

Instructions for PA-20S/PA-65 Schedule NRK-1 Nonresident Schedule of Shareholder/Partner/Beneficiary Pass Through Income, Loss and Credits

What's New

PA Account # was changed to Revenue ID.

For the 2012 tax year, a corporation's Revenue ID is its seven-digit PA Tax Account ID OR a new, unique, 10-digit number assigned by the department to a taxpayer, separate from any federally issued identification number(s) or Pennsylvania license number(s).

As the department transitions to an integrated tax system, a 10-digit Revenue ID number will be assigned and communicated to each taxpayer. A corporation's seven-digit PA Tax Account ID will continue to be accepted by the department on tax forms and schedules, but upon assignment of a 10-digit Revenue ID to a taxpayer, the department will begin using the 10-digit Revenue ID on outbound correspondence in lieu of referencing the Tax Account ID.

General Information

Purpose of Schedule

Partnerships and S corporations use PA Schedule NRK-1 to report income and losses by class of income to each of its nonresident owners. A PA Schedule NRK-1 is prepared for each individual partner or shareholder showing the share of income (losses) by class and other items required to be reported.

Pennsylvania partners/members/shareholders (owners) who are individuals are subject to Pennsylvania personal income tax on their shares of the entity's Pennsylvania-source income, whether or not the income is actually distributed.

Owners who are individuals who do not reside in Pennsylvania are taxed on their shares of Pennsylvania-source income.

The PA-20S/PA-65 Schedule NRK-1 provides each partner/member/shareholder (owner) and entity owner their share of income, losses and credits from the partnership, PA S corporation, estate, trust, and/ or entity formed as a limited liability company classified as a partnership or S corporation for federal income tax purposes.

Who Should Get a PA Schedule NRK-1

A PA-20S/PA-65 Schedule NRK-1 must be completed for every nonresident owner with Pennsylvania-source income that is in a partnership, S corporation, estate, trust, and/ or entity formed as a limited liability company classified as a partnership or S corporation for federal income tax purposes.

A copy of the PA-20S/PA-65 Schedules NRK-1 for each partner/member/shareholder (owner) must accompany the entity's PA-20S/PA-65 Information Return.

Owners must receive a copy or copies to prepare Pennsylvania tax or information returns. The PA S corporation or partnership must also retain a copy of all PA-20S/PA-65 Schedules NRK-1 as part of the entity's records.

In addition, a PA-20S/PA-65 Schedule NRK-1 must be completed for all nonresident owners that are estates, trusts, other PA S corporations, other partnerships. The Pennsylvania-taxable income passes through to the final taxpayer. Therefore, the immediate partners and shareholders must know the total Pennsylvania-taxable income in the event the final owner is a Pennsylvania resident. In the event that the final owner is a nonresident of Pennsylvania, the owner must know Pennsylvania-source taxable income.



Note. Entity owners receive both the PA-20S/PA-65 Schedule RK-1 and NRK-1.

PA Schedule NRK-1 for C Corporation Partners

Paper Returns and Electronic Filed Returns

The PA-20S/PA-65 Schedule NRK-1 submitted with the PA-20S/PA-65 Information Return does not need to be issued to C corporation taxpayers unless a credit from the PA-20S/PA-65 Schedule OC has been allocated. Partnerships, PA S corporations, estates, trusts and/or limited liability companies must submit PA-20S/PA-65 Schedule NRK-1 with the applicable Pennsylvania tax returns.

If a C corporation taxpayer receives a PA-20S/PA-65 Schedule NRK-1, the amount from Line 7, Total Other Credits, must be reported on the appropriate Pennsylvania tax return.



Note. The entity can issue either a PA-20S/PA-65 Schedule RK-1 or PA-20S/PA-65 Schedule NRK-1 for the C corporation. For most practitioners, the determining factor in whether a PA-20S/PA-65 Schedule RK-1 or PA-20S/PA-65 Schedule NRK-1 would be issued is dependent upon the commercial domicile of the C corporation. However, the caveat is that a PA-20S/PA-65 Schedule RK-1 must be issued to a corporate owner if a credit from Schedule OC has been allocated from the entity.



