennsylvania does not allow the special bonus depreciation the IRS allows.

The PA Schedule C-EZ is available for use by taxpayers who file a federal Schedule C-EZ. The PA Schedule C-EZ cannot be used if the business experienced a loss or if the business had expenses in excess of $2,500. If either circumstance exists, PA Schedule C must be used. The PA Schedule C-EZ is not for reporting farm income.

Sole proprietors who had income, profits or losses from a business or profession other than a farm, must complete and file PA Schedule C/C-EZ. Sole proprietors who had income or losses from a farm must complete and file PA Schedule F.

If a taxpayer had more than one business or farm, or if a taxpayer and spouse each had separate businesses, submit a separate PA Schedule C/C-EZ or PA Schedule F for each business or farm.

Federal Schedule C or F may be used with the following exceptions:

- Taxpayer is a nonresident or part-year resident;
- Taxpayer and spouse filed jointly for federal and separately for Pennsylvania;
- Taxpayer has taxable income from a partnership or Subchapter S corporation that did not provide PA RK-1 or NRK-1.

A PA Schedule C or F may differ from a federal Schedule C or F. If a federal Schedule C or F is used, the following adjustments should be made on an itemized statement:

- **Deferred income not reported for federal purposes**. PA personal income tax law does not permit a business or farm to defer income to a different taxable year or period. If under federal law an election permitted the delay of receipts, this amount must be added.
- **Working capital interest and dividend income that was not reported**. This includes investments to generate funding for business operations. Report such interest and dividend income. If such interest and dividend income was reported on PA Schedule A or B, it must be reduced accordingly.

  NOTE: When invested for business purposes, include otherwise PA-exempt interest and dividend income. Income from exempt PA investments, such as direct U.S. and Commonwealth of Pennsylvania obligations does not retain its PA exempt character when used in business or farm operations.

- **Gains from the sale of business assets that were reported in federal Schedule D or another schedule**. A sale in the ordinary course of operating a business or farm is a PA Schedule C or PA Schedule F transaction, regardless of federal reporting requirements. A sale or abandonment of a business or a segment thereof is a PA Schedule D transaction. Include the gain from such transaction. If such gains were reported on PA Schedule D, adjust the Schedule D accordingly.

  NOTE: When invested and sold for business purposes, include otherwise PA-exempt gains. Income from the sale of PA-exempt investments, such as direct U.S. and Commonwealth of Pennsylvania obligations, does not retain its PA nontaxable character when used in business or farm operations.

- **Gain on the involuntary conversions (such as IRC Section 1033) not reported for federal purposes**. PA personal income tax law does not contain this provision. Report any taxable gain realized from such a transaction when the asset was employed in the operation of the business or farm.

- **Gain from the sale of business property where PA basis is different than federal basis**. Since PA personal income tax law does not follow federal rules, basis is usually different for PA personal income tax purposes. Rely on the books and records to determine the gain using the PA basis, and increase the business or farm income. If the use of PA basis results in a loss or reduces the federal amount, submit a PA Schedule C or F. Remember: A sale or abandonment of a business or segment thereof is a PA Schedule D transaction. If such a sale was reported as a business transaction and not on PA Schedule D, adjust the PA Schedule C or PA Schedule F and PA Schedule D accordingly.

- **Taxes**. Taxes based on gross or net income, federal income taxes and one-half of the self-employment taxes that the IRS allows cannot be deducted. Nor can taxes paid to other states or foreign countries based on income be deducted. In addition estate taxes and inheritance, legacy, succession and gift taxes are not deductible. Assessments for betterment and improvements cannot be deducted. The Philadelphia business privilege tax is an allowable deduction on the schedule, but only if not already deducted on the federal schedule.
  Single-member limited liability companies (LLCs) that file as sole proprietors and LLC's that file as partnerships and PA S corporations may deduct the PA capital stock/foreign franchise tax paid. Other federal, state and local taxes are allowable deductions.

- **Bonus depreciation taken under Public Law 107-147 of 2002**. PA personal income tax law does not follow this federal allowance for additional depreciation expenses. Add as income the difference between the bonus depreciation and the depreciation that should have been taken for PA personal income tax purposes, based on the generally accepted depreciation method consistently used for the business or farm.

- **Other depreciation expenses deducted for federal purposes that Pennsylvania does not allow**. Add as income the difference between the federally elected depreciation and the depreciation taken for PA personal income tax purposes, based on the generally accepted depreciation method consistently used for the business or farm. The department allows Accelerated Cost Recovery System (ACRS), Modified Accelerated Cost Recovery System (MACRS), and Section 179 of the IRC as amended to Jan. 1, 1997, but not any other accelerated method, including "bonus depreciation," IRC Section 168(k).

- **Income from cancellation of debt**.
- **Increases in income associated with IRC Section 481(a) "spread" adjustments that Pennsylvania does not permit**. Because PA law imposes the personal income tax annually, do not report income over a number of tax years, even if doing so under a federal election. Reduce your PA taxable income in future years by the income that could not be deferred to those years under PA personal income tax law.
- **Income from obligations of other states and organizations that is not exempt for PA purposes**. Include otherwise federally exempt interest income, dividend income and gains. PA law does not exclude income from the obligations of other states.
- **Do not take the deduction for the one-half of the self-employment taxes federal law allows**.
- **Business meals and entertainment expenses**: Pennsylvania allows 100 percent of customary and reasonable amounts expensed as opposed to the federal limit of 50 percent.
- **Sales tax on acquired property may be expensed currently rather than added to the basis of the property as required by the IRS**. If sales tax is expensed, the basis of that property will differ from the federal basis. If sales tax is expensed for PA purposes, depreciation must be adjusted accordingly; a taxpayer cannot expense sales tax and still take depreciation on the sales tax.
- **Charitable contributions made from the business funds for charitable purposes and publicly acknowledged by the charity are allowable for Pennsylvania**.
- **Any generally acceptable amortization method may be used**.
- **Depletion, with the exception of start up expenses, is an allowable deduction against income**. Intangible drilling costs are not deductible.
- **Other increases/decreases for PA personal income tax purposes**. Itemize other income/expense that must be reported for PA personal income tax purposes, even if not reported for federal income tax purposes. Itemize expenses deducted for federal income tax purposes that PA personal income tax law does not permit. Submit a statement if you need more space.

A taxpayer's share of ordinary gain/loss from operations derived from partnerships, Pennsylvania S corporations or other entities must be shown separately and added or deducted accordingly. Schedule RK-1 or Schedule NRK-1 must be included.

Interest earned on deposits, balances or accounts receivable would be part of business income as well as gain loss on sale of business assets and trade-ins. Income such as earnings on investments held or other income/loss not derived in the ordinary course of business must be recorded on the appropriate schedules as described below:

- Gain/Loss on sale or disposition of the business or a portion thereof PA Schedule D
- Rent or Royalty Income/Loss PA Schedule E
- Interest/Dividends PA Schedules A and B

CROP DAMAGE INSURANCE / DROUGHT RELIEF GRANTS

Drought relief grants from Pennsylvania and the federal government is part of gross income on PA Schedule F. The same applies to crop damage insurance, as it replaces the gross receipts of the farmer.

PENNSYLVANIA S

The Department of Revenue only recognizes PA Subchapter S corporations for reporting income on Line 4. If a corporation's shareholders have elected not to be a PA S corporation by filing Form REV-976, Election Not to be Taxed as a Pennsylvania S Corporation, the distributed earnings and profits are taxable as dividends. Amounts received in excess of the earnings and profits should be reported on PA Schedule D.

LINE 5 PA-40 SALE OR EXCHANGE OF PROPERTY SCHEDULE D

Net gain or income from the sale, exchange or other disposition of any kind of property is taxable under PA law. This includes gain from the sale or disposition of real estate, tangible personal property and intangible personal property such as stock or other ownership interests in business enterprises, bonds and contracts of insurance with refundable accumulated reserves payable upon lapse or surrender.

Annuities: The investment contributions in a taxable retirement annuity that is employer sponsored or part of an employer's program cannot be excluded or deducted from income even if intended for retirement. This income is reported as compensation on Line 1. If this is a non-employer sponsored life insurance or endowment contract the income is reported as interest rather than as a sale, exchange or disposition of property.

Charitable gift annuities are taxable.

The assignment of a court award is not taxable unless all rights to payments are given up. Court awards of damages are taxable to the extent that they represent back wages, recovered net profits, rents or another form of taxable income in the year received. This rule applies irrespective of whether they are payable in lump sum form or over time.

Condemnations: Condemnation of property is not taxable for federal purposes. It is a taxable disposition of property for PA purposes. The disposition occurs when the condemnation is filed with the Prothonotary's Office. Relief may consist of payments for the value of the property as well as relocation costs. Only the actual payment for the value of the property itself is taxable for PA purposes. The taxable income would be the gross sales price less the adjusted basis of the property. For SP purposes, the additional amounts received (relocation costs) are not part of eligibility income. However, if the property is income-producing property, all monies received are included in the gross sales price on the sale of property.

Carryover Losses: PA law has no provision for carryover losses to another year. All losses are to be reported in the year that the transaction is completed.

FEMA: Generally FEMA money is not taxable. However if the monies were not fully reinvested into the damaged property, the excess would be taxable on Schedule D. To the extent FEMA money was not used to restore the property, it would be offset by basis reduction. Such cases will be reviewed on a case-by-case basis and referred to the Department of Revenue's Office of Chief Counsel.

Class Action Life Insurance Settlements: Life insurance settlements for class action cases where stock is given to the policy holder with the company's option for cash settlement upon selling the stock, is reportable as sale of property. The sale of the policy (if canceled) uses the cost recovery basis to determine the gain/loss. If the policy is not sold or canceled, the payments received would adjust the basis of the policy. The stock received would have a basis of zero, so that when it is sold, the net sales price is the reportable gain.

Conversion of Mutual Insurance Company to Stock Insurance Company: Demutualization is the conversion of a mutual insurance company to a stock insurance company. By virtue of owning a policy from a mutual insurance company, the policyholder is a part owner of that entity. The policyholder is entitled to receive compensation for giving up membership interests under their policy with the mutual insurance company. Upon conversion to a stock insurance company, the policyholder exchanged his/her ownership in the mutual insurance company for stock or the cash equivalent. The policy itself is not changed by the demutualization.

Where the cash equivalent is received, the policyholder has a disposition of intangible personal property reportable on a PA Schedule D. The gross amount received is the sales price, and the cost basis is zero.

If stock is received, no gain is reported until the subsequent sale of said stock occurs. At that point, the sales price is calculated as usual, and the cost basis is zero.

Easements and Rights of Ways: Easements and rights of way represent transfers of property and therefore are reportable on PA Schedule D. The seller must establish the original value of the ceded property in determining the basis.

The redemption at maturity of a certificate of deposit: Such would not be a gain on sale reportable on Schedule D, rather it is interest income reportable on Schedule A.

