

ELECTRONIC FILING

More than 2.4 million Pennsylvania taxpayers chose one of these electronic filing options last year:

TELEPHONE



INTERNET



TAX PREPARER/ COMPUTER SOFTWARE



*Select the one that is right for
you and file electronically!*

PA-40IN

PA-40IN 2005

INSTRUCTIONS BOOKLET NO FORMS INCLUDED

TAX RATE

The state income tax rate for 2005 is 3.07 percent (0.0307).

ELECTRONIC FILING

The Department offers three easy ways to file your tax return electronically: over the telephone with TeleFile; over the Internet with pa.direct.file; and through tax preparers or computer software with PA/IRS e-file. TeleFile and pa.direct.file are available free of charge. See page 2 for more information.

Visit the Revenue e-Services Center at www.revenue.state.pa.us to file your tax return, make payments, check the status of your return and refund, and update your address.

TAX FORGIVENESS

Depending on your income and family size, you may qualify for a refund or reduction of your Pennsylvania income tax liability with the state's Tax Forgiveness program. Read the instructions beginning on page 32 to see if you qualify.

2005 STATE TAX CHANGES

Act 40 of 2005 changed the taxation of annuities from an item reported on PA Schedule D to Schedule A. See page 27 for more information. Exchanges of insurance contracts, which are tax exempt for federal income tax purposes (IRC Section 1035), are now also exempt for state income tax purposes. See page 14 for more information. With certain exceptions, Pennsylvania's constructive receipt rules are now the same as federal constructive receipt rules to determine when a cash basis taxpayer receives compensation. See page 12 for more information.

A summary of Act 40 of 2005 tax changes is available on the Department's Web site.

NEW DONATION OPTIONS

Beginning this year, you can donate all or a portion of your tax refund to the Juvenile (Type 1) Diabetes Cure Research Fund or the Military Family Relief Assistance Program. Please see pages 21 and 41 for more information about these organizations and other donation options.

COMBAT ZONE AND HAZARDOUS DUTY SERVICE

Pennsylvanians serving in combat zones or qualified hazardous duty areas have the same additional time to file their state income tax returns and make payments as they have for federal income tax purposes. The due date is automatically extended for 180 days from the last day of service or the last day of continuous hospitalization for injuries incurred in one of these areas. See page 38 for more information.

WAGE GARNISHMENT

In an effort to collect unpaid tax money owed to the Commonwealth, the Department of Revenue can now collect unpaid taxes by garnishing the wages of delinquent taxpayers. The Department may garnish up to 10 percent of a delinquent taxpayer's wages.

ELECTRONIC FILING OPTIONS

File your Personal Income Tax return electronically using one of three methods offered by the PA Department of Revenue. TeleFile and pa.direct.file are available free of charge.



TELEPHONE

If you filed a tax return last year, your Social Security Number (SSN) and ZIP code are all you need to file over the telephone. To find out if you can use TeleFile, visit the Department's Web site at www.revenue.state.pa.us or order a 2005 PA Fast File booklet from one of the Forms Ordering Services on page 3.



INTERNET

Complete your Personal Income Tax return over the Internet and transmit the return directly to the Department. With pa.direct.file, you can report most types of income and claim dependent children for Tax Forgiveness. If you filed a tax return last year, your SSN, and last year's tax liability, PA driver's license or identification card number are all you need. Visit the Revenue e-Services Center at www.revenue.state.pa.us to file.

TAX PREPARER OR APPROVED SOFTWARE



PA/IRS e-file allows you to file federal and state income tax returns together or separately. It is available through tax preparers or computer software. If you meet certain qualifications, you can also obtain free software to file your tax returns. PA/IRS e-file allows direct deposit of your refund, and the option to pay your PA tax due by electronic funds withdrawal or with a credit card. Visit the Department's Web site at www.revenue.state.pa.us for more information.

BENEFITS OF ELECTRONICALLY FILING YOUR RETURN

SAFE: Regardless of the option you choose, the Department protects your information with the latest security safeguards.

EASY: The systems perform math calculations for you.

FAST: The Department processes refunds in half of the time compared to a paper return.

DIRECT DEPOSIT: You can have your refund deposited directly into your checking or savings account. Direct deposit is not available with a paper PA tax return.

CONFIRMATION: Upon filing with *pa.direct.file* or *TeleFile*, the Department immediately gives you a Confirmation Number as proof that you filed. When filing PA/IRS e-file, the Department sends an acknowledgement directly to you, your tax professional or Electronic Return Originator (ERO).

REMEMBER: When you use one of the electronic filing options, do not mail a paper copy of your tax return—keep it for your records.

You may need to submit other information such as copies of military orders (if on active duty outside Pennsylvania), Forms W-2 (when you have your employer withhold additional PA income tax), and tax returns you filed in other states (when requesting a PA Resident Credit). Read and follow the instructions. The Department reserves the right to request an explanation or supporting information for any amount that a taxpayer reports on a Pennsylvania tax return.

MAILING ADDRESSES

(For more information, see page 22.)

If you do not have the Department-provided envelope, send your return to the address that applies to you.

If you have an amount on Line 27:

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

If you have an amount on Line 28:

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

If Lines 27 and 28 are zero:

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



IMPORTANT: Do not use these addresses to send other correspondence to the Department.

TAXPAYER SERVICES AND ASSISTANCE

ONLINE SERVICES

Revenue e-Services Center at www.revenue.state.pa.us

- This is the location for all the Department's electronic filing services. Through this Web site you can: file returns using [pa.direct.file](#); request an extension of time to file; make payments, including estimated payments; check the status of your return and refund; update your address; calculate penalty and interest; pay tax due by Electronic Funds Withdrawal for PA Personal Income Taxes; and find a link to pay by credit card.

Online Customer Service Center at www.revenue.state.pa.us

- If you have Internet access, you can find answers to commonly asked questions by using the Department's Online Customer Service Center. Use the *Find an Answer* feature to search the database of commonly asked questions. If you do not find your answer in this area, you can submit your question to a customer service representative.

PA Personal Income Tax Guide (PA PIT Guide)

- The Department's PA PIT Guide has information that explains Pennsylvania's income tax and its differences from federal rules. You can only access the PA PIT Guide at the Department's Web site. You can open the entire PA PIT Guide, or a specific chapter, and use the search features of Adobe Acrobat Reader™. The Department offers a link for free download of the Adobe Acrobat Reader™.

TELEPHONE SERVICES

Taxpayer Service and Information Center

- Call (717) 787-8201 for PA Personal Income Tax help during normal business hours, 7:30 a.m. to 5 p.m.

Automated 24-hour FACT & Information Line:

1-888-PATAXES (728-2937). Touch-tone telephone service is required. This service provides:

- Answers to some of the most commonly asked tax questions.
- The balance of your PA estimated tax account.
- The status of a filed PA Personal Income Tax return or Property Tax/Rent Rebate claim.

FORMS ORDERING SERVICES

To obtain forms not available in this booklet, visit a Revenue district office, your public library, post 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 FACT & Information Line (including most forms by fax): 1-888-PATAXES (728-2937).

- In the Harrisburg area, call (717) 772-9739. Touch-tone telephone service is required.

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

OTHER SERVICES

Services for Taxpayers with Special Hearing and/or Speaking Needs: 1-800-447-3020 (TT only)

Free Income Tax Preparation Assistance

- You can receive free assistance in preparing uncomplicated, non-business federal, state, and local income tax returns through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Visit the Department's Web site, contact the Department's nearest district office, or call the Internal Revenue Service's toll-free number (1-800-829-1040) for the location of assistance sites. Taxpayers with modest incomes and older residents are urged to take advantage of these services.

Language Services

- Non-English-speaking taxpayers can receive assistance from the Department through an interpretation service. Assistance is available in 140 languages.

Español

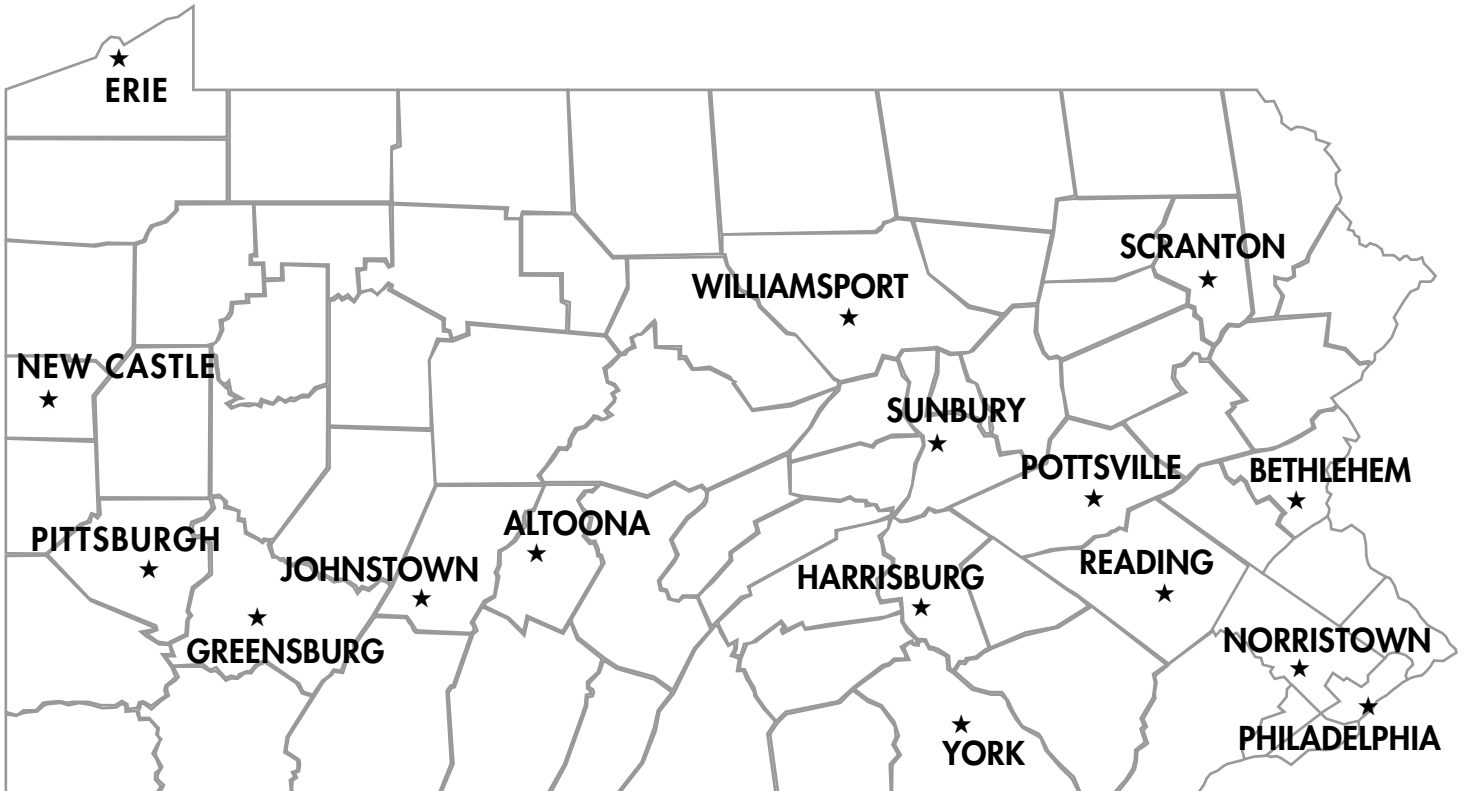
- El Departamento de Impuestos puede ayudar los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos.

Federal Tax Assistance

- Federal tax account or technical information and problem solving are available by calling: 1-800-829-1040.
- Recorded Tele-Tax Service on 150 federal tax topics or 2005 tax refund information is available by calling: 1-800-829-4477.
- Federal tax forms and publications are available by calling: 1-800-829-FORM (3676).

PA DEPARTMENT OF REVENUE DISTRICT OFFICES

NOTE: A district office's location may change. Please call to verify the address before visiting a district office or visit the Department's Web site at www.revenue.state.pa.us for information. Office hours are 8:30 a.m. to 5 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

Erie
448 W. 11th St.
Erie, PA 16501-1501
(814) 871-4491

Greensburg
Second Fl.
15 W. Third St.
Greensburg, PA 15601-3003
(724) 832-5386

Harrisburg
Lobby
Strawberry Sq.
Harrisburg, PA 17128-0101
(717) 783-1405

Johnstown
Third Fl.
345 Main St.
Johnstown, PA 15901-1641
(814) 533-2495

New Castle
103 S. Mercer St.
New Castle, PA 16101-3849
(724) 656-3203

Norristown
Second Fl.
Stoney Creek Office Center
151 W. Marshall St.
Norristown, PA 19401-4739
(610) 270-1780

Philadelphia
Rm. 201
State Office Bldg.
1400 W. Spring Garden St.
Philadelphia, PA 19130-4007
(215) 560-2056

Pittsburgh
Rm. 104
State Office Bldg.
300 Liberty Ave.
Pittsburgh, PA 15222-1210
(412) 565-7540

Pottsville
115 S. Centre St.
Pottsville, PA 17901-3047
(570) 621-3175

Reading
Ste. 239
625 Cherry St.
Reading, PA 19602-1186
(610) 378-4401

Scranton
Rm. 305
Samters Bldg.
101 Penn Ave.
Scranton, PA 18503-1970
(570) 963-4585

Sunbury
535 Chestnut St.
Sunbury, PA 17801-2834
(570) 988-5520

Williamsport
440 Little League Blvd.
Williamsport, PA 17701-5055
(570) 327-3475

York
140 N. Duke St.
York, PA 17401-1110
(717) 845-6661

Temporary Department District Offices

Each year the Department establishes temporary offices to help taxpayers. To see the list of office locations, visit the Department's Web site, or call the district office nearest you.

YOUR USE TAX RESPONSIBILITY

If you buy items that are subject to Sales Tax for which the seller does not charge and collect the tax on the invoice (or receipt), you are personally responsible for remitting the tax directly to the PA Department of Revenue. This tax is called USE TAX.

Purchases made over the Internet, through toll-free numbers (800, 888, and 877), from mail order catalogs or from an out-of-state location are examples of purchases that would be subject to USE TAX. The tax rate is the same as the Sales Tax - 6 percent state, and 1 percent local tax, if the purchaser is located in Philadelphia or Allegheny County. Please see the Department's brochure, Pennsylvania Use

Tax (REV-1748), for more information and examples of what may be taxable purchases for Use Tax purposes. The tax is to be reported on Form PA-1, Individual Use Tax Return. You can obtain this form from the Department's Web site, any Department of Revenue district office, or from one of the Forms Ordering Services on page 3.

Pennsylvania statutes generally exclude from Sales and Use Tax items such as clothing, most foods purchased from a grocery store, and prescription medicines. Examples of taxable items include: computers, sports and recreational equipment, and formal clothing.

TAXPAYERS' RIGHTS ADVOCATE

The Pennsylvania Department of Revenue has a Taxpayers' Rights Advocate who assists taxpayers with PA Personal Income Tax and PA Inheritance Tax problems and concerns that have not been resolved through normal administrative procedures. It is the Advocate's responsibility to ensure that the Department provides equitable treatment with dignity and respect. For more information concerning taxpayers' rights, visit the Department's Web site at www.revenue.state.pa.us, or request the Department's Taxpayers' Rights Advocate brochure (REV-527) from one of the Forms Ordering Services on page 3.

To contact the Taxpayers' Rights Advocate:

- Send e-mail to: pataxadvocate@state.pa.us
- Call: (717) 772-9347
- Write: **PA Department of Revenue
Taxpayers' Rights Advocate
Lobby, Strawberry Square
Harrisburg, PA 17128-0101**

BEFORE YOU BEGIN

Filing Due Date

You must file before midnight, Monday, April 17, 2006. The U.S. Postal Service postmark date on your envelope is proof of timely filing. You must report all taxable income received or accrued from Jan. 1, 2005, through Dec. 31, 2005.

If you cannot file by the due date, request an extension of time to file. Read the instructions on page 38. If you do not file your return by the due date, the Department imposes late filing penalties and interest charges.

Who Must File a PA Tax Return?

If you are a PA resident, nonresident or a part-year PA resident, you must file a 2005 PA tax return if:

- You received total PA gross taxable income in excess of \$33 during 2005, even if no tax is due with your PA return; and/or
- You 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.

REMINDERS FOR FILING YOUR 2005 PA-40

Supporting Schedules

Because Pennsylvania does not always follow federal income tax rules, you should always submit the appropriate PA schedules from this booklet to correctly report your Pennsylvania gross or net income (loss). However, in certain circumstances, the Department accepts federal schedules - please see the Schedule Instructions beginning on page 22. Failure to provide schedules that the Department requires will delay the processing of your PA tax return.

Assembling your PA-40

Arrange your documents in the following order when submitting your 2005 PA tax return:

- **Original PA-40.** Do not mail a photocopy of your PA-40 or a copy of your electronic PA tax return.
- **PA Schedule W-2S/MC,** or photocopies of your Form(s) W-2 (be sure the information is legible), or your actual Form(s) W-2. Use Part B of this schedule to list and total your other taxable compensation. You must submit photocopies of your Form(s) 1099R and other statements that show other compensation and any PA tax withheld. **NOTE:** Do not include copies of Form(s) 1099-DIV, and 1099-INT, unless the forms show PA income tax withheld.
- **PA Schedule OC,** and the required supporting documents when claiming any of the business credits that PA law allows.
- **PA Schedule(s) RK-1, PA Schedule(s) NRK-1.** If you did not receive PA schedules, then submit Federal Schedule(s) K-1. See Partnership and PA S Corporation Members on page 15.
- **All required PA schedules and forms,** including any additional sheets you prepared.
- **All other required documents,** including federal schedules (where the instructions allow the use of federal schedules), that explain the information you entered.
- **Your Form PA-V (Payment Voucher) and payment.** See pages 21 and 22 for instructions and payment.



IMPORTANT: Do not staple your check or money order to your Form PA-V (Payment Voucher) or your PA-40 form. If you do not have a Form PA-V (Payment Voucher), see page 22.

Entering Information

• Social Security Number(s)

Carefully write your SSN, and your spouse's SSN if married, in the boxes provided on your PA-40 form. You must enter your SSN, even if using your label. Please double-check your SSN.

• Rounding Numbers

On the PA-40 form and schedules, show money amounts in whole-dollars. Eliminate any amount less than \$.50 and increase any amount that is \$.50 or more to the next highest dollar.

• Your address

Use your label if it is correct. If your label is not correct, or if you do not have a label, fill in the oval on the PA-40 form indicating an Identification Label Change. Print your name and address on the form.

NOTE: If you are using a military address, please use your APO or FPO address. **EXAMPLES:**

Kevin Taxpayer
Unit 2050 Box 4190
APO AP 96278-2050

Joseph Taxpayer
USCGC Hamilton
FPO AP 96667-3931

Privacy Notification

By law (42 U.S.C. §405(c)(2)(C)(i); 61 Pa. Code §117.16), the Pennsylvania Department of Revenue has the authority to use the SSN to administer the Pennsylvania Personal Income Tax and other Commonwealth of Pennsylvania tax laws. The Department uses the SSN to identify individual taxpayers and verify their incomes. The Department also uses the SSN to administer tax-offset and child-support programs required by federal and Pennsylvania laws. The Commonwealth may also use the SSN in exchange of tax information agreements with federal and local taxing authorities. Pennsylvania law prohibits the Commonwealth from disclosing information that individuals provide on income tax returns, including the SSN(s), except for official purposes.

WHEN ENTERING INFORMATION

DO:

- 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 your name – last, first, middle initial on the correct lines
- Print your correct street address
- Print your apartment number, suite number, room number, rural route, floor, etc. on the first line
- Print your PO Box on the second line
- Fill in all appropriate ovals completely
- Prepare a copy before submitting your return

DO NOT:

- Use red pen or pencil
- Use lower case letters or script
- Leave a blank box or use a punctuation mark if your name, address, or city has Mc, Van, O, etc.
- Use dashes or other punctuation in boxes
- Print a PO number if the post office delivers to your home
- Use a PO Box on any line of your address except the line directly above your city and state
- Use an X or check mark (✓) in an oval
- Erase or use correction fluid

GENERAL INSTRUCTIONS

PA-40 Tax Form

If you do not electronically file your tax return, use the PA-40 form. Please read the instructions.

Keep Your Records

The Department has the statutory authority to verify and audit all of the amounts you report on your return and accompanying schedules. Maintain your books and records for at least four years after filing, as evidence of the information you reported on your PA return.

Daytime Telephone Number

Enter the area code and telephone number where the Department can call you between 8:30 a.m. and 4 p.m.

School Code and School District Name

You must enter the five-digit code and name of the school district where you lived on Dec. 31, 2005, even if you moved after Dec. 31, 2005. Do not enter the school district where you work. Using an incorrect code may affect your school district's funding. The lists of school district names and codes are on pages 42 and 43. **NOTE:** If you were not a PA resident on December 31, 2005, enter 99999.

Extension of Time to File Your 2005 Tax Return

Fill in this oval if you have an extension to file your 2005 PA income tax return. Read the instructions beginning on page 38.

Amended Return

Fill in this oval only when you are amending your 2005 PA tax return. Please read the instructions on page 39.

Residency Status

• (R) Resident

If you were a resident of Pennsylvania for all of 2005, fill in this oval. You must report all income (losses) regardless of the source from which you earned, received, or realized the income (loss).

Nonresidents and Part-Year Residents

Please read the instructions on pages 40 and 41. Nonresidents and part-year residents use the same PA-40 form as PA residents.

• (N) Nonresident

If you were a nonresident of Pennsylvania for all of 2005, fill in this oval. PA law taxes nonresidents on the income earned, received, or realized from Pennsylvania sources during 2005. See pages 40 and 41 of the instructions for more information.