Important. The information on the PA-20S/PA-65 Schedule NRK-1 has no relevance to C corporations. The only information relevant to a corporate taxpayer is the PA-20S/PA-65 Schedule H-Corp except if a credit from PA-20S/PA-65 Schedule OC has been allocated on the PA Schedule NRK-1, Line 7. Otherwise, the only information relevant to a corporate taxpayer is the PA-20S/PA-65 Schedule H-Corp.

Part-Year Resident Owners

The requirements are different for PA S corporations and partnerships to issue PA-20S/PA-65 Schedules RK-1 and/or NRK-1 to its owners as described below.

PA S Corporations Only Non Residency Period

The PA S corporation must submit a separate PA-20S/PA-65 Schedule NRK-1 for that portion of the tax year during which the shareholder was a nonresident of Pennsylvania.

A nonresident shareholder prorates income based upon the number of days. The PA-20S/PA-65 Schedule NRK-1 determines the shareholder's pro rata distributive share of each item reported on the PA-20S/PA-65 Information Return by subtracting the amount from Step 3 from the total income (loss).

Step 1. Determines the daily amount by dividing the income (loss) or credit by the number of days in the PA S corporation's tax year.

Step 2. Determines the shareholder's daily part by multiplying the daily amount from Step 1 by the percentage of stock owned by the shareholder on each day of the residency portion of the PA S corporation's tax year.

Step 3. Totals the shareholder's daily part for the number of days for which the shareholder was a Pennsylvania resident. Multiply the shareholder's daily amount from Step 2 by the number of days the shareholder was a Pennsylvania resident.



Note. Income is allocated based on days residing in Pennsylvania. The owner will receive a PA-20S/PA-65 Schedule RK-1 and NRK-1. Each will reflect his/hers proportionate share of income earned while a resident and a nonresident.

Partnerships Only Non Residency Period

A nonresident partner reports income based upon his/her residency status at year-end and does not prorate the income. The partnership must submit a separate PA-20S/PA-65 Schedule NRK-1 for each individual partner if during the partnership's taxable year the partner was:

- A nonresident of Pennsylvania at the close of the taxable year;
- Deceased and a nonresident of Pennsylvania at the time of his/her

death during the taxable year; and/or

- A nonresident of Pennsylvania at the close of business on the day during the taxable year that he/she sold, exchanged, disposed of, liquidated, redeemed his/her entire interest in the partnership.



Note. Income is considered earned on the final day of the tax year. If he/she is a nonresident on the last day of the year, he/she will receive a PA-20S/PA-65 Schedule NRK-1 showing Pennsylvania-source income only.

CD Format for Schedules RK-1 and/or NRK-1

Entities that have a 100 or more owners may submit the PA Schedules RK-1/NRK-1 in CD format; however, they must meet the department's specifications. To receive the department's specifications for CD format, please send a request to RA-PTBO@pa.gov.

Only PA-20S/PA-65 Schedules RK-1/NRK-1 can be included on the CD. Do not include federal returns, federal schedules K-1 and PA-20S/PA-65 Information Returns. These documents must be sent in paper form when submitting the Schedules RK-1/NRK-1 in CD format.

The PA-20S/PA-65 Information Return will be considered incomplete if the federal information is not included with the paper return.

Pennsylvania offers another option, electronic filing, that does not have a filing limit on the number of PA Schedules RK-1/NRK-1.

To obtain the electronic filing and payment formats or to obtain additional information on electronic filing and payment options visit Revenue's e-Services Center on the department's website.

How To Amend PA Schedule NRK-1

Where an amendment to the PA-20S/PA-65 Information Return results in a need to amend the PA-20S/PA-65 Schedules NRK-1, an amended PA-20S/PA-65 Schedule RK-1 must be forwarded to the PA Department of Revenue with the amended tax return, and a copy must be provided to each owner.

An amended PA-20S/PA-65 Information Return and an amended PA-20S/PA-65 Schedule NRK-1 for each owner must also be filed to correct any

error on or reflect any change to the original PA-20S/PA-65 Information Return, whether or not an amended federal Form 1120S or federal Form 1065 was filed for that year.