Pennsylvania does follow IRS rules on:

- Transfers to controlled corporations
- Exchanges in corporate reorganizations
- Transfer of property incident to divorce: There is no adjustment of the value to the party receiving the property. When the acquiring party disposes of the property, the original cost basis will be used. The relinquishing party will report no gain or loss on the sale or disposition of the property.

Pennsylvania does not follow IRS rules on:

- Like-kind exchanges (Section 1031 IRC): For PA purposes, the sales price will be the fair market value of any property acquired plus any additional consideration. Beginning with the 1998 taxable year, a transfer of an interest in a partnership in exchange for an interest in another partnership is afforded non-recognition treatment, so long as the transaction is not taxable for federal purposes. There is no basis adjustment. This non-recognition provision applies to liquidations in connection with an exchange and, made pursuant to a statutory merger, consolidation or division. A partnership is an unincorporated entity treated as a partnership for federal income tax purposes.
- Involuntary conversions: The loss is limited to the smaller of that calculated by using the value immediately prior to the conversion or the value immediately after the conversion taking into account any insurance proceeds or other consideration.
- Wash sales (selling and then immediately repurchasing the same item): Each transaction is considered separately and independently of any subsequent transaction.
- Deemed sales are not recognized for PA income tax purposes.
- Bona fide sales to related persons: The gain or loss is calculated by using the actual cost basis and actual adjusted sales price with no special rules.
- Interest paid when purchasing stock on a margin or any item over time: The interest paid cannot be deducted or included as part of the cost. This interest is the cost of borrowing money, not part of the cost of the item.

BASIS RULES

- The basis of property received as a result of an inheritance is the fair market value of the property as of the date of death of the decedent.
- There is no stepped-up basis for property acquired as a surviving joint tenant with right of survivorship for state purposes. Property acquired by inheritance of intestate succession does produce a stepped-up basis for state purposes however.
- Basis does not have to be reduced for state purposes merely because the taxpayer utilized a federal tax credit in conjunction with the depreciable asset.

SALE OF PRINCIPAL RESIDENCE

Generally, the gain on the sale of a principal residence occurring on or after Jan. 1, 1998, is exempt from PA tax. Likewise, no loss may be taken because such a transaction is not entered into for profit or gain. There is no requirement for any schedule to be filed for informational purposes on an exempt sale of such a residence. However, if there is any portion of the sale that does not qualify for exemption, PA Schedule 19 must be submitted along with the PA Schedule D.

A residence is a house, lodging or other place of habitation, including a trailer or condominium that has independent or self-contained cooking, sleeping and sanitation facilities.

A principal residence, in order to qualify for exclusion, must meet the following conditions:

- It was owned by the taxpayer for two of the last five years prior to the date of sale;
- It was physically occupied and personally used the most during two of the last five years prior to the date of sale. Moving furniture and personal belongings into a residence does not qualify as use. Even if the taxpayer's family physically occupied the residence, it is not the taxpayer's principal residence if he or she did not occupy it;
- If the taxpayer has sold a principal residence and claimed the exemption within two years of the date of sale of a second principal residence, the second sale must be reported unless the sale is the result of a change in personal circumstances beyond one's control such as a change in employment or health;
- The principal residence was never used for other than residential purposes and was not subject to a depreciation deduction whether taken or not;
- It was sold on or after Jan. 1, 1998.

NOTE: If the property is jointly owned, only one spouse fulfills the qualifications and a joint return is filed, the entire transaction is exempt. However, if the husband and wife file separately, only the spouse who fulfills all the qualifications may claim the exemption. The other spouse would be subject to tax on his or her half of the gain. This exclusion also applies to installment sales.

If the owner has died, the exclusion may not be claimed unless the decedent closed the sale before death. However, a surviving spouse may claim the exclusion if the decedent satisfied both the ownership and use conditions before his or her death, and the spouse has not remarried. The exclusion may not be taken on a fiduciary return, PA-41, by the estate.

If a portion of the principal residence was used for purposes other than residential purposes and is eligible for claiming depreciation expenses, the portion of the gain attributable solely to residential purposes may be excluded. Examples would include a duplex with one-half as rental, an office in the home and a residence above a retail store or a farm. The gain attributable to nonresidential purposes does not qualify for the exclusion.

PA-19 worksheet and instructions should be used to properly apportion the percentage of a mixed-use property not eligible for the exclusion. If the sale of property is taxable, submit a copy of PA-19 with Schedule D.

If a residence was rented for a couple of months, it is not necessarily disqualified from the exclusion. For example, rent paid by the buyer to live in the seller's home prior to the disposition, does not violate any of the requirements for excluding the gain from the disposition of a principal residence. The exclusion is allowable as long as the seller is not holding it for the post-conversion appreciation in value and the property is therefore, not depreciable.

When a taxpayer-seller of a principal residence vacates, offers the residence for sale and offers the property for rent pending such sale to preserve its value, it will not be disqualified for the exclusion, as the property is not being held for the production of income and is not subject to depreciation allowance. The property would only be disqualified if the rental were for the production of income and subject to depreciation and/or the taxpayer held the property for the purpose of seeking profit based on a post-conversion appreciation in value.

The gain or loss on any residence or portion of a residence not eligible for the exclusion is reported on PA Schedule D. If other than the principal residence, it is reported in the Line 1 section. If a principal residence, it is reported in the Line 7 section.

HOLOCAUST SETTLEMENTS

Awards or settlements received in reparation for the seizure, theft, requisition or involuntary conversion of the income of victims of Nazi persecution constitute proceeds from the disposition of property.

FARMLAND PRESERVATION AND SALE OF TIMBER

Income received from placement of farmland into the Farmland Preservation Program as established by Act 146 of 1988 should be used as an adjustment to the basis of the property. In the event remuneration exceeds the basis, the excess proceeds are reported as a capital gain.

If the sale of timber was not part of a business, the sale should be reported on Schedule D. The gain is the difference between the amount realized and the basis in the timber. If there was a specific purchase of seedlings that were planted years ago and they have been harvested, use the cost of the seedlings as the tax basis in the timber. Otherwise, a proration must be calculated to determine the basis. The following procedure must be followed to calculate the gain:

- What is the gross amount of the sale? (e.g. $7,600)
- What is the fair market value of the land before the timber was harvested? This must be obtained by the taxpayer. (e.g. $76,000)
- Take the fair market value of the land prior to the timber being harvested and divide it into the amount received. In this example, it would be 10 percent; $76,000 divided into $7,600.
- Apply this percentage to the original basis of the land. For example, assume the original cost to be $25,000. Multiply this by the percentage above, 10 percent, to achieve the basis of the timber. In this example, it would be $2,500.
- The gain would be calculated by subtracting the cost basis above from the gross amount of the sale. In this case it would be $7,600 - $2,500, for a taxable gain of $5,100.

NOTE: The sale of Christmas trees and other ornamental trees is considered farming income.

DEPRECIATION

Depreciation Recapture: Depreciation is the expensing of the cost of a depreciable asset employed in the operation of a business or in the production of rents or royalties over its useful life. The depreciation method chosen must be a method of accounting that reflects the consistent application of generally accepted accounting principals in a particular trade or business. It shall be presumed to clearly reflect income if the method is used for federal income tax purposes. Such accounting methods can be employed in calculating net profits (losses) unless they are inconsistent with Department regulations.
Generally this is the straight-line method of depreciation that evenly divides the basis in the asset by its useful life. The Department of Revenue permits as a convenience the use of the federal income tax depreciation such as MACRS, which is an accelerated method. Anytime an accelerated depreciation method is used and it creates a tax benefit, the taxpayer will have to reduce the basis in the asset to reflect the tax benefit realized. PA personal income tax does not permit taxpayers to deduct the 30 percent additional first-year depreciation that was passed as part of the federal Jobs Creation and Worker Assistance Act of 2002 or the enhanced small business expensing under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

PA's rule for the adjustment of basis for depreciation expense requires that a minimum amount of depreciation must be recognized by the taxpayer on depreciable property in the amount of depreciation that would be allowed under the straight-line method. To the extent the taxpayer uses a different method to calculate depreciation and receives a tax benefit for some amount of depreciation expense greater than straight-line, that increased amount must be recognized. If, however, the taxpayer did not receive a tax benefit of the amount in excess of the straight-line amount, that excess does not have to be recognized. The taxpayer must reduce the basis by at least the straight-line depreciation expense even if he/she received no tax benefit.

For purposes of calculating the basis in assets for PA tax purposes, the taxpayer must aggregate all taxable years under a single method of depreciation and should not use different depreciation methods from year to year.

For federal and PA purposes, when calculating the income for each year, the taxpayer must consistently use the same depreciation method over the life of the asset. When analyzing the gain (loss) on sale, liquidation or other disposition, the taxpayer must adjust the basis in the asset downward by the greater of: 1) the total state benefit received over all the years the asset was held by the taxpayer (i.e. reductions in PA taxable income or the income tax of another state) under whatever method was used, which could be the accelerated (MACRS) method of depreciation; or 2) the total deductions for all years the asset was held by the taxpayer that would be allowable under the straight-line method, irrespective of whether a state tax benefit was received.

Bonus Depreciation and Other Depreciation Differences between Pennsylvania and the IRS: Allowable depreciation is limited to those that follow generally accepted accounting principals or those allowed under the IRC Sections 179 and 168(k) as they existed as of 1986. Therefore, Pennsylvania does not allow the 30 percent additional first year depreciation that was passed federally as part of the Jobs Creation and Workers Assistance Act of 2002 or the Enhanced Small Business Expensing under the Jobs and Growth Tax Relief Reconciliation Act of 2003. Nor does Pennsylvania allow the bonus depreciation granted in 2005. The maximum deduction using IRC Section 179 is $25,000.

REPOSSESSION OF PROPERTY

If property is sold on a deferred payment contract and the seller repossesses the property upon default of the buyer in a subsequent tax year, the seller must adjust his basis upward in the property repossessed by the amount of gain previously reported.

Debt forgiveness pursuant to an obligation to provide payment is taxable if property is given as consideration.

CAPITAL GAIN DISTRIBUTIONS

Capital gain distributions received from mutual funds or other regulated investment companies are taxable as dividends and are reported on Line 3 of Form PA-40.

TAX-EXEMPT OBLIGATIONS

Net gains or interest from the sale or disposition (not redemption) of the following obligations are exempt from tax. These obligations include:

- Direct obligations of the U.S. Government, such as federal Treasury bills and Treasury notes originally issued before Feb. 1, 1994
- Direct obligations of certain agencies, instrumentalities or territories of the federal government originally issued before Feb.1, 1994
- Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions or authorities originally issued before Feb.1, 1994

Losses incurred from the disposition of the above obligations may not be used to reduce other gains.

Under PA law, if any of the obligations described above were originally issued on or after Feb. 1, 1994, any gain or loss realized on the sale, exchange or disposition of such obligations must be reported. Gains are taxable, and losses may be used to offset other gains.

