

1995

PA-40NR

Department of Revenue
Bureau of Individual Taxes
Harrisburg, PA 17129-0006

Pennsylvania Individual Income Tax Form PA-40NR, PA Payment Voucher and Instructions For Nonresidents

1995 PA-40NR

This booklet contains the 1995 Pennsylvania Individual Income Tax forms and instructions for nonresident individuals, nonresident partners of partnerships, nonresident members of associations and nonresident shareholders of Pennsylvania S corporations.

Nonresidents must file a PA-40NR Nonresident Return. Pennsylvania part-year residents must file the PA-40R.

Please read all instructions carefully before completing your return. **Important:** Amounts from your Federal Income Tax Return may not be correct for your Pennsylvania return.

Returns must be postmarked by midnight Monday, April 15, 1996.

NEW FOR 1995 RETURNS

PA-40NR Tax Return. Your 1995 PA-40NR is preprinted with your Social Security Number(s), name(s) and address. The Department is not using labels. If any of the preprinted information is wrong, make your corrections in the space provided on the tax return.

Tax Forgiveness on PA Schedule SP. In response to many questions and suggestions, the instructions for claiming **Tax Forgiveness** have been rewritten and both **PA Schedule SP** and the **SP Worksheet** have been revised. There is only one **Eligibility Income Table** to use. Dependent spouses and children of taxpayers who are eligible for **Tax Forgiveness** will still be able to claim **Tax Forgiveness**. Read all the instructions beginning on page 15 before you complete your **PA Schedule SP**.

Reminders for 1995 Returns.

Tax Rate. For tax year 1995 and fiscal years beginning in 1995, the Personal Income Tax rate remains at 2.8% (.028).

[Losses]. If you realize a [loss] on any income line, enter the dollar amount of the [loss] in brackets.

Important: Partnerships, associations, and Pennsylvania S corporations must withhold from nonresident partners, members or shareholders the Pennsylvania Individual Income Tax due on Pennsylvania source income.

Supporting Documents Checklist. The PA Department of Revenue requires supporting schedules and forms for all

income and [losses] reported and all credits claimed. Use the checklist on the right side of your return to insure that you have attached all necessary supporting documents. If you have more than one schedule or form (Federal Forms W-2 or PA Schedules NRK-1), please indicate the number so the Department will know everything has been received. Using the checklist and attaching all documents will avoid the need for the Department to request information from you and will expedite the processing of your return. Read the instructions for each class of income and type of credit so you will know the type of form or schedule that is required.

Math Errors. Double check all your calculations before completing your return. **Remember:** You may not deduct a [loss] in one class of income from income in another class, and spouses may not offset [losses] between themselves even if in the same income class. Complete the **Tax Due** and **Overpayment** lines. If you have an **Overpayment**, be sure your refund, credit and donation line amounts are accurate.

Taxpayer Assistance. The PA Department of Revenue, the Internal Revenue Service and volunteer organizations work together to provide assistance in preparing tax returns. See page 12 for information on free taxpayer assistance.

PA/IRS Exchange. The agreement between the Department and the IRS for the exchange of tax information is used to insure that taxpayers are properly reporting Pennsylvania and Federal Income. The exchange is not used for current tax return filing. If you are notified by the IRS that you did not properly file your Federal Income Tax Return, you should review your Pennsylvania Personal Income Tax Return to determine if you **must** file an amended tax return with the Department. If the IRS adjustment also applies to your Pennsylvania Personal Income Tax Return and you do not file an amended Pennsylvania return, you may be subject to additional charges when contacted by the Department.

Mailing Instructions. See page 12 for information about using the Department provided envelope, the preaddressed mailing labels, assembling your tax return, and when the U.S. Postal Service recommends additional postage.

REVENUE DISTRICT OFFICES

Altoona

Cricket Field Plaza
615 Howard Avenue
Altoona, PA 16601-4867
(814) 946-7310

Bethlehem

44 East Broad Street
Bethlehem, PA 18018-5998
(610) 861-2000

Bradford

Second Floor
86 Boylston Street
Bradford, PA 16701-2011
(814) 368-7113

Doylestown

Suite 104
444 Jacksonville Road
Warminster, PA 18974-4861
(215) 443-2990

Erie

Sumner Nichols Building
Room 216
155 West Eighth Street
Erie, PA 16501-1012
(814) 871-4491