• (P) Part-Year Resident

If you moved into Pennsylvania during 2005, fill in this oval even though you were a PA resident at the end of 2005. If you moved from Pennsylvania during 2005, fill in this oval even though you were not a PA resident at the end of 2005.

PA law taxes part-year residents on all income from all sources while a PA resident, and all income (loss) earned, received, and realized from PA sources when

not a resident of Pennsylvania. See pages 40 and 41 of the instructions for more information.

See Chapter 4, "Who Must File a PA Tax Return," of the PA PIT Guide found on the Department's Web site for more information. You may also request the Determining Residency for PA Personal Income Tax Purposes brochure (REV-611) from the Department's Web site, or one of the Forms Ordering Services on page 3.

Students

If you are a PA resident college student attending school outside Pennsylvania or a nonresident college student attending school within Pennsylvania, request the brochure PA Personal Income Taxes for College Students (REV-758) for more information.

Filing Status

Fill in the oval that describes your status on Dec. 31, 2005. You do not have to file a PA tax return if you do not individually meet the requirements described under *Who Must File a PA Tax Return?* on page 5. If you do not live in Pennsylvania and do not have any income (loss) from PA sources, you do not have to file a PA tax return, even if married to someone who must file a PA tax return. If you are a PA resident who does not have any PA income (loss) to report, you do not have to file a PA tax return, even if married to a person who must file a PA tax return.

(S) Single


You must file as single if on Dec. 31, 2005:

1. You were not married; or
2. During 2005, you divorced or became a widow or widower and did not remarry.

(J) Married, Filing Jointly

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:

1. Your taxable years end on the same date; and
2. Neither of you is individually claiming one or more of the credits on PA Schedule OC, (see page 37); and
3. Your spouse is still living; and
4. Neither of you is individually liable for the payment of child or spousal support, or another liability to the PA Department of Public Welfare.

 **FILING TIP:** If you and your spouse made separate estimated payments, you should file separate tax returns, each claiming only your own payments. If you and your spouse made your estimated payments jointly, you should file a joint tax return. However, if you and your spouse made estimated payments jointly and because of PA guidelines you must file separate tax returns, you must allocate the payments by completing a REV-459B. The form must be completed in its entirety, showing the total number of payments made for the year and the amount of the payments to be transferred to the spouse. Both individuals must sign the form. This form can be sent to the

address shown on the form prior to filing the return or a copy of the form can be submitted with both returns when filing. This avoids processing delays and correspondence from the Department.

Joint Income - Joint Returns

Married taxpayers can file a joint tax return for convenience only. If you and your spouse jointly own income-producing property, you must each report your share of the income (loss). Income-producing property includes savings accounts, businesses, securities, and real estate. Spouses usually equally divide income from jointly owned property.

CAUTION: On a joint return, you and your spouse are each separately liable for the entire amount of PA tax due, even if only one of you had taxable income, and even if one of you paid your own PA tax through withholding or estimated payments.

(M) Married, Filing Separately

You and your spouse have the option to file separate returns. However, you and your spouse must file separate returns if:

1. Your taxable years end on different dates; or
2. Either of you is claiming one or more of the credits on PA Schedule OC; or
3. Either of you is individually liable for the payment of spousal/child support, or another liability to the PA Department of Public Welfare; or
4. 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. See Married, Filing Jointly on the previous page.

(F) Final Return

Use this filing status if you lived in Pennsylvania during 2005, but permanently moved away or if for any other reason, you will not have any PA taxable income (or loss) in 2005. You will not receive a 2006 booklet. Provide the reason, such as you moved to another state.

REMEMBER: Even after you move from Pennsylvania, you must report any PA taxable income you earned, received, or realized from PA sources.

(D) Deceased

Use this status if the taxpayer died in 2005. Enter the date of death. The Department will not send a 2006 tax booklet in the name of the decedent.

The surviving spouse, the executor, or other person responsible for the affairs of the decedent uses this filing status to complete, sign, and file a separate return for the decedent. The return must report all the decedent's 2005 income, payments, and credits. The person signing the decedent's return must indicate his or her relationship to the decedent - surviving spouse, the executor, or person responsible for the affairs of the decedent.

Surviving Spouse

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 request Consent to Transfer, Adjust, or Correct PA Estimated Personal Income Tax Account (Form REV-459B) to reconcile the estimated payments to the separate PA tax returns. Request this form from the Department's Web site, or one of the Forms Ordering Services on page 3.

Taxpayer Died After the End of 2005

If a taxpayer died after Dec. 31, 2005, but before filing his or her 2005 PA tax return, the surviving spouse, executor, or other person responsible for the affairs of the decedent has the option to file the 2005 return as:

- Single, for a single taxpayer. The Department will mail a 2006 PA tax booklet in the name of the decedent. The responsible person will then have to file a 2006 PA tax return for the decedent using the Deceased (D) filing status and report any income that the decedent earned, received, or realized in 2006.
- Married, Filing Jointly for a married taxpayer. The Department will send a 2006 tax booklet in the names of the decedent and surviving spouse. For 2006, the surviving spouse or other responsible person must file a separate 2006 tax return for the decedent as Deceased, reporting any income that the decedent earned, received, or realized in 2006.
- Married, Filing Separately for a married taxpayer. The Department will send a 2006 PA tax booklet in the name of the decedent and a separate 2006 PA tax booklet to the surviving spouse. On the 2006 return, the surviving spouse or other responsible person must file a signed separate return for the decedent as Deceased, reporting any income that the decedent earned, received, or realized in 2006.
- Final, for a taxpayer that died after Dec. 31, 2005 and had no PA taxable income (loss) in 2006.

Identification Label Change

Fill in this oval if any of the information on your label is wrong, or if you did not file a PA income tax return last year.

Farmers

Fill in this oval if you derived at least two-thirds of your 2005 gross income from farming.

PA INCOME CLASSES


Regardless of how you file your federal tax return, you report your income (losses) in the PA income classes in which you earned, received, or realized income or loss whether directly or through a partnership, PA S Corp, trust or estate. Read the instructions for each income class.

Line 1. Compensation – page 10

Line 2. Interest – page 13

Line 3. Dividends and Capital Gains Distributions – page 14

- Line 4. Net Income or Loss from the Operation of a Business, Profession, or Farm – page 15
- Line 5. Net Gain or Loss from the Sale, Exchange, or Disposition of Property – page 16
- Line 6. Net Income or Loss from Rents, Royalties, Patents, or Copyrights – page 17
- Line 7. Estate or Trust Income – page 18
- Line 8. Gambling and Lottery Winnings – page 18

 **FILING TIP:** Generally, other or miscellaneous income is either compensation on Line 1a, (see page 10), or business income on Line 4, (see page 15). If you cannot determine the income class, contact the Department for assistance.

TAXABLE INCOME FOR PA PIT PURPOSES:

The PA-40 *line number* on which to report the income follows each item. *Classify* means report the income in the appropriate PA income class based on all facts and circumstances. See PA PIT Guide for more information.

- Employer provided fringe benefits, unless excludable (*Line 1a*)
- Sick pay and disability benefits that represent regular wages, such as sick leave pay (*Line 1a*)
- Allowances and reimbursements in excess of allowable employee business expenses (*Line 1a*)
- The value of property received as payment for services (*Line 1a*)
- Delay damages received in connection with a court judgment or settlement to the extent that the payments represent back wages (*Line 1a*)
- Honoraria (*Line 1a*)
- Compensation as fees for performing services as an executor or an administrator of an estate or a director of a corporation (*Line 1a*)
- Severance pay (*Line 1a*)
- Incentive payments received for terminating employment before reaching normal retirement age (*Line 1a*)
- Awards and gifts given in recognition for, or given as a transfer of cash or property, in payment for past, present, or future service as an inducement to perform future services (*Line 1a*)
- Jury fees (*Line 1a*)
- Expert witness fees (*Line 1a*)
- Cash reimbursements for personal expenses, such as commuting and day care (*Line 1a*)
- A discharge of indebtedness, unless specifically excludable from taxable income (*Classify*)
- Damage awards and settlements to the extent that the payments represent back wages or another uncollected entitlement to PA taxable income (*Classify*)
- Covenants not to compete, or for refraining from the performance of services (*Classify*)
- Other income described in the PA income classes (*Classify*)

- Income for performing services as an executor or director when such services are undertaken as part of your business or profession (*Line 4*)

INCOME NOT TAXABLE FOR PA PIT PURPOSES:

- Social Security benefits and Railroad Retirement benefits
- Commonly recognized pension, old age, or retirement benefits paid after becoming eligible to retire, and retiring
- United Mine Workers Pension
- Military pension benefits
- Civil Service Annuity
- Unemployment compensation and public assistance
- Payments received under workers' compensation acts, occupational disease acts, or similar legislation; including Heart and Lung Pension
- Payments for injuries received while working, and damages received, whether by suit or otherwise, for personal injuries
- Sick pay and disability benefits, including payments by third party insurers for sickness or disability

NOTE: If your employer includes your payments for sickness, disability, and/or on-the-job injuries in box 16 of your Form W-2, provide a statement from your employer verifying the amount of these payments.

- Employer-paid group term life insurance premiums
- Damage awards and settlements from physical injury or sickness - pain and suffering, emotional distress
- Child support
- Alimony
- Inheritances, death benefits, and income in respect of a decedent (IRD) as defined for Federal Income Tax purposes
- Active-duty pay received as a member of the U.S. Armed Forces from the U.S. Government for service outside Pennsylvania (see page 38)
- Awards and gifts made from detached or disinterested generosity
- Personal use of an employer's owned or leased property and/or services, at no cost or at a reduced cost
- Federally taxable punitive damages received for personal physical injury or physical sickness, whether received by suit or by settlement
- Income from contracts of insurance for long-term care that do not have accumulated refundable reserves payable upon lapse or surrender

DIFFERENCES BETWEEN PA PIT AND IRS

For more information on all differences between Pennsylvania and the IRS, refer to the PA PIT Guide and the specific chapters related to the income class for which you have a question. The differences on the following page are the result of recent Pennsylvania and federal legislation.

American Jobs Creation Act of 2004

Many provisions of the 2004 American Jobs Creation Act do not apply for PA income tax purposes. Specifically, the provisions regarding the domestic production activities expense deduction; two year extension of additional Section 179 expense limitations; and immediate expensing of intangible costs for start-up expenses, organizational expenses, and syndication fees, may not be used in the computation of PA Personal Income Tax liabilities.

Depreciation - PA Limitations

- **Bonus Depreciation**

PA PIT law does not follow the federal allowances for additional depreciation expenses. You may not use either of the bonus depreciation elections enacted for federal purposes in 2002 and 2003.

- **ACRS and MACRS and IRC Section 179**

Pennsylvania allows ACRS and MACRS and limited IRC Section 179 (see this page), to the extent allow-

able under the version of the Internal Revenue Code in effect at the time the property was placed in service, or under Section 179 of the IRC of 1986, as amended to Jan. 1, 1997, whichever is earlier, but not any other accelerated method. 72 PS § 7303(a.3)(Act 89 of 2002.)

- **Limited IRC Section 179**

The maximum deduction that PA income tax law permits using IRC Section 179 is \$25,000. If you have income (loss) from more than one business, profession, or farm, you may not deduct more than a total of \$25,000 of IRC Section 179 expenses for all activities. You may not deduct in total more than \$25,000 for all business activities.

- **Other Differences**

You must adjust your federal expense for the difference between your federal depreciation and your depreciation for PA PIT purposes, when you elect a different generally accepted method that you consistently use.

PA-40 LINE INSTRUCTIONS

Costs, Expenses, and Deductions

PA law does not allow any personal expenses, itemized deductions, personal exemptions, or standard deductions. You may only deduct the PA allowable costs and expenses that you directly incur in earning or receiving income.

CAUTION: PA taxable interest income (Line 2), dividend income (Line 3), and gambling and lottery winnings (Line 8) are gross taxable income classes. You may not deduct any expenses to compute income in these classes. See the reporting instructions for each class of income.

Cost Recovery

PA law does not permit deductions or exemptions for contributions to retirement plans, tuition account programs, investments in annuities, mutual funds, money market funds, and other personal contributions, even when deducted or exempt for federal purposes. Therefore, Pennsylvania will not tax your distributions or the payments you receive until you have recovered an amount equal to your previously taxed contributions. Maintain your records of your contributions. If you receive an early taxable distribution from a retirement plan, and you do not have records of your contributions, consult your plan administrator.

Education Savings Accounts - Qualified IRC Section 529 Plans (Private or Another State)

Withdrawals which exceed contributions from private programs and programs of other states are taxable income for PA Personal Income Tax purposes, even when used for education.

You report PA taxable earnings from an education savings plan as interest income on PA Schedule A, as dividend income on PA Schedule B, or as gain on PA Schedule D, depending on the organization of the program in which you participated. Review the contract and other information to

determine the proper PA income class. You use cost recovery accounting to report your income—see this page.

Pennsylvania Tuition Account Program (TAP)

If you use the proceeds from a PA TAP account for qualified education expenses, the income your contributions earned while in the TAP is not taxable for PA tax purposes. However, when you, or your beneficiary, do not use the proceeds for qualified education expenses, or when you terminate the plan early, you must report the income you realized.

LINE 1a. GROSS COMPENSATION

Overview: PA taxable compensation includes, but is not limited to: salaries; wages; tips; gratuities; commissions; bonuses; incentive payments; vacation and holiday pay; certain early distributions from retirement plans; and termination pay. The amount your employer reports in box 16 of your Form W-2 shows your PA taxable compensation. If you receive Forms 1099 or other statements, your PA taxable compensation is the gross amount that you received for performing services.

The amount in box 16 of your Form W-2 may be different from the amount in box 1. PA law requires your employer to follow PA income tax rules to determine box 16. If you have any questions, contact your employer.

W-2 Wage and Tax Statement

For reporting PA taxable compensation, you have these options:

- Complete PA Schedule W-2S, Summary of PA Taxable Employee, Miscellaneous, and Non-employee Compensation. See the instructions on page 23 and When to Submit Form(s) W-2 on the next page; or

- Submit photocopies of your state copy of each Form W-2 on 8-1/2 X 11-inch paper. You may photocopy more than one Form W-2 on each sheet, but the form must be legible; or
- Submit your actual state copy of Form(s) W-2.

Report your PA compensation and withholding from each 2005 Form W-2 from each employer. Enter your PA taxable compensation from box 16 of your 2005 Form(s) W-2. Do not use box 1, Federal Wages. Report your PA income tax withheld from box 17 of each Form W-2 on Line 13 of your PA-40. Do not report federal income tax withheld, or income tax withheld or paid to another state or country, or income tax withheld and paid to any local tax authority.

When to Submit Form(s) W-2

Submit an actual state copy or a legible photocopy of each state copy of Form W-2 (keep the original for your records) and a written explanation if:

1. The PA compensation you enter on Line 1a of your PA-40 is not the same as box 16 on your Form W-2.
2. Your employer gave you a handwritten Form W-2.
3. Your employer reported an incorrect amount on your Form W-2. You must also submit a written statement from your employer.
4. Your employer withheld PA income tax from your wages at a rate that is more than the 2005 tax rate of 3.07 percent.
5. You are a resident of a reciprocal compensation agreement state and your employer withheld PA Income Tax.
6. The Medicare wages in Box 5 on your W-2 are greater than your PA wages in Box 16.
7. You are a PA resident working in another state and did not have PA income tax withheld by your employer.

NOTE: If you do not have a Form W-2 or a federal substitute W-2, Form 4852, you must submit evidence of your PA compensation and tax withheld by providing pay stubs and a statement identifying your employer and the reason you do not have a Form W-2. Please submit legible photocopies. Keep your original documents.

Reciprocal Compensation Agreement States

Pennsylvania has agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Generally, under these agreements, one state will not tax a resident of the other state on compensation that is subject to employer withholding. These agreements apply to most types of W-2 compensation earned while a resident of the reciprocal compensation agreement state. It does not apply to miscellaneous and non-employee compensation; compensation earned while a PA resident and received while a resident of the reciprocal compensation agreement state; or compensation paid to Ohio resident shareholder-employees with a 20 percent or greater interest in a PA S-corporation who worked or performed services in Pennsylvania in 2005.

If you are a PA resident working in one of these states, and your employer withheld the other state's income tax, you must file for a refund from that state.



FILING TIP: File early so you will have your refund before the due date for paying your PA tax liability.



IMPORTANT: If you earn at least \$8,000 in the other state, and your employer doesn't withhold PA income tax, under PA law you may have to make estimated payments. Please read the information on page 20. If this is your situation, you are liable for Estimated Underpayment Penalty. See the instructions for Line 26 on page 20.

Resident for a Reciprocal State Filing for a Refund

If you are a resident of a reciprocal state working in Pennsylvania and your employer withheld PA income tax, you may request a refund of the PA tax. You report zero taxable compensation on Line 1a, and the PA tax withheld on Line 13. Submit a legible photocopy of your Form W-2, a signed copy of the resident income tax return that you filed with your resident state (without the supporting forms and schedules), and a statement explaining that you are a resident of a reciprocal state.

Reimbursable Expenses/Cash Reimbursements for Personal Employee Expenses

PA allowable employee expenses are not always the same as allowable federal business expenses. Read the instructions beginning on page 23. You must be able to substantiate travel expenses as to time, place and business purpose.

Report all reimbursements and allowances paid by your employer as compensation unless you meet all three of the following requirements:

1. The expenses are PA allowable employee business expenses; and
2. You must, and do, account for these expenses to your employer; and
3. Your employer reimburses you in the exact amount of the allowable business expenses.

If you receive a fixed-mileage allowance or a per diem living expense allowance that does not exceed applicable federal limits, you meet these requirements. Do not report these expenses on PA Schedule UE.

Retirement, Pensions, and Deferred Compensation

• Eligible Employer-Sponsored Retirement Plans

Pennsylvania does not impose income tax on payments you receive that are commonly recognized retirement benefits distributed from eligible employer-sponsored retirement plans. Eligible employer-sponsored retirement plans can, but do not necessarily, include employer-sponsored deferred compensation plans; pension or profit sharing plans; 401(k) plans; thrift plans; thrift savings plans; and employee welfare plans. Ask your employer or plan administrator if your employer's retirement plan is an eligible plan for PA income tax purposes. Eligible nonemployer-sponsored retirement plans can, but do not necessarily, include Individual Retirement Accounts (IRAs) and Roth IRAs.

- **Contributions**

The contributions you make to your employer's sponsored retirement plan are PA taxable compensation, even if your contributions are not taxable for federal purposes.

- **Distributions from Employer-Sponsored Deferred Compensation Programs**

All amounts you receive from your employer's PA qualifying retirement or old age benefit plan are taxable in the year you receive the payments, except:

1. Payments you receive after you qualify for retirement and retire.
2. Payments you receive that you rollover into another deferred payment program or retirement IRA, but only when the transferred amounts are not taxable income for federal purposes.
3. Distributions from an employer-sponsored deferred compensation plan that represents your previously taxed contributions.
4. Payments paid to the estate or designated beneficiary upon an employee's death are not PA taxable income on the employee's final PA-40 or on the decedent's estate or trust PA-41, PA Fiduciary Income Tax Return or on the beneficiary's PA-40.

Individual Retirement Accounts

- **Contributions**

PA law does not allow you to deduct your contributions to any IRA.

- **Undistributed Income**

You do not report the undistributed interest and other earnings on the assets held in your IRA.

- **Withdrawals**

Distributions from an IRA, including a federal Roth IRA, are taxable to the extent the distribution exceeds your previously taxed contributions. Distributions you receive after retiring but before age 59½ are taxable even if you receive substantially equal payments, and you do not pay the federal penalty for an early withdrawal. PA law does not have any exceptions similar to the federal exceptions for withdrawal before age 59½. However, distributions from an IRA are not taxable if the payments are:

1. Received, including lump sum distributions, on or after retirement, and after reaching the age of 59½.
2. Paid to the estate, or designated beneficiary, of the participant because of the participant's death.

- **Roth IRA Rollover**

You do not have to pay PA tax on the difference between the amount distributed from your traditional IRA and your previously taxed contributions:

1. If you rolled over the entire withdrawal directly (trustee to trustee) from the traditional IRA to the Roth IRA, or

2. If you withdrew from the traditional IRA and within 60 days invested the entire (100 percent) amount you received into a Roth IRA.

Early Retirement Incentive Plans

Payments you receive as an inducement to retire early are taxable compensation. Such payments are not part of a PA qualifying retirement program. Your employer includes these incentive payments on your Form W-2 and withholds PA tax. Even when you move out of Pennsylvania, these incentive payments remain taxable to Pennsylvania.

- **Distributions**

If you withdrew from your retirement or pension plan, and received a Form 1099R, you may have PA taxable compensation if:

1. Your retirement plan is not an eligible Pennsylvania retirement plan; or
2. If you have not reached the retirement age or years of service requirements under such eligible Pennsylvania retirement plan.

Non-Qualified Deferred Compensation Programs

With certain exceptions, Pennsylvania's constructive receipt rules are now the same as the Federal constructive receipt rules to determine when compensation is received by a cash basis taxpayer. Following the Federal constructive receipt rule, deferrals to nonqualified deferred compensation plans are not included in compensation. However, compensation now includes distributions from nonqualified deferred compensation plans attributable to an elective deferral of income, regardless of whether the distributions are paid during employment or retirement.

Federal Form 1099R

The PA PIT Guide contains a table which cross-references the information on the Form 1099R with its corresponding PA income tax treatment. PA law does not follow federal law concerning early retirement options for Individual Retirement Accounts, IRC Section 401 plans, 403 plans, and other federally qualified plans. To determine if the amount you received is taxable in Pennsylvania, review boxes 1 through 3 (the amount you received or your distributions) and the PA tax treatment of box 7 (the codes that will help determine the taxability of your distribution). The Federal Codes contained in box 7 of Form 1099R include:

- **Code 1 & 2 Early Distribution**

This distribution is taxable for PA purposes, unless: (1) your pension or retirement plan was an eligible plan for PA tax purposes, and (2) you retired after meeting the age conditions of the plan or years of service conditions of the plan. If your plan was not an eligible plan, or if you have not attained the age or years of service required under the plan to retire, you must determine the PA taxable amount of your distribution. You must use the cost recovery method to determine this amount. See page 10 for additional information.