Net gain or income from the sale of obligations of other states or foreign countries is subject to tax.

RETURN OF CAPTIAL DISTRIBUTIONS

A resident shareholder must report as taxable gain for the tax year in which it is received or credited the excess of the fair market value of any return of capital distribution over the adjusted basis of the stock on Line 4 of the PA Schedule D. A return of capital distribution is any distribution that is not made or credited by a business corporation or association out of its earnings and profits.

The basis of stock shares held by a resident shareholder shall be decreased (but not below zero) by any distribution that is not taxable dividend income. Once the basis is reduced to zero the distribution is taxable.

SPECIFIC INSTRUCTIONS FOR PA SCHEDULE D-71

PA Schedule D-71 is used for property other than personal residences acquired before June 1, 1971.

Generally, gain or loss on the sale or other disposition of property is calculated by subtracting the adjusted basis of a property from the value of cash and property realized on its sale or disposition. Special tax provisions, however, apply with respect to the calculation of gain on property acquired before June 1, 1971. Gain on property acquired before June 1, 1971, is calculated by subtracting the adjusted basis of the property or the alternative basis of the property, whichever is greater, from the value of cash or property received on its sale or disposition. Also, no gain or loss is realized on the sale or disposition of property acquired prior to June 1, 1971, if the value of the cash or property received is greater than the property's adjusted basis but less than its alternative basis.

These special tax provisions apply if the property sold or otherwise disposed of was acquired before June 1, 1971. These provisions also apply if the acquired property was sold or disposed of by gift, and the donor acquired the property before June 1, 1971.

Part 1: Used for all property sold other than installment sales

Part 1a : Description of the property sold

Part 1b: Cost Method

A = Bona fide appraisal - reflecting the value of the property as of 6-1-71 must have appraisal attached.

S = Listed Security - generally the opening price as of 6-1-71. If there have been splits, the number of shares as of 6-1-71 must be determined. The same applies if the stock has been purchased over a period of time.

P = Proration - percentage of gain/loss attributed to period after 6-1-71

X = Deemed Value - In cases where it is impossible to establish a value as of 6-1-71 by any of the above methods, a taxpayer may claim a deemed value for that date. The taxpayer must be able to justify the value used and be able to prove why none of the above methods can be used. Two examples where this type of value may be employed are where a home owner has built a vacation home over a period of years spanning the period before and after 6-1-71, or where a corporation is a family-held business and the stock is not traded.

Part 1c: Date sold goes above the dotted line and the date acquired below (use settlement date for securities and closing date for real estate)

Part 1d: Gross sales price less expense of sale. Expense of sale includes closing costs such as brokerage fees, commissions, points, survey(s), loan fees, transfer tax stamps, legal fees, title registration, termite inspection, advertising, and repairs directly related to the sale.

Non-selling expenses such as real estate taxes, interest, assessments, insurance and mortgage prepayment penalty are not deducted.

Part 1e: Costs
Adjusted costs = actual cost + any capital improvements - any depreciation/ amortization
Inheritance = fair market value as of date of death
Gift = Use donor's adjusted base

Alternative basis = used only for property acquired prior to 6-1-71 Determined as follows for the proration method:

Sales Price x number of months before 6-1-71 + total number of months held

Cost x number of months after 6-1-71 = Prorated basis (P) total number of months held

Prorated basis + capital improvements after 6-1-71 - depreciation/amortization after 6-1-71

Part 1f: Gain or loss
Subtract column E from Column D and enter gain or loss

Five Rules Regarding Gain/Loss on Property Purchased Prior to June 1, 1971:
Income Producing Property

- If loss on adjusted basis, use adjusted cost.
- If gain on adjusted basis and gain on alternative basis, use the smaller gain.
- If gain on adjusted basis and loss on alternative basis, use 0, no gain or loss.

Non-income Producing Property

- If adjusted basis is a loss, ignore alternative basis; use 0, no gain or loss.
- If gain on adjusted basis and gain on alternative basis, use the smaller gain

Line 2 = Subtotal the total gains and losses calculated under Part 1 and enter on PA Schedule D, Line 5.

CALCULATION OF INSTALLMENT SALE INCOME PA SCHEDULE D-1

If the sale results in a loss, the installment method cannot be used, and the sale must be reported on PA Schedule D.

When real or tangible personal property is sold at a gain and any portion of the payments are received in a tax year after the year of sale, it is an installment sale. The taxpayer has the option to either report the entire proceeds in the year of the sale or report on the installment method. The installment sales method is not permitted for the sale of intangible personal property or transactions, the object of which is the lending of money or the rendering of services. An installment sale election cannot be revoked once made. If the installment method of reporting is elected, the taxpayer must use a Schedule D-1 to report the sale.

NOTE: If the property was acquired prior to June 1, 1971, the taxpayer must also obtain Schedule D-71 to determine the adjusted basis or alternative basis.

Example: Lawrence Glenn sold his hunting cabin on Sept. 12 of the current year. He purchased it on Aug. 5, 1989. The purchase price was $10,000, and he made improvements of $500 for an adjusted basis of $10,500. He sold the cabin for $15,000, and closing costs were $775 for net proceeds of $14,225. It was sold on the installment plan with payments totaling $4,383 the first year, of which $4,100 was principal. For the second year he collected $7,124, of which $5,251 was principal.

Since Lawrence Glenn chose the installment sale method to report this sale, he must use Schedule D-1. For the year of the sale, the Schedule D-1 shows a net profit in Part 1 of $3,725 ($14,225 - $10,500) and Part 2 shows the calculation of the taxable part of installment sale for the first year. First the proportional gain ratio must be determined by dividing net profit by the gross sales price. In this example, it is .249 ($3,725 ÷ $15,000). Apply the ratio to the principal payments received during the year ($4,100 x .249 = $1,021). Add to this figure interest payments received during the year, $283 ($4,383 - $4,100). The resulting figure is the taxable gain of $1,304.

For the following year, Part 1 does not have to be completed on Schedule D-1. Part 2 starts with the same ratio as in the prior year, .249. This is applied to the principal payments received in the second year ($5,251 x .249 = $1,308). Add to this figure interest payments received during the second year, $1,873 ($7,124 - $5,251). The resulting figure is the taxable gain of $3,181 ($1,308 + $1,873).

Subsequent years would be done the same as the second year. If Mr. Glenn had decided not to use the installment method, PA Schedule D would have been utilized and the entire amount of gain would have been reported in the first year. Each year's interest on the installment sale would have been reported as interest income on PA Schedule A. If Mr. Glenn was a nonresident and reported the entire gain in the year of sale, he would not report any interest income to Pennsylvania.

LINE 6 PA-40 RENTS, ROYALTIES, PATENTS AND COPYRIGHTS PA SCHEDULE E

Rental income is income received for the use of real or personal tangible property subject to depreciation. Royalties are income received upon the extraction of coal, oil, gas or other minerals subject to depletion allowances or for the use of a patent or copyright.

Only Part 1 of federal Schedule E will be accepted with the following adjustments.

- Passive rental/royalty loss must be claimed in full rather than carried over to future years as the federal Government allows.
- Any capital gains/distributions must be added.
- Depreciation expense on sales tax the taxpayer elected to currently expense for PA income tax purposes cannot be claimed (same as for PA Schedule C/F).
- Taxpayer's share of gain or loss from partnerships, PA S corporations or other entities must be shown separately.

Not for Profit Rental

If a property is rented or leased without the intent to realize a profit, expenses are limited to income. Generally Pennsylvania follows IRC Section 280A and any gain represented from income in excess of expenses must be reported, but no loss will be allowed.

DEPLETION

The Department of Revenue does not allow percentage depletion. The only recognized and allowable depletion is cost depletion.

LEASE WITH OPTION TO BUY

A lease with an option to buy may be a purchase contract. If it is, payments received under the contract are payments of the purchase price and are not includable in income as rental income. Such income should be reported on PA Schedule D.

SELLING MINERAL INTEREST, PATENTS OR COPYRIGHTS

If a taxpayer gives up all rights to mineral interests, patents or copyrights, the amounts received are considered payments for the sale or exchange of property and should be reported on Schedule D.

LINE 7 PA-40 ESTATES OR TRUSTS

Distributions of trust corpus to a beneficiary are not taxable. Income received by the trust or estate on its assets that is currently distributable or, in fact, is paid or credited to a beneficiary of the trust or estate is taxable to the beneficiary. If the taxpayer is a beneficiary of one or more trusts or estates, PA Schedule J must be completed to report the estate or trust income.

The taxpayer should have received PA Schedule RK-1 or NRK-1 indicating the taxable amount of estate or trust income. If the estate or trust did not file a PA return and did not provide a PA RK-1 or NRK-1, the taxpayer must report the amount shown on federal Schedule K-1, adjusted to reflect PA requirements. Note that only positive income figures may be used; negative figures are to be disregarded. If the income reported is from a PA Schedule RK-1 or NRK-1, this should be noted on Schedule J, and PA RK-1 or NRK-1 need not be submitted. However, if the figure is from federal Schedule K-1, a copy of the schedule must be included.

If the taxpayer is a nonresident, income from estates or trusts which is taxable to Pennsylvania includes PA business income, sale of PA assets and rent/royalty income from PA sources. It does not include interest or dividends from PA sources.

Revocable Trust

If such a trust is established, report the income/loss constructively received in each PA income class in which income was earned, received or realized. Do not report the amounts on PA Schedule J. If submitting supporting schedules and statements showing the name of the trust, clearly write “Revocable” on the schedule.

However, the person (settlor) who established the revocable trust (including grantor trusts that are revocable) does not file PA-41 if, under the governing instrument, he/she retains authority to:

- Completely revoke the trust without the declaration of new uses or the consent of any other party; and
- Revest in him/herself the legal title to the corpus of the trust, without the consent of any other party.

In this case, the settlor reports the income/loss in the appropriate income class or classes on PA-40.

Grantor Trust

Generally, a grantor trust files PA-41. The beneficiaries of the trust, including the grantor if he/she receives income from the trust, report the income as beneficiaries on PA Schedule J.

LINE 8 PA-40 GAMBLING AND LOTTERY WINNINGS

Enter the amount of gambling and lottery winnings.

Pennsylvania Lottery prizes won on or after July 21, 1983, are not subject to PA tax. Powerball prizes won after June 27, 2002, are treated in the same manner when Powerball and Mega Million tickets were purchased from a vendor in Pennsylvania. However, if the Powerball or Mega Million tickets was purchased from a vendor outside Pennsylvania, the winnings are subject to tax as any other non-exempt lottery winnings.

For PA personal income tax purposes, a Lottery is any enterprise which involves a prize, a random determination of the winnings, consideration and some form of an entry. The entry may involve a purchase, attendance at an event, submitting an entry, signing an entry form or other similar actions. Taxable winnings, whether in cash or property, are awarded in games of chance and lotteries that require the participant to make some form of consideration, e.g., raffles, fish bowls, bingo, etc. If no consideration is given, it is not gambling and not taxable. Consideration could be money, services or an incentive to perform an activity by the entrant (which would not necessarily otherwise be done), such as mailing in an entry, telephoning or visiting a place of business or Web site.

