

PA SCHEDULE G

0101610020

Credit for Taxes Paid by PA Resident Individuals,
Estates, or Trusts to other States or Countries
PA-40 G (09-01) (I)
PA DEPARTMENT OF REVENUE

OFFICIAL USE ONLY

Name(s) as shown on your PA tax return: _____ Social Security Number: _____

Table with 5 rows and 2 columns. Row 1: Name of other state or country. Row 2: PA taxable income that is also subject to income tax in the other state or country. Row 3: Tax due and paid to the other state or country. Row 4: Multiply Line 2 by 2.8% (0.028). Row 5: PA Resident Credit. Enter the LOWER of Line 3 or 4 here and on Line 23 of your PA-40.

PA law allows a resident taxpayer a credit on his or her PA-40 for income tax, wage tax, or other tax on or measured by gross or net earned or unearned income tax paid to another state or country. The other state or country must impose its tax on income that is also subject to the PA Personal Income Tax in the same taxable year. EXAMPLE. A PA resident taxpayer earns wages in Delaware and pays DE income tax on his wages. The PA resident is entitled to a credit on his PA-40, subject to the limitations described below, for the tax imposed by Delaware upon his wages.

A PA resident cannot calculate this credit on the amount of income the other state or country uses to determine its tax rate.

A PA resident may not reduce the PA tax liability of his/her spouse by this credit.

THE DEPARTMENT WILL DISALLOW YOUR RESIDENT CREDIT IF YOU DO NOT PROVIDE A SIGNED COPY OF THE OTHER INCOME TAX RETURN OR OTHER EVIDENCE.

GENERAL INSTRUCTIONS

As a PA resident, you may claim a Resident Credit for your personal income tax liability to another state or country on income that you earned, received, or realized provided the income is also taxable for PA purposes in the same taxable year. Your credit is the lower of:

- The actual tax due to the other state or country, or
- The tax calculated using the PA classified taxable income that you earned, received, or realized in the other state or country multiplied by the current PA tax rate 2.8 percent (0.028).

You determine the income on which to calculate the Resident Credit using PA Personal Income Tax rules. You do not calculate your Resident Credit using the amount of income that the other state/country uses to determine its tax rate.

EXAMPLE. You earn \$10,000 from operating a business in New York. You also earn \$20,000 from operating a farm in Pennsylvania. You report \$30,000 of gross taxable income on your federal and PA income tax returns. New York imposes its tax on your \$10,000 profit, but uses your total income (\$30,000) to determine the tax rate that you use to calculate your NY tax due. PA allows you a resident credit only on your \$10,000 of business income from your NY business.

PA law does not allow a Resident Credit for taxes you paid to a political subdivision of another state. Your local PA taxing authority may allow a credit against your local earned income tax for the taxes you paid to a political subdivision outside Pennsylvania. Check with your local taxing authority to determine if you may claim such a credit.

To claim the Resident Credit, you must complete **PA Schedule G** and submit a **signed copy** of the income tax return that you filed with the other state or country. You must include copies of your Form(s) W-2.

If you paid income tax to another country on a tax return that is in a foreign language, you must also submit a translation. Convert all amounts to U.S. dollars. If the other country does not have a tax return system, you must submit the same forms and evidence that you would submit (or did submit) to claim a credit on your Federal Income Tax return.

THE DEPARTMENT WILL DISALLOW YOUR RESIDENT CREDIT IF YOU DO NOT PROVIDE A SIGNED COPY OF THE OTHER TAX RETURN AND OTHER EVIDENCE.

If claiming a Resident Credit in more than one state or country, not including Pennsylvania, you must file a separate **PA Schedule G** for each state or country, and submit a signed copy of each of the other tax returns that you filed. If you do not file a tax return in the other state or country, submit the other evidence that the Department accepts. You add the credits from each **PA Schedule G** and enter the total on your **PA-40**, Line 23.