IMPORTANT: If you are not sure whether your plan was an eligible retirement plan under PA tax law, ask your plan administrator.

• **Code 3 or 4 Death/Disability Distribution**

This is a distribution due to death and/or disability. A distribution due to death is not taxable for PA purposes. A distribution due to disability generally is not taxable for PA purposes.

• **Code 7 Normal Distribution**

This distribution from an eligible Pennsylvania retirement plan is not taxable if you met the plan requirements (the age and/or years of service required by the plan) for retirement, and retired after meeting those requirements.

CAUTION: The distributions you take from annuities are taxable for PA tax purposes. If taking distributions from annuities for which you receive a Form 1099R, see the instructions on page 14 for reporting your PA taxable income.

The State Employees' Retirement System, the Pennsylvania School Employees' Retirement System, the Pennsylvania Municipal Employees Retirement System, and the U.S. Civil Service Commission Retirement Disability Plan are eligible Pennsylvania retirement plans and all distributions are exempt from PA Personal Income Tax. Retired or retainer pay of a member or former member of a uniform service computed under Chapter 71 of Title 10, United States Code as amended is also exempt from PA Personal Income Tax.

• **Code G or H Rollover**

This is a rollover from one qualified fund to another and is not taxable for PA purposes. See IRA Distributions below.

• **Boxes 8 or 9b**

Distributions listed in these boxes are distributions from an insurance policy or annuity purchased for your retirement. Such distributions are not taxable if: (1) your insurance policy or annuity was from an eligible plan for PA tax purposes; and (2) you retired after meeting the age or years of service conditions of such eligible plan. If you do not meet these requirements, the taxation of your distributions must be determined under the cost recovery method. See page 10 for additional information. This distribution is taxable as a gain on PA Schedule D, not as compensation on Line 1a.

• **Boxes 10 and 11**

If there is state withholding noted in box 10 of the 1099R and the state indicated in box 11 is PA, please include a copy of the 1099R with your return.

IRA Distributions (60-day rollover rule)

If you received a distribution from an IRA (before age 59½ and retiring) and rolled the entire distribution (100 percent) into a Roth IRA directly, or within 60 days, the distribution is not taxable income for PA purposes. 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.



IMPORTANT: If you are 59½ years of age, but did not retire, you must report your IRA distributions on a cost recovery basis until you retire. If you retired, but did not reach age 59½, you must report your distributions on a cost recovery basis until you reach age 59½.

Annuities

See Annuities, Life Insurance, or Endowment Contracts on page 14.

LINE 1b. UNREIMBURSED EMPLOYEE BUSINESS EXPENSES

Review the instructions beginning on page 23 to determine if you can deduct expenses from your PA taxable compensation. Follow the instructions. PA law does not follow federal law for allowable employee business expenses.

EXAMPLE: You may deduct 100 percent of your PA allowable expenses on the PA Schedule UE.

If claiming expenses on PA Schedule UE, briefly describe your occupation or job in the space provided. If your spouse also has expenses, describe his or her occupation or job on a separate PA Schedule UE.



IMPORTANT: The Department has the legal authority to request evidence that your expenses are allowable for PA purposes.

LINE 1c. NET COMPENSATION

Subtract Line 1b from Line 1a.

LINE 2. INTEREST INCOME

Report all PA taxable interest income received or credited during the year. Generally, Forms 1099-INT and similar statements from financial institutions show the interest amount. You do not have to submit these forms and statements. Include interest income from personal savings and checking accounts, insurance contracts, obligations of other states (not Pennsylvania), and investments. If your interest income is more than \$2,500, complete and submit PA Schedule A. See the instructions on page 27.

Do not report interest income from direct obligations of the U.S. Government, the Commonwealth of Pennsylvania, and political subdivisions of Pennsylvania. For a list of exempt obligations, obtain Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes (Form REV-1643) from one of the Forms Ordering Services on page 3.

How to Classify Interest Income

You must classify interest, regardless of how you report the income for federal purposes. Report personal interest on Line 2. Otherwise, include interest:

- From business accounts, working capital interest, and accounts receivable in determining profit (loss) on a PA business schedule;
- From installment sales on PA Schedule D-1; and
- From rental security deposits in determining income (loss) on PA Schedule E.

Money Market Funds, Mutual Funds, and Other Investment Companies

Include the earnings distributed to you (other than withdrawals of your previously PA-taxed contributions) as dividend income on Line 3.

Annuities, Life Insurance, or Endowment Contracts

If you invested in an annuity, including a retirement annuity that is not part of an employer-sponsored retirement program, you may have PA taxable income when you begin receiving annuity payments. If you are required to report an amount from an annuity for federal income tax purposes, you are required to report the amount as interest income for PA PIT purposes. Also, if you are required to report an amount from a life insurance and endowment contract for federal income tax purposes, you are required to report the amount as interest income for PA Personal Income Tax purposes.

Forfeited Interest Penalty

You may offset the penalty for premature redemption or withdrawal of a time savings account or certificate of deposit, only against the interest income you received in the same taxable year from that account or certificate. You cannot offset this penalty against other interest income. If your total penalty exceeds the related interest income, you may report the excess as a loss on PA Schedule D.

LINE 3. DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS FROM MUTUAL FUNDS

Report all dividend income received or credited during 2005. You do not have to submit your Forms 1099-DIV and other statements. If your dividend income is more than \$2,500, you must complete and submit PA Schedule B. See instructions for this schedule on page 27.

Capital Gains Distributions

Report capital gains distributions from your mutual funds from Box 2a of your 1099-DIV as PA taxable dividend income, even though you report such distributions as capital gains on Federal Schedule D. You cannot substitute a Federal Schedule B for PA Schedule B.

How to Classify Dividend Income

You must classify dividend income, regardless of how you report the income for federal purposes. Report personal dividends on Line 3. Otherwise, include dividend income from business accounts and working capital dividend income in determining profit (loss) on your PA business schedule.

PA Resident Shareholders in Another State's S Corporation that is not also a PA S Corporation

If you are a shareholder in another state's Subchapter S corporation, and that corporation did not elect PA S status, include the cash or property you actually received out of the corporation's earnings and profits as dividend income on Line 3. If you received distributions in excess of the corporation's earnings and profits, report these distri-

butions on PA Schedule D. Do not report the amount of your distributable income, and do not submit the Federal Schedule K-1. A shareholder may not claim a credit for income tax paid to another state by an S corporation that did not elect PA S status.



FILING TIP: You must include nontaxable interest and dividends as Eligibility Income on PA Schedule SP.

REPORTING NET INCOME, GAINS, AND LOSSES ON LINES 4, 5, AND 6 ONLY

Under PA law, losses may only be reported on Lines 4, 5, and 6. If entering a loss, fill in the oval next to the line.

REMEMBER: You may not offset income in one PA income class with a loss in any other PA income class. You cannot carry forward or carry back gains or losses to other tax years.

Spouses, whether filing jointly or separately, may not use each other's expenses to reduce income or offset each other's income and losses.

If you are married, you and your spouse may file a joint tax return for convenience only. PA law does not provide any advantage when filing a joint return. PA law does not allow spouses to offset income and losses with each other, even when both have activity in the same income class. You must follow these rules:

1. If each realizes a net profit, gain, or income, add the net income amounts together and report that total on the appropriate line.
2. If each realizes a net loss, add the net losses and report that total on the appropriate line. Fill in the oval next to that line.
3. If one spouse has a net profit, income or gain and the other spouse has a net loss, report only the net income on the appropriate line. Do not take into account the spouse's loss.

EXAMPLES:

Line 4. Mary and Ben file a joint tax return. Mary owned a flower shop, and realized a net profit of \$5,000. Ben was a shareholder in a PA S corporation, and received a PA Schedule RK-1 reporting \$35,000 of business income. They jointly owned a small retail store and realized a loss of \$8,000. They report \$32,000 on Line 4 from Mary's net income of \$1,000 (\$5,000 less her half of the \$8,000 loss), plus Ben's net income of \$31,000 (\$35,000 less his half of the \$8,000 loss).

Line 5. They sold the retail store for a \$6,000 loss. Mary sold stock that she owned individually for a \$9,000 gain. Ben sold stock that he individually owned for a \$3,000 loss. On Line 5, they report a gain of \$6,000. Mary's net gain is \$6,000 (\$9,000 less her half of the \$6,000 loss). Ben's net loss is \$6,000 (his \$3,000 stock sale loss and his half of the \$6,000 loss on the sale of the store). Since Ben's separate loss may not reduce Mary's gain, they report a gain of \$6,000 on Line 5.

Line 6. They jointly owned a rental property and realized a loss of \$2,000. Mary was a partner in a rental partnership and her share of the partnership's loss was \$1,000. Ben's PA S corporation realized a loss from its rental operations. His share of the loss was \$4,000. Mary's total loss was \$2,000 and Ben's total loss was \$5,000. On Line 6, they report the total loss of \$7,000 (and fill in the oval) since they each individually realized a total net loss.

PA Taxable Income. On their jointly filed 2005 tax return, they report total taxable income of \$38,000: Line 4 of \$32,000 and Line 5 of \$6,000, not taking into consideration their Line 6 loss of \$7,000.

PA AND FEDERAL SCHEDULES

Submit the required Pennsylvania or allowable federal schedule for each amount you report on Lines 4 through 8. Read the instructions for each income class carefully.

CAUTION: If you do not provide the required schedules, the Department will need to request the missing information and delay the processing of your tax return.

PARTNERSHIP AND PA S CORPORATION PARTNERSHIP MEMBERS

PA Schedules RK-1 and NRK-1. These schedules show your share of income (loss) for each PA income class. If you received any guaranteed payments, add those payments to your share of income (loss) as shown on your Pennsylvania schedules. The partnership or PA S corporation deducts all allowable expenses and other allowable adjustments. If your partnership or PA S corporation requires that you incur direct business expenses, and the expenses are allowable unreimbursed expenses for PA purposes, you must itemize them on a separate statement. You cannot deduct any personal expenses or expenses that you incur for your own convenience.

PA Resident Partner and/or Shareholder. If you are a partner in a partnership or a shareholder of a PA S corporation, you should receive a PA Schedule RK-1. You must submit a copy of each PA Schedule RK-1 and report your share of income whether distributed or not as shown on your PA Schedule(s). If the partnership does not provide a PA Schedule RK-1, you still must report and classify the income (loss) from the Federal Schedule K-1 according to the instructions for each PA income class. You must also submit a copy of your Federal K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the Federal K-1.

Nonresident Partner and/or Shareholder. If you are not a resident of Pennsylvania, but are a partner in a PA partnership or a shareholder of a PA S corporation, you should receive a PA Schedule NRK-1. You must submit a copy of each PA Schedule NRK-1 and report your share of PA taxable income (loss) whether distributed or not as shown on your PA schedule(s). If the partnership does not provide a PA Schedule NRK-1, and the partnership has income (loss) from PA sources, you still must report and classify the

income (loss) from your Federal Schedule K-1 according to the instructions for each PA income class. You must also submit a copy of your Federal K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the Federal K-1. If the income (loss) is being reported to PA from a Federal K-1 and the income (loss) is not 100 percent of the amount from the Federal K-1, a schedule or written explanation should be submitted along with the Federal K-1 explaining how the amount reported was determined.

LINE 4. NET INCOME OR LOSS FROM THE OPERATION OF A BUSINESS, PROFESSION, OR FARM

Report all income (losses) from business, farm, and business activity from partnership and PA S corporation schedules. You may offset your own income against your own loss or losses from other business activities. If reporting a total net loss, fill in the oval next to Line 4 on your PA-40.

For PA purposes, determine net income (loss) under accepted principles and practices of the accounting profession. Report your net income (loss) from an unincorporated business or profession on PA Schedule C. File a PA Schedule C or a PA Schedule F using your separate books and records for PA purposes. You may be able to submit a PA Schedule C-EZ, if you file a Federal Schedule C-EZ.

NOTE: These PA schedules are not in this booklet. You can obtain the schedule(s) you need from one of the Forms Ordering Services on page 3.

If you do not maintain separate books and records for Pennsylvania, you may submit your federal schedule with your PA-40, only if you do not have to adjust your federal amounts to comply with the specific differences between federal law and PA law.

Generally, you must adjust your federal amounts for PA tax purposes. These adjustments can increase or decrease your PA taxable income (loss). You must maintain appropriate records of such adjustments. Submit a PA Schedule C-F, and make the income and/or expense adjustments that PA law requires. See the instructions beginning on page 28. If you use PA Schedule C-F, do not submit your federal schedule.

If you submit a Federal Schedule C or F, you must itemize and show your adjustments for PA purposes. Visit the Department's Web site at www.revenue.state.pa.us to obtain detailed information about federal and Pennsylvania differences and adjustments.

Reporting Rental Income (Loss) as Business Activity on Line 4 or as Rents on Line 6

Rental activity may be a business activity if meeting the conditions described below. If in business, you report your net profit (loss) on a PA Schedule C. If not in the business of rents, you report your rental activity on a PA Schedule E on Line 6. You report rental business when:

1. You offer the use of your property with the intention of realizing a profit; and
2. The leasing of your property is characterized by regularity and continuity of activities; and
3. You offer the use of your property on a commercial basis to others in a marketplace and at least one of the following applies:
 - The average period of customer use is 30 days or less; or
 - The property is customarily made available for use only during defined business hours; or
 - In addition to the property, the taxpayer also provides significant services (see explanation below) to the lessee; or
 - The taxpayer incurs significant operating expenses in making the property available for lease; or
 - The leasing activity is incidental to a real estate sales business.


Significant Services

Providing housekeeping service, room service, valet parking, decorating assistance, delivery services, transportation services, and concierge services are significant services.

However, providing heat, lighting, electric service, elevators, cleaning public access and exit areas, collecting trash, and maintaining the property in a usable rental condition are not usually significant services.

LINE 5. NET GAIN OR LOSS FROM THE SALE, EXCHANGE, OR DISPOSITION OF PROPERTY

Report your gain (loss) from each sale, exchange, or disposition of any kind of intangible property and any real or tangible property. Report your share of the gains (losses) from a partnership or PA S corporation in which you are a member. Report your total net gains (losses) on PA Schedule D.

 **IMPORTANT:** PA law does not distinguish between long-term and short-term gain (losses) or have provisions relating to casualty losses, sales to related parties, and nonrecognition of gains (losses) under IRC Section 1031 (like-kind exchanges). PA law does not allow the installment sale method of reporting for the sale of intangible property, such as stock.

You may offset your own net gains against your own losses in determining this line. If married and you both have income (losses) in this class, see REPORTING INCOME, GAINS, AND LOSSES ON LINES 4, 5, AND 6 beginning on page 14. If you realize an overall net loss, fill in the oval next to Line 5 on your PA-40.

On PA Schedule D, report gains (losses) from selling:

- Land and buildings
- Properties held for investment, including rental properties
- Stocks and bonds

- Ownership interests in partnerships and business enterprises
- A business asset in a transaction that is not an ordinary or recurring business transaction
- Obligations of other states and countries

Also, include on the following PA Schedule D:

- Amounts from PA Schedules D-1, D-71, D (P/S), RK-1, and NRK-1.
- Proceeds from an insurance company demutualization.
- Sales of inherited property. The basis of inherited property is its fair market value at the date of death.
- A distribution from a C corporation (other than a dividend) that exceeds your adjusted basis in that corporation. Please see the instructions for Line 4 of PA Schedule D on page 30.
- A distribution from a Pennsylvania Tuition Account Program (TAP). Please see page 10.
- A distribution from an education savings account (whether private or another state), whether used for education or not. Please see page 10.
- A distribution from a Medical Savings Account - report the same amount that is taxable for Federal Income Tax purposes.
- A nonqualifying sale of your principal residence - obtain PA Schedule 19, Sale of a Principal Residence.
- A distribution from a partnership or PA S corporation (other than dividends) that represents a return of your investment in that entity. You must determine if such a distribution results in a taxable gain by completing and submitting the PA Schedule D (P/S). Request this schedule from one of the Forms Ordering Services on page 3.

Loss on the Disposition of Property

PA law recognizes a loss only on a transaction entered into for profit, and only in the year in which an identifiable event closed and completed the transaction and fixed the amount of the loss so there is no possibility of any eventual recovery. Do not report a loss on the sale of property that you did not acquire for profit, such as a personal car, furniture, or a qualifying sale of your principal residence.

Capital Gains Distributions

Report capital gains distributions received from mutual funds as PA taxable dividend income, even though you report such distributions as capital gains on Federal Schedule D. See page 14 for more information.

Exchange of Insurance Contracts

Do not report the gain (loss) on the sale, exchange, or disposition of any insurance contracts that are tax exempt for federal income tax purposes under IRC Section 1035. Tax exempt exchanges of insurance contracts include:

LINE 6. NET INCOME OR LOSS FROM RENTS, ROYALTIES, PATENTS, OR COPYRIGHTS


- An exchange of a life insurance contract for another life insurance contract, an endowment contract or an annuity contract;
- An exchange of an annuity contract for another annuity contract;
- An exchange of an endowment contract for an annuity contract; and
- An exchange of one endowment contract for another endowment contract if the dates for payments begin on or before the original contract's payment dates.

If the exchange of contracts has the effect of transferring property to a non-U.S. citizen, the gain or loss is not tax exempt. If you receive cash or other boot in an exchange of contracts, see the PA PIT Guide.

Exempt Obligations Originally Issued before Feb. 1, 1994


Do not report the gain (loss) realized on the sale, exchange, or disposition of the following obligations, if the original issue date was before Feb. 1, 1994, regardless of the date you acquired the obligation:

- Direct obligations of the U.S. Government, such as federal treasury bills and treasury notes;
- Obligations of certain agencies, instrumentalities, and territories of the U.S. Government; and
- Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions.

 **IMPORTANT:** You may not use any loss realized on the disposition of the above obligations to offset other gains.

Exempt Obligations Originally Issued on or after Feb. 1, 1994

Report the gain (loss) realized on the sale, exchange, or disposition of the above obligations, if the original issue date was on or after Feb. 1, 1994. Report all such gains and use any losses to offset other gains.

 **IMPORTANT:** You must report all such gains and can use any losses to offset other gains.

Sale of Your Principal Residence

If you sold your principal residence in 2005 and meet the requirements for the 100 percent gain exclusion, do not report the sale on your tax return. This exclusion is not identical to the federal exclusion. Generally, if during the five years preceding the sale of your home, you owned it for at least two years, and used it as your principal residence for at least two years, you are eligible for this exclusion.

For more information, request the brochure Sale of Your Principal Residence (REV-625) and PA Schedule 19, Sale of a Principal Residence.

CAUTION: If you sold your principal residence, but you do not qualify for the exclusion, report your gain or enter zero if you realized a loss on PA Schedule D.

Rental income includes the amounts you receive for the use of, or the right to use, your real or personal property.

Royalty income includes the amounts you receive for the extraction of coal, oil, gas, or other minerals in place, and the amounts that you receive for the use of your patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and similar property.


If in the business of renting your property, you report your net profit (loss) on a PA Schedule C. Please see page 15, Reporting Rental Income (Loss) as Business Activity on Line 4 or as Rents on Line 6.

Gross rents and royalties include all items of gross receipts as described above except:

1. Receipts from the sale, exchange, or other disposition of rental, royalty, and similar property; and
2. Receipts from operating an oil, gas, or mineral interest as a business, profession, or farm, or otherwise derived in the ordinary course of, and from the operation of, a business.

Report the total income (loss) from all PA Schedules E and all PA Schedules RK-1 or NRK-1. Generally, you must use PA Schedule E. You may use Federal Schedule E, if using only Part I, and with the following adjustments:

- Report passive rental/royalty loss in full, rather than carry it over to future years.
- Add any capital gains and distributions that you report on other federal schedules.
- Do not take any depreciation expense on Sales Tax that you elected to currently expense for PA Personal Income Tax purposes.
- Optional: Deduct Sales Tax on acquired property as an expense currently rather than add it to the basis of the property as required for federal purposes.

 **IMPORTANT:** If you currently expense such Sales Tax, the basis of that property will differ from the federal basis, and you must adjust your depreciation expense accordingly. You cannot expense Sales Tax and still take depreciation on the Sales Tax. If you do not expense Sales Tax, you may add such Sales Tax to the cost basis of the property and depreciate the aggregate cost plus Sales Tax.

- You must separately show your share of any rental or royalty gain (loss) that you realize as a partner, a shareholder of a PA S corporation, or other entity.

You may only offset your own net income and losses in determining the amount to report on this line. If married and you both have income (losses) in this class, see REPORTING INCOME, GAINS AND LOSSES ON LINES 4, 5, AND 6 beginning on page 14. If you realize a total net loss, fill in the oval next to Line 6 on your PA-40.

CAUTION: Generally, PA law follows IRC Section 280A if you rent or lease your property, but do not intend to realize a profit. Therefore, your rental expenses are limited to your rental income, and you may not use a loss. If you rent or lease your property to realize a profit, read the description of Rental Income (Loss) on Line 6 or Net Profit (Loss) on Line 4 below to determine if you have a business activity that you should report on PA Schedule C.

Rental and Royalty Allowable Expenses

You deduct those expenses that you paid or incurred during the taxable year that are ordinary and necessary for:

1. The production of, or collection of, rents and royalties; or
2. The management, conservation, or maintenance of rents, royalties, patents, copyrights, and similar property.