As of January 2004, nonresidents of Pennsylvania are liable for PA income tax on PA-source winnings other than those from the Pennsylvania Lottery, Powerball and Mega Million. This includes race-track winnings and slot machine winnings in addition to all other forms of games of chance mentioned above.

The Department of Revenue requires PA Schedule T be completed for the reporting of gambling and lottery winnings. For PA residents, winnings from PA casinos and out-of-state casinos are taxable and must be reported on Schedule T. Nonresidents are only required to report PA-source winnings. Spouses must report gambling activities separately on separate Schedules T, and the losses of one spouse cannot be used to offset the winnings of the other.

LOSSES

Pennsylvania Lottery losses incurred on or after July 21, 1983, may not be used to offset other gambling and lottery winnings. You may offset other gambling and lottery losses against gambling and lottery winnings, e.g., cost of each bingo game or raffle ticket.

EXPENSES

No expenses attributable to gambling and lottery income are deductible, e.g., travel, parking, postage, entry fees.

K-1 INCOME

The IRS and TaxAide expanded the scope of income that VITA/TCE volunteers deal with to include certain K-1 income. This K-1 income includes:

- Interest income, including tax-exempt interest
- Dividend income
- Net short-term and net long-term capital gains and losses

K-1s are schedules for individual shareholders, partners or beneficiaries that show their distributed portions of income that passed through the entities to them at the individual level.

K-1s are received by any individual who is a shareholder in a corporation, a partner in a partnership or a beneficiary receiving a share of income through a trust. The individual owns a percentage of ownership in the corporation or partnership. When dealing with trusts, the individual, also referred to as the beneficiary, receives a certain percentage of income through the trust.

Types of K-1s

- Federal Schedule K-1

  Form 1120S: Given to taxpayers who are shareholders in a corporation

  If there is a Code A in Box 16 of the K-1, review statement that accompanies federal Schedule K-1 to determine the source of tax-exempt interest. Refer to the list of tax-exempt interest in your Personal Income Tax Preparation Guide to see whether or not the amount in Box 16 should be included in interest income.

  Form 1065: Given to taxpayers who are partners in a partnership

  If there is a Code A in Box 18 of the K-1, review statement that accompanies federal Schedule K-1 to determine the source of tax-exempt interest. Refer to the list of tax-exempt interest in your Personal Income Tax Preparation Guide to see whether or not the amount in Box 18 should be included in interest income.

  Form 1041: Given to taxpayers who are beneficiaries of a trust

  Federal Schedule K-1 can be utilized when preparing returns for resident taxpayer

  Do not use Federal Schedule K-1 for nonresident taxpayers; a nonresident taxpayer is only required to report PA-sourced income and the federal Schedule K-1 includes income earned from sources inside and outside of PA.

PA Schedule RK-1: Resident K-1 given to PA resident taxpayers who are shareholders in a corporation, partners in a partnership, or beneficiaries of a trust

PA Schedule NRK-1: Nonresident K-1 given to nonresident taxpayers who are shareholders in a PA corporation, partners in a PA partnership, or beneficiaries of a PA trust. Must use this K-1 if filing return for a nonresident; will only show taxpayer's PA-sourced income from the corporation, partnership, or trust.

REPORT K-1 INCOME ON APPROPRIATE SCHEDULE

- Interest income from a K-1 should be reported on Schedule A (Line 7).
- Dividend income from a K-1 should be reported on Schedule B (Line 4).
- Net short-term/long-term capital gains or losses from a K-1 should be reported on Schedule D (Line 6).

NOTE: For trust K-1s, all positive income figures should be added together (without deducting any losses from short/long-term capital gains) and reported as trust income on PA Schedule J, Income from Estates or Trusts and on Line 7 of the PA return.

LINE 9, TOTAL PA TAXABLE INCOME

Add Lines 1c, 2, 3, 4, 5, 6, 7 and 8 on Form PA-40.

REMEMBER: A loss in one class cannot offset a gain incurred in another class of income.

LINE 10 PA-40 CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS, HEALTH SAVINGS ACCOUNTS AND IRS SECTION 529 TUITION ACCOUNT PROGRAMS

Pennsylvania allows contributions to health savings accounts, IRS Section 529 Tuition Savings Accounts and medical savings accounts to be claimed as deductions. If claiming a deduction for any of these contributions, one of the four followings codes must be entered in the space provided to identify the deduction being claimed.

M – Medical savings account

H – Health savings account

T – Tuition savings account

C – Combined deduction from two or all three of the above

In addition, PA Schedule O must be completed. In no case may the total of the deductions exceed the taxable income reported on Line 9 of Form PA-40.

In claiming the medical savings account and/or health savings account deduction, Pennsylvania follows federal rules. One must make a contribution to a medical savings account or health savings account for federal purposes. The taxpayer may then take the same deduction on Line 10. If married filing separate returns, only one spouse may take this deduction. Pennsylvania also follows federal rules concerning withdrawals from these accounts. The amount reported on Line 10 should be the same amount reported on the federal income tax return.

NOTE: PA law does not impose an additional 15 percent tax for nonmedical withdrawals.

If claiming a deduction for IRC Section 529 tuition account contributions, the limitation is on a per beneficiary, per taxpayer, per year basis, up to the amount of taxable income (if less than the $13,000 per beneficiary, per taxpayer limit). In the situation described in this question, a taxpayer and spouse would each be able to contribute $13,000 to a qualified tuition plan for their child, provided each had income of $13,000 ($26,000 total income) separately included on their joint return. If a second beneficiary had an account, they could donate another $13,000 each to that beneficiary as long as they each had income of $26,000 (or $52,000 total income) separately included on their joint return.

Contributions to a medical savings account are allowed up to the level allowed for federal income tax purposes. The amount comes from Line 36 of

Form 1040, and a copy of the first page of the Form 1040 must be included with the PA-40 return to verify this amount.

Contributions to health savings accounts are also deductible to the extent they are allowed for federal income tax purposes. This amount comes from Line 25 of Form 1040, and a copy of the first page of the Form 1040 must be included with the PA-40 return to verify this amount.

NOTE: No deduction can be made for the rollover from one IRC Section 529 plan into another or for the changing of a beneficiary within and account.

LINE 11 PA-40 NET TAXABLE INCOME

Subtract Line 10 from Line 9.

LINE 12 PA-40 PA TAX LIABILITY

Multiply net PA taxable income by the current tax rate and enter the result.

CREDITS
LINE 13 PA-40 TOTAL PA INCOME TAXES WITHHELD

Enter the amount of PA tax withheld as shown in the state taxes withheld block on the state copy of W-2 Form(s), Wage and Tax Statement. Be sure to include W-2 Form(s) or PA Schedule W2-S with Form PA-40. If any PA tax was withheld from nonresident partners or shareholders, the tax withheld should be shown on Line 17 of Form PA-40.

If an employee expects to be entitled to 100 percent Tax Forgiveness in the current year and was entitled to 100 percent Tax Forgiveness the preceding year, he/she should obtain an Employee’s Nonwithholding Application, Form REV-419, from the employer so that PA income tax withholding may be suspended. This form must be filed each year. When applicable, it must be revoked within 10 days of the date any PA income tax liability will be incurred during the current year.

NOTE: When required, a PA income tax return must be filed even if a taxpayer is exempted from withholding.

If tax withheld materially differs from the current tax rate, the taxpayer should be advised to obtain verification from a financial officer on company letterhead of tax actually withheld. If figures appear to have been altered, similar verification should be obtained.

LINES 14, 15, 16, 17, 18 PA-40 PA ESTIMATED TAX PAYMENTS FOR PA-40

Line 14. Credit from Prior Year PA Income Tax Return
Enter on Line 14 the credit on current year estimated tax claimed from an overpayment on the taxpayer's immediate prior return.

Line 15. Estimated Installment Payments
Payments of estimated tax for the current year.

FILING TIP: If a husband and wife made separate estimated installment payments, they should each file separate returns claiming only their own payments. If a husband and wife made joint estimated payments, they should file a joint return. Filing in this manner will avoid processing delays. If joint estimated payments were made and the taxpayer and spouse decide to file Married, Filing Separately, they should complete and submit REV-459B, Consent to Transfer, Adjust or Correct PA Estimated Personal Income Tax Account. A husband and wife can tell the Department which payments to post under each name and Social Security number. Both spouses must sign this form.

NOTE: For married couples with a joint estimated account who are filing separately, the department may delay processing until it receives both tax returns.

Line 16. Payment Made with Request for Extension
This line reflects payment made with a request for an extension of time to file.

Line 17. Tax Withheld as Reported on PA Schedule NRK-1
Nonresident tax withheld from PA Schedules NRK-1. For use by nonresident partners, shareholders and members only.

Line 18 Total Estimated Payments
Add Lines 14 through 17.

REQUIREMENTS FOR MAKING ESTIMATED PAYMENTS

If a taxpayer expects more than $8,000 of PA-taxable income not subject to employer withholding in the tax year (interest, dividends, gains, self-employment income), he/she must make estimated tax installments payments. If the nonwithheld income produces a tax due of $246, the taxpayer needs to file a declaration and pay estimated tax for next year in equal installments (April 15, June 15, Sept. 15 and Jan. 15).

Exceptions:

- If a taxpayer expects to obtain at least two-thirds of the total estimated gross taxable income from farming for the period, the taxpayer has the option of either filing the PA-40 and paying the estimated tax at any time up to March 1 or paying the entire estimated tax by Jan. 15. This option applies if the farm schedule (PA Schedule F) shows the gross income on Line 12 is greater than or equal to two-thirds of the amount on Line 11 of the PA-40. Since the amount on Line 12 of PA Schedule F is not required on the PA-40, these amounts will have to be compared for evaluation.
- If a taxpayer's total estimated tax is $246 or less, he/she has the option of filing his/her declaration and paying his estimated tax at any time up to Jan. 15 following the close of the tax year.
- If an individual expects to be entitled to 100 percent Tax Forgiveness in the current year, no estimated payments should be submitted. If during the year the taxpayer realizes a non-forgiven tax liability will be incurred, he/she should immediately begin making payments to be spread out over the remaining quarters. Even if not required to make estimated payments due to Tax Forgiveness, a Pennsylvania income tax return must be filed.

A taxpayer whose estimated tax exceeds $246 for the taxable year may opt to make one payment by April 15 of the tax year.

In the event that circumstances change during the year making payment of estimated tax necessary, the payment amount should be calculated and divided by the remaining due dates for the tax year.

The estimated tax declaration should be made on Form PA-40ES. This form is sent to taxpayers who made a declaration for the prior taxable year.