To amend an original PA-20S/PA-65 Schedule NRK-1, use a blank schedule for the tax year to be amended and fill in the "Amended Schedule" oval at the top of the schedule. Do not send a copy of the original schedule. Complete the schedule by entering the corrected information and submit it with the amended PA-20S/PA-65 Information Return. See "Where To File" in the PA-20S/PA-65 instructions.

Completing the PA Schedule NRK-1

Foreign Address Standards

If the PA S corporation, partnership or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes is located outside the U.S., it is important to write the foreign address on the PA-20S/PA-65 Schedule NRK-1 according to U.S. Postal Service standards.

Failure to use these standards may delay processing or correspondence necessary to complete the processing of the return.

To comply with foreign address standards, use the following rules when completing the address portion of the PA-20S/PA-65 Schedule NRK-1.

- Eliminate apostrophes, commas, periods and hyphens.
- Write the name of the entity in the spaces provided.
- Write the address in the spaces provided, including street and building name and number, apartment or suite numbers, city name and city or provincial codes.
- Write only the name of the country in the space provided for the city or post office.

• **Do not** include any entries in the state or ZIP code spaces on the PA-20S/PA-65 Schedule NRK-1.

Providing the address in this format will better ensure that the department is able to contact the entity if additional information is required.

Below are examples of properly completed foreign addresses.

Foreign Address Example
 DIETRICH ENTERPRISES
 HARTMANNSTRASSE 7
 5300 BONN 1
 FEDERAL REPUBLIC OF GERMANY
OR
 DIETRICH ENTERPRISES
 117 RUSSELL DR
 LONDON W1PGHQ
 ENGLAND

Canada (Only) Address Example
 The following address format may be used when the postal address delivery zone number is included in the address:

NORTH BY NORTHWEST CO
 1010 CLEAR ST
 OTTAWA ONT K1A 0B1
 CANADA

If the entity's address does not fit in the available spaces on the PA-20S/PA-65 Schedule NRK-1 using this format, submit a separate statement that includes the entity's name, entity's federal employer identification number, tax year and complete address.

Part I General Information

SSN
 Enter the nine-digit Social Security number (SSN) of the individual receiving the PA-20S/PA-65 Schedule NRK-1.

Last Name, Suffix, First Name, Middle Initial
 Enter the last name; suffix such as Jr., Sr., etc.; first name; and middle initial of the individual receiving the PA-20S/PA-65 Schedule NRK-1.

Spouse's SSN
 Enter the nine-digit SSN of the spouse (if jointly held) receiving the PA-20S/PA-65 Schedule NRK-1.

FEIN
 Enter the [nine-digit](#) federal employer identification number (FEIN) of the owner (if other than an individual) receiving the PA-20S/PA-65 Schedule NRK-1.

Name of Owner Receiving NRK-1 (Other Than an Individual)
 If the owner of the entity is a partnership, PA S corporation,

estate, trust or entity formed as a limited liability company classified as a partnership or PA S corporation for federal income tax purposes, enter the name of the entity owner receiving the PA-20S/PA-65 Schedule NRK-1.

If the PA Schedule NRK-1 is being issued to an individual, leave this field blank.

First Line of Address
 Enter the street address of the owner receiving the PA-20S/PA-65 Schedule NRK-1. If the address has an apartment number, suite or RR number, enter it after the street address.

The U.S. Postal Service preference is to put the actual delivery address on the line immediately above the city, state and ZIP code.

 Note. If the street address along with the apartment number, suite or RR number does not fit on the first line of address, then enter the street address on the second line of address and the apartment number, suite or RR number on the first line of address.

Second Line of Address
 Enter the post office box, if appropriate, of the owner receiving the PA-20S/PA-65 Schedule NRK-1. If there is no post office box, leave the second line of the address blank.

For a foreign address enter the city or municipal designation. See [Foreign Address Example](#).
 For a Canadian address, enter the city and postal delivery zone number. See [Canada Address Example](#).

 Important. If the address has only a post office box, enter on the first line of address.