See the PA Schedule E instructions beginning on page 30 for the allowable expenses. You may not deduct expenses for your own labor, capital investment, or capital improvements. You recover costs associated with capital improvements through depreciation deductions. You may not deduct personal expenses or that part of any expense that is personal.

Rental Income (Loss) on Line 6 or Net Gain (Loss) on Line 5

- **Lease with an Option to Buy.** A lease with an option to buy may be a purchase contract under accepted accounting principles and practices. If it is, the payments you received under the contract are payments of the purchase price and are not includable as rental income. Report such income on PA Schedule D.
- **Selling Mineral Interests, Patents, or Copyrights.** If you gave up all rights to mineral interests, patents, or copyrights, the amounts you received are considered payments for the sale or exchange of property. Report such income on PA Schedule D.

LINE 7. ESTATE OR TRUST INCOME

As a beneficiary of an estate or trust, you report the total PA taxable income that the estate or trust must distribute, pay, or credit to its beneficiaries on PA Schedule J. You cannot report a loss as a beneficiary for PA purposes.

CAUTION: You should receive a PA Schedule RK-1 or NRK-1 from the estate or trust. If you received a Federal Schedule K-1, you must report only the total income, not taking into account any losses, shown on the Federal Schedule K-1. Add the total of income reported on Federal Schedule K-1 as interest, dividends, long-term and short-term gains, annuities, royalties, trade or business income, rental income, etc. If you included any of these amounts on a PA schedule, other than PA Schedule J, adjust your PA schedule(s) accordingly. Include a photocopy of the Federal K-1 with your return for each nonresident estate or trust and/or each estate or trust for which you fail to receive a PA Schedule RK-1 or NRK-1.



FILING TIP: Cash and property you acquire from an estate or trust by gift, bequest, devise, or inheritance is not taxable. You must report any PA taxable income that you subsequently earn or receive from that cash or property.

Revocable Trusts

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

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

If you establish a revocable trust, report the income/loss that you earned, received, and realized in the PA income class in which the revocable trust earned, received, or realized the income/loss. Do not report the amounts on PA Schedule J.

When submitting supporting schedules and statements showing the name of the trust, write REVOCABLE clearly on the schedule.

Grantor Trust

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

LINE 8. GAMBLING AND LOTTERY WINNINGS

PA law imposes its income tax on PA residents on all gambling and lottery winnings from any source, except prizes from playing the Pennsylvania State Lottery. As a PA resident, you must include lottery winnings from other states and countries.

PA law imposes its income tax on nonresidents on all gambling and lottery winnings from PA sources, except prizes from playing the Pennsylvania State Lottery.

Gambling and lottery winnings include cash, the value of property (automobiles, jewelry, electronic devices, appliances, clothes, etc.), the value of the use of property (trips, vacations, airline tickets, cruises, etc.), and other items of value. You may only deduct your costs of gambling, wagering, betting, and playing lotteries from your winnings. You may not deduct any expenses (programs, tip sheets, travel, meals, lodging, etc.) that you incurred to take part in gambling, wagering, betting, and lottery activities.



IMPORTANT: You may not deduct the cost of PA State Lottery tickets from other PA taxable gambling and lottery winnings.


Powerball

If you purchase a Powerball ticket in Pennsylvania, whether a PA resident or not, any prize awarded by the Pennsylvania Lottery is not taxable. If you are a PA resident and purchase a Powerball ticket in another state, any prize you win is PA taxable income.

Report your PA taxable winnings on PA Schedule T. Spouses must report their winnings separately. The payers of prizes provide the Department with copies of the Federal Forms W-2G that they submit to the IRS.

LINE 9. TOTAL PA TAXABLE INCOME

Add only the positive income amounts from Lines 1c through 8. Do not add, subtract, or take losses into consideration.

 **IMPORTANT:** You cannot use a loss that you report in one income class on your tax return to reduce income in any other class.

LINE 10. MEDICAL SAVINGS ACCOUNT

Pennsylvania follows federal rules for this deduction. If you can take this deduction on your federal income tax return,

you may use Line 10. Please refer to the PA PIT Guide for additional information. If married, filing separate returns, only one spouse may take this deduction. The amount you report on Line 10 cannot exceed the federal limits.

CAUTION: Do not report any medical insurance premiums or itemized medical expenses from Federal Schedule A on this line.

LINE 11. ADJUSTED PA TAXABLE INCOME

Subtract Line 10 from Line 9.


LINE 12. PA TAX LIABILITY

Multiply Line 11 by 3.07 percent (0.0307).


PAYMENTS AND CREDITS

LINE 13. TOTAL PA TAX WITHHELD

Enter your total PA tax withheld from your PA Schedule W-2S/MC or from box 17 of your Form(s) W-2.

 **IMPORTANT:** If your PA tax withheld is more than 3.07 percent, you must submit your Form W-2, or a legible photocopy, and a written explanation why your employer withheld at a higher rate. The Department may also request an explanation from your employer.


Estimated Payments and Credits

 **FILING TIP:** Visit the Revenue e-Services Center at www.revenue.state.pa.us or call the Department's FACT and Information Line at 1-888-PATAXES (728-2937) and verify your 2005 PA estimated payments and carry-over credit before completing Lines 14, 15, and 16.

If filing separately with a joint estimated account, the Department may delay one return until the other processes. If your estimated payments are not properly posted to your account, request and file Consent to Transfer, Adjust, or Correct PA Estimated Personal Income Tax Account (Form REV-459B). Both spouses must sign this form. The Department will apply your estimated payments according to your written request.

LINE 14. CREDIT FROM YOUR 2004 PA INCOME TAX RETURN

Enter your credit from your 2004 PA tax return.

 **IMPORTANT:** Do not claim the credit if you originally requested the credit be carried over to your 2005 PA estimated account and you subsequently requested a refund, or if you received a refund of your carryover credit from the Department. Also, if your account was adjusted by the Department or the Department assessed you for a previous year(s) underpayment, do not claim the credit.

LINE 15. 2005 ESTIMATED INSTALLMENT PAYMENTS

Enter your total 2005 estimated payments. Include your spouse's 2005 estimated payments if filing jointly. Do not include any payment of tax due made with a PA tax return.

LINE 16. 2005 EXTENSION PAYMENT

Enter the payment you made with your 2005 extension request.

LINE 17. NONRESIDENT TAX WITHHELD FOR NONRESIDENT PARTNERS AND SHAREHOLDERS OF PA S CORPORATIONS

Enter the PA tax withheld by your partnership or PA S corporation. You must submit your PA Schedule(s) NRK-1.

LINE 18. TOTAL ESTIMATED PAYMENTS AND CREDITS

Add only Lines 14, 15, 16, and 17.

Tax Forgiveness Credit

Transfer the amounts for Lines 19, 20 and 21 from the PA Schedule SP that you submit with your PA tax return.

LINE 19a. FILING STATUS

Enter the status from Part A of your PA Schedule SP. To determine if you are eligible to include PA Schedule SP with your return, please refer to the instructions that begin on page 32.

LINE 19b. DEPENDENT CHILDREN

Enter the number of dependent children you are claiming from Part B, Line 2 of PA Schedule SP.

LINE 20. TOTAL ELIGIBILITY INCOME

Enter your total eligibility income from Part C, Line 11 of your PA Schedule SP.

LINE 21. TAX FORGIVENESS CREDIT

Enter your credit from Part D, Line 16 of your PA Schedule SP.

LINE 22. RESIDENT CREDIT

Enter your total allowable PA credit for Personal Income Tax that you paid to another state(s) or country. You must:

- Submit a PA Schedule G and a signed photocopy of each tax return that you filed in another state or country.
- If a shareholder or partner, you must also submit your PA Schedule(s) RK-1. Your partnership or PA S corporation submits the PA Schedule G and other state's return with its PA-20S/PA-65 Information Return.

PA Resident Shareholders in Another State's S Corporation

PA law does not permit a Resident Credit if you are a shareholder in another state's Subchapter S corporation if that corporation is not also a PA S corporation. See page 14. See the instructions included on the PA Schedule G for additional information.

LINE 23. TOTAL OTHER CREDITS

Enter the total of the allowable credits you can claim on PA Schedule OC. See page 37.

LINE 24. TOTAL PAYMENTS AND CREDITS


Add Lines 13, 18, 21, 22, and 23.

LINE 25. TAX DUE

If Line 12 is more than Line 24, enter the tax you owe. You must pay the tax due, in full, on or before April 17, 2006. See the instructions for payment options beginning on page 21.

LINE 26. PENALTIES AND INTEREST INCLUDING ESTIMATED UNDERPAYMENT PENALTY

Enter on this line all the penalties and interest you owe from filing your return late and/or failing to pay your return by the due date. If including Form REV-1630, Underpayment of Estimated Tax by Individuals and Fiduciaries, fill in the oval on Line 26 of the PA-40.

 **IMPORTANT:** If you do not owe any penalty or interest, do not complete Line 26 – leave it blank.

You can determine your penalty and interest by visiting the Department's e-Services Center at www.revenue.state.pa.us. Form REV-1630 is also available on the Department's Web site or by utilizing one of the Forms Ordering Services on page 3 of the instructions.

The Department will send you a notice if you do not include an amount on Line 26, and we determine you owe late filing and/or underpayment penalty and interest.

Include on Line 26 any penalty for failing to make estimated PA income tax payments, or making your payments late, or underpaying your estimated taxes.

Estimated Underpayment Penalty

You are subject to this penalty if:

1. You received more than \$8,000 of taxable income that was not subject to PA withholding;
2. Your credits from Lines 17, 21, 22 and 23 do not offset the tax due on the income from 1 above, and
3. You failed to make timely estimated tax installment payments to cover the difference between 1 and 2 above, if any.

If you are subject to the penalty, the penalty will not be imposed if:

1. Each estimated tax installment payment due and paid is equal to the installment payment you should have paid based upon the income from last year's full year return, or based upon the income as if you were a full year resident, and this year's tax rate; or
2. Each estimated tax installment due and paid is equal to 90 percent of the installment payment due for each quarter based upon the income you received during the months in each installment period.


You can calculate this penalty on Form REV-1630 that you submit with your return. Submit this form with your return if you owe the penalty.

The Department will send you a notice if we determine you owe this penalty. If you disagree with the Department's notice, you must submit a Form REV-1630 to support your own calculation or claim for an exception.

LINE 27. TOTAL DUE

Add Lines 25 and 26. You must pay the total due, in full, on or before April 17, 2006. See the instructions for payment options beginning on page 21.

REMINDER: If you owe \$1 or less, you do not have to submit a payment with your return.

 **FILING TIP:** If you overpaid your 2005 PA income tax, but owe estimated underpayment penalty, you must subtract your estimated underpayment penalty from your overpayment.

LINE 28. OVERPAYMENT

Subtract Line 12 (and subtract Line 26, if you entered an amount) from Line 24, and enter the difference here.

REMINDER: The Department will not issue a refund for less than \$1.

Refund Offsets

- **PA PIT Liability.** The Department will apply your overpayment to any outstanding PA Personal Income Tax liability from a previous tax year.

- **Delinquent Spousal/Child Support.** Federal law requires Pennsylvania to establish a child-support offset program. The Department of Revenue, in cooperation with the Department of Public Welfare (DPW), intercepts PA income tax refunds of taxpayers that are delinquent in spousal/child support, and provides the offsets to the PA Child Support Enforcement System.

⚠ IMPORTANT: A married person who is liable for spousal/child support must file a separate PA tax return (Married, Filing Separately). If a married person who is liable for support files jointly with his or her spouse, the Department will delay the refund until the taxpayers authorize the Department to pay over the refund to DPW, or the spouses file separate returns. If the taxpayers do not reply to the Department's notice, the Department will process the return as Married, Filing Jointly.

- **Treasury Offset Program for Delinquent PA Income Taxes.** The Internal Revenue Service (IRS) will intercept federal income tax refunds for delinquent PA income tax liabilities. The Department of Revenue will notify delinquent taxpayers about its intention to intercept their federal refund and allow them 60 days to pay their liabilities.

**LINES 29 THROUGH 35.
APPLICATION OF OVERPAYMENT**

If you do not enter amounts on Lines 29 through 35, or the total of these lines does not equal Line 28, you will receive a refund check. If you overpaid, you may apply all or part of your overpayment as follows:

- LINE 29.** Enter the amount of Line 28 that you want as a refund check.
- LINE 30.** Enter the amount of Line 28 that you want as a credit to your 2006 PA Estimated Tax account.

DONATIONS

- LINE 31.** Enter the amount of Line 28 that you want to donate to the Wild Resource Conservation Fund.
- LINE 32.** Enter the amount of Line 28 that you want to donate to the Military Family Relief Assistance Program.
- LINE 33.** Enter the amount of Line 28 that you want to donate to the Governor Robert P. Casey Memorial Organ and Tissue Donation Awareness Trust Fund.
- LINE 34.** Enter the amount of Line 28 that you want to donate to the Juvenile (Type 1) Diabetes Cure Research Fund.
- LINE 35.** Enter the amount of Line 28 that you want to donate to the Breast and Cervical Cancer Research Fund.

The total of Lines 29 through 35 must equal Line 28. For additional information about these donation lines, see page 41.

Review Your Return

Before you sign your return, did you:

- Enter your Social Security Number(s)?
- Verify that your name(s) and address are correct?
- Report all your PA taxable income and claim all your allowable PA credits?
- Check all the entries from Form(s) W-2 and schedules?
- Round income, loss, deductions and credit amounts to the nearest dollar?
- Check your math?
- Enclose all required supporting forms and schedules and assemble the return according to page 6.
- Make a copy of your PA tax return for your records?

Your Signature(s) and Date

Read the oath before you sign and date your return. If Married, Filing Jointly, a spouse must also sign and date the return. If you are responsible for the affairs of a minor, disabled person, or a decedent who could not prepare his or her own PA tax return, you must sign to file a valid tax return.

Preparer/Company Name, Telephone Number, SSN, PTIN, or EIN

If you paid someone to prepare your tax return, the preparer should enter his or her name or business name, telephone number, and his or her SSN, PTIN, or the company's EIN in the spaces provided on the return.

How to Pay

You must submit your payment on or before midnight, Monday, April 17, 2006. Select your payment option.

PAYMENT OPTIONS

PA Payment Voucher (Form PA-V)

Use your personalized Form PA-V with your payment if you owe tax with your 2005 PA tax return. Do not use this voucher for any other purpose. Follow the instructions below.

NOTE: If you do not have a Form PA-V, you can complete Form PA-V on the Internet, print it and mail it to the Department, or see Paying Without A Form PA-V on page 22.

REMEMBER: You also have the option to pay using a Credit Card or through Electronic Funds Transfer.

Paying With Form PA-V

- Social Security Number(s) - print your SSN and your spouse's SSN on your Form PA-V in the same order as they appear on your tax return.
- Name(s) - verify that your name is correct on the Form PA-V. If the name on your Form PA-V is not correct, you may use your Form PA-V. The Department will obtain your correct name from your PA tax return.
- Address - if the address on your Form PA-V is not correct, you may use your Form PA-V. The Department will obtain your correct address from your PA tax return.

- Payment – Carefully enter the amount of your payment. Make the check or money order payable to: PA DEPT OF REVENUE. Do not send cash.
- Mailing your payment - Please write (1) your SSN, (2) "2005 PA-V", and (3) daytime telephone number on your check or money order. The Department will need your SSN if your check becomes separated from your Form PA-V. Carefully detach your Form PA-V from the insert. Do not staple your check or money order to the Form PA-V. Please place your Form PA-V and payment in the envelope with your PA-40 tax return using the "Payment Enclosed" label.

If you filed using PA/IRS e-file, TeleFile, or pa.direct.file, mail only your Form PA-V and payment. Use the envelope and "Payment Enclosed" label provided in the booklet.

Paying Without a Form PA-V

- If you do not have a Form PA-V make your check or money order payable to: PA DEPT OF REVENUE.
- Write (1) your SSN, (2) "2005 PA-V", and (3) daytime telephone number on your check or money order. If you are filing a joint return, enter the SSN shown first on your return. The Department will need your SSN to accurately apply your payment.
- Use the correct label (Payment Enclosed) from the envelope the Department provided.
- If you do not have a preprinted envelope, mail your payment to:

**PA Dept of Revenue
Payment Enclosed
1 Revenue Place
Harrisburg, PA 17129-0001**

Credit Card

You can pay your PA taxes with a major credit card. The service provider charges a 2.5 percent convenience fee for processing the transaction. The minimum fee is \$1. American Express, Discover, Visa and MasterCard are accepted. Select one of these options to pay using your credit card:

1. **Internet.** Go to the Revenue e-Services Center at www.revenue.state.pa.us.
2. **Telephone.** Call 1-800-2PAYTAX (272-9829).

Electronic Funds Transfer

You may also pay your 2005 PA tax due using Electronic Funds Transfer by accessing the Revenue e-Services Center at www.revenue.state.pa.us. You will be prompted for your bank account information and the payment will be deducted from your account on the date you specify. There is no charge for using this option.

MAILING INSTRUCTIONS

The U.S. Postal Service returns envelopes without sufficient postage. If your tax return is more than five pages or in an oversized envelope, you may need additional postage. Check with your local Post Office. Please write your complete return address in the upper left corner of the envelope.

If using the envelope the Department provided in the booklet, follow these instructions for mailing your PA tax return:

1. Remove the labels from the envelope flap.
2. Choose the correct label that applies to your return.
3. Affix only the correct label on the front of the envelope. If you do not have a Department-provided envelope, send your return to the address that applies to you.

If you owe tax—You have an amount on Line 27:

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

If you overpaid—You have an amount on Line 28:

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

If you neither owe nor overpaid—You have zeros on Lines 27 and 28:

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



IMPORTANT: Do not use these mailing labels to send other correspondence to the Department.

SCHEDULE INSTRUCTIONS

For all schedules, enter the complete name and SSN of the taxpayer reporting the income or claiming the expenses. If filing a schedule jointly, enter the complete name and SSN of the taxpayer listed first. Each taxpayer must submit a separate schedule for each separately owned business, profession or farm. You and your spouse may file these schedules jointly:

PA Schedules A, B and J - these schedules do not show any losses or expenses.

- You may submit Federal Schedule B if you do not have any Capital Gains Distributions and your amounts are exactly the same for Pennsylvania.

- You cannot submit a Federal Schedule K-1 in lieu of PA Schedule J.

PA Schedule SP – see the instructions beginning on page 32 for when to include this schedule.

You and your spouse must file these schedules separately, each reporting only your own income, expenses, and net income (losses):

PA Schedule UE – a separate schedule for each employer or job.

- You may only submit a Federal Schedule 2106 when your unreimbursed travel expenses are the

same for Pennsylvania and you do not have any miscellaneous expenses.

PA Schedules C, C-EZ, F, and C-F – separate schedules for each commercial activity, unless both own each of the businesses or farms jointly.

- Use **PA Schedule C-F**, not Federal Schedule C or F.

PA Schedules D, D-1, D-71, D (P/S) – separate schedules for each taxpayer.

- You may submit Federal Schedule D only when reporting sales where your federal and PA basis are the same, you do not have any losses, and you are not reporting any capital gains distributions from mutual funds on the Federal Schedule D.

PA Schedule E – follow the instructions on the schedule.

- You may submit Federal Schedule E only for rental property and only when reporting income, not losses.

PA Schedules G and T – separate schedules for each taxpayer.

PA Schedule OC – a taxpayer and spouse must file separate PA-40 tax returns if one or both are claiming any credits on this schedule.

Reproducing PA Returns and Schedules

You may make photocopies of the schedules in this booklet, or prepare your own facsimile schedules, but do not submit a photocopy of your PA-40 form.

PA SCHEDULE W-2S (LINE 1a)

Use Part A of this schedule to report your PA taxable compensation from your Form(s) W-2.


You must submit a legible photocopy of the Form W-2 with a written explanation if:

- Your employer did not withhold PA income tax at the 2005 rate of 3.07 percent.
- You believe that the PA compensation or withholding is incorrect.
- You were a resident of a reciprocal compensation agreement state and your employer withheld PA income tax.
- Your Form W-2 shows income earned or tax withheld for another state.
- Your employer gave you a handwritten Form W-2.
- The Medicare wages in Box 5 on your W-2 are greater than your PA wages in Box 16.
- You are a PA resident, working in another state and did not have PA income tax withheld by your employer.

Otherwise, do not submit your Form(s) W-2. However, the Department has the statutory authority to require your actual Form(s) W-2.

Use Part B of this schedule to list all the sources of non-employee and other compensation. Report your PA taxable compensation and any PA tax withheld from that income. Include PA taxable amounts from your Forms 1099 that show pensions, retirement plan distributions,

executor fees, jury duty pay, and other miscellaneous compensation.


 **IMPORTANT:** You must submit legible photocopies of the Form(s) 1099 and other statements showing the income that you listed in Part B.

PA SCHEDULE UE (LINE 1b)

Allowable employee business expenses for PA purposes are similar to, but not the same as, expenses for federal purposes. PA law only permits expenses required to perform the duties of a job or profession.

Allowable Pennsylvania Employee Business Expenses Must Be:

1. Ordinary, customary, and accepted in the industry or occupation in which you work; and
2. Actually paid while performing the duties of your employment; and
3. Reasonable in amount and not excessive; and
4. Necessary to enable you to properly perform the duties of your employment; and
5. Directly related to performing the duties of your occupation or employment.

 **IMPORTANT:** You may deduct 100 percent of your PA allowable unreimbursed employee business expenses. PA law does not have federal expense and percentage accounting limitations and thresholds.

You did not incur an allowable business expense during the year if you:

- Received a fixed mileage allowance or a per diem allowance for allowable expenses, and neither you, nor your employer, included the allowance in your compensation; or
- Accounted for your allowable expenses to your employer and your employer reimbursed you in the exact amount of your expenses.

Do not include such reimbursements in gross compensation. Do not claim such expenses on a PA Schedule UE.