A first-time estimated tax filer should use Form PA-40ESR. Copies of Form PA-40ESR can be obtained from any Revenue district office or downloaded from the department's Web site. Specific instructions for estimating personal income tax and filing the form are explained in Form REV-413,

An estimated underpayment penalty can be imposed if timely prepayments are not at least 90 percent of the tax as shown on the return and can result in assessment of interest/penalty against the taxpayer. Under PA law these penalties are calculated on a quarterly basis. These penalties are based on a daily calculation of interest on the underpayment.

The amount of estimated payments credited, other than a payment made with an extension, may be verified by the taxpayer. He/she may call the Department's automated 24-hour toll-free line, 1-(888) PATAXES (728-2937) or verify payments online at www.revenue.state.pa.us.

Estimated Underpayment Penalty
The penalty will be imposed if:

- There is $8,000 of taxable income that was not subject to PA withholding; and
- The credits for tax withheld, tax forgiveness, taxes paid to other states and the other credits do not offset the tax due on $8,000, and estimated payments were not made to offset the liability on the income.

No penalty will be imposed if:

- Each installment payment due and made is equal to the installment payment that should have been made based upon the prior full year's income at the current years tax rate; or
- Each estimated tax installment made is equal to 90 percent of the installment payment due for each quarter based upon the actual income received during that period.

NOTE: Unlike federal guidelines, PA penalty determination is based upon the quarterly amount of tax due, not necessarily on one-quarter of the final amount. If the department determines the payments were not properly made, REV-1630 must be submitted along with an explanation of why the calculation is in error.

LINES 19A, 19B, 20, 21: PA-40 TAX FORGIVENESS CLAIMED ON SCHEDULE SP GENERAL INFORMATION AND INSTRUCTIONS

The law allows a joint claim for married persons and defines a dependent for Tax Forgiveness purposes as a dependent child for federal purposes. The allowance for each dependent child is $9,500. For qualifying married claimants, eligibility income begins at $13,000. For qualifying single claimants, eligibility income starts at $6,500. A PA Schedule SP must be filed to claim Tax Forgiveness. A dependent child is eligible for tax back/Tax Forgiveness if a dependent of a parent (parents) who is (are) eligible for tax back/Tax Forgiveness. The dependent child must file a separate PA tax return and PA Schedule SP. Please ead all the instructions before you begin.

WHAT IS TAX FORGIVENESS?

Tax Forgiveness is a credit that allows eligible taxpayers to reduce all or part of their PA tax liability.

Tax Forgiveness:

- Gives a state tax refund to some taxpayers; and
- Forgives some taxpayers of their liabilities even if they have not paid their PA Personal Income Tax.

WHO IS ELIGIBLE FOR TAX FORGIVENESS?

A person and spouse (if applicable) are eligible if:

- He/she/they is/are subject to PA personal income tax. A person and/or spouse are liable for PA tax on income (or would be liable if he/she/they earned, received, or realized PA-taxable income);
- He/she/they is/are not a dependent on another person's federal tax return; and
- He/she/they meet the eligibility requirements.

NOTE: A dependent child may be eligible if he or she is a dependent on the PA Schedule SP of his or her parents, grandparents, or foster parents.

If the taxpayer is unmarried or deceased, he/she must meet all three requirements. If married, a joint claim may be filed if at least one spouse meets all three requirements. A joint return may also be filed if each meets the eligibility requirements.

Eligibility Income
Eligibility income is the total taxable and non-taxable income earned in the year the taxpayer is claiming the SP credit. Since eligibility income is different from taxable income, taxpayers must fill out a PA Schedule SP. Certain sources of income, such as Social Security and workers compensation, are not included in determining eligibility income. The level of Tax Forgiveness decreases by 10 percent for every $250 increase in income. Please review Part C of "Specific Instructions for PA Schedule SP" for further clarification on what income should be included to determine eligibility income.

Line 19a Filing Status
The filing status for Schedule SP purposes must be indicated by filling in the appropriate oval. This may not always correspond to the filing status on the return.

A person is considered unmarried during the year if:

- Single;
- Separated and lived apart at all times during the last six months of the year; or
- Separated pursuant to a written separation agreement (see below).

A person is considered deceased if he/she died during the tax year. In this situation the income for the decedent must be annualized.

A person is considered married during the year if:

- Married and lived together;
- Separated and lived apart for less than the last six months of the year; or
- Separated, but not by a written agreement.

Married claimants are not dependents of one another for either federal tax or PA Tax Forgiveness purposes. This is true even if one spouse has no income. However, even if the spouses elect to file separate income tax returns, they are considered married for Schedule SP purposes and must base the forgiveness percentage on the joint eligibility income.

Joint or Separate Returns

Spouses who lived together should file a joint PA personal income tax return to claim Tax Forgiveness, unless required to file separately. In addition to the other requirements for filing separate PA-40s, spouses must also file separate returns if one spouse is claimed as a dependent on another person's federal income tax return and either the self-supporting spouse or both are eligible for Tax Forgiveness. However, even in this situation, a married couple must base their Tax Forgiveness eligibility on their joint income. If Tax Forgiveness is not a factor, the couple may file a joint PA-40. There is no advantage in filing separate returns for Schedule SP purposes.

Who is Considered a Dependent for Tax Forgiveness?

A dependent is a minor or adult child claimed as a dependent on a federal income tax return. The Department of Revenue has a two-step test for a dependent child:

1. **Is the individual a child of the claimant?** For PA income tax purposes, child includes the natural child, adopted child, or stepchild of a parent. Child also includes a grandchild of a grandparent and a foster child of a foster parent. Therefore, a son or daughter, a grandchild, or a foster child can be claimed as a dependent for PA Schedule SP if the child can be claimed as a dependent on the federal income tax return. However, an aunt, uncle, or unrelated person cannot claim a child as a dependent as defined above, even if claiming the child as a dependent on a federal income tax return.
2. **Can the claimant claim the child as a dependent for federal tax purposes?** The age, status as a full-time student, and gross income of a daughter, son, granddaughter, grandson, or foster child are factors only in determining whether the claimant can claim the child as a dependent for federal purposes. For example, parents that can claim a qualifying 30-year-old child for federal purposes can claim that child as a dependent for PA Schedule SP purposes.

You cannot claim a dependent child on PA Schedule SP if:

- The dependent is not the taxpayer's child, as defined above;
- The child cannot be claimed on the taxpayer's federal tax return;
- The taxpayer is unmarried for Tax Forgiveness purposes, and their former spouse by agreement or court decree can claim the child as a dependent for federal and PA Schedule SP purposes; or
- The child's other parent, by agreement or court decree, can claim the child as a dependant for federal tax and PA Tax Forgiveness purposes.

You cannot claim any other adult as a dependent, even if doing so on a federal tax return. A dependent child with taxable income in excess of $33 must file a PA tax return. If that child's parents qualify for Tax Forgiveness, that child is also eligible for this credit. The child must file a tax return and a PA Schedule SP. The child must also include any child support paid to his/her parent in his/her Eligibility Income.

Specific Instructions for PA Schedule SP
Be sure to enter the name of the claimant(s) and Social Security number(s). If filing for a married couple filing separately, both names and numbers must be entered.

Part A. Determining Filing Type for Tax Forgiveness
Be sure to answer the two eligibility questions to determine if the person claiming this credit is a dependent on another person's federal income tax return and if the person claiming him/her qualifies for Tax Forgiveness.

- If the taxpayer is unmarried as defined earlier, fill in this oval and the corresponding "unmarried" oval on Line 19a of the tax return. Also, fill in the appropriate oval to indicate if this category is selected because the taxpayer is:

  Single, unmarried as of Dec. 31. This includes divorced and widowed individuals who did not remarry during the year; or

  Single and claimed as a dependent on a parent(s) PA Schedule SP. The Social Security number and name of the person(s) claiming the individual must be noted.

- If the taxpayer is separated pursuant to a written agreement or married but has lived apart for the last six months of the tax year, fill in this oval and the corresponding "unmarried" oval on Line 19a of the tax return.

- If the taxpayer is married, fill in this oval and the corresponding "married" oval on Line 19a of the tax return. Also, fill in the appropriate oval to indicate if this category is selected because the taxpayer is:

  Married and claiming tax forgiveness together on a joint return;

  Married and filing separate tax returns (Be sure the spouse's name and Social Security number are entered at the top of the schedule.);

  Married with a spouse who is a dependent on another person's PA Schedule SP or federal income tax return. This other person's name and Social Security number must be noted; or

  Separated and lived apart from their spouse but for less than the last six months of the year.

- If the taxpayer is deceased, fill in this oval and the corresponding "deceased" oval on Line 19a of the tax return. Remember to annualize the decedent's income to determine eligibility for the Tax Forgiveness credit.

PART B. Dependent Children
Enter here only the dependent children the taxpayer can claim as dependents for federal tax purposes. If the taxpayer cannot list a child on the federal tax return, he or she may not claim that child for tax forgiveness purposes. Married persons are never dependents of each other on PA Schedule SP, even when one spouse has no eligibility income. The taxpayer must provide the number of dependents to determine the percentage of Tax Forgiveness. If claiming a foster child or if the last name is different from that of the claimant, a copy of Page 1 of Form 1040 or 1040A showing the child's name should be included. If there are no dependents, go to Part C.

Line 1: Provide all requested information for each child.

Line 2: Number of Dependent Children. Enter here the number of dependent children being claimed for tax forgiveness purposes. This number should also go on Line 19b of the PA-40.

PART C. Line Instructions for PA Schedule SP

Leave the line blank if there is no income to report on a line. For Lines 2 through 10, calculate and enter the total income received in each category. Nontaxable income includes income not taxable under PA law or regulations and may or may not be taxable for federal purposes. Read each description carefully.

If filing for an unmarried person, married filing jointly or a deceased individual, complete Column A.

If filing for a deceased individual, complete Column A, using the annualized amount for each category. The annualized amount is that amount the decedent would have expected to realize for the entire year had he/she lived. This is determined by the nature of the income being reported. For example, if the income is of a nature that it is paid through out the year the income must be projected using the income earned during the life period divided by the payment schedule and multiplied times the number of payments in the entire year. Interest calculated on a daily basis is to be calculated using the days lived divided into the interest earned and multiplied by the number of days in the year. If it is rental paid on a monthly basis, the income is divided by the months the rent was received and multiplied by 12. Income received from a single event such as the sale of a house need not be annualized.

NOTE: This annualized amount is mandated by law and is used solely for the calculation of Tax Forgiveness. It is not used for the calculation of tax.

If married taxpayers are filing separately, Columns B and C must be completed, and jointly held income must be divided between them. If both taxpayers have taxable income, both may file for Tax Forgiveness and complete PA-40 Schedule SP. The schedules will be identical with the exception that the figures in Columns B and C will be reversed. If one taxpayer is not required to file due to his/her taxable income being less than $34, that spouse need not file. The total eligibility income of both spouses must be added together and shown in Line 11. The percentage of Tax Forgiveness is based on the joint income of both spouses.