Greensburg

Second Floor
15 West Third Street
Greensburg, PA 15601-3003
(412) 832-5385

Harrisburg

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

Indiana

835 Water Street (Rear)
Indiana, PA 15701-1705
(412) 357-7600

Johnstown

Central Park Commons Bldg.
Second Floor
428 - 430 Main Street
Johnstown, PA 15901-1823
(814) 533-2495

Lancaster

160 East King Street
Lancaster, PA 17602-2869
(717) 299-7581

New Castle

Room 201
101 South Mercer Street
New Castle, PA 16101-3837
(412) 656-3203

Newtown Square

Suite 1
90 South Newtown Street Road
(Route 252)
Newtown Square, PA 19073-4090
(610) 353-4051

Norristown

Stoney Creek Office Center
4th Floor
151 West Marshall Street
Norristown, PA 19401-4739
(610) 270-1780

Philadelphia

State Office Building
Room 201
1400 W. Spring Garden St.
Philadelphia, PA 19130-4088
(215) 560-2056

Pittsburgh

State Office Building
Suite 104
300 Liberty Avenue
Pittsburgh, PA 15222-1210
(412) 565-7540

Pottsville

110 East Laurel Blvd.
Pottsville, PA 17901-2527
(717) 621-3175

Reading

Room 239
625 Cherry Street
Reading, PA 19602-1186
(610) 378-4401

Scranton

Suite 305, Samters Building
101 Penn Avenue
Scranton, PA 18503-1970
(717) 963-4593

Sunbury

335 Market Street
Sunbury, PA 17801-3466
(717) 988-5520

Washington

George Stewart Building
75 East Maiden Street
Washington, PA 15301-4963
(412) 223-4550

Wilkes-Barre

Suite 261
290 South Pennsylvania Blvd.
Wilkes-Barre, PA 18701-3398
(717) 826-2466

Williamsport

322 Locust Street
Williamsport, PA 17701-6085
(717) 327-3475

York

Second Floor
130 North Duke Street
York, PA 17401-1113
(717) 845-6611

Who Must File a Return? You must complete and file a Pennsylvania Nonresident Personal Income Tax Return if you received gross taxable income from Pennsylvania sources in excess of \$35 during 1995. You must complete and file a PA-40NR even if no tax is due. If you incurred a [loss] from transactions from Pennsylvania sources as an individual, sole proprietor, partner or shareholder of a Pennsylvania S corporation, you must complete and file a Pennsylvania Nonresident Personal Income Tax Return.

Every person who is charged with the care of the property of a decedent who at the time of his death was a nonresident individual, or a nonresident minor child or a disabled individual who cannot prepare his own return, must complete and file a PA-40NR on behalf of that individual if that person meets the circumstances described in the paragraph above.

Pennsylvania Taxable Income. Pennsylvania's Personal Income Tax, for the 1995 calendar year and for all fiscal years beginning in 1995, is levied on nonresidents at the flat rate of 2.8% on five separate classes of taxable income:

1. Gross Pennsylvania Compensation received for services performed in Pennsylvania (see page 6);
2. Net Income or [Loss] from the Operation of a Business, Profession or Farm in Pennsylvania (see page 9);
3. Net Gain or [Loss] from the Sale, Exchange or Disposition of Pennsylvania Property (see page 10);
4. Net Income or [Loss] from Rents, Royalties, Patents and Copyrights (see page 10);
5. Estate and Trust Income (see page 11).

Damage Awards and Settlements. Damage awards and settlements (other than in personal injury cases) constitute taxable income to the extent they represent Pennsylvania back wages or other uncollected entitlement to Pennsylvania taxable income.

Costs and Expenses. You may deduct allowable costs and expenses attributable to Pennsylvania source compensation, business or farm income, income from the sale of property and income from rents, royalties, patents and copyrights. The income you receive from estates or trusts should already have deducted all allowable costs and expenses and the proceeds you receive is net of costs and expenses.

Gains or [Losses]. You cannot offset income or a gain in one class of taxable income with a [loss] in any other class of taxable income. You cannot carry forward or carry back gains or [losses] to other tax years, nor may you offset a [loss] from activity outside Pennsylvania from income or a gain from activity within Pennsylvania, even if in the same income class. **If you experience a net [loss] in an income class, enter the dollar amount of the [loss] in brackets on the appropriate line on form PA-40NR.** You must attach a completed schedule even if you incurred a [loss] in a class of income.