If your employer does not reimburse you, you may reduce your compensation by your allowable expenses. If your reimbursement is more than your allowable expenses, you must report the excess as taxable compensation on Line 1a.

EXAMPLE: Dave earned compensation of \$30,000. He incurred allowable vehicle and travel employee business expenses of \$3,000, and was reimbursed \$3,500. He must complete a PA Schedule UE. He includes the excess \$500 as compensation. His total net taxable compensation is \$30,500.

Sole proprietors, partners, shareholders, or other self-employed individuals should not use PA Schedule UE to claim expenses. Nonresidents who earn compensation and incur allowable employee business expenses both within and outside Pennsylvania may need to complete and file a PA Schedule NRH.

Pennsylvania Does Not Allow The Following Business Expenses, Even If Allowed for Federal Purposes:

- Personal, living, or family expenses
- Dues to fraternal organizations, professional societies, Chambers of Commerce, or recreational club memberships
- Dues and subscriptions to publications, including trade and professional publications
- Political candidate or campaign contributions
- Charitable contributions
- Commuting expenses
- Cost of meals while working late, unless while traveling away from home overnight on business
- Childcare or elderly care expenses
- Life, disability income, and health insurance premiums
- Contributions to deferred compensation plans or other pension plans
- Legal fees (except to recover back wages), fines, penalties, and bad debts
- Bribes, kickbacks, or other illegal payments
- Job hunting or other pursuit of employment expenses
- Malpractice insurance premiums, except when allowed in Part A
- Moving expenses, except when allowed in Part E
- Educational expenses, except as allowed in Part F
- Capital expenditures

 **FILING TIP:** You must file a separate PA Schedule UE for each employer. Spouses may not report joint expenses on a PA Schedule UE, even if filing jointly.

General Instructions

Enter the name and SSN of the taxpayer claiming the expenses. Enter all the employer information, and briefly describe the job or position for which you incurred the expenses you are claiming.

Keep Your Records

The Department has the legal authority to require evidence that the expenses you claim on a PA Schedule UE are allowable for PA purposes. Keep your necessary documents, receipts, vouchers, and other records for at least four years.

PA Schedule UE - Side 1

Side 1 of this schedule is for the most common expenses claimed on PA income tax returns.

Part A. Direct Employee Business Expenses

You pay these expenses directly or through a withholding

arrangement with your employer. These expenses are necessary to perform or maintain your job. Itemize the nature and amount of the expenses you are claiming in Part A.

1. **Union Dues.** Union dues, assessments, and initiation fees are allowable business expenses if:
 - Such payments are a condition of continued membership in the union, and membership is related directly to your present job; or
 - Such payments are a required wage deduction under an agency shop agreement.
2. **Work Clothes and Uniforms.** The costs of purchasing and maintaining uniforms and work clothing to protect you from bodily injury are allowable business expenses if the uniforms and clothing are both:
 - Of a type specifically required by the employer to be purchased as a condition of continued employment; and
 - Not adaptable to general usage.
3. **Small Tools and Supplies.** Expenditures for small tools and supplies that your employer does not provide, but you must have to perform the duties of your job, are allowable business expenses. Depreciation is the annual deduction you must take to recover the cost of business property having a useful life beyond the taxable year. If any of these tools or supplies has a useful life of more than one year, you depreciate or amortize the cost in Part G.
4. **Professional License Fees, Malpractice Insurance, and Fidelity Bond Premiums.** Trade, professional, or occupational licenses or fees required as a condition of employment are allowable business expenses. Include malpractice insurance and fidelity bond premiums where required by law or by your employer.
5. **Total Direct Employee Business Expenses.** Add Lines 1 through 4.

Part B. Business Travel Expenses

6. **Vehicle Expenses: Standard Mileage Rate.** Enter the amount from your Federal Form 2106 or Federal Form 2106-EZ. Otherwise, enter your business miles and the federal mileage allowance. Then, calculate your allowable business mileage expense.

Commuting Expenses. You cannot deduct the costs of public transportation or driving a car between your home and your main place of work. These are personal commuting expenses. You cannot deduct commuting expenses no matter how far your home is from your regular place of work.


CAUTION: If you cannot or do not file a Federal Form 2106 or Form 2106-EZ, follow the federal rules for determining your allowable expenses. If using one of the Federal Forms 2106, you must itemize Line 4, "Business Expenses" from these forms in Part C of PA Schedule UE.

Vehicle Expenses - Actual. Pennsylvania does not follow the federal limitations on allowable expenses. You may always claim your allowable actual expenses for PA purposes. Start with your federal form and adjust for PA purposes.

7. Enter your actual expenses from your Form 2106.
8. Add back the "Inclusion Amount" since this rule does not apply for PA purposes.
9. **Depreciation.** You may use any generally accepted depreciation method except either of the bonus depreciation elections enacted for federal purposes in 2002 and 2003. See DIFFERENCES BETWEEN PA PIT AND IRS beginning on page 9. If using a different method for PA purposes, enter the method you used and the adjusted expense here.
10. **Actual Travel and Mileage Expenses.** Add Lines 7, 8, and 9.

Other Business Travel Expenses

Enter the actual amount of these expenses that you incurred, or the amount from your Federal Form 2106 or Form 2106-EZ.

 **IMPORTANT:** Meals and entertainment expenses are 100 percent allowable.

11. **Parking fees, tolls, and transportation**
12. **Travel expenses while away from home overnight**
13. **Meals and entertainment expenses**
14. **Total Business Travel Expenses.** Add Lines 6 or 10, and Lines 11, 12, and 13.

Part C. Miscellaneous Expenses


Include the PA allowable expenses that you report on your Federal Form 2106 in the space provided. You may copy this schedule or make your own schedules in this format, if you need more space to itemize your miscellaneous expenses. You must itemize and describe in detail these expenses. Additional examples of expenses that you may claim include:

- Breakage fees or cash shortages you must pay to your employer;
- Fees or income included in your PA taxable compensation on your Form W-2 that you are required to pay to your employer as a condition of employment;
- Costs incurred by blind employees to pay readers who assist them in performing their job duties;
- Business gifts must be ordinary, necessary, reasonable, and actually incurred for business purposes. Pennsylvania does not follow federal percentage limits on such expenses.

CAUTION: You may be a statutory employee for federal purposes. However, PA law does not have a similar provision. As a statutory employee, you may have to claim your income as compensation and your expenses on PA Schedule UE. For more information on statutory employees see Chapter 7 of the PA PIT Guide found on the Department's Web site. As an employee, you must claim

your expenses on PA Schedule UE. If you are self-employed, you must report your business activity on Line 4 of your PA-40 and enclose the necessary PA Schedule C.

15. **Total Miscellaneous Expenses.** Enter the total of the miscellaneous expenses you listed.

 **FILING TIP:** If you do not have expenses for your office or work area (Part D), moving (Part E), education (Part F), or depreciation (Part G), complete Side 1, and include your allowable unreimbursed employee business expenses on Line 1b of your PA-40.

Total Allowable PA Employee Business Expenses

Lines A through G. Enter the amounts of your allowable expenses from each part of PA Schedule UE that you completed.

H. Total Expenses. Add the expenses you are claiming from each Part of PA Schedule UE.

CAUTION: If you are a nonresident or part-year resident who earned income and incurred expenses within and outside Pennsylvania, you must complete PA Schedule NRH.

I. Reimbursements. If your employer included your reimbursement in PA taxable compensation on your Form W-2, do not enter that reimbursement here. If your employer did not include your reimbursement on your Form W-2, enter the amount you received from your employer.

J. Net Expense or Reimbursement.

- If Line H is more than Line I, include your unreimbursed expenses on Line 1b of your PA-40.
- If Line I is more than Line H, include your excess reimbursements on Line 1a of your PA-40.

PA Schedule UE - Side 2

Part D. Office or Work Area Expenses

You may claim these expenses when your employer does not provide you with a suitable work area and you can answer YES to each of these questions:

- D1. Does your employer require you, as a condition of employment, to maintain a suitable work area away from the employer's premises?
- D2. Is this work area the principal place where you perform the duties of your employment?
- D3. Do you use this work area regularly to perform the duties of your employment?

If your employer provides a suitable work area, or you answer one or more of the above questions NO, you cannot claim any office or work area expenses.

Actual Office or Work Area Expenses.

Lines a to h. Enter the actual expenses you incurred if you are claiming office or work area expenses on this schedule.

Line i. Add Lines a through h.

Line j. Calculate the percentage of your property that you use for business.

- Line k. **Apportioned Expenses.** Multiply Line i by Line j.
- Line l. **Total Office Supplies.** Enter the actual cost of supplies that you use exclusively for business purposes.
16. **Total Office or Work Area Expenses.** Add Lines k and l.


Part E. Moving Expenses

You may deduct moving expenses required by your employer to retain employment. You may also deduct moving expenses to report to a new location after obtaining employment. However, you must meet the Distance Test described below. You may not deduct moving expenses to seek new employment or to move for your own convenience.

You may deduct allowable expenses you incur in moving yourself, your immediate family, your household goods, and your personal belongings, including the cost of transportation to your new home, using your actual out-of-pocket costs or the federal mileage allowance. You may deduct expenses for storing household goods, for meals and lodging on the way, including such costs on the day you arrive, and parking fees and tolls.

You may not deduct expenses for selling or purchasing a home, breaking a lease, house hunting, temporary lodging prior to moving, and any expenses not directly related to moving.

Distance Test. Your new workplace must be at least 35 miles farther from your old residence than your old workplace was. **EXAMPLE:** If your old workplace was 3 miles from your old residence, your new workplace must be at least 38 miles from your old residence. Measure the distance using the shortest of the most commonly traveled routes. To determine if you meet this test, complete Lines E1, E2, and E3.

 **IMPORTANT:** If you are in the military service, you do not have to meet the distance test if your move is a permanent change of duty station. If you, your spouse, and dependents are moving to the new duty station from different locations, you may claim all the allowable expenses.

17. Enter your actual allowable transportation expenses as described above.
18. Enter your actual qualifying expenses for travel, meals, and lodging, as described above.
19. **Total Moving Expenses.** Add Lines 17 and 18.

Part F. Education Expenses

The federal and PA rules for educational expenses are similar, but not exactly the same. For PA purposes, costs for education expenses that you pay or incur are allowable only if:

- The education is specifically required by law or by your employer to retain an established employment status or rate of compensation; and

- The education is not part of a program that would qualify you for a new occupation, trade, or business, even if you do not intend to enter that new occupation, trade, or business.

Unlike federal rules, you may not deduct education expenses that you incur to maintain or improve your skills.

EXAMPLE: Anthony is a licensed professional in a position that, by law, requires a specific number of continuing education credits every other year. If Anthony fails to obtain these credits, he will lose his license. Anthony also takes courses in using a computer to improve his job performance. Anthony may claim the cost of his continuing education courses. He may not claim the computer courses.

You must answer question F1. If you answer YES, continue. If you answer NO, you may not claim any education expenses. You must answer questions F2 and F3. If you answer NO to both questions, continue. If you answer YES to either question, you may not claim any education expenses.

Enter the name of the college, university, or educational institution you attend, and your specific course of study. Your education must meet the requirements described above.

20. Enter the amount of tuition or fees you actually paid.
21. Enter the costs of your books and other materials required for your courses.
22. Enter the cost of travel. Pennsylvania follows the federal rules for travel expenses for education.

CAUTION: You may not deduct costs of travel as educational expenses by claiming that the travel itself constitutes a form of education.

23. **Total Education Expenses.** Add Lines 20, 21, and 22.

Part G. Depreciation Expenses

Depreciation is the amount you can claim over the useful life of property you use in performing the duties of your employment. A depreciation expense is allowable if the property:

- Has a useful life exceeding one year; and
- Is required to be regularly and predominantly used to perform the duties of employment; and
- Is required and not provided or supplied by your employer.

PA law allows generally accepted depreciation methods and current expensing. PA law does not allow federal bonus depreciation. PA law limits IRC Section 179 expensing. See DIFFERENCES BETWEEN PA PIT AND IRS beginning on page 9.

Once you have elected a depreciation method, you must consistently use it and may not change it without permission from the PA Department of Revenue. For each asset, enter the depreciation method elected and the expense.



FILING TIP: Do not use Part G to report all depreciation. Use Part B for vehicles, and Part D for office or work area depreciation.

24. **Total Depreciation Expenses.** Enter the total of columns E and F.

PA SCHEDULE A (LINE 2)

If your total PA taxable interest income is \$2,500 or less, you must report your income on Line 2 of the PA-40, but you do not have to complete and submit a schedule. If your PA taxable interest income is more than \$2,500, you must complete PA Schedule A, with the name, and PA taxable interest of the payer from each Form 1099 or other statement.

PA taxable income includes interest from:

- Savings and loan associations
- Credit unions, even if reported as dividends on your statement
- Bank deposits
- Bonds
- Certificates of deposit
- Interest-bearing personal checking accounts
- State, federal, and local tax refunds
- Other deposits, investments, and obligations
- GNMA and FNMA certificates and other obligations that are guaranteed by the U.S. Government, but not direct obligations of the U.S. Government
- Obligations of other states or countries
- Mutual savings banks and cooperative banks, even if reported as dividends



IMPORTANT: Interest income also includes:

- Life insurance contracts, annuities, or endowments if reported for federal income tax purposes.
- Distributions from Health Savings Accounts used for any purpose other than to pay qualified medical expenses, considered to be excess contribution distributions not previously included in income, or any amount of the account's income attributable to excess contributions.

PA taxable income does not include interest from:

- Direct obligations of the U.S. Government (U.S. Treasury Bonds, Notes, Bills, Certificates, and Savings Bonds)
- Direct obligations of the Commonwealth of Pennsylvania
- Direct obligations of political subdivisions of Pennsylvania

For a list of exempt obligations, request Tax Exempt Obligations for PA Personal Income Tax Purposes (Form REV-1643).

NOTE: You must include PA tax-exempt interest in Eligibility Income for Tax Forgiveness purposes.

PA SCHEDULE B (LINE 3)

If your total PA taxable dividend and capital gains distributions income is \$2,500 or less, you must report your income on Line 3 of the PA-40, but you do not have to complete and submit a schedule. If your PA taxable dividend income is more than \$2,500, you must complete PA Schedule B, with the name of the payer, and the PA taxable dividend from each Form 1099 or other statement.

Capital Gains Distributions

Such distributions are taxable as dividend income on Line 3. Do not report capital gains distributions on PA Schedule D.

Stock Dividend Reinvestment Plans

Under such a plan, you elect dividends in the form of stock, rather than cash or other property. You must include the stock's fair market value as dividend income as of the date paid.

PA taxable dividend income does not include:

- Dividends distributed by a corporation to its stockholders as stock, if the distribution is not personal income for federal purposes.
- Distributions designated as return of capital by utility companies and other corporations that reduce the basis of your stock in the corporation. **NOTE:** Once such distributions reduce your basis to zero, further distributions are Taxable Distributions from C corporations on PA Schedule D. See page 30.
- Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. Report these payments as PA taxable interest income on Line 2 of your PA-40.
- Ordinary dividends paid by a mutual fund or a registered investment company that the fund/company statement designates as being exempt-interest dividends. Use the percentage of the total dividend income that is from exempt PA and exempt federal obligations to determine the tax exempt portion of the dividend income.
- Dividends from PA tax-exempt obligations. Request Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes (Form REV-1643) for a list of exempt obligations.
- Dividends distributed under a charitable gift annuity are not taxable. However, after you recovered the amount you donated, you must report further distributions as taxable gains on PA Schedule D.

NOTE: You must include PA tax-exempt dividend income in Eligibility Income for Tax Forgiveness purposes.

PA SCHEDULE C-F RECONCILIATION (LINE 4)


Read the instructions and enter all the required information. Use this schedule to account for differences between PA and IRS rules that adjust your reportable professional, business, or farming income for PA income tax purposes.

Identification Information

Complete all applicable information. Enter your PA Sales Tax License Number, if you have one.


1. Gross income from your Federal Schedule C, Line 17, or Federal Schedule F, Line 11.
2. Total expenses from your Federal Schedule C, Line 28 plus Line 30, or Federal Schedule F, Line 35.
3. Net profit/loss from your Federal Schedule C, Line 31, or Federal Schedule F, Line 36.

On Lines 4 through 20, adjust your federal profit (loss) for differences between PA Personal Income Tax and Federal Income Tax laws. Enter the differences between the federal and the PA allowable amounts.

 **IMPORTANT:** The income and expense items listed on the PA Schedule C-F are the common adjustments that businesspersons and farmers make. This list is not all-inclusive.

CAUTION: PA law does not allow the federal elections that permit you to defer income to another taxable year or to report income that you will receive in a future year.

4. **Advance receipts.** PA PIT law does not permit a business, profession, or farm to defer income from advanced receipts for goods and services. You must report such income on this line.
5. **Working capital interest and dividend income.** This includes investments to generate funding for business operations. You must report such interest and dividend income on this line. If you reported such interest and dividend income on PA Schedule A or B, reduce your PA taxable interest and dividend income amounts accordingly.
6. **Gains from the sales of business assets.** A sale in the ordinary course of operating a business or farm is a PA Schedule C or PA Schedule F transaction, regardless of the federal reporting requirements. Include the gain from such transactions here. A sale or abandonment of a business or segment thereof is a PA Schedule D transaction. If you reported business sales on PA Schedule D, adjust the schedule accordingly.

 **FILING TIP:** For Lines 5 and 6, when you invest and/or sell property for business purposes, include otherwise PA-exempt interest, dividends, and gains on the applicable line. Income from exempt-PA investments, such as direct U.S. and Pennsylvania obligations, does not retain its PA-exempt character when used in business or farm operations.

7. **Gains from like-kind exchanges.** PA PIT law does not contain any exception for like-kind exchanges and you must report any gain realized from such a trans-

action when the asset was employed in the operation of the business or farm. See the PA PIT Guide if you consistently use the GAAP method.

8. **Gains on involuntary conversions, such as IRC Section 1033.** PA PIT law does not contain any exception for gains on involuntary conversions. Report any gain realized from such transactions when the assets were employed in the operation of the business or farm.
9. **Gains from sales of business property where PA basis is different than federal basis.** Since PA PIT law does not follow federal rules, basis is usually different for PA PIT purposes. You must rely on your books and records to determine the gains using your PA basis, and adjust your PA business or farm income.

REMEMBER: A sale or abandonment of a business or segment thereof is a PA Schedule D transaction. See the Filing Tip under Line 6.

10. **Income taxes.** PA PIT law does not permit a deduction for any taxes based on gross or net income, including federal income taxes, the one-half of the self-employment taxes that the IRS allows, estate and inheritance taxes, legacy, succession, or gift taxes, and income taxes paid to other states or foreign countries. Assessments for betterments and improvements are not allowable. If you paid such taxes and received an expense deduction for federal purposes, you must increase your PA income. You can deduct a business privilege tax or gross receipts tax (if not already deducted on your federal schedule) when the taxing authority imposes such tax (a) whether the business realized income or not, or (b) based only a portion of the tax on income. The Philadelphia Business Privilege Tax and/or Gross Receipts Tax are allowable.
11. **Bonus depreciation.** See DIFFERENCES BETWEEN PA PIT AND IRS beginning on page 9.
12. **Other depreciation expense differences.** See DIFFERENCES BETWEEN PA PIT AND IRS beginning on page 9.
13. **Income from cancellation of debt (COD).** PA PIT law treats COD differently from federal rules. See the PA PIT Guide for the Pennsylvania rules.
14. **Increases in income associated with IRC Section 481(a) spread adjustments.** Because PA law imposes the Personal Income Tax annually, you cannot report income over a number of tax years, even if doing so under a federal election. You may reduce your PA taxable income in future years by the income that you could not defer to those years under PA PIT law.
15. **Federal-exempt income from obligations of other states.** Include federal-exempt interest income and dividend income, and gains. PA law does not exclude income from the obligations of other states.

16. **Payments for owner pension, profit-sharing or deferred plans.** Contributions you make as a self-employed individual to your own IRA or Keogh or other pension plan are not allowable expenses. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.
17. **The Domestic Production Activities expense or deduction permitted by the American Jobs Creation Act of 2004.** PA PIT law does not contain any like provisions for this expense and only actual expenses incurred may be deducted.
18. **Percentage depletion must be added back unless the hardship exception is applied for and included on the new PA Depletion Expense form.**
19. **Direct expensing of the first \$5,000 organizational expenses, start-up costs, and syndication fees is not permitted under PA PIT law.** The gross amount of these expense items must be amortized ratably over a period of 15 years.
20. **Other Increases for PA PIT purposes.** Itemize other items of income that you must report for PA PIT purposes, when you did not report such income for Federal Income Tax purposes. Itemize those expenses that you deducted for Federal Income Tax purposes that PA PIT law does not permit. Submit your own statement if you need more space.
21. **Total Adjusted PA Income.** Add Lines 3 through 20.
22. **Decreases for PA PIT purposes.** Itemize those adjustments to income and/or expenses that PA PIT law permits that you had to report/could not deduct in determining your federal income/loss. These adjustments include losses from like-kind exchanges, involuntary conversions, and sales of business property. PA PIT law does not follow federal limitations on PA allowable expenses. You may deduct 100 percent of all allowable expenses, including business travel and entertainment. You may also adjust your federal depreciation expenses for the difference between the bonus depreciation in a previous year that you could not take for Pennsylvania and the higher current PA allowable depreciation expense, as well as other depreciation differences. Enter the difference between the federal and the PA allowable amounts. For additional allowable expenses, see the PA PIT Guide.
23. **PA Taxable Income/Loss from the Operation of a Business, Profession, or Farm.** Subtract Line 22 from Line 21, and include the result on Line 4 of your PA-40.

PA SCHEDULE D (LINE 5)

Do not submit a Federal Schedule D.