Line 1: Taxable income is the PA taxable income amount(s) from Line 9, Total PA Taxable Income, from Form PA-40's tax return. Taxpayers are not permitted to qualify for Tax Forgiveness by reducing PA-taxable income through contributions tuition account programs, health savings accounts or medical savings accounts.

Line 2: Nontaxable income including interest, dividends and gains includes income from investments in direct obligations of the federal government (such as U.S. Savings Bonds), Pennsylvania and political subdivisions of Pennsylvania, even if received through a mutual fund or other regulated investment company. If originally issued before Feb. 1, 1994, enter any gains realized from sales of these obligations. Include the nontaxable portion of gain on property acquired before June 1, 1971. Include nontaxable income received as a beneficiary of an estate or trust. Include payments to the taxpayer's employer's cafeteria plan for hospitalization, sickness, disability or death and the value of personal use of employer owned or leased property. Include payments received as a foster parent and supplemental unemployment or strike benefits. Also include FEMA money received during the tax year.

Line 3: Alimony is considered the amount of federally taxable alimony received.

Line 4: Insurance proceeds and inheritance includes the total proceeds received from life or other insurance policies. This also includes payments from long-term care insurance policies irrespective of whether made to the holder of the policy or to another entity. It includes inherited cash or the value of property received.

An inheritance also includes the date of death value of an IRA or pension plan inherited by a spouse. It does not include the value of any jointly held real property transferring from one spouse to another.

Line 5: Gifts, awards and prizes include the total amount of nontaxable cash or property received as gifts from others. Also include awards given in recognition of civic and social achievements and winnings from the PA Lottery. Also included are court awards less attorney fees and reimbursed medical expenses. Court awards that represent wage replacement should not be entered here, but should be included as compensation on Line 1 of the PA-40.

Line 6: Nonresident income includes the total of all income received while residing outside Pennsylvania. This includes income that would otherwise be taxable if earned and received in Pennsylvania.

Line 7: Nontaxable military income represents the difference between the total military income earned and the amount reported to Pennsylvania as taxable on the PA income tax return. Combat zone pay or hazardous duty pay should not be included.

Line 8: Gain excluded on sale of a residence consists of the total excluded.

Line 9: Educational Assistance should include the total value of nontaxable scholarships, fellowships and stipends received, but not loans. Include the value of tuition reductions. Do not include awards made directly to your dependent child. Your child must include this in his/her eligibility income for SP. Federal grants, state grants, Pell grants and grants issued by colleges for education are includable income for tax forgiveness if they exceed the education expense. Subsidized Stafford loans are not part of eligibility income for Tax Forgiveness.

Line 10: Cash receipts for personal purposes from outside your house include nontaxable cash or property received for personal use from spouses, former spouses, children, parents or any other person not living with the taxpayer(s). Include help with taxes or rent or utilities if the cash is given to the taxpayer(s) but not if paid to the landlord, tax collector or utility directly. It also does not include payments received by a parent for child support – these are reported on the PA Schedule SP of the child for whom the support is intended – if that child is eligible. However, any payments received for the providing of in-home care for the foster children must be included. Do not include any money exchanged between household members to pay expenses such as deposits to joint bank accounts or rental like payments from children living at home. Also, include any nontaxable payments made to an employer's cafeteria plan for hospitalization, sickness, disability or death; supplemental unemployment; or strike benefits. This only applies to the contributions into these plans and not to the subsequent benefits derived. Any amounts attributable to the value of the personal use of an employer owned or leased property and any governmental educational grants must be included here.

Line 11: Total eligibility income is the total of Lines 1 through 10 in each column. It is the total amount of PA-taxable and nontaxable income required to be included.

- If Unmarried, Married Filing Jointly or Deceased, use total eligibility income from Column A and enter on Line 20 of the PA-40.
- If Married Filing Separately, use total eligibility income from Columns B and C and enter on Line 20 of the PA-40.

PART D.

Calculating Your Tax Forgiveness Credit:

Line 12: PA tax liability is the tax due from Line 12 of PA-40 before any credits.

Line 13: Enter the resident credit from Line 22.

Line 14: Subtract Line 13 from Line 12 for net tax liability.

Line 15: The percentage of Tax Forgiveness depends on the taxpayer's status:

- Unmarried and Deceased filers use Eligibility Income Table 1.
- Married filers use Eligibility Income Table 2. Use the number of dependents from Part B, Line 2 and the Eligibility Income from Part C, Line 11 on the appropriate Eligibility Income Table to find the percentage of Tax Forgiveness. Enter the percentage of forgiveness in the space provided and as a decimal on Line 15.

Line 16: The Tax Forgiveness Credit is calculated by multiplying Line 14 by the amount on Line 15. Enter the figure on Line 22 of the PA-40.

Income that is not included for determining tax forgiveness eligibility

- Retirement benefits

  Social Security income

  Nontaxable pension distributions

  Nontaxable IRA distributions and other federally recognized retirement plans
- Disability payments

  Worker's compensation

  Occupational Disease Acts benefits

  Social Security income
- Third party sick pay
- Welfare benefits
- Unemployment compensation

  SUB pay
- Reimbursements from major medical insurance plans
- Combat zone pay and hazardous duty pay

EMPLOYEE'S NONWITHHOLDING APPLICATION

If a person subject to withholding received full Tax Forgiveness last year and expects to qualify for full forgiveness of his/her tax liability this year, he/she can file an Employee's Nonwithholding Application, REV-419, with the employer. This application expires on Dec. 31 and must be filed each year to gain exemption.

The application must be revoked in writing to the employer within 10 days from the day the employee anticipates he/she will exceed the 100 percent tax back/Tax Forgiveness eligibility income.

IMPORTANT: One must file a PA-40 and a Schedule SP to file this application.

LINE 22 PA-40 TAXES PAID BY PA RESIDENTS TO OTHER STATES AND COUNTRIES

If the taxpayer is a PA resident and has income subject to both PA personal income tax and income or wage tax from another state or country, credit can be claimed for all or a portion of tax paid to the other state or foreign country on PA Schedule G-S and/or G-L and PA Schedule G-R. The PA Schedule G-R, Reconciliation of Taxes Paid to Other States or Countries, is used to summarize PA Schedules G-S and G-L. Part-year

ELIGIBILITY INCOME TABLE 1. Unmarried, Separated and Deceased Claimants

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:

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

Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:

	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

NOTE: If claiming more than nine (9) dependent children, go to the **PA PIT Guide** on the Department's Web site.

ELIGIBILITY INCOME TABLE 2. Married Claimants, even if filing separately

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:

YOU & ➡ SPOUSE	$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

Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:

	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

residents may claim this credit for the part of the taxable year they were PA residents. Nonresidents are not eligible for this credit. A copy of the other state's return must be submitted.

If a PA resident received compensation solely from Ohio, Indiana, Maryland, Virginia, West Virginia or New Jersey, no out-of-state credit can be taken on this income. These states do not impose tax on compensation earned by PA residents if the PA resident has filed a certificate of nonresidence with the reciprocal state similar to Form REV-420. However, if any other type of income is received, or if the other state considers the PA resident a resident or its jurisdiction for taxing purposes, then the out-of-state credit can be claimed. If taxed as a resident in a reciprocal state, a copy of the resident tax return for that state must be submitted.

A separate PA Schedule G-S and/or G-L along with PA Schedule G-R must be completed for each state/foreign country for which credit is being claimed. The credit is limited to tax paid to the other state/foreign country or the current tax rate applied to PA taxable income earned in the other state/foreign country, whichever is lower.

If credit is claimed for taxes paid to another country, the value must be reported in U.S. dollars. If the foreign country requires an income tax return to be filed, a copy of this return must be attached. If no tax return is required, the statement from that foreign country stating tax due must be attached. In addition, federal foreign tax credit Form 1116 (or whatever documentation the IRS requires) must be enclosed.

PA Schedule G-S is to be used only when credit is claimed for compensation subject to tax in another state, or for compensation, interest and/or dividends subject to tax in another country. To claim credit for any other category of income, PA Schedule G-L must be completed. In all cases a PA Schedule G-R must be completed. A separate PA Schedule G-S and/or G-L must be completed for each state or country for which the credit is being claimed.

If the income on which the credit is being claimed is from a Subchapter S corporation, PA Schedule G-L must be completed with PA Schedule G-R and PA Schedule RK-1. A copy of the other state’s return is not required as it is submitted by the partnership’s or Subchapter S corporation’s PA-20S/PA-65 Information Return.

NOTE: No credit is allowed if the taxpayer’s Subchapter S corporation has elected NOT to be taxed as a PA S corporation.

NOTE: Due to exemptions, deductions and graduated tax rates of other states, the amount shown as withheld on the W-2 to another state does not accurately represent that state's liability and, therefore, must be accompanied by a signed copy of the other state's tax return. If the credit claimed is from an RK-1, be sure to enclose it with the return.

These forms are available online and through the Department’s Forms Ordering Services.

LINE 23 PA-40 SCHEDULE OC

If claiming any of these credits, a husband and wife must file separate returns.

This form is available online and through the Department’s Forms Ordering Services.

LINE 24 PA-40 TOTAL PAYMENTS AND CREDITS

Add Lines 13, 18, 21, 22, 23 of the PA-40 and enter the total on Line 24.

TAX DUE OR OVERPAYMENT

LINE 25 PA-40 TAX DUE

If the amount shown on Line 12 is greater than that shown on Line 24, enter the tax due, and instruct the taxpayer to pay it in full with the return. If the balance due is $1 or less, the taxpayer need not make payment. However, the taxpayer still must file a return.

LINE 26 PA-40 PENALTIES AND INTEREST

Enter the total of all penalties and interest based on the late filing of the return and/or filing the return after the due date. If this includes a self-assessment for failure to properly file estimated payments, fill in the oval and include Form REV-1630, Underpayment of Estimated Tax by Individuals and Fiduciaries.

When entering a figure on this line be sure to enter one of the codes below indicating the type of penalty:

L – Late Payment Penalty and Interest, Failure to File Penalty and Interest or Late Filing Penalty and Interest.

E – Estimated Underpayment Penalty only.

B – Both Late Payment Penalty and Interest AND Estimated Underpayment Penalty.

X – Indicates there is no Estimated Underpayment Penalty due to Exception 2 or the Special Exception rules as indicated on the completed and included REV-1630.

If no penalty or interest is owed, do not enter an amount on this line. If there is no amount entered, no code should be placed in the block. However, Code X should be entered when Form REV-1630 is included with the return indicating no estimated underpayment penalty due to Exception 2 or the special exception rules.

The Department will notify the taxpayer if it is determined penalty and/or interest is due.

Form REV-1630 may be obtained online or through the Forms Ordering Service.

Penalty and interest can be calculated using an automated tool on the Department's Web site.

LINE 27 PA-40 TOTAL PAYMENT

Add Lines 25 and 26 of PA-40. This amount must be paid in full on or before April 15, unless it is less than $1.