Joint Income - Joint Returns. If two or more persons, such as you and your spouse, own income producing property, including real estate, as joint tenants by the entirety, or tenants in common, each person must report his share of the income from the property. In Pennsylvania, spouses may file a joint return for convenience. However, on a joint return, one spouse cannot offset gain or profit in any class of taxable income with any [loss] incurred by the other spouse in the same or any other class of taxable income.

Special Provisions For Tax Forgiveness. Special tax provisions exist for certain taxpayers. If you provide at least one-half of your own support and your eligibility income is \$7,200 or less, you will qualify for some amount of tax forgiveness and should complete PA Schedule SP. If you have dependents, the qualifying level is increased. For more information, see page 15.

Pennsylvania Estimated Personal Income Tax. If your 1995 tax exceeds \$70, you may need to file a 1996 declaration and pay Estimated Tax. You must file Declaration of Pennsylvania Estimated Tax when your taxable income, not subject to employer withholding, reasonably can be expected to exceed \$2,500. You then pay the tax in installments that are due, for most individuals, on April 15, June 15, September 15 and January 15.

Exceptions are:

1. If you expect to obtain at least two-thirds of your total 1996 estimated gross income from farming for the period, you have the option of filing your declaration and paying your Pennsylvania Estimated Tax at any time up to March 1, 1997.
2. If your total Pennsylvania Estimated Tax for 1996 is \$100 or less, you have the option of filing your declaration and paying your Pennsylvania Estimated Tax at any time up to January 15, 1997.

The estimated tax declaration and installment payments must be made on Form PA-40ES. These Forms are being sent to taxpayers who made a declaration for the 1995 taxable year. If you do not receive your Form PA-40ES by March 1, 1996, contact a Revenue district office, see page 2, or call the Forms Ordering telephone numbers listed on page 12.

If you are filing Pennsylvania Estimated Taxes for the first time, request the replacement PA-40ESR. Specific instructions for estimating your Pennsylvania Personal Income Tax and filing the forms are explained in Form REV-4131.

Important. To avoid problems and delays in processing your income tax return, you should file your annual Pennsylvania Personal Income Tax Return(s) in the same manner in which you made your Pennsylvania estimated installment payments. If you and your spouse made joint estimated payments, you should file a joint return. If you and your spouse made separate estimated payments, you should file separate returns claiming the proper amounts on each return.

Filing Status. Single or Married. Your filing status depends on whether you are single or married.

Single. You must file as single if either of the following is true as of the end of your taxable year:

1. You were never married; or
2. You were divorced or widowed and not remarried.

You must file as single, if your spouse was deceased by the end of the taxable year.

Married, Each Spouse a Nonresident and Filing a Joint Return. You and your spouse, even if living apart, may file a joint return, but only if all of the following three conditions are met:

1. Your taxable years begin on the same date and end on the same date; and
2. Neither of you is claiming the Pennsylvania Employment Incentive Payment Credit; and
3. Your spouse was living on January 1, 1996.

A spouse is not required to file a joint return if the spouse did not receive total taxable gross income in excess of \$35. Important. If you file jointly, both you and your spouse will be liable for any taxes owed.

Married, Each Spouse a Nonresident and Filing Separate Returns. You and your spouse each may file a separate return instead of a joint return. You and your spouse must file separate returns if:

1. Your taxable years begin on different dates or end on different dates; or
2. You or your spouse are claiming the Pennsylvania Employment Incentive Payment Credit; or
3. Your spouse was deceased as of December 31, 1995.

Married, One Spouse a Resident or Part-Year Resident and One Spouse a Nonresident. If one spouse is a resident or part-year resident and the other spouse a nonresident, you and your spouse must file separate returns, unless both of you elect to be taxed as resident taxpayers on a PA-40R and you meet all the other requirements for filing a joint return. See Forms Ordering on page 12 to obtain a PA-40R Resident Individual Income Tax Forms and Instructions booklet.

Deceased or Final Return. A separate tax return for a deceased individual must be filed as Deceased by the executor, administrator or

other person charged with caring for the decedent's property. A joint return may not be filed. Report all income earned, received or credited to the decedent from the beginning of the tax year to the date of death.

Residency. You are a nonresident for Pennsylvania Personal Income Tax purposes only if one or more of the following applies to you:

1. You maintain a permanent abode outside Pennsylvania for the entire taxable year and can answer both question 3 and question 4 below with a "NO".
2. You can answer questions 1, 2 and 3 below with a "NO"
3. You can answer each of the 4 questions below with a "NO". If you are not a nonresident as explained above, you must report and pay tax as a Pennsylvania resident or part-year resident of Pennsylvania. See Forms Ordering on page 12 to obtain a PA-40R resident income tax forms and instructions booklet.

