PA SCHEDULE G

0302710025

Credit for Taxes Paid by PA Resident Individuals, Estates, or Trusts to other States or Countries
PA-40 G (09-03) (I)
PA DEPARTMENT OF REVENUE **2003**

OFFICIAL USE ONLY

Name of taxpayer claiming the credit	Social Security Number

1. Name of other state or country.		
2. PA taxable income that is also subject to income tax in the other state or country.	2.	
3. Tax due and paid to the other state or country.	3.	
4. Multiply Line 2 by 2.8% (0.028).	4.	
5. **PA Resident Credit.** Enter the lesser amount of Line 3 or 4 here and on Line 22 of your **PA-40.** . . **THE DEPARTMENT WILL DISALLOW YOUR RESIDENT CREDIT IF YOU DO NOT PROVIDE A SIGNED COPY OF THE OTHER INCOME TAX RETURN OR OTHER EVIDENCE.**	5.	

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 2.8% (0.028).

Determine the income on which to calculate your resident credit using PA PIT 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 Schedules W-2S** or **MC.**

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 PIT 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

If claiming credit for compensation or wages earned in MD, NJ, OH, WV, or VA, see the specific instructions on the other side.

Line 1. Name of the other state or country to which you 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 PIT 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.

Lines 4 and 5. Self explanatory.

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Special Rules

Compensation Earned in Another State.
When you earn compensation in another state, your employer may make adjustments that PA law does not allow, 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 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 agreements that Pennsylvania has with these states, each agreed not to tax the compensation of a PA resident that works in the reciprocal states. For further information, obtain **Form REV-615, Reciprocal Agreements.**

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

EXAMPLE: Julie operates a business in Ohio. She reported 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 x the 2003 PA tax rate). 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.

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