LINE 28 PA-40 OVERPAYMENT

If the amount on Line 12 (along with any amount on Line 26) is less than that shown on Line 24, enter the amount of overpayment. If a refund is due, the refund amount must appear on these lines or the refund will be delayed.

The amount of any estimated underpayment penalty must be deducted from the overpayment.

If the taxpayer has a previous collectible PA personal income tax liability, his or her overpayment will first be applied to this collectible liability before any overpayment is processed.

GROUP RETURN OVERPAYMENT
Any overpayment by the partnership, PA S corporation or association will be refunded by check made payable to the partnership, PA S corporation or association. Overpayments can be applied to the estimated income tax for the following year's group return.

APPLICATION OF OVERPAYMENT
If a taxpayer has an overpayment of $1 or more on Line 28 of the PA-40 or Line 11 of PA-40NRC, the taxpayer may request all or part of the overpayment be refunded, credited or donated. Overpayments of less than $1 will not be refunded.

IMPORTANT: The Pennsylvania Department of Public Welfare is authorized to intercept PA personal income tax refunds of taxpayers who owe overdue child support.

Upon notification by the PA Department of Public Welfare (DPW) of any delinquencies, the PA Department of Revenue will forward a taxpayer's refund to DPW to resolve a portion of, if not all of, an individual's back child support payments. All questions must be directed to the county's domestic relations section that manages the case.

A married person responsible for child support should file a separate PA income tax return as "Married, Filing Separately". If a joint return is filed, the Department of Revenue will delay any refund until it receives authorization from the taxpayer to pay the refund to DPW or until separate returns are filed. If the taxpayers do not reply to the Department's inquiries, the department will process the return as "Married, Filing

Jointly" and forward the refund to DPW without regard to whom the refund was owed.

LINE 29 PA-40 REFUND

The amount of overpayment the taxpayer wants returned in a check. Cash refunds of less than $7.50 will not be issued unless this line is completed.

LINE 30 PA-40

The amount of overpayment to be credited to the taxpayer's estimated tax next year.

LINE 31 PA-40 DONATION

The amount of overpayment the taxpayer wishes to donate to the Wild Resource Conservation Fund.

LINE 32 PA-40 DONATION

The amount of overpayment the taxpayer wishes to donate to the Military Family Relief Assistance Program.

LINE 33 PA-40 DONATION

The amount of overpayment the taxpayer wishes to donate to the Governor Robert P. Casey Organ and Tissue Donation Awareness Trust Fund.

LINE 34 PA-40 DONATION

The amount of overpayment the taxpayer wishes to donate to the Juvenile (Type 1) Diabetes Cure Research Fund.

LINE 35 PA-40 DONATION

The amount of overpayment the taxpayer wishes to donate to Breast and Cervical Cancer Research.

The total amount of cash refund, carryover credit and donations must be equal to the total amount shown on the overpayment line.

TAXPAYER'S SIGNATURE AND VERIFICATION

A taxpayer must sign and date his/her return. A taxpayer has not filed a valid return unless the return is signed. A husband and wife who choose to file a joint return must each sign and date the return.

The taxpayer's signature on the return verifies the return has been examined and is true, correct and complete to the best of the taxpayer's knowledge.

Failure to properly sign a tax return may result in a delay in the issuance of a refund.

IMPORTANT: Do not staple the return and attachments together.

PREPARER'S NAME, TELEPHONE NUMBER AND SSN/PTIN/EIN

This is to be used only if the preparer of the return is being paid to prepare the return. If this is being prepared in a district office or by a VITA/TCE volunteer this should not be completed.

INSTRUCTIONS FOR PAYMENT VOUCHER

Beginning with Tax Year 2009, the PA Department of Revenue provides a PA Payment Voucher, Form PA-V, to those who used a 2008 PA-V to submit their payment to the department.

The PA-V will be processed on the Department's automated equipment, which ensures more accurate processing and decreases the Commonwealth's costs for handling over 2 million checks.

The use of this voucher has made it easier for taxpayers to determine whether payments and returns have been received by the Department of Revenue. Continued use of this form provides better service to the taxpayers of Pennsylvania.

Use the preprinted Form PA-V if the PA Personal Income Tax return shows tax owed to the Commonwealth. Do not use this voucher if the PA Personal Income Tax return shows no tax owed.

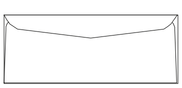
If using Form PA-V:

- Verify the name(s). If the name is incorrect make the change directly on the form. If married and both spouses' names appear on the form and separate tax returns are being submitted, do not use the PA-V.
- Write the amount of the payment in the space provided on Form PA-V.

- Write in the Social Security number. If filing a Married, Filing Jointly return, enter the both Social Security numbers in the same order as they appear on the tax return.
- Carefully detach Form PA-V.
- The check or money order must be made payable to: PA DEPARTMENT OF REVENUE.
- Write the identification number (the last four digits of the Social Security number for Form PA-40 and the Employer Identification Number for PA-40NRC forms), daytime phone number and "tax year you are filing and paying for" followed by "Form PA-V" on the check or money order.
- Do not staple the check or money order to Form PA-V or to the Pennsylvania Income Tax return. See box below if Form PA-V cannot be used.
- Place the payment and completed Form PA-V in the same envelope with the Pennsylvania Income Tax return using the Payment Enclosed label. Insert the payment and Form PA-V after the tax return is put in the envelope. Insert it in the envelope last and in the side with the flap.
- If the return is being filed using the Federal/State e-file, TeleFile or pa.direct.file, mail the Form PA-V and the payment in the envelope provided using the Payment Enclosed label.

  Do not insert in this side of the envelope.

  Insert in this side of the envelope.



IMPORTANT:

- Do not use another person's Form PA-V.
- Do not give a preprinted Form PA-V to anyone else to use.
- Do not photocopy the Form PA-V. A copy will not process through the Department's equipment and the credit for the payment may be delayed.
- Do not use the Form PA-V to pay any other Commonwealth tax liability. The payment will be misapplied and the taxpayer may be subject to penalty and interest.

If Form PA-V is torn, folded or mutilated or for any other reason not usable, do not use another PA-V or a PA-40ES and place the check or money order in front of the Pennsylvania Income Tax return.

The taxpayer may also pay taxes due by credit/debit card or through electronic funds transfer (EFT). Credit/debit card payments may be made online at www.officialpayments.com or by calling 1-800-2PAYTAX (1-800-272-9829). Official Payments Corp. charges a 2.49 percent convenience fee ($1 minimum charge) per credit card transaction and a flat fee of $3.95 per debit card transaction.

AMENDED RETURNS

REFUNDS

If a taxpayer over-reported income or is entitled to credits or deductions not claimed and seeks a refund, the taxpayer must complete and file an amended return within three years from the original or extended due date. Under PA law, a taxpayer must file a refund petition no later than three years following the date of payment. For a refund on tax shown on a timely filed PA tax return, the department will not accept an amended return unless the taxpayer files the return within the three-year statutory timeframe. The department will accept an amended return within three years of an extended due date only when the taxpayer request a refund of the tax paid after the statutory due date.

UNDERREPORTED INCOME

If after a return is filed a taxpayer discovers the income was underreported, credits were erroneously claimed or deductions were not allowed, the taxpayer must correct the error within 30 days by completing and filing an amended return and paying the additional tax, applicable penalty and interest.

GENERAL GUIDANCE

To file an amended Pennsylvania personal income tax return, use the appropriate return for the tax year you are correcting, clearly printing "Amended Return" at the top. Be sure to fill in completely the oval marked "amended" at the top of the front side of Form PA-40. If the original return was submitted on paper or by using TeleFile, e-file or pa.direct.file, the amended return must be filed on Form PA-40 or through the Federal/State e-file program using the following procedures:

- Enter the amounts from the original return not being amended.
- Enter the amended amounts. Explain the reason an amended return is being filed, and include the amended forms or schedules supporting the amended amounts.
- Calculate the amended total PA taxable income.
- Calculate the PA tax liability. If a refund was received on the original return, add amount to the PA tax liability.
- Calculate the total credits and payments. If tax was paid with the original return, add payment to the total credits and payments.
- Calculate the amended tax due or overpayment. If an overpayment, be sure to complete the lines designating the application of overpayment.

The department will take the original refund or payment into account when reviewing the amended return. The amended return must be signed.

An amended return may not be filed after an assessment has been issued if the amendment relates to the same taxable year and the same item of income or gain, deduction or loss involved in the assessment. In this instance, the taxpayer must either file a petition for reassessment with the Board of Appeals within 90 days of the mailing date of the assessment or pay the assessment and file a petition for refund with the Board of Appeals within six months of the mailing date of the notice of assessment. A taxpayer may access the petition form, REV-65, by visiting www.boardofappeals.state.pa.us or calling the department's Automated Forms Ordering Service.

UNDERPAYMENT PENALTY

If a return is filed on time and the tax liability is not paid in full, a 5 percent underpayment penalty will be imposed on the unpaid balance after the due date of the return.

LATE FILED RETURNS PENALTY

If a return is filed after the original due date or the extended due date if an extension was granted, a penalty of 5 percent of any tax due will be imposed for each month or fraction thereof that the return is late. The maximum penalty is 25 percent of the unpaid balance, the minimum penalty is $5. If you do not pay the liability when filing your late return, an additional 5 percent underpayment penalty will be imposed.

FRAUD PENALTIES

If any part of any underpayment of the tax is due to fraud, 50 percent of the underpayment will be added to the tax.

ADDITIONS, PENALTIES AND FEES

If a taxpayer fails to include in taxable income an amount more than 25 percent of the taxable income that was reported, by reason of negligence or intentional disregard of rules and regulations but without intention to defraud, there shall be added an amount equal to 25 percent of the amount of underpayment.

Any person required to furnish an information return who furnishes a false or fraudulent return shall be subject to a penalty of $250 for each failure.

If any individual, estate or trust files a return meeting any of the criteria below, the filer shall pay a $500 penalty.

- The return does not contain sufficient information to determine the correct liability.
- The return contains information indicating the liability is significantly incorrect.
- The return is filed frivolously or to delay or impede the administration of the tax law.

BAD CHECK PENALTY

If a check is returned to the Department of Revenue that cannot be cashed, a 10 percent bad check penalty (minimum $25/maximum $1,000) and with 5 percent underpayment penalty will be imposed.

INTEREST

If the taxpayer does not pay the tax due on or before the due date, simple interest will be calculated daily from the date the tax is due to the date of payment. The annual interest rate established by the U.S. Treasury Secretary each calendar year is the rate of interest in effect when the tax is due and payable. The interest rate on Jan. 1 remains in effect until the tax is paid in full or until Dec. 31 of that year, whichever comes first.

On a bad check the interest is calculated daily on the face amount of the check from the application date of the returned check until the liability is satisfied.

MAILING THE RETURN

It is important that each return be mailed under separate cover.