City, State and ZIP Code
 Enter the appropriate information in each box. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

Name of Entity Issuing NRK-1
 Enter the name of the entity issuing the PA-20S/PA-65 Schedule NRK-1.

City, State and ZIP Code
 Enter the appropriate information in each box. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

FEIN
 Enter the nine-digit FEIN of the entity issuing the PA-20S/PA-65 Schedule NRK-1.

Revenue ID
 Enter the Revenue ID of the PA S corporation or limited liability company. If a partnership issued the PA Schedule NRK-1, leave this field blank.

 Caution. Do not enter the tax number assigned by the Department of State.

Amended Schedule
 Fill in the oval if the PA-20S/PA-65 Schedule NRK-1 is an amended schedule.

Final
 Fill in the oval if the PA-20S/PA-65 Schedule NRK-1 is a final schedule.

Shareholder's Stock Ownership
 Enter the shareholder's percentage of stock ownership in the PA S corporation.

Beneficiary's Year-End Distribution
 This line is for the PA-41 Schedule NRK-1 and will never be used for the PA-20S/PA-65 Information Return. The estate or trust submits this information on the PA-41 Schedule NRK-1 with its PA-41 Fiduciary Income Tax Return.

Valid values are: "00000" to "10000", where 10000 = 100%
Decimal point is implied after 3 rd character from the left
e.g. to indicate 33.33%, the value should be "03333"
e.g. to indicate 25%, the values should be "02500"

Partnership Percentage
 Enter the partner's percentage of each of the following at the close of the taxable year:

- Profit sharing
- Loss sharing
- Ownership of capital

Valid values are: "00000" to "10000", where 10000 = 100%
Decimal point is implied after 3 rd character from the left
e.g. to indicate 33.33%, the value should be "03333"
e.g. to indicate 25%, the values should be "02500"

Owner

Fill in the oval that designates what type of owner received the PA-20S/PA-65 Schedule NRK-1. Fill in one oval only.

Partner

Fill in the oval that designates what type of partner received the PA-20S/PA-65 Schedule NRK-1. Fill in one oval only.

Entity

Fill in the oval that designates what type of entity issued the PA-20S/PA-65 Schedule NRK-1. Fill in one oval only.

Fiscal Year

If the PA S corporation, partnership or limited liability company filing as a partnership or PA S corporation for federal income tax purposes does not file on a calendar-year basis, fill in fiscal-year oval. Enter the month, day and year (MMDDYY) when the fiscal year begins and ends.

Short Year

A short year is an accounting period shorter than one year and not a 52-53 week taxable year.

A short-year return is required for the following reasons:

- Changes in the annual accounting period. For example, the entity changes from a fiscal-year filer to a calendar-year filer; or
- An entity is in existence during only part of the tax year. For example, if the year is the initial year or the entity sells or exchanges 50 percent or more of ownership interest.

See the PA-20S/PA-65 instructions on how to file a short-year return.

Line Instructions

Part II

Owner's Distributive Share of Pennsylvania-Source Income (Loss)

Line 1 Pennsylvania Taxable Business Income (Loss) from Operations

Enter the owner's pro-rata distributive share from the PA-20S/PA-65 Information Return,

Line 2h. The entity must report the owner's share of income (loss) whether distributed or not. If reporting a loss fill in the oval.



Guaranteed payments should not be included on Line 1 of PA-20S/PA-65 Schedule NRK-1.

Line 2 Net Gain (Loss) from the Sale, Exchange or Disposition of Property

This figure will flow from PA-20S/PA-65 Schedule D, Part I, Line 18. If reporting a loss fill in the oval.

Lines 3 through 5

Enter the owner's pro rata distributive share of the separately stated items of other Pennsylvania-taxable income (loss) from the PA-20S/PA-65 Information Return. If reporting a loss on Line 3 and/or Line 5, fill in the oval.

Part III Owner's Share of Pennsylvania Credits

Enter the owner's pro rata distributive share of the separately stated credits that the PA S corporation or partnership passes through to the owners from the PA-20S/PA-65 Information Return.