IMPORTANT: One spouse may not use a loss to reduce the other spouse's gains. Therefore, married

taxpayers may file a PA Schedule D jointly only when they realized gains from all sales, including sales of jointly owned property. When one spouse realized a loss, married taxpayers must submit separate PA Schedules D. If they also sold jointly owned property, each must clearly show their share of the sale on their separate PA Schedule D.

Report all sales, exchanges, and dispositions of property using PA income tax rules, and your PA income tax basis, in the year in which the transaction occurred. If a federal election allows a deferral to a different tax year or a deemed sale, you may not use that election for PA purposes.

Unless the specific instructions require a different Pennsylvania schedule, report each sale, exchange, or disposition of property on PA Schedule D.

1. Columns (a) through (f)
 - (a) List and describe the property sold or otherwise disposed of for cash or for other property.
 - (b) Enter the month, day, and year acquired. If you acquired properties over a time, you may enter VARIOUS.
 - (c) Enter the month, day, and year sold.
 - (d) Enter the gross sales price or fair market value of cash and property received less the applicable expenses of sale.
 - (e) Enter the Adjusted Basis of the property sold.
 - (f) Determine whether your property was either I or II, and follow the appropriate instructions:
 - I. If your property was income-producing property, such as stock, bonds, an ownership interest in a business, a rental property, a patent or copyright, or you held your property in connection with a business, profession, or occupation (but not inventory or an operational asset), then:
 - Subtract Column (e) from Column (d). Enter either the gain or the loss or zero in Column (f).
 - II. If your property was other than income-producing property (a personal automobile or furniture), then:
 - If the adjusted basis is less than or equal to Column (d), enter the gain or zero in Column (f).
 - If the adjusted basis is greater than Column (d), enter zero in Column (f). You cannot report a loss on the sale of personal property.



IMPORTANT: You may only deduct losses from transactions you entered into for profit. Indicate a loss by filling in the oval.

CAUTION: For taxpayers reporting the sales of exempt obligations:

DO: Include the issue or DTD dates of the exempt obligation in the description of the items sold.

DO NOT: Include the sales of any exempt obligations issued prior to Feb. 1, 1994. See page 17 of the instructions for additional information regarding exempt obligations.

2. **Net Gain (Loss)** Total Column (f) and enter the net amount. You may offset gains (losses) for Line 2.
3. **Gain from Installment Sales.** Enter your taxable gain from each PA Schedule D-1, Form REV-1689, Computation of Installment Sale Income.


CAUTION: You may not elect the installment sales method for:

 - Reporting gains from the sale of intangible personal property, such as stocks, bonds, ownership interests; or
 - Reporting transactions where the object is the lending of money or the rendering of services.
4. **Taxable Distributions from C Corporations.** As a shareholder in a C corporation, you must report as taxable gain the excess of the fair market value of a distribution (other than a dividend) in excess of current or accumulated earnings and profits over your adjusted basis of your stock. You must decrease the basis of your stock or shares, but not below zero, by any distribution that is not taxable as a dividend on Line 3 of your PA-40. **EXAMPLE:** B Corp distributes from its capital account \$100,000 to Karen, the only stockholder. Her adjusted basis in her stock is \$75,000. The distribution is not from the C corporation's earnings and profits, so it is not a taxable dividend. Karen must reduce her basis from \$75,000 to zero. She reports \$100,000 on the *Enter total distribution* line, and \$75,000 on the *Minus adjusted basis* line. She reports the remaining \$25,000 as a gain on Line 4 of her PA Schedule D.
5. **Net Gain (Loss) from the Sale of Property acquired before June 1, 1971.** Determine your gain (loss) on the sale of June 1, 1971 property on Form REV-1742, PA Schedule D-71.
6. **Net Partnership and PA S Corporation Gain (Loss).** Report the taxable gain or loss from your PA Schedules RK-1 or NRK-1.
7. **Taxable Gain from the Sale of Your Principal Residence.** PA law excludes the qualifying gain from the sale of your principal residence. Generally, if you owned and used property as your principal residence for at least two of the five years preceding the sale, your gain is exempt. However, you must report a gain if you do not meet the requirements. For more information request the Sale of Your Principal Residence brochure (REV-625). Report your taxable gain, if any, on this line. If you realized a loss from the sale of your principal residence, enter a zero.
8. **Taxable Distributions from Partnerships.** Report any gain you realize from other partnership distributions that exceed your ownership basis in the partnership. You must obtain, complete, and submit PA Schedule D (P/S). See the PA PIT Guide for information on using this schedule.


9. **Taxable Distributions from PA S Corporations.** Report any gain you realize from other PA S corporation distributions that exceed your ownership basis in the PA S corporation. You must obtain, complete and submit PA Schedule D (P/S).
10. **Taxable Gain from Exchange of Insurance Contracts.** If you have a sale, exchange, or disposition of an insurance contract that does not qualify as tax exempt under IRC Section 1035, report the taxable exchange of any insurance contracts you reported for federal income tax purposes. If you have more than one taxable exchange of contracts, report the total gain you realized. See the instructions beginning on page 16 for a description of the tax exempt exchanges covered under IRC Section 1035.
11. **Total PA Taxable Gain (Loss).** Add Lines 2 through 10.

PA SCHEDULE E (LINE 6)

Unless otherwise noted, PA rules generally do not follow the federal rules for determining the net income (loss) realized from the rental of property.

 **IMPORTANT:** If you were in the real estate sales business, do not use PA Schedule E. You must report net income (loss) from rentals of real estate held for sale to customers in the ordinary course of your real estate sales, and/or from your business of renting other personal property on PA Schedule C or PA Schedule C-F.

Part A. Property Description. For rental real estate, enter the street address, city or town, and state. Indicate whether the property is for profit property or not. PA law generally follows the IRC Section 280A when you rent or lease property, such as a vacation home, and do not intend to realize a profit. You may only deduct your rental expenses up to your rental income, and you may not use a loss to reduce other rental income. If you rent or lease your property to realize a profit, but do not operate the rental property as a business activity, you may offset losses against other rental or royalty income. For other tangible personal rental property, enter the type of property. Enter the source of the royalty, patent, copyright or similar property income.

 **IMPORTANT:** If the property is located in another state or country, it is essential that at least the city and state be entered in the address field in the event you are claiming a credit for taxes paid to another state or country on Schedule G for the income from the property.

Part B. Enter amounts under the corresponding initial of the property from Part A. Indicate the ownership of the property: (T) = Primary taxpayer shown first on the PA-40; (S) = Spouse; (J) = Joint ownership.

Income


1. **Rent received.** Enter the gross rent from the rental of real estate or other tangible personal property (including personal property leased with real estate) you held

for investment or speculation. Include income received for renting a room or other space. If you received services or property as rent, report the fair market value of such services or property as rental income.

2. **Royalties received.** Enter the gross royalties from oil, gas, mineral properties, and other property.

Expenses

Enter your rental and royalty expenses for each property. You can deduct all ordinary and necessary expenses. Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements other than through depreciation.

 **IMPORTANT: Renting Part of Your Home.** If you rent out only part of your home or other property, deduct only those expenses (or percentages of expenses) that apply to the rented part.

3. Advertising

4. **Automobile and travel.** Deduct ordinary and necessary auto and travel expenses related to your rental activities, including 100 percent of meal expenses incurred while traveling away from home. Pennsylvania differs from federal treatment on the meals and entertainment expense. You generally can either deduct your actual expenses or take the standard federal mileage rate.

5. Cleaning and maintenance

6. Commissions

7. Insurance

8. Legal and professional fees

9. Management fees

10. **Mortgage interest.** If you have a mortgage on your rental property, enter the amount of interest you paid for the current year to banks or other financial institutions.

11. **Other interest.** Generally, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Pennsylvania does not follow federal rules regarding prepaid interest.

12. **Repairs.** Deduct the cost of repairs made to keep your property in good working condition. Repairs (fixing a broken lock or painting a room) generally do not add significant value to the property or extend its life. Improvements that increase the value of the property or extend its life (such as replacing a roof or renovating a kitchen) must be capitalized. You cannot expense such costs in full in the year paid or incurred.

13. Supplies

14. **Taxes.** Deduct taxes directly related to the rental activity. Deduct the proportionate share of real estate taxes. You may not deduct taxes based on income.

You may deduct gross receipts and business privilege taxes.

15. **Utilities.** Deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income. However, the base rate (including taxes and other charges) for telephone service for the first telephone line into your residence is a personal expense and is not deductible.

16. **Depreciation expense.** See DIFFERENCES BETWEEN PA PIT AND IRS beginning on page 9. You may use any other generally accepted depreciation method, but you must use it consistently.

17. **Other expenses.** Please itemize.

18. **Total Expenses.** Add Lines 3 through 17.

19. **Income.** Subtract Line 18 from Line 1 or 2.

20. **Loss.** Subtract Line 1 or 2 from Line 18, and fill in the oval. **NOTE:** PA law does not permit losses from property rented where there is no intent to realize a profit.

21. **Net Income (Loss).** Add the net income/loss amounts from Lines 19 and 20 for each property. If a net loss, please fill in the oval. **NOTE:** Pennsylvania does not follow federal At-Risk Rules or Passive Activity Loss Rules.

22. Rent or Royalty Income (Loss) from PA S Corporations and Partnerships

For Line 22, enter the rent and royalty income (loss) amounts from your PA Schedule(s) RK-1 or NRK-1.


23. **Net Rent and Royalty Income (Loss).** Add Lines 21 and 22. Include the total on Line 6 of your PA-40.

PA SCHEDULE J (LINE 7)

As a beneficiary of an estate or trust, you should receive a PA Schedule RK-1 or NRK-1. Report the total income that you received or that the estate or trust credited to you. For PA income tax purposes, an estate or trust cannot distribute a loss.

Enter the name, identification number, and amount of PA taxable income from each PA Schedule RK-1 or NRK-1. Check the box on the schedule to indicate if the estate or trust income you are reporting is received from a PA resident estate or trust as reported on a PA Schedule RK-1 or NRK-1. Do not check this box if you use a Federal Schedule K-1 to report the income. If you only receive a Federal Schedule K-1, enter the total amount of positive income reported, whether the income is your income, your spouse's income, or your joint income. Include a photocopy of the Federal Schedule K-1 with your return for all nonresident estates or trusts and/or each estate or trust for which you fail to receive a PA Schedule RK-1 or NRK-1.

CAUTION: The federal amount may not be correct for PA purposes. You should contact the fiduciary of the estate or trust to verify the correct PA income.

 **IMPORTANT:** Grantor or irrevocable trusts do not distribute losses as trust income. Therefore all amounts for Schedule J should be positive.

PA SCHEDULE T (LINE 8)

The instructions for PA Schedule T are on the schedule. Please see page 18 for LINE 8, GAMBLING AND LOTTERY WINNINGS.

PA SCHEDULE SP (LINE 21)

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?


You, and your spouse if applicable, are eligible if:

1. You are subject to PA Personal Income Tax. You and/or your spouse are liable for PA tax on your income (or would be liable if you earned, received, or realized PA taxable income); and
2. You are not a dependent on another person's federal tax return, and
3. You meet the eligibility requirements.
4. 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. See page 33.

How Do I Claim Tax Forgiveness?

To claim Tax Forgiveness, complete and submit a PA Schedule SP, and:

1. Determine your Eligibility Income. If married, whether filing jointly or separately, you must determine your total (your Eligibility Income plus your spouse's Eligibility Income) joint Eligibility Income in Part C.
2. Determine your Filing Status in Part A.
3. Calculate your Tax Forgiveness Credit, using the applicable Eligibility Income Table, in Part D.

 **IMPORTANT:** There is no advantage to filing separately because married claimants must report their Joint Eligibility Income on PA Schedule SP.

Claiming Dependents on Separate PA Schedules SP

It is possible that you and your spouse file jointly for federal purposes, but must file separately for PA purposes. If you qualify for Tax Forgiveness, you must each complete PA Schedule SP as if filing jointly. You each must report the same information including dependents and your joint eligibility income. You must fill in the Married and Filing Separate oval in Part A of each PA Schedule SP. You must

each submit a copy of the PA Schedule SP with your PA tax return.

Part A. Filing Status

Fill in the oval that describes your status as of Dec. 31, 2005.

Unmarried means single, widowed, or divorced on Dec. 31, 2005.

Separated means:

- Separated and living apart at all times during the last six months of 2005; or
- Separated pursuant to a written separation agreement.

Married means:

- Married and lived together; or
- Separated and lived apart, but for less than the last six months of 2005; or
- Separated, but not by a written separation agreement.

Also, fill in the correct oval for your specific filing condition.

When claiming Tax Forgiveness together, one of you must meet the eligibility requirements, but you must use your Joint Eligibility Income and Eligibility Income Table 2.

When filing separately, the taxpayer and spouse must combine their eligibility incomes to determine if they meet the eligibility requirements. A married taxpayer cannot claim Tax Forgiveness independently of his or her spouse. Married claimants are not dependents of one another for Tax Forgiveness purposes, even when one spouse does not have any Eligibility Income. You each must use your Joint Eligibility Income and Eligibility Income Table 2, and fill in the oval and certify that you are using the same information for PA Schedule SP.

When one spouse is claimed as a dependent on another person's Federal Income Tax return, otherwise qualifying married taxpayers must file separately. **EXAMPLE:** A husband is a dependent on his parent's Federal Income Tax return and is not eligible for Tax Forgiveness. The wife is not a dependent, and may complete PA Schedule SP. The wife may not claim her husband as a dependent, but must include his Eligibility Income when calculating Total Eligibility Income.

Deceased means you are filing for a person who died during 2005. You must annualize the decedent's income before determining if he or she is eligible for Tax Forgiveness. **EXAMPLE:** You may base the eligibility income on the prior year's return if the individual was eligible for tax forgiveness and received approximately the same income during this taxable year. You may also compute the eligibility income by using the income realized by the decedent during 2005 divided by the number of days or months the decedent lived and multiplied by 365 days or 12 months. If there were any transactions, such as the sale of stock or real property that were only one-time transactions, these amounts should not be considered when determining the daily or monthly income for the decedent when annualizing the income. The Department

will accept a reasonable calculation of the decedent's annual Eligibility Income.

⚠ IMPORTANT: Do not include the surviving spouse's income (including one half of any joint income received prior to the decedent's date of death) in the calculation of the decedent's eligibility income. Likewise, surviving spouses should not include any income in respect of a decedent, income that should be included on the estate tax return, or any income of the deceased taxpayer (including the decedent's half of any joint income received prior to the decedent's date of death) in the taxable income or in the calculation of the eligibility income of the surviving spouse.

Students

A full-time student who is a dependent on his/her parents' federal income tax return cannot claim this credit, regardless of his/her income, unless his/her parents are eligible for Tax Forgiveness. In this case, the student claimant must file his/her own tax return and PA Schedule SP.

Part B. Dependent Children

A dependent is a minor or adult child claimed as a dependent on a 2005 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 step-child of a parent. Child also includes a grandchild of a grandparent and a foster child of a foster parent. Therefore, you can claim a son or daughter, a grandchild, or a foster child as a dependent for PA Schedule SP if you can claim the child as a dependent on your 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 your child, as defined above, or
- You cannot claim the child on your federal tax return, or

- You are unmarried for Tax Forgiveness purposes, and your former spouse by agreement or court decree can claim your child as a dependent for federal and PA Schedule SP 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.

Complete Lines 1 and 2.

1. Provide all the requested information for each child.
2. Enter the number of dependent children you are claiming.

💡 FILING TIP: If you do not have any dependents, go to Part C.

CAUTION: If claiming an adult child, an adopted child, a foster child, or a child with a different last name than yours, the Department may ask for a copy of page 1 of your 2005 federal income tax return.

Part C. Eligibility Income

Use Column A if unmarried or married filing jointly. Use the columns under Column B and C if married filing separately.

1. **PA Taxable Income.** Enter your total PA Taxable Income amount from Line 9 of your PA-40 form.

Nontaxable Income. On Lines 2 through 10, you must include income that you do not report as taxable on your PA return, but PA law requires you to report for Tax Forgiveness purposes. If you do not have an amount to report on Lines 2 through 10, enter zero.

2. **Nontaxable interest, dividends, and gains.** Include income and gains from investments in direct obligations of the federal government, Pennsylvania, and political subdivisions of Pennsylvania. Include the nontaxable portion of gain from the sale of any property. Include nontaxable income received as a beneficiary of an estate or trust.
3. **Alimony.** Enter the amount of federally taxable alimony that you receive.
4. **Insurance proceeds and inheritances.** This amount includes the total proceeds received from life or other insurance policies. Also, include inherited cash or the value of property received.
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 prizes from all games of the PA Lottery.

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

6. **Nonresident income.** Part-year residents and non-residents must complete this line. Enter the total of all income, not already reported on this schedule, that you (and your spouse, if applicable) earned, received, and realized while residing outside Pennsylvania.
7. **Nontaxable military income.** This amount represents the difference between the total military income you earned and the amount you report on your PA tax return. Do not include combat zone pay and hazardous duty pay.
8. **Gain excluded from the sale of a residence.** Enter your nontaxable gain.
9. **Nontaxable educational assistance.** Include the total value of all nontaxable scholarships, fellowships, and stipends. Also, include the value of tuition reductions offered as part of your employer's benefit plan.

10. **Cash received for personal use from outside your home.** Include on Line 10 the following kinds of nontaxable income when determining your Eligibility Income:
 - Support you receive from a spouse or former spouse who does not live in your household. Do not include payments you receive for child support here – see the instructions for Part B.
 - Any payments received from other persons outside your household, including nontaxable cash or property received for personal use, such as cash received from a parent to buy clothing, or gifts from grown children. Do not include monies paid pursuant to a cost-sharing arrangement.
 - Nontaxable payments to your employer's cafeteria plan for hospitalization, sickness, disability, or

death, supplemental unemployment, or strike benefits.

- Payments received as a foster parent for providing in-home care for foster children.

 **FILING TIP:** If claiming a foster child in Part B, you must include the payments you received as a foster parent. However, if the foster care program did not place the child in your home, or you did not receive any payments for providing foster care, submit a written explanation that you do not have any income to report as a foster parent. Include an explanation of the child's relationship to you.

- The value of the personal use of employer-owned or leased property.
- The value of government education grants.

11. Total Eligibility Income. Add Lines 1 through 10, and enter the total. If using Columns B and C, add each column, and enter the total on Line 11. Eligibility Income is the total amount of your PA taxable and non-taxable income that you use to determine your percentage of Tax Forgiveness.

Part D. Calculating Your Tax Forgiveness

12. PA Tax Liability. Enter the amount of your tax due from your PA-40, Line 12. If filing an amended return, you must use the amount from Line 12 of the PA-40 without including the previously refunded amount as per the instructions on page 39.

13. Less Resident Credit. Enter your credit from your PA-40, Line 22.

14. Net PA Tax Liability. Subtract Line 13 from Line 12.

15. Percentage of Tax Forgiveness. Find your percentage using your dependents from Part B, Line 2, and your Eligibility Income from Part C, Line 11, and the appropriate Eligibility Income Table. Enter the percentage as a decimal on Line 15.

16. Tax Forgiveness Credit. Multiply Line 14 by the decimal on Line 15, and enter on your PA-40, Line 21.

PA SCHEDULE G (LINE 22)

PA law allows a resident credit on his/her PA-40 for income tax, wage tax, or other tax (measured by gross or net earned or unearned income) paid to another state or country, when the other state or country imposes its tax on income that is also subject to the PA Personal Income Tax in the same taxable year.

EXAMPLE: A PA resident earns wages in Delaware and pays DE income tax. The PA resident can claim a credit on his PA-40, subject to the limitations described below, for the tax imposed by Delaware on his compensation.

GENERAL INSTRUCTIONS

If you can claim a resident credit as described above, your credit is the lesser amount 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 2005 Pennsylvania tax rate of 3.07 percent (0.0307).

Determine the income on which to calculate your resident credit using PA income tax rules. Do not calculate your resident credit using the amount that the other state/country uses to determine its taxable income and tax rate.

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

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 that show the compensation that the other state taxed. Do not use PA Schedule W-2S.

If you paid income tax to another country on a tax return that is in a foreign language, you:

- Must submit a translation; and
- Convert all amounts to U.S. dollars.

If the other country does not have a tax return system, please submit Federal Form 1116, whether you file this form with your Form 1040 return or not. Submit the information return that shows your taxable income from the other country.

If claiming a resident credit for more than one state or country, you must file a separate PA Schedule G for each state or country, and a signed copy of each tax return that you filed. You add the credits from each PA Schedule G and enter the total on your PA-40, Line 22.

PA income tax law does not allow a resident credit for taxes paid to political subdivisions of other states. Ask your local taxing authority if you are eligible for a credit for the tax paid to a political subdivision outside Pennsylvania, or for the difference between the tax you paid to another state and the credit you claimed on your PA Schedule G.

SPECIFIC INSTRUCTIONS

To receive a PA Resident credit for compensation or wages earned in IN, MD, NJ, OH, WV, or VA, you must be a dual resident of that state and Pennsylvania. See the specific instructions on the next page.

Line 1. Name of the other state or country to which you owed/paid income tax. Do not enter Pennsylvania.

Line 2. PA taxable income that is also subject to the income tax of the other state or country. Use PA income tax rules for classifying income, not the taxable income reported on the tax return 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. Apply the PA income classification rules to the income or gain subject to the other jurisdiction. In making this determination, disregard how the other state or country classifies receipts, proceeds, or other items of income for its tax purposes.

Step 2. Separately determine for each class of PA taxable income or gain, any additional costs and expenses allowable for PA purposes. Compute the amount of taxable income within each PA 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.

Line 4. Multiply Line 2 by 3.07 percent (0.0307).


Line 5. PA Resident Credit. Enter the lesser amount of Line 3 or 4 here, and on Line 22 of your PA-40.