Residency Status. You may have to report and pay Pennsylvania Personal Income Tax as a resident even if you are not considered a Pennsylvania resident for other purposes.

To determine whether you are a nonresident or resident/part-year resident for Pennsylvania Personal Income Tax purposes, first carefully read the definitions below and then answer the following questions:

QUESTION 1: Was Pennsylvania your domicile for any part of the taxable year? Yes No

QUESTION 2: Did you spend in the aggregate more than 183 calendar days of the taxable year in Pennsylvania? Yes No

QUESTION 3: Did you have a permanent abode in Pennsylvania at any time during the taxable year? Yes No

QUESTION 4: Did you spend in the aggregate more than 30 calendar days of the taxable year in Pennsylvania? Yes No

Domicile Defined. Your domicile is the state or foreign country where you are deemed to have your principal domestic base of operations, either because you make your home there or because it is assigned to you by law. A domicile, once established, continues until you move elsewhere with a bona fide and manifest intention of making your home there. If you move to another state or counts but intend to remain there only for a fixed time (no matter how long), your domicile does not change.

Some factors to consider in determining your place of domicile are:

1. Where are your usual living quarters?
2. Where do you spend most of your non-working hours?
3. Where does your immediate family live?
4. Where are your bank accounts and property located?
5. Where is your church or synagogue located?
6. Where are you registered to vote?

Permanent Abode Defined. A permanent place of abode is a house, apartment, dwelling place or other residence you maintain as your household for an indefinite period, whether you own it or not. An abode is not permanent if you occupy it only during a fixed or limited period of time for a particular purpose. Barracks, bachelor officer's quarters, quarters on ships and other living accommodations provided by your employer for a definite period do not qualify as permanent abode. College dormitories, fraternity houses, sorority houses and off campus rentals by enrolled college students do not qualify as a permanent abode.

How Nonresidents are Taxed. Nonresidents of Pennsylvania must use the PA-40NR return in this booklet to report income. If you are a nonresident, you are taxed only on the following types of income received from Pennsylvania sources:

1. **Compensation for Personal Services.** If you received compensation for services performed in Pennsylvania, you are taxed on that income, unless you are a resident of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia. Your employer is required to withhold Pennsylvania Personal Income Tax on the exact

amount of your compensation and report your Pennsylvania earnings in the state block on your wage and tax statement (Form W-2). If your Pennsylvania taxable compensation is misreported or not reported by your employer, see instructions to Part I of PA Schedule NRH to determine how to apportion compensation for services performed both inside and outside Pennsylvania.

2. **Business income.** All income from operating a profession, trade, vocation, or other business activity in Pennsylvania, including interest and dividend income received in the ordinary course of business is taxable income to nonresidents, whether received as a sole proprietor, a partner or a shareholder in a Pennsylvania S corporation. If income is derived from sources both inside and outside Pennsylvania, you must apportion your income on Part II of PA Schedule NRH, unless you maintain accounts and records which clearly reflect your income from Pennsylvania. You need not personally perform services in Pennsylvania to be taxed by Pennsylvania on business income.
3. **Net Income or Gain, less Net [Losses] from the Sale, Exchange or Disposition of Property.** The gain from any real or tangible personal property located in Pennsylvania is taxable to nonresidents.
4. **Net Income from Rents, Royalties, Patents and Copyrights.** The net income received from the use of property located in Pennsylvania or used in Pennsylvania is taxable to nonresidents.
5. **Income from Estates and Trusts.** Income received by a beneficiary of an estate or trust is taxable to nonresidents to the extent the income is from Pennsylvania sources.

Residents of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia Working in Pennsylvania. If you are a resident of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia and receive compensation for services performed inside Pennsylvania, this compensation is not subject to Pennsylvania's Personal Income Tax. Withholding is not required if you file Form REV-420, "Employee's Statement of Nonresidence in Pennsylvania" with your Pennsylvania employer.

Reciprocal agreements apply to **compensation and not to any other class of income.**

Example: In 1995, William, a resident of West Virginia, worked in Pennsylvania. He also owned a rental property in Pennsylvania. William must report as Pennsylvania taxable income only the rental income realized on the rental property. Because of the reciprocal agreement with West Virginia, he is not subject to tax on his compensation in Pennsylvania.