SPECIFIC INSTRUCTIONS

- Line 1.** Name of the other state or country. Enter the name of the state or country to which you paid income tax. **Do not enter Pennsylvania.**
- Line 2.** PA taxable income that is also subject to income tax in the other state or country. You must determine the amount of income on which you are calculating your credit as if you earned that income in Pennsylvania, not in the other state or country. This means that you use PA Personal Income Tax rules, not the taxable income shown on the tax return that you filed with the other state or country.
 - Step 1.** Determine how much of the income from the other state or country is taxable for PA purposes, as if earned or received in Pennsylvania. Apply the PA income classification rules to the gross income or gain realized in the other jurisdiction. In making this determination, you disregard:
 - a) All costs, expenses, and other deductions allowed by Pennsylvania or the other state or country; and
 - b) How the other state or country classifies receipt, proceeds, or other items of income for its tax purposes.
 - Step 2.** Separately determine for each class of PA taxable income or gain, the amount of costs and expenses allowable for PA purposes. Compute the amount of taxable income within each class. In making this determination, disregard:
 - a) The tax laws of the other state or country; and
 - b) Losses where costs and expenses exceed the total amount of gains and gross income within the class.
- Line 3.** Enter the amount of tax that you owed to the other state or country. Do not use the amount of tax you paid through employer withholding, estimated payments, or tax withheld by a business that must withhold from nonresidents of a state.
- Lines 4 and 5.** Self-explanatory

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Special Rules

Compensation Earned in Another State

When you earn compensation in another state, your employer may make adjustments that PA law does not allow. These adjustments may include deducting your contributions to your employer-sponsored retirement plan, adding the value of your personal use of your employer's owned or leased property, and deducting your payments for qualified transportation fringe benefits.

EXAMPLE. Kathy earns an annual salary of \$35,000 from a job in Delaware. She participates in her employer's IRC Section 125 cafeteria plan. She makes contributions to her employer's retirement program (\$3,000), for her health coverage (\$600), and dependent care (\$1,000). Her DE taxable compensation is \$30,400. Her DE taxable compensation is lower than the amount that is taxable under PA law. PA law does not permit the deductions for retirement and dependent care, but permits payments for health coverage under an IRC 125 plan. Kathy begins her calculation at her annual salary (\$35,000) and deducts her health coverage payments (\$600), because PA allows that adjustment. She cannot, however, deduct the dependent care and retirement plan contributions - she did not pay tax in Delaware on those contributions. She calculates her PA Resident Credit on \$30,400 - the amount subject to tax in both states. She reports PA taxable compensation of \$34,400 on Line 1a of her **PA-40**. However, she reports \$30,400 on her PA Schedule G, Line 2, since she did not pay tax to Delaware on her PA taxable contributions.

FILING TIP. When the Form W-2 shows taxable wages (box 16) in the other state that are lower than the Social Security wages (box 3), a PA resident must determine the correct amount for PA purposes.

Compensation Earned in Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia by PA Residents

Generally, the Department will not allow a Resident Credit for the income tax you pay on the employee compensation that you earn in these states. Pennsylvania has reciprocal agreements with these states under which the reciprocal states have agreed not to tax the compensation of a PA resident that works in the reciprocal states. For further information, obtain form REV-615, **Reciprocal Agreements**.

Exception. In the case where a PA resident has **Dual Residency**, the reciprocal agreements **do not** apply. **Dual Residency** means a PA resident is also a "statutory resident" of the reciprocal agreement state in which he or she earns the compensation. Therefore, the PA resident can claim the PA Resident Credit for the income tax imposed by the reciprocal agreement state on his or her compensation. The reciprocal agreements also do not apply to non-employee compensation.

S Corporations in Other States that are not PA S Corporations

You may not claim a PA Resident Credit for income tax that you paid to another state on income from a subchapter S corporation in that state if it is not also a PA S corporation. However, you do not pay any PA income tax on the distributable income you reported to the other state. You only pay tax on the income that the other state's S corporation distributed to you. You report that income as if it were received from a C corporation as **Dividend Income** on Line 3 of your PA-40.

Classification

Other states and countries do not categorize income and losses as Pennsylvania does. Therefore, when you complete your PA tax return, you must place the amounts in the appropriate PA income classes, regardless of the name or description of the income line you used on the tax return you filed in the other state/country.