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, such as deducting your contributions to the 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 her Delaware employer. She participates in her employer's IRC Section 125 cafeteria plan, contributing \$3,000 to her employer's retirement plan, \$600 for her health coverage, and \$1,000 for dependent care. Her DE taxable compensation is \$30,400. Her DE compensation is lower than her PA taxable compensation because PA law does not permit the deductions for retirement and dependent care, but does permit payments for health coverage under an IRC 125 plan. She reports PA taxable compensation of \$34,400 (\$35,000 - \$600) on Line 1a of her PA-40 (her annual salary \$35,000 less her \$600 health coverage payments). However, she calculates her resident credit on \$30,400 (\$35,000 - \$3,000 - \$600 - \$1,000) on PA Schedule G, the amount subject to tax in both states. She cannot take into account her plan contributions – she did not pay DE tax on these 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 does not allow a resident credit for the income tax paid on the employee compensation you earn in these states. Under the reciprocal compensation agreements that Pennsylvania has with these states, each agreed not to tax the compensation of PA residents who work in reciprocal states.

If you are a Dual Resident, the reciprocal agreements do not apply. Dual Residency means you are also a statutory resident of the reciprocal agreement state. Therefore, you can claim the resident credit for the income tax imposed by the reciprocal agreement state on your compensation. The reciprocal agreements do not apply to non-employee compensation.

S Corporations in Other States that are not PA S Corporations.

Do not claim a resident credit for income tax you paid in 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 PA income tax on the distributable income reported to the other state. You pay PA tax only on the income that the other state's S corporation distributed to you. You report that income as Dividend Income on Line 3 of your PA-40.

Classification.

Other states and countries do not categorize income and losses as Pennsylvania does. When you complete your PA tax return, you must place the amounts in the appropriate PA income classes, regardless of the name 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. Include such income on Line 4 of your PA-40. Do not report such income on Lines 2 and 3, even though reported as interest and dividends on the other tax return. Submit an explanation that you properly classified that income under PA income tax rules.

EXAMPLE: Ben realizes net income of \$20,000 from his business in New Jersey. On his NJ tax return, he must report \$19,000 as business income and \$1,000 as interest income. PA will deny a resident credit calculated on ordinary interest. Since the interest is working capital interest (directly related to and exclusively business), Ben may claim the resident credit, but must submit an explanation that he classified this income under PA income tax rules. NOTE: When Ben completes his PA-40, he includes this interest on Line 4, and reports \$20,000 business income.

Sale, Exchange, or Disposition of Property.

You can claim a resident credit on the non-business gain from the sale of property in another state. The sale of prop-

erty may also be a business transaction. The other state may require that you separately report all gains 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 OH net profit of \$2,000 on an OH Schedule C. Julie also sold an operational asset for a \$500 gain, and land in OH for a \$1,000 loss. She reports both sales on an OH Schedule D. Her OH taxable income is \$1,500. Julie has a net profit of \$8,000 from her Pennsylvania business.

For PA purposes, the sale of OH land 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 resident credit on the \$1,000 loss. For PA purposes, the sale of the operational asset is a business transaction. Julie adds the \$500 gain and her \$2,000 profit.

For PA purposes, her OH profit is \$2,500, and her total PA taxable business profit is \$10,500. Julie's resident credit is the lower of the OH tax on \$1,500, and the PA tax calculated on her OH profit of \$2,500.

Losses. After determining your total amount within each PA net income class, if 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 operated businesses in three states. He had a profit of \$24,000 from New York. He had a loss of \$2,000 from Maryland. He also had a \$1,000 gain from the sale of non-business property in Maryland. He reported a net loss of \$1,000 on his MD tax return. Charles had a \$500 loss from his PA business. His net PA taxable business income is \$21,500 (NY + \$24,000/MD - \$2,000/PA - \$500). His PA taxable gain is \$1,000 from his MD sale. Charles' resident credit for his business is limited ($\$21,500 \times 0.0307$). He did not pay tax in PA on the total \$24,000 NY profit. He did not pay any tax to MD, so he cannot claim any resident credit on the \$1,000 MD gain.

However, if Charles had a PA business loss of \$25,000, he would have a net PA taxable loss of \$3,000. Since he

would pay no tax to Pennsylvania, he would not receive any credit for income tax paid to New York.



IMPORTANT: Make downward adjustments if you have net income or a gain in one or more states and net losses in other states, including Pennsylvania. Classify each item of income, gain, and loss in its correct PA income class. Then determine the maximum credit. The Department will allow a total credit up to your PA tax liability, but will not refund tax paid to one state because of losses you realized in another state.

PA SCHEDULE OC (LINE 23)

The following credits are reported on PA Schedule OC: **PA Employment Incentive Payments Credit; PA Jobs Creation Tax Credit; PA Research and Development Tax Credit; and PA Film Production Tax Credit.** Submit the required supporting document for each credit you are claiming.

If you are a shareholder of a PA S corporation or a partner, enter your share of each credit from your PA Schedule RK-1 or PA Schedule NRK-1.



IMPORTANT: A taxpayer and spouse must file separate PA-40 returns if one or both are claiming any credits on this schedule.

1. Employment Incentive Payments Credit

If you employ welfare recipients, you may be eligible for this credit. Submit a completed PA Schedule W with all supporting required documents.

2. Jobs Creation Tax Credit

Enter the amount of credit that the PA Department of Community and Economic Development approved on the certification sent to you.

3. Research and Development Tax Credit

Enter the amount from the PA Department of Revenue certification that you received.

4. Film Production Tax Credit


Enter the amount from the PA Department of Revenue or PA Department of Community and Economic Development certification that you received.

5. Total Allowable Credits

Add Lines 1 through 4. Enter the total here and on Line 23 of your PA-40.

2006 PA Estimated Payment Requirements

If you expect to earn, receive, or realize \$8,000 of PA taxable income (\$246 of PA tax) that is not subject to withholding by a Pennsylvania employer in 2006, you must make 2006 estimated tax payments.

 **IMPORTANT:** If you are a PA resident working in a reciprocal agreement state and your employer is not withholding PA tax, you must make PA estimated tax payments.

If you made 2005 estimated payments, the Department will send you 2006 forms. If you do not receive your forms by April 17, 2006, contact the Department.

To obtain the Form PA-40ESR, with the Form REV-413I (instructions) and Form REV-414I (worksheet) contact the district office nearest you, the Department's Web site at www.revenue.state.pa.us or one of the Forms Ordering Services on page 3.

Military Pay - Members of the Armed Forces

PA residents report military pay earned while in Pennsylvania or earned when not on active duty status as taxable compensation on Line 1a. Active duty military pay is not taxable for Pennsylvania purposes if earned by a PA resident serving on full-time active duty or federal active duty for training outside the state. However, other income is still taxable. Please see the information for Combat Zone and Hazardous Duty Service on this page.

Do not include qualifying active duty military pay earned outside of PA in taxable compensation. Submit legible copies of your Form(s) W-2, and your military orders assigning you to federal active duty outside Pennsylvania. While your Form W-2 may state active duty, it does not show where you performed your military service. Military personnel stationed abroad should use their APO or FPO address.

For more information, request the brochure Military Pay for Pennsylvania Personal Income Tax Purposes (REV-612).

CAUTION: PA residents serving in the Merchant Marines, U.S. Public Health Service, the National Oceanic and Atmospheric Administration, or the U. S. Foreign Service are subject to tax on compensation whether earned within or outside Pennsylvania. However, compensation earned by PA residents serving in the Merchant Marines or U.S. Public Health Service called to active duty in a Combat Zone or hazardous duty zone is not subject to tax in Pennsylvania. Copies of executive orders that make the active duty military active duty are required to be included with the return.

Combat Zone and Hazardous Duty Service

Pennsylvanians serving in combat zones or qualified hazardous duty areas designated by the President of the United States are given the same additional time to file and pay their PA 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 injury incurred in one of these areas. Print COMBAT ZONE at the top of your return. Mail your return and military orders to:

Regarding: COMBAT ZONE
PA Department of Revenue
Bureau of Individual Taxes
PO Box 280600
Harrisburg, PA 17128-0600

If you are filing your return electronically, you must still fax or mail copies of your orders. Print COMBAT ZONE at the top of your orders. Fax your orders to (717) 772-4193 or mail your orders to:

Regarding: COMBAT ZONE
PA Department of Revenue
Electronic Filing Section
PO Box 280507
Harrisburg, PA 17128-0507

Extension of Time to File

The Department will grant a four or six month extension of time for filing a PA income tax return. Unless you are outside the United States, the Department will not grant an extension for more than six months. An extension of time for filing will not extend the time for paying the tax.

Follow these procedures when applying for an extension of time to file:

1. If you owe income tax on your PA tax return, you must:
 - Pay by check with a timely Application for Extension of Time to File (Form REV-276), or
 - Pay by Electronic Funds Transfer to have your extension payment deducted from your bank account. Go to the Revenue e-Services Center at www.revenue.state.pa.us to arrange an EFT payment. You do not need to mail a Form REV-276, or
 - Pay by credit card. Visit the Revenue e-Services Center to pay by credit card over the Internet. You may also pay by credit card using the telephone by calling 1-800-2PAYTAX (272-9829). You do not need to mail a Form REV-276. This option is not available if you have never filed a Pennsylvania Personal Income Tax return or made an estimated payment prior to making the request for the extension and payment via this method.
2. If you have an approved extension for filing your federal income tax return, and you do not owe PA income tax on your 2005 tax return, the Department will grant you the same extension for filing your PA tax return. You do not have to submit a PA Form REV-276, Federal Form 4868, or Form 2688 before the due date.
3. If you do not have an extension for filing your federal income tax return, request an extension on Form REV-276, and file it in sufficient time for the

Department to consider and act upon it prior to the return due date.

Mail your Form REV-276, with or without a payment, to:

**PA Department of Revenue
Bureau of Individual Taxes
PO Box 280504
Harrisburg, PA 17128-0504**

When filing your PA tax return:

- Fill in the extension request oval at the top of your PA-40.
- If you did not file a PA Form REV-276, submit a copy of the Federal Form 4868 or approved Form 2688, with your PA tax return.
- If you electronically filed your federal extension, submit a statement with an explanation and the confirmation number you received.
- If you submitted Form REV-276, or electronically filed your PA extension and payment, you do not have to submit the extension paperwork with your PA tax return.

The Department will impose:

- An underpayment penalty if you do not pay at least 90 percent of your 2005 tax due by April 17, 2006; and the remaining balance with your PA return by the extended due date; and
- Interest on the amount you do not pay by April 17, 2006.

Amended Returns

Do not submit a photocopy of your original return. Use a PA-40 tax form from the same tax year you are amending.

EXAMPLE: To amend for 2004, use a 2004 PA-40 form.

If you realize you made a mistake on your PA tax return, make the correction on an amended PA return. You cannot amend your PA tax return using TeleFile or pa.direct.file. However, if your software supports the amended PA return, you can amend your 2005 return using PA/IRS e-file. If not using PA/IRS e-file and for prior tax years, obtain a PA-40 PA Personal Income Tax Forms and Instructions booklet for the year you want to amend, and follow the instructions.

For filing an amended return on a PA-40, completely fill in the amended return oval, and write AMENDED RETURN at the top of the PA tax return. Follow these steps:

1. Enter the amounts from your original return that you are not amending.
2. Enter your amended amounts, and enclose a statement explaining the reasons you are filing amended information. Submit only the forms or schedules supporting your amended amounts.
3. Calculate your amended total PA taxable income.
4. Calculate your PA tax liability. If you received a refund on your original return, add that amount to your PA tax liability on Line 12.

5. Calculate your total payments and credits. If you paid tax with your original return, add that payment to your total payments and credits on Line 24.
6. Calculate your amended Tax Due or Overpayment. Be sure to complete the appropriate lines explaining how you want the Department to distribute your overpayment (refund/credit/donation). The Department will take your original refund or payment into account. Be sure to sign your amended return and mail it with all explanations and attachments to:

**PA Department of Revenue
Bureau of Individual Taxes
PO Box 280502
Harrisburg, PA 17128-0502**

Refunds from Amended Returns

You can file an amended PA return and request a refund if you over-reported income or did not claim allowable credits or deductions. You must file your amended PA return within three years from the original due date.

Under PA law, a taxpayer must file a refund petition within three years following the date of payment. For a refund of tax shown on a timely filed PA tax return, the Department may not accept an amended return unless the taxpayer files the amendment within three years of the due date.

CAUTION: You may not file an amended PA return after the Department issued an assessment if your amendment relates to the same taxable year and item of income, gain, deduction, or loss that the Department assessed. You must either file a timely petition for reassessment or pay the assessment and file a timely refund petition. Under PA law, you must submit a Petition Form (Form REV-65) no later than six months after the date shown on the assessment.

Underreported Income for Amended Returns

If you discover that you did not report taxable income or erroneously claimed credits or deductions, you must correct the error within 30 days. File an amended PA return and pay the additional tax, plus penalty and interest.

Penalty and Interest

- **Penalties for Not Filing or for Filing a Late Return**
PA law imposes a penalty if you do not file your return on or before the due date, or the approved extended due date. The penalty is five percent of the unpaid tax due for each month or fraction of a month. PA law imposes this penalty unless you show reasonable cause for late filing. The maximum penalty is 25 percent. The minimum penalty is \$5. The Department may prosecute any person who attempts to evade or defeat their PA tax responsibility.
- **Penalties for Underpayment or for Late Payment**
If you do not pay the full amount of your tax due with your return, PA law imposes a five percent underpayment penalty.

If you do not report taxable income that is more than 25 percent of the taxable income shown on your return,

PA law imposes an additional penalty. This penalty is 25 percent of the tax due on your unreported income.

You are liable for these penalties if your underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud. The Department may assess both late filing and underpayment penalty if you file your return after the due date, or extended due date, and do not pay your tax liability with your return.

CAUTION: If you filed late or did not pay your Pennsylvania income tax on time, the Department will calculate your penalty and interest and issue a notice. If any part of any underpayment of the tax is due to fraud, PA law imposes a penalty of 50 percent of the underpayment.

- **Penalty for Uncollectible Funds**

PA tax law imposes an additional penalty on funds submitted via check and not paid on presentment or an electronic funds transfer payment and not credited on transmission. The penalty is 10 percent of the face amount of the check or electronic funds transfer payment. The penalty imposed cannot exceed \$1,000 nor be less than \$25.

- **Other Penalties**

PA law imposes a \$500 penalty on a taxpayer that files a frivolous return. A frivolous return is one that:

- Does not contain sufficient information for the Department to determine the correct liability; or
- Contains information indicating the liability is significantly incorrect; or
- Indicates that the taxpayer is filing in a manner to delay or impede the administration of the PA tax law.

PA law imposes a penalty on any person required to furnish an information return that does not file a required information return or files a false or fraudulent information return. The penalty is \$50 for each information return.

- **Interest for Nonpayment or Late Payment**

If you do not pay the tax due on or before the due date, PA law imposes interest from April 17, 2006 to the date of payment at the annual interest rate that the U.S. Secretary of the Treasury establishes as of January 1 of each calendar year.

**Instructions for Nonresidents
and Part-Year Residents**

Nonresident of Pennsylvania - You must report all taxable income you earned, received, and realized from PA sources.

Part-year resident of Pennsylvania - You must report all taxable income you earned, received, and realized from all sources for the time you were a PA resident, and report the PA taxable income you earned, received, and realized from sources within Pennsylvania for the time you were not a PA resident. Read the instructions for each PA income class.

Apportioning Income and Loss on PA Schedule NRH


As a nonresident, you may apportion income that you earn both within and outside Pennsylvania. You apportion your PA taxable compensation when your employer does not separately report your PA wages on your Form W-2. You must apportion income/loss from operating a business within and outside Pennsylvania, unless you maintain separate books and records that clearly substantiate your PA source receipts, expenses, liabilities, etc.

Allocating Income and Loss

As a nonresident, you may allocate income/loss from a business when you maintain separate PA books and records. You must allocate income/loss from real or tangible property located within Pennsylvania. You must allocate gain/loss from the sale, exchange, or disposition of real or tangible property located within Pennsylvania. You allocate income/loss from rental property, royalties, patents, and copyrights located within Pennsylvania. You allocate winnings from gambling and lotteries from Pennsylvania sources.


NONRESIDENT PARTNERS AND SHAREHOLDERS OF PA S CORPORATIONS

You report your share of income/loss, whether distributed or not, in the same PA income class in which the entity realized the income/loss. Submit a copy of each PA Schedule NRK-1 that you receive.

 **IMPORTANT:** If the partnership only provides a Federal Schedule K-1, you must classify the income or loss according to the instructions for each PA income class.

Compensation

As a nonresident, you pay PA income tax on compensation for services you perform in Pennsylvania. Your PA employer should report and withhold PA tax from the exact amount of your PA taxable compensation. If your employer does not report, or incorrectly reports, your PA taxable compensation, you must use PA Schedule NRH to apportion your compensation and any allowable employee business expenses.

 **IMPORTANT:** If you are a nonresident, part-year resident, or former resident of PA, payments you receive from an Early Retirement Incentive Plan, Deferred Compensation Plan, or exercising of stock options may be taxable in whole or in part to Pennsylvania if you earned any of these amounts while working in PA. You may be required to substantiate the number of days worked in PA or amount of time spent in PA to determine the taxable portion in PA.

CAUTION: Special rules apply for residents of reciprocal agreement states working within the Commonwealth. Special rules also apply for Ohio resident shareholder-employees with a 20 percent or greater interest in a PA S-corporation who worked or performed services in Pennsylvania in 2005. See page 11 of the instructions and the PA PIT Guide for more information.

Net Income or Loss from the Operation of a Business, Profession, or Farm

As a nonresident, you must report your net profit (and pay the PA income tax due) or loss on your net profits from business or farm operations. See page 15 of the instructions for more information.

Net Gain or Loss from the Sale, Exchange, or Disposition of Property

As a nonresident, you must report net income (and pay the PA income tax due) or loss from the sale of real or tangible property located within Pennsylvania. See page 16 of the instructions for more information.

Net Income or Loss from Rents, Royalties, Patents, and Copyrights

As a nonresident, you must report your net income/loss from rental property located in Pennsylvania, and income from royalties, patents, and copyrights for the use of your property in Pennsylvania. See page 17 of the instructions for more information.

Income from Estates or Trusts

As a nonresident, you must report the net income you receive as a beneficiary of an estate or trust as reported to you on PA Schedule L. See page 18 of the instructions for more information.

Gambling and Lottery Winnings

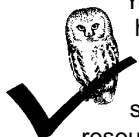
As a nonresident, you must report your winnings from gambling and lotteries in Pennsylvania, but not prizes awarded by the PA Lottery. See page 18 of the instructions for more information.

Interest Income, Dividend Income, and Gain from the Sale of Intangible Property

As a nonresident, you do not pay PA income tax on ordinary interest, ordinary dividends, and any gain you realize on the sale, exchange, or disposition of intangible personal property, such as stocks and bonds. You cannot use the loss from such sales against other taxable gains.

DONATIONS

WILD RESOURCE CONSERVATION FUND



You have the chance to "Do Something Wild" and help protect Pennsylvania's nongame wildlife and native wild plants by making a contribution of all or a portion of your Pennsylvania tax refund. This special non-profit fund helps Pennsylvania's resource agencies protect and restore these unique state treasures, our native wild plants, and nongame wildlife.

You can also send a direct contribution. Make your check or money order payable to: Wild Resource Conservation Fund, PO Box 8764, Harrisburg, PA 17105-8764.

MILITARY FAMILY RELIEF ASSISTANCE PROGRAM

You have the opportunity to contribute to a new Military Family Relief Assistance Program. This program helps Pennsylvanians and their families who serve in the Armed Forces and who suffer a sudden or unexpected loss of income. Your gift will provide emergency relief for military families for food, shelter, clothing, medical care and other necessities.

You can also send a direct contribution to the Military Family Relief Assistance Program, c/o Department of Military and Veterans Affairs, Fort Indiantown Gap, Annville, PA 17003-5002.



BREAST AND CERVICAL CANCER RESEARCH FUND

You have the opportunity to contribute to the Breast and Cervical Cancer Research Fund by making a contribution of all or a portion of your Pennsylvania tax refund.

You can also send a direct contribution. Make your check or money order payable to PA Department of Health, Breast and Cervical Cancer Research, Bureau of Administrative and Financial Services, PO Box 90, Harrisburg, PA 17108-0090.

GOVERNOR ROBERT P. CASEY MEMORIAL ORGAN AND TISSUE DONATION AWARENESS TRUST FUND

Donating an organ is truly giving the gift of life. Each year, many Pennsylvanians are fortunate to receive transplanted organs that save their lives. You can help this vital effort by contributing all or a portion of your Pennsylvania tax refund. Money from this fund will support educational programs that encourage people to become organ and tissue donors.

You can also send a direct contribution. Make your check or money order payable to: Pennsylvania Department of Health, Bureau of Administrative and Financial Services, Governor Robert P. Casey Memorial Organ and Tissue Donation Awareness Trust Fund, PO Box 90, Harrisburg, PA 17108-0090.

JUVENILE (TYPE 1) DIABETES CURE RESEARCH FUND

Type 1 diabetes is a condition where the body does not produce enough insulin, thus resulting in too much glucose (sugar) in the bloodstream. Type 1 diabetes usually strikes children and young adults. Persons with Type 1 diabetes are required to give themselves insulin every day. You have the opportunity to help find a cure for this disease. You have the opportunity to contribute to the Juvenile (Type 1) Diabetes Cure Research Fund by making a contribution of all or a portion of your Pennsylvania tax refund.

You can also send a direct contribution. Make your check or money order payable to PA Department of Health, Juvenile (Type 1) Diabetes Cure Research Fund, Bureau of Administrative and Financial Services, PO Box 90, Harrisburg, PA 17108-0090.