If you failed to file a form REV-420 with your Pennsylvania employer or your employer erroneously withheld Pennsylvania Income Taxes, you must file a PA-40NR return to obtain a refund. Report zero compensation on Lines 1a, 1b and 1c and on Line 8 claim credit for Pennsylvania Income Tax withheld as shown on your Form W-2. Claim your refund on Line 14 and 15a. You must attach a copy of your Form W-2 and a brief explanation.

Unreimbursed Employee Business Expenses. Nonresidents who claim unreimbursed employee business expenses and receive compensation from sources both within and outside Pennsylvania must complete PA Schedule NRH, Part I, Compensation Apportionment.

Part-Year Residents. You are a part-year resident for Pennsylvania Personal Income Tax purposes if you changed your permanent residence during the tax year:

1. From Pennsylvania to a place outside Pennsylvania with the intent of residing there permanently; or
2. From a place outside Pennsylvania to a place within Pennsylvania with the intent of residing here permanently.

You must file a PA-40R. See Forms Ordering on page 12.

Nonresident Members of the Armed Forces. Nonresident military personnel who are serving in Pennsylvania are exempt from Pennsylvania Personal Income Tax on their military pay. They are, however, subject to tax on any other income normally taxable to nonresidents.

Members Of Partnerships And Pennsylvania S Corporations

Reporting Income. If you are a nonresident of Pennsylvania and are a member of a partnership or a shareholder in a Pennsylvania S corporation which realizes Pennsylvania taxable income or [loss], you must report your share of that income or [loss], whether it was distributed to you or not. You report your share of income or [loss] from the partnership or Pennsylvania S corporation in the same class in which the partnership or Pennsylvania S corporation realized the income or [loss].

Each nonresident partner in a business, profession or farm must attach to his or her PA-40NR a copy of REV-1675, the partnership PA Schedule NRK-1, for every partnership in which he or she is a member.

Each nonresident shareholder in a Pennsylvania S corporation must attach to his or her PA-40NR a copy of REV-1682, the Pennsylvania S corporation PA Schedule NRK-1, for every Pennsylvania S corporation in which he or she is a shareholder.

Taxable Year

Calendar Year. You must report all Pennsylvania source taxable income received or accrued from January 1, 1995 through December 31, 1995, unless you file on a fiscal year basis for Federal Income Tax purposes.

Fiscal Year. If you file on a fiscal year basis, you must report all Pennsylvania sources taxable income received or accrued during your taxable year.

When to File?

Calendar Year Taxpayers. Returns for calendar year 1995 must be filed by midnight Monday, April 15, 1996. The U.S. Postal Service postmark date on the envelope is proof of timely filing. Don't be Late! Late filing will result in your paying penalty and interest.

Fiscal Year Taxpayers. If you file on a fiscal year basis, your PA-40NR is due on or before the fifteenth day of the fourth month following the close of your fiscal year or the next business day if the due date falls on a Saturday, Sunday or holiday.

Extension of Time to File. An extension of time to file the return does not extend the time to pay the Pennsylvania Personal Income Tax you owe. An extension to file cannot exceed six (6) months unless the taxpayer is outside the United States. The amount reasonably estimated to be the Pennsylvania Personal Income Tax due must be paid in full with the extension request.

Important: A copy of all Federal and Pennsylvania extensions of time to file must be attached to the **FRONT** of your PA-40NR when you file. Placing your extension forms behind your PA-40NR may result in correspondence or a billing notice from the Department.

There are two ways to obtain an extension of time to file:

1. If you are granted an extension of time for filing your Federal Income Tax return, you automatically will be granted the same extension for filing your PA-40NR. For an automatic four-month extension, attach a copy of approved Federal Form 4868 to your PA-40NR when it is filed. For extensions over four months, also attach a copy of the letter or form granting the Federal extension.
2. If you have not been granted an extension of time for filing your Federal Income Tax return, you may request an extension for filing your PA-40NR by submitting an "Application for Extension of Time to File," (Form REV-276). This form can be obtained by calling the Forms Ordering telephone numbers listed on page 12. The extension application must be received in sufficient time for the Department to consider and act upon it prior to the date your return is due. Mail the extension application and any payment due to: PA Department of Revenue, Bureau of Individual Taxes, Dept. 280504, Harrisburg, PA 17128-0504.

Remember, with an extension you must pay in full on or before the original due date the amount reasonably estimated to be your Pennsylvania tax due. Enter this extension payment on Line 9c of your PA-40NR when you subsequently file your Pennsylvania return. Underpayment penalty will not be charged if the amount you pay on or before the original due date is at least 90% of the total tax actually due, and the remaining balance is paid with a timely filed

return. However, interest will be charged on the amount not paid by the original due date.