Interest and Dividend Income

Generally, another state/country does not impose its income tax on ordinary personal interest and dividend income. However, the other state/country may tax interest and dividend income that is directly related to and earned in the operation of a business, profession, or farm. You must include such income on Line 4 of your PA-40, and not separately report such interest income/dividend income on Lines 2 and 3. Even though reported as interest and dividends on the tax return that you filed in the other state/country, you must explain that you properly classified that income under PA Personal Income Tax rules as income from the operation of a business, profession, or farm.

EXAMPLE. Ben operates a business in New Jersey and realizes net income of \$20,000. On the NJ income tax return, he must separately report \$1,000 of business interest income that was part of his \$20,000 profit. On the NJ tax return, he reports \$19,000 as business income and \$1,000 as interest income.

The Department will deny a Resident Credit calculated on ordinary interest. Since his interest is commercial income (directly related to and exclusively business), Ben may claim the Resident Credit, but must submit an explanation that he classified this income under PA Personal Income Tax rules. **NOTE.** When Ben determines his **PA-40**, Line 4, he includes this interest, and reports \$20,000 business income.

Sale, Exchange, or Disposition of Property

You may claim a Resident Credit on the noncommercial gain from the sale of property in another state. The sale of property may also be a business transaction. The other state may require that you separately report all gain and losses. Under PA rules, you must classify sales. If you realized gains from the sale, and a profit from the business, your credit is the same whether you calculate **PA Schedule G** for each amount or for your total business profit. However, if one amount is income, and the other a loss, you must properly classify the amounts.

EXAMPLE. Julie operates a business in Ohio. She reported Ohio net profit of \$2,000 on a Schedule C. Julie also sold an operational asset for a \$500 gain, and land for a \$1,000 loss in Ohio. She reports both sales on a Schedule D. Her total Ohio taxable income is \$1,500. Julie has a net profit of \$8,000 from the operation of a business in Pennsylvania.

For PA purposes, the sale of land in Ohio is a **PA Schedule D** transaction. She reports the \$1,000 loss on her PA-40, Line 5. She does not have any other PA Schedule D gains. Julie may not claim a PA Resident Credit on the \$1,000 loss.

For PA purposes, the sale of the operational asset is a business transaction. Julie includes the \$500 Ohio gain with her \$2,000 Ohio profit. For PA purposes, her Ohio profit is \$2,500, and her total PA taxable business profit is \$10,500. Julie's PA Resident Credit is the lower of the Ohio tax on \$1,500, or the PA tax calculated on her Ohio profit of \$2,500.

Losses

If after determining your total amount within each PA net income class, you report a total PA income that is lower than the income reported to the other state, or a total net loss, you may not claim the Resident Credit on the income you reported to the other state. Pennsylvania did not tax that income because of your other losses.

EXAMPLE. Charles operates businesses in three states. He has a net profit of \$24,000 from a business in New York. He has a net business loss of \$2,000 and a \$1,000 non-business property gain from Maryland. Charles reports a net MD loss of \$1,000. Charles also has a \$500 loss from his PA business. He does not have any other PA source income, gain, or loss.

His net PA taxable business income on his PA-40, Line 4, is \$21,500 (NY + 24,000/MD - 2,000/PA - 500). His net PA taxable gain is \$1,000, his MD sale.

Charles' PA Resident Credit for his business is \$602 (\$21,500 X 0.028). He did not pay tax on his total \$24,000 NY gain. He does not receive any Resident Credit on the \$1,000 gain because he did not pay any income tax to Maryland.

However, if Charles' total PA business loss was \$25,000, his net PA taxable loss was \$3,000. Since he pays no tax to Pennsylvania, he does not receive any credit for the tax he paid to New York.

Important. You must make downward adjustments if you have net income or gain in one or more state(s) and net loss or losses in other states, including Pennsylvania. You must classify each item of income, gain, and loss in Pennsylvania's income classes. Then you determine the maximum credit. The Department will allow a total credit up to your PA tax liability, but will not refund tax you paid to one state because of losses you realized in another state.