If there is a tax due – more than $1 on Line 27 – mail to:

PA DEPT OF REVENUE
PAYMENT ENCLOSED
1 REVENUE PLACE
HARRISBURG PA 17129-0001

If there is an overpayment – $1 or more on Line 28 – mail to:

PA DEPT OF REVENUE
REFUND/CREDIT REQUESTED
3 REVENUE PLACE
HARRISBURG PA 17129-0003

If there no tax due or overpayment –no amount on Line 27 or 28 – mail to:

PA DEPT OF REVENUE
NO PAYMENT/NO REFUND
2 REVENUE PLACE
HARRISBURG PA 17129-0002

Do not use these addresses to send any other correspondence to the department.

CONSOLIDATED GROUP RETURN FOR QUALIFIED ELECTING NONRESIDENT PARTNERS/SHAREHOLDERS

A qualifying partnership, association or Pennsylvania S corporation may file a combined PA-40NRC return on behalf of its qualified electing nonresident individual partners/shareholders if the following requirements are satisfied:

- The partner/shareholder must be an individual whose tax year is the calendar year.
- The individual and the individual's spouse must be a domiciliary of a state or country other than Pennsylvania at the close of the partnership's/PA S corporation's taxable year.
- The individual or individual's spouse must not maintain a permanent place of abode in Pennsylvania at the end of the calendar year.
- The nonresident must have no PA taxable income derived from or connected with PA sources other than the partner's/shareholder's distributive share of partnership/PA S corporation income for the calendar year.
- The nonresident must have elected to join in the filing of a consolidated return and estimated tax declaration by the partnership or

PA S corporation on his/her behalf for the calendar year.

- The partnership or PA S corporation maintains at its principal office for inspection the following:

  A list of each qualified electing non-resident's name (last names must be in alphabetical order), address, Social Security number, share in the partnership/PA S corporation, distributive share of total taxable income, tax due before application of payments and credits, share of estimated tax withheld or payments and share of overpayment, if any.

  One of the following: (1) a certification that each of the qualified electing non-residents listed has elected to join in the filing of a consolidated return for the taxable year; or (2) a certified copy of the partnership agreement if it evidences that each of the qualified electing nonresidents listed has agreed to join in the filing of a consolidated return for the taxable year.

Effect of Consolidated Group Return

Unless acceptance of a consolidated return is revoked by the department, the consolidated return will be considered as a group of separate returns that meet the individual filing requirements of the Personal Income Tax Act. The department's acceptance of a consolidated return is tentative and subject to revocation upon audit or otherwise. The department expressly retains the right at any time to require the filing of an individual nonresident income tax return by any of the individual partners or shareholders or to withdraw and modify the authority to file consolidated returns upon notice. If an individual discovers that he/she should not have joined in the filing of a consolidated return, due to reasons such as having other PA source income to report, that individual should file PA-40 and PA-40NRC should be amended, unless the department indicates otherwise.

FILING REQUIREMENTS

- Form PA-40NRC is to be filed under the identification number, name and address of the partnership or PA S corporation.
- Enter the number of nonresidents electing to file and the total of their ownership percentage on PA-40NRC.
- A PA Schedule NRK-1 for each electing nonresident partner or shareholder must be submitted with Form PA-40NRC.
- PA tax withheld cannot exceed the amount allocated to those partners/shareholders who elected to file on the consolidated return.

The return must be signed by the partner/corporate officer designated as the person responsible for the filing of the consolidated nonresident return and whom the department may contact concerning Form PA-40NRC. The return is not valid unless signed. Provide the telephone number where the partner/corporate officer may be called between the hours of 8:30 a.m. and 4:00 p.m.

MAILING INSTRUCTIONS

Mail completed Form PA-40NRC and PA Schedules NRK-1 to:

PA DEPARTMENT OF REVENUE
CONSOLIDATED RETURN
PO BOX 280418
HARRISBURG PA 17128-0418

Overpayments: Overpayments will be applied to the partnership's/PA S corporation's estimated income tax account for the following year or refunded to the partnership/PA S corporation.

RECORDS MUST BE MAINTAINED

All amounts reported on PA income tax returns and accompanying schedules are subject to verification and audit by the Pennsylvania Department of Revenue. Books and records must be maintained to verify any information reported on PA income tax returns. These should be retained for at least four years after filing.

FORMS ORDERING

To obtain forms and publications, visit a Revenue district office or use one of the following services:

Internet: www.revenue.state.pa.us
Pennsylvania income tax forms, schedules, brochures, electronic filing options, and other information are available on the Department's Web site. If you do not have Internet access, visit your local public library.

E-mail Requests for Forms:
ra-forms@state.pa.us

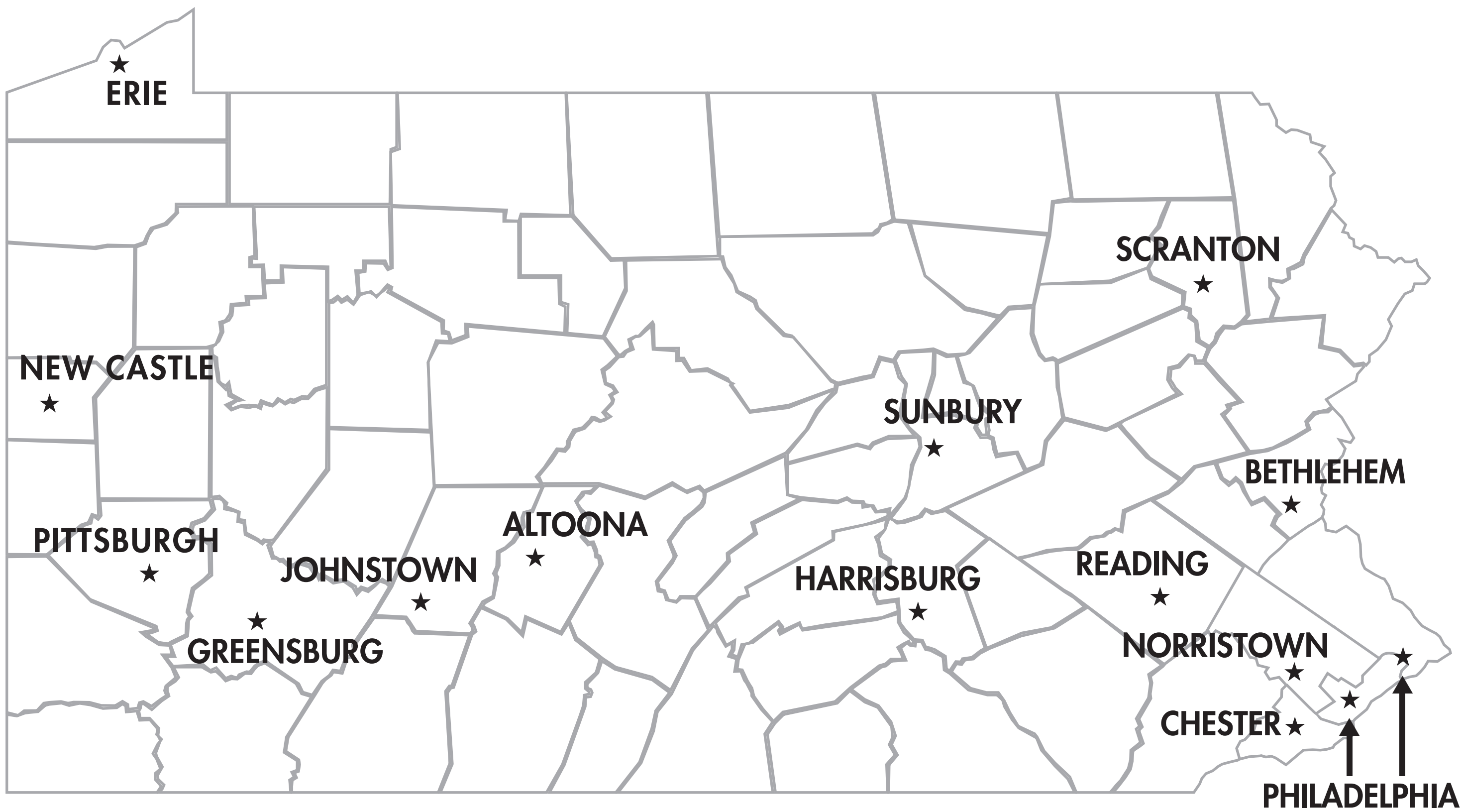
Automated 24-hour Forms Ordering Message Service:
1-800-362-2050.
This line serves taxpayers without touch-tone telephone service.

Written Requests:

PA DEPARTMENT OF REVENUE
TAX FORMS SERVICE UNIT
711 GIBSON BLVD
HARRISBURG PA 17104-3200

PA DEPARTMENT OF REVENUE DISTRICT OFFICES

NOTE: Please call ahead to verify a district office's address and its services or visit the Department's website at www.revenue.state.pa.us for information. Taxpayer assistance hours are 9 a.m. to 12 p.m. and from 1 to 4 p.m.



ALTOONA
STE 204
CRICKET FIELD PLZ
615 HOWARD AVE
ALTOONA PA 16601-4867
(814) 946-7310

BETHLEHEM
44 E BROAD ST
BETHLEHEM PA 18018-5998
(610) 861-2000

CHESTER
6TH FL STE 602
419 AVENUE OF THE STATES
CHESTER PA 19013-4451
(610) 619-8018

ERIE
448 W 11TH ST
ERIE PA 16501-1501
(814) 871-4491

GREENSBURG
SECOND FL
15 W THIRD ST
GREENSBURG PA 15601-3003
(724) 832-5283

HARRISBURG
LOBBY
STRAWBERRY SQ
HARRISBURG PA 17128-0101
(717) 783-1405

JOHNSTOWN
425 MAIN ST
JOHNSTOWN PA 15901-1808
(814) 533-2495

NEW CASTLE
103 S MERCER ST
NEW CASTLE PA 16101-3849
(724) 656-3203

NORRISTOWN
SECOND FL
STONY CREEK OFFICE
CENTER
151 W MARSHALL ST
NORRISTOWN PA 19401-4739
(610) 270-1780

PHILADELPHIA
STE 204A
110 N 8TH ST
PHILADELPHIA PA 19107-2412
(215) 560-2056

PHILADELPHIA
ACDMY PLZ SHPG CTR
3240 RED LION RD
PHILADELPHIA PA 19114-1109
(215) 821-1860

PITTSBURGH
CHMBR COMMRCE BLDG
411 7TH AVE - ROOM 420
PITTSBURGH PA 15219-1919
(412) 565-7540

READING
STE 239
625 CHERRY ST
READING PA 19602-1186
(610) 378-4401

SCRANTON
RM 200
SAMTERS BLDG
101 PENN AVE
SCRANTON PA 18503-1970
(570) 963-4585

SUNBURY
535 CHESTNUT ST
SUNBURY PA 17801-2834
(570) 988-5520

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