Line 6 Pennsylvania Nonresident Tax Withheld

Enter the Pennsylvania nonresident tax withheld from nonresident owners of Pennsylvania that was submitted to the Pennsylvania Department of Revenue.

Include the excess withholding paid on behalf of nonresidents of Pennsylvania if the owner will receive a refund or credit of the excess.

Line 7 Total Other Credits

Enter the owner's pro rata share from PA-20S/PA-65 Information Return, Line 13a. The entity must provide the owner with a statement listing which credit(s) have been passed through to them.



Important. See PA-20S/PA-65 Schedule OC instructions for which credits must be applied to corporate tax liability prior to being passed through to the entity's owners.

Part IV Distributions from Partnerships

Noncorporate shareholders and partners should use the amounts from PA-20S/PA-65 Schedule NRK-1, Part IV through Part VII, (other than Line 10 and Line 15) to determine or calculate their Pennsylvania economic investment in the entity. Partners include Line 10 in net classified income on their Pennsylvania tax returns.

Line 8 Distribution of Cash, Marketable Securities and Property Not Including Guaranteed Payments

Enter the partner's share of such distributions of cash, marketable securities and property other than guaranteed payments. Nontaxable distributions reduce the nonresident's economic investment.

Line 9 Guaranteed Payments for Capital or Other Services

Enter the partner's share of guaranteed payments for capital or other services. Guaranteed payments are apportioned the same as business income. For example if the guaranteed payment is \$100 and the Pennsylvania apportionment is 50 percent, then only \$50 is included in the business income.

Pennsylvania personal income tax rules classify distributions of guaranteed payments for capital or other services as follows:

- A withdrawal proportionately from the capital of all partners;
- A gain from the disposition of the recipient's partnership interest and a loss from the disposition of the other partners' partnership interests, to the extent derived from the capital of the other partners; and
- A return of capital by the recipients to the extent derived from their own capital. The distributions that the

partnership makes that represent repayments of the partner's own capital are not considered income for Pennsylvania personal income tax purposes.

Line 10

All Other Guaranteed Payments for Services Rendered (Pennsylvania-Appportioned Amount Only)

Enter the partner's share of such payments taxable in Pennsylvania. Pennsylvania taxes nonresident of Pennsylvania guaranteed payments based on Pennsylvania-apportioned calculations for ordinary income.



Note. The partner must know the class of income from which the partnership made the guaranteed payments. The partner must then properly classify the payments on his/her PA-40 Individual Income Tax Return.



Important. If the total guarantee payments include more than one of the income classes described below, the partnership must provide a statement to the partners showing the amounts for each line.

For Pennsylvania personal income tax purposes guaranteed payments are classified as follows:

- If services are rendered directly in the production of income from a business, profession, or farm, the guaranteed payments are gross income from that income class.
- If services are rendered directly in the production of rental or royalty income, the guaranteed payments are gross income from that income class.

A guaranteed payment is allocable to Pennsylvania to the extent it is deductible from net profits or rental and royalty income that is allocable to Pennsylvania. Income allocable to Pennsylvania is income derived from Pennsylvania sources.

Health Savings Accounts (HSA)

Contributions by a partnership to a bona fide partner's HSA are not contributions by an employer. The contributions are treated as a distribution of money and are not included in the partner's income. Contributions by a partnership to a partner's HSA for services rendered, however, are treated as guaranteed

payments that are deducted by the partnership and included in the partner's income. In both situations, the partnership can deduct the contribution made to the partner's HSA.

Contributions to a nonresident partner's HSA for services must be apportioned.

Contributions by an S corporation to a 2 percent shareholder-employee's HSA for services rendered are treated the same as guaranteed payments to partners for services rendered and are deducted by the S corporation as wage or salary expense and included in the shareholder-employee's gross compensation. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

Line 11

Guaranteed Payments to a Retired Partner

Guaranteed payments to a retired partner must meet the exception as described in IRC § 1402(a)(10).

Generally, retirement payments received by a retired partner from a partnership (of which he or she is a member or former member) are counted as net earnings from self-employment.