PA SCHOOL DISTRICTS & CODES BY COUNTY

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
ADAMS		BERKS		Palmerton Area	13650	Middletown Area	22600
Bermudian Springs	.01110	Antietam	.06050	Panther Valley	13660	Millersburg Area	22610
Conewago Valley	.01160	Boyertown Area	.06075	Weatherly Area	13900	Steeltown Highspire	22800
Fairfield Area	.01305	Brandywine Heights Area	.06085	CENTRE		Susquehanna Township	22830
Gettysburg Area	.01375	Conrad Weiser Area	.06110	Bald Eagle Area	14100	Susquenita	50600
Littlestown Area	.01520	Daniel Boone Area	.06150	Bellefonte Area	14110	Upper Dauphin Area	22900
Upper Adams	.01852	Exeter Township	.06200	Keystone Central	18360	Williams Valley	54880
ALLEGHENY		Fleetwood Area	.06250	Penns Valley Area	14700	DELAWARE	
Allegheny Valley	.02060	Governor Mifflin	.06300	Philipsburg-Osceola Area	17700	Chester Upland	23123
Avonworth	.02075	Hamburg Area	.06350	State College Area	14800	Chichester	23130
Baldwin Whitehall	.02110	Kutztown Area	.06400	Tyrone Area	07800	Garnet Valley	23410
Bethel Park	.02125	Muhlenberg Township	.06550	CHESTER		Haverford Township	23450
Brentwood Borough	.02145	Oley Valley	.06650	Avon Grove	15050	Interboro	23510
Carlynton	.02160	Reading	.06700	Coatesville Area	15190	Marple Newtown	23550
Chartiers Valley	.02175	Schuylkill Valley	.06750	Downingtown Area	15200	Penn-Delco	23690
Clairton City	.02190	Tulpehocken Area	.06800	Great Valley	15350	Radnor Township	23760
Cornell	.02210	Twin Valley	.06810	Kennett Consolidated	15400	Ridley	23770
Deer Lakes	.02225	Upper Perkiomen	.46860	Octorara Area	15650	Rose Tree Media	23790
Duquesne City	.02250	Wilson	.06910	Owen J. Roberts	15660	Southeast Delco	23840
East Allegheny	.02280	Wyomissing	06935	Oxford Area	15670	Springfield	23850
Elizabeth Forward	.02315	BLAIR		Phoenixville Area	15720	Unionville-Chadds Ford	15850
Fort Cherry	.63240	Altoona Area	.07050	Spring Ford Area	46730	Upper Darby	23945
Fox Chapel Area	.02391	Bellwood Antis	.07100	Tredyffrin Easttown	15780	Wallingford Swarthmore	23960
Gateway	.02410	Claysburg-Kimmel	.07150	Twin Valley	06810	West Chester Area	15900
Hampton Township	.02460	Holidaysburg Area	.07350	Unionville-Chadds Ford	15850	William Penn	23965
Highlands	.02475	Spring Cove	.07750	West Chester Area	15900	ELK	
Keystone Oaks	.02500	Tyrone Area	.07800	CLARION		Brockway Area	33070
McKeesport Area	.02600	Williamsburg Community	.07900	Allegheny Clarion Valley	16030	Forest Area	27200
Montour	.02630	BRADFORD		Armstrong	03085	Johnsonburg Area	24350
Moon Area	.02634	Athens Area	.08050	Clarion Area	16120	Kane Area	42230
Mount Lebanon	.02640	Canton Area	.08100	Clarion-Limestone Area	16170	Ridgway Area	24600
North Allegheny	.02685	Northeast Bradford County	.08300	Keystone	16650	Saint Marys Area	24800
Northgate	.02687	Sayre Area	.08600	North Clarion County	16750	ERIE	
North Hills	.02690	Towanda Area	.08650	Redbank Valley	16800	Corry Area	25145
Penn Hills	.02735	Troy Area	.08665	Union	16900	Erie City	25260
Penn-Trafford	.65710	Wyalusing Area	.08900	CLEARFIELD		Fairview	25330
Pine-Richland	.02100	BUCKS		Clearfield Area	17100	Fort LeBoeuf	25355
Pittsburgh	.02745	Bensalem Township	.09100	Curwensville Area	17180	General McLane	25390
Plum Borough	.02750	Bristol Borough	.09130	Dubois Area	17200	Girard	25405
Quaker Valley	.02775	Bristol Township	.09135	Glendale	17300	Harbor Creek	25435
Riverview	.02820	Centennial	.09200	Harmony Area	17350	Iroquois	25655
Shaler Area	.02830	Central Bucks	.09210	Moshannon Valley	17500	Millcreek Township	25760
South Allegheny	.02865	Council Rock	.09235	Philipsburg-Osceola Area	17700	North East	25830
South Fayette Township	.02870	Easton Area	.48330	Purchase Line	32730	Northwestern	25850
South Park	.02875	Morrisville Borough	.09720	West Branch Area	17900	Union City Area	25910
Steel Valley	.02883	Neshaminy	.09750	CLINTON		Wattsburg Area	25970
Sto-Rox	.02885	New Hope Solebury	.09760	Jersey Shore Area	41400	FAYETTE	
Upper Saint Clair Township	.02920	North Penn	.46570	Keystone Central	18360	Albert Gallatin Area	26030
West Allegheny	.02940	Palisades	.09800	West Branch Area	17900	Belle Vernon Area	65060
West Jefferson Hills	.02955	Pennridge	.09810	COLUMBIA		Brownsville Area	26080
West Mifflin Area	.02960	Pennsbury	.09820	Benton Area	19100	Connellsville Area	26130
Wilkinsburg Borough	.02980	Quakertown Community	.09840	Berwick Area	19110	Frazier	26290
Woodland Hills	.02990	Souderton Area	.46710	Bloomsburg Area	19120	Laurel Highlands	26400
ARMSTRONG		BUTLER		Central Columbia	19150	Southmoreland	65750
Allegheny Clarion Valley	16030	Allegheny Clarion Valley	16030	Millville Area	19500	Tuscarora	26800
Apollo-Ridge	03060	Butler Area	10125	Mount Carmel Area	49510	FOREST	
Armstrong	03085	Freepoint Area	03305	North Schuylkill	54500	Forest Area	27200
Freepoint Area	03305	Karns City Area	10360	Southern Columbia Area	19750	FRANKLIN	
Karns City Area	10360	Mars Area	10500	CRAWFORD		Chambersburg Area	28130
Kiski Area	65440	Moniteau	10535	Conneaut	20103	Fannett-Metal	28200
Leechburg Area	03450	Seneca Valley	10790	Corry Area	25145	Greencastle-Antrim	28300
Redbank Valley	16800	Slippery Rock Area	10750	Crawford Central	20135	Shippensburg Area	21800
BEAVER		South Butler County	10780	Jamestown Area	43360	Tuscarora	28600
Aliquippa Borough	04050	CAMBRIA		Penncrest	20470	Waynesboro Area	28900
Ambridge Area	04070	Blacklick Valley	11060	Titusville Area	61720	FULTON	
Beaver Area	04120	Cambria Heights	11120	Union City Area	25910	Central Fulton	29130
Big Beaver Falls Area	04150	Central Cambria	11130	CUMBERLAND		Forbes Road	29230
Blackhawk	04160	Conemaugh Valley	11140	Big Spring	21050	Southern Fulton	29750
Center Area	04190	Ferndale Area	11200	Camp Hill	21100	GREENE	
Ellwood City Area	37200	Forest Hills	11220	Carlisle Area	21110	Carmichaels Area	30130
Freedom Area	04285	Glendale	17300	Cumberland Valley	21160	Central Greene	30140
Hopewell Area	04410	Greater Johnstown	11250	East Pennsboro Area	21250	Jefferson-Morgan	30350
Midland Borough	04530	Northern Cambria	11450	Mechanicsburg Area	21650	Southeastern Greene	30650
Monaca	04545	Penn Cambria	11600	Shippensburg Area	21800	West Greene	30850
New Brighton Area	04565	Portage Area	11630	South Middleton	21830	HUNTINGDON	
Riverside Beaver County	04585	Richland	11650	West Shore	21900	Huntingdon Area	31250
Rochester Area	04690	Westmont Hilltop	11850	DAUPHIN		Juniata Valley	31280
South Side Area	04740	Windber Area	56910	Central Dauphin	22140	Mount Union Area	31600
Western Beaver County	04930	CAMERON		Derry Township	22175	Southern Huntingdon County	31750
BEDFORD		Cameron County	12270	Halifax Area	22250	Tussey Mountain	05800
Bedford Area	05100	CARBON		Harrisburg City	22275	Tyrone Area	07800
Chestnut Ridge	05150	Hazleton Area	40330	Lower Dauphin	22400	ADAMS	
Claysburg-Kimmel	07150	Jim Thorpe Area	13500	ADAMS		Bermudian Springs	.01110
Everett Area	05300	Lehigh Area	13550	ADAMS		Conewago Valley	.01160
Northern Bedford County	05600	ADAMS		ADAMS		Fairfield Area	.01305
Tussey Mountain	05800	ADAMS		ADAMS		Gettysburg Area	.01375
ADAMS		ADAMS		ADAMS		Littlestown Area	.01520
ADAMS		ADAMS		ADAMS		Upper Adams	.01852

PA SCHOOL DISTRICTS & CODES BY COUNTY

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
INDIANA							
Apollo-Ridge	03060	Dallas	40160	Easton Area	48330	UNION	
Armstrong	03085	Greater Nanticoke Area	40260	Nazareth Area	48480	Lewisburg Area	60400
Blairsville-Saltsburg	32110	Hanover Area	40300	Northampton Area	48490	Mifflinburg Area	60500
Harmony	17350	Hazleton Area	40330	Northern Lehigh	39450	Milton Area	49500
Homer Center	32330	Lake-Lehman	40390	Pen Argyl Area	48560	Warrior Run	49800
Indiana Area	32370	Northwest Area	40600	Saucon Valley	48600		
Marion Center Area	32520	Pittston Area	40660	Wilson Area	48860		
Penns Manor Area	32630	Wilkes-Barre Area	40885			VENANGO	
Punxsutawney Area	33800	Wyoming Area	40920	NORTHUMBERLAND		Allegheny Clarion Valley	16030
Purchase Line	32730	Wyoming Valley West	40930	Danville Area	47180	Cranberry Area	61130
United	32800			Line Mountain	49350	Forest Area	27200
		LYCOMING		Milton Area	49500	Franklin Area	61220
JEFFERSON		Canton Area	08100	Mount Carmel Area	49510	Oil City Area	61620
Brockway Area	33070	East Lycoming	41200	Shamokin Area	49650	Penncrest	20470
Brookville Area	33080	Jersey Shore Area	41400	Shikellamy	49660	Titusville Area	61720
Clarion-Limestone Area	16170	Loyalsock Township	41420	Southern Columbia Area	19750	Valley Grove	61860
Dubois Area	17200	Montgomery Area	41500	Warrior Run	49800		
Punxsutawney Area	33800	Montoursville Area	41510			WARREN	
		Muncy	41530	PERRY		Corry Area	25145
		South Williamsport Area	41610	Fannett-Metal	28200	Titusville Area	61720
		Southern Tioga	59700	Greenwood	50300	Warren County	62830
		Wellsboro Area	59850	Newport	50400		
		Williamsport Area	41720	Susquenita	50600	WASHINGTON	
				West Perry	50800	Avella Area	63050
		MCKEAN				Bentworth	63090
		Bradford Area	42080	PHILADELPHIA		Bethlehem-Center	63100
		Kane Area	42230	Philadelphia City	51500	Brownsville Area	26080
		Oswayo Valley	53750			Burgettstown Area	63120
		Otto-Eldred	42600	PIKE		California Area	63150
		Port Allegany	42630	Delaware Valley	52200	Canon-McMillan	63170
		Smethport Area	42750	East Stroudsburg Area	45200	Charlertown	63180
				Wallenpaupack Area	64830	Chartiers-Houston	63190
		MERCER				Fort Cherry	63240
		Commodore Perry	43130	POTTER		McGuffey	63390
		Crawford Central	20135	Austin Area	53030	Peters Township	63650
		Farrell Area	43250	Coudersport Area	53130	Ringgold	63700
		Greenville Area	43280	Galeton Area	53280	Trinity Area	63800
		Grove City Area	43290	Keystone Central	18360	Washington	63880
		Hermitage	43330	Northern Potter	53550		
		Lamestown Area	43360	Oswayo Valley	53750	WAYNE	
		Lakeview	43390	Port Allegany	42630	Forest City Regional	58300
		Mercer Area	43500			North Pocono	35650
		Reynolds	43530	SCHUYLKILL		Susquehanna Community	58650
		Sharon City	43560	Blue Mountain	54080	Wallenpaupack Area	64830
		Sharpsville Area	43570	Hazleton Area	40330	Wayne Highlands	64870
		West Middlesex Area	43750	Mahanoy Area	54450	Western Wayne	64890
		Wilmington Area	37800	Minersville Area	54470		
				North Schuylkill	54500	WESTMORELAND	
		MIFFLIN		Panther Valley	13660	Belle Vernon Area	65060
		Mifflin County	44460	Pine Grove Area	54600	Blairsville-Saltsburg	32110
		Mount Union Area	31600	Pottsville Area	54610	Burrell	65070
				Saint Clair Area	54680	Derry Area	65160
		MONROE		Shenandoah Valley	54720	Franklin Regional	65260
		East Stroudsburg Area	45200	Schuylkill Haven Area	54730	Greater Latrobe	65310
		Pleasant Valley	45520	Tamaqua Area	54760	Greensburg Salem	65320
		Pocono Mountain	45540	Tri-Valley	54780	Hempfield Area	65380
		Stroudsburg Area	45600	Williams Valley Area	54880	Jeannette City	65410
						Kiski Area	65440
		MONTGOMERY		SNYDER		Leechburg Area	03450
		Abington	46030	Mid-West	55500	Ligonier Valley	65490
		Boyetown Area	06075	Selinsgrove Area	55710	Monessen City	65580
		Bryn Athyn Borough	46050			Mount Pleasant Area	65590
		Cheltenham Township	46130	SOMERSET		New Kensington-Arnold	65630
		Colonial	46160	Berlin Brothersvalley	56100	Norwin	65650
		Hatboro-Horsham	46360	Conemaugh Township Area	56180	Penn-Trafford	65710
		Jenkintown	46380	Meyersdale Area	56520	Southmoreland Area	65750
		Lower Merion	46450	North Star	56550	Yough	65890
		Lower Moreland Township	46460	Rockwood Area	56630		
		Methacton	46530	Salisbury-Elk Lick	56700	WYOMING	
		Norristown Area	46560	Shade-Central City	56720	Elk Lake	58250
		North Penn	46570	Shanksville-Stonycreek	56740	Lackawanna Trail	66500
		Perkiomen Valley	46610	Somerset Area	56770	Lake-Lehman	40390
		Pottsgrove	46630	Turkeyfoot Valley Area	56840	Tunkhannock Area	66750
		Pottstown	46640	Windber Area	56910	Wyalusing Area	08900
		Souderton Area	46710			Wyoming Area	40920
		Springfield Township	46720	SULLIVAN			
		Spring-Ford Area	46730	Sullivan County	57630	YORK	
		Upper Dublin	46830			Central York	67130
		Upper Merion Area	46840	SUSQUEHANNA		Dallastown Area	67160
		Upper Moreland Township	46850	Blue Ridge	58100	Dover Area	67180
		Upper Perkiomen	46860	Elk Lake	58250	Eastern York	67220
		Wissahickon	46930	Forest City Regional	58300	Hanover Public	67280
				Montrose Area	58450	Northeastern	67440
		MONTOUR		Mountain View	58460	Northern York County	67460
		Danville Area	47180	Susquehanna Community	58650	Red Lion Area	67550
		Warrior Run	49800			South Eastern	67620
				TIOGA		South Western	67640
		NORTHAMPTON		Canton Area	08100	Southern York County	67650
		Bangor Area	48080	Galeton Area	53280	Spring Grove Area	67670
		Bethlehem Area	48100	Northern Tioga	59600	West Shore	21900
		Catasauqua Area	39130	Bethlehem Area	59700	West York Area	67850
				Southern Tioga	59700	York City	67900
				Wellsboro Area	59850	York Suburban	67940

INDEX

2005 Estimated Installment Payments Line 15 . . .19	Interest Income Line 213	Retirement, Pensions, And Deferred Compensation11
Adjusted PA Taxable Income Line 1119	IRA Distributions (60 Day Rollover Rule)13	Revenue District Offices4
Amended Returns39	IRC Sections 17910	Revocable And Grantor Trusts18
Annuities, Life Insurance Or	Jobs Creation Tax Credit37	Roth IRA Rollover12
Endowment Contracts14	Joint Income - Joint Returns8	Sale Of A Principal Residence17
Assembling Your PA-406	Juvenile (Type 1) Diabetes Cure Research Fund41	Schedules:
Breast And Cervical Cancer Research Fund41	Label – Correct Or Incorrect8	– PA Schedule A27
Business Travel Expenses24	Language Services3	– PA Schedule B27
Capital Gains Distributions14	Lease With An Option To Buy18	– PA Schedule C-F28
Combat Zone And Hazardous Duty Service38	Loss On The Disposition Of Property16	– PA Schedule D29
Costs, Expenses, And Deductions10	Mailing Instructions22	– PA Schedule E30
Credit Card Payment Option22	Medical Savings Account Line 1019	– PA Schedule G35
Credit For Taxes Paid To Other States Or Countries35	Military Pay And Extension Of Time To File38	– PA Schedule J31
Credit From Your 2004 PA Tax Return Line 14 . . .19	Military Family Relief Assistance Program41	– PA Schedule OC37
Credit To 2006 Estimated Tax Account Line 30 . .21	Miscellaneous Expenses25	– PA Schedule SP32
Dependent Children33	Money Market Funds, Mutual Funds, And Other Investment Companies14	– PA Schedule T32
Depreciation - Differences Between PA PIT And IRS Rules9	Moving Expenses26	– PA Schedule UE23
Distributions: Employer-Sponsored Deferred Compensation Programs12	Net Gain (Loss) From The Sale, Exchange, Or Disposition Of Property Line 516	– PA Schedule W-2S23
Distributions - Form 1099-R12	Net Income (Loss) From Rents And Royalties Line 617	– PA Schedule RK-1 and NRK-115
Dividends And Capital Gains Distributions From Mutual Funds Line 314	Net Income (Loss) From The Operation Of A Business, Profession, Or Farm Line 415	School Code And School District Name42 & 43
Early Retirement Incentive Plans12	Non-PA Resident Shareholder And/Or Partner . .40	Selling Mineral Interests, Patents, Or Copyrights18
Education Expenses26	Nonresident Tax Withheld Line 1719	Signature And Date21
Education Savings Accounts10	Office Or Work Area Expenses25	Small Tools And Supplies24
Electronic Filing Options2	Other Business Travel Expenses25	Social Security Number(s)6
Eligibility Income33	Other Credits Line 2320	Stock Dividend Reinvestment Plans27
Eligible Employer-Sponsored Retirement Plan . .11	Overpayment Line 2820	Student Claimant33
Employment Incentive Payments Credit37	PA Income Tax Classes8	Students – Residency Status7
E-Services Center3	PA PIT Guide3	Supporting Schedules6
Estate Or Trust Income Line 718	PA Tax Liability Line 1219	Surviving Spouse8
Estimated Payment Requirements38	PA/Federal Differences9	Tax Due Line 2520
Estimated Underpayment Interest Penalty20	Partnership And PA S Corporation Members . .15	Tax Forgiveness Credit Line 2120
Extension Of Time To File38	Payment Options21	Tax RateCOVER
Extension Payment Line 1619	Penalties And Interest Line 2620	Taxable Distributions From C Corporations30
FACT & Information Line3	Pennsylvania Tuition Account Program (TAP) . .10	Taxable Distributions From PA S Corporations . .30
Farmers8	Preparer Or Company Name21	Taxable Distributions From Partnerships30
Federal Form W-2 Wage And Tax Statement . . .10	Privacy Notification - Social Security Numbers . .6	Taxpayer Service And Information Center3
Filing Due Date5	Qualified IRC Section 529 Plans10	Taxpayers' Rights Advocate5
Filing Status:	Reciprocal Compensation Agreement States . .11	Toll-Free 24-hour, Automated Forms Ordering . .3
– Single (S)7	Refund Check Line 2921	Total Estimated Payments And Credits Line 18 . .19
– Married, Filing Jointly (J)7	Refund Offsets20	Total PA Taxable Income Line 919
– Married, Filing Separately (M)8	Reimbursable Expenses11	Total PA Tax Withheld Line 1319
– Final Return (F)8	Renting Part Of Your Home31	Total Payments And Credits Line 2420
– Deceased (D)8	Rental Income (Loss) vs. Business Income (Loss)15	Treasury Offset Program For Delinquent PA Income Taxes21
Filing Your 2005 PA Tax Return6	Rental Income (Loss) vs. Net Gain (Loss)18	Undistributed Income12
Film Production Tax Credit37	Research And Development Tax Credit37	Union Dues24
Forfeited Interest Penalty14	Residency Status:	Unreimbursed Employee Business Expenses Line 1b13
Form PA-V (Payment Voucher) Instructions . . .21	– Resident (R)7	Use Tax Responsibility5
Forms Ordering Services3	– Nonresident (N)7	What Is Tax Forgiveness?32
Gain From Installment Sales30	– Part-Year Resident (P)7	Who Is Eligible For Tax Forgiveness?32
Gambling And Lottery Winnings Line 818	Resident Credit Line 2220	Who Must File A PA Tax Return?5
Governor Robert P Casey Memorial Organ And Tissue Donation Awareness Trust Fund41	Resident Of A Reciprocal State	Wild Resource Conservation Fund41
Gross Compensation Line 1a10	Filing For A Refund11	Work Clothes And Uniforms24
Individual Retirement Accounts12		