Certain periodic payments by a partnership to a retired partner made on account of retirement under a written plan of partnership are excluded from the tax. To be effective, the plan must meet such requirements as are prescribed by Reg §1.1402(a)-17. It must apply to partners generally or to a class or classes of partners, and provide such payments at least until the retired partner's death.

The exclusion applies to retirement payments received by a retired partner only if he or she renders no services in any business conducted by the partnership during the taxable year of such partnership, ending within or with his or her taxable year in which amounts were received. At the end of such partnership's taxable year, (1) there must be no obligation from other partners to the retired partner, other than to make retirement payments under the plan, and (2) the retired partner's share in the capital of the partnership had been paid to him or her in full. Code Sec. 1402(a)(10) Reg §1.1402(a)-17.

Part V

Distributions from PA S Corporations

Line 12

Distributions from the Pennsylvania Accumulated Adjustments Account

Enter the shareholder's share of such distributions. Nontaxable distributions reduce the nonresident's economic investment. If liquidating distribution fill in the oval.

Line 13

Distributions of Cash, Marketable Securities and Property

Enter the shareholder's share of such distributions. Nontaxable distributions reduce the nonresident's economic investment.



The PA S corporation should not include distributions to Pennsylvania nonresident shareholders from its PA C corporation earnings and profits as taxable dividend income.

Part VI

Nontaxable Income (Loss) Owner's Economic Investment

Line 14

Nontaxable Income or Nondeductible Expenses Required to Calculate Owner's Economic Investment. Submit a Statement.

The difference between federal and Pennsylvania depreciation should not be included on this line. Line 14 is based on permanent nontaxable income or nondeductible expenses in calculating Pennsylvania-taxable income. This amount is generally not the same amount reported on the PA-20S/PA-65 Information Return, Part IV, Line 12 because Line 12 should not include non-permanent items.

The owners need this information to determine their personal Pennsylvania economic investment in the entity, taking into consideration the losses and distributions that may

exceed their economic investment. Submit a statement that includes the entity's name, federal employer identification number and tax year and provide a breakdown of all nontaxable income earned and all non-deductible expenses not taken. This amount should only include permanent differences needed to calculate the owner's economic investment in the entity. If reporting a loss fill in the oval.

The entity provides the owners with this information so the owners can calculate their economic investment. Examples of nontaxable income are tax-exempt interest, gifts, inheritance, loan proceeds, insurance proceeds and federal tax refunds. Examples of nondeductible expenses are partner's retirement contributions, partner's life and health insurance premiums.

These items may be listed on federal Form 1120S Schedule K as "Items Affecting Shareholder Basis" and on federal Form 1065 Schedule K as "Other Information".

Part VII Supplemental Information

The owners need this information to determine their personal Pennsylvania economic investment in the entity. Lines 15 through 18 are for information purposes only.

Line 15 Owner's Share of IRC § 179 Allowed According to Pennsylvania Rules (Pennsylvania-Apportioned Amount Only)

Enter the owner's share of IRC § 179 depreciation expense. Each entity and individual taxpayer is limited to \$25,000 of IRC § 179 depreciation expense. Do not deduct this amount from any income class. The amount is used to verify that the owner has not exceeded the Pennsylvania limit.

Line 16 Owner's Share of Straight- Line Depreciation (Pennsylvania-Apportioned Amount Only)

Enter the owner's share of the entity's total expense. In years in which the entity incurs a loss and the owner is not able to use the entire loss, the owner is required to reduce their economic investment in the entity by their share of straight-line depreciation. Therefore, assets for which accelerated depreciation has been calculated must be recalculated using straight-line depreciation in order to calculate Pennsylvania economic investment.

Line 17 Partner's Share of Nonrecourse Liabilities at Year-End

Enter the partner's share of nonrecourse liabilities at year-end. A nonrecourse liability is a secured liability, identified by the partnership, for which the partners are not personally liable. Nonrecourse liabilities apportion such debts to each partner's outside basis and validate deductions based on such liabilities.

Line 18 Partner's Share of Recourse Liabilities at Year-End

Enter the partner's share of recourse liabilities at year-end. A recourse liability is one for which a partner is personally liable.