You will not receive an approval letter from the Department if your request for extension has been accepted. Only if the Department has a question concerning your request will you receive correspondence.

Filing Amended Returns. To file an Amended Pennsylvania Personal Income Tax Return, use a PA-40NR for the tax year you are correcting. Clearly print **AMENDED RETURN** at the top.

Filing Your Amended Return. It is not necessary to attach a complete copy of your original return. Use a Pennsylvania tax return from the same tax year you are amending. For example: If you need to amend for 1994 and 1995, use a 1994 and a 1995 PA-40NR.

Clearly print **AMENDED RETURN** at the top of the PA-40NR. Follow these steps:

1. Enter the amount from your original return which you are not **amending**.
2. Enter your amended amounts. **Explain the reason you are filing an amended return and attach the amended form or schedule supporting your amended amounts.**
3. Calculate your amended Total Pennsylvania Taxable Income, Line 6.
4. Calculate your Tax Liability, Line 7. If you received a refund on your original return, **add that amount to your Tax Liability.**
5. Calculate your Total Payments and Credits, Line 12. If you paid tax with your original return, **add that payment to your Total Payments and Credits.**
6. Calculate your amended Tax Due, Line 13 or Overpayment, Line 14. If an overpayment, be sure to complete Lines 15a through 15d.

The Department will take your original refund or payment into account when reviewing your amended return. Be sure to sign your amended return.

Mail your amended return, with all explanations and attachments, to PA Department of Revenue, Bureau of Individual Taxes, Dept. 280502, Harrisburg, PA 17128-0502.

Refunds. To receive a refund if you overreported your income or are entitled to credits or deductions that you failed to claim, you must file an Amended Pennsylvania Personal Income Tax Return within three years from the date your original return was due. The Department will accept amended returns filed within three years of the extended due date if an extension was granted.

Important. *An amended return may not be filed after an assessment has been issued if the amendment relates to the same taxable year and item of income, gain, deduction or [loss] involved in the assessment. In this instance, you must either file a timely petition for reassessment or pay the assessment and file a timely refund petition to claim your refund. You may order the Petition REV-65, by calling the Forms Ordering telephone numbers listed on page 12.*

Underreported Income. If at any time after you file your return, you discover that you have underreported your income tax or erroneously claimed credits or deductions to which you are not entitled which would increase your taxable income, you must correct the error within 30 days by filing an Amended Pennsylvania Personal Income Tax Return. You must pay the additional tax, plus applicable penalty and interest.

Records Must Be Maintained. All amounts reported on your return and accompanying schedules are subject to verification and audit by the Pennsylvania Department of Revenue. Books and records must be maintained for at least four (4) years after filing, to verify any information you reported on Pennsylvania Personal Income Tax Returns.

Penalties For Not Filing or For Filing A Late Return. If you do not file your return on or before the due date, or if you do not file your return on or before the date to which an extension has been granted, then for each month or fraction of a month your return is late a 5% penalty will be imposed, unless reasonable cause for late filing is shown. The maximum penalty is 25%. The minimum penalty is \$5.

Any person who attempts to evade or defeat their Pennsylvania Personal Income Tax responsibility may be prosecuted.

Interest for Nonpayment or for Late Payment of Your Tax. If you do not pay the tax due on or before the due date, interest will be computed from the date the tax was due and payable to the date of payment. The annual interest rate is that rate established by the U.S. Secretary of the Treasury and which is in effect on January 1 of each calendar year.

Penalties For Nonpayment or For Late Payment Of The Tax.

- If you do not pay the full amount of your tax due with your return, a 5% underpayment penalty will be imposed.
- If you fail to report an amount of taxable income that is more than 25% of the taxable income shown on your return, an additional penalty of 25% of the tax due on the unreported income will be imposed.

These penalties will be imposed if the underpayment of tax is due to negligence or intentional disregard of rules and regulations but without intent to defraud.

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

Important. You may be assessed **both** late filing and underpayment penalty if you file your return after the due date (or extended due date) and do not pre-pay your tax liability with your return.

Any taxpayer who files a return which does not contain sufficient information on which to determine the correct liability or which contains information which indicates the liability is significantly incorrect and the return is filed frivolously or in a manner to delay or impede the administration of the tax law shall pay a \$500 penalty. Any person required to furnish an information return who furnishes a false or fraudulent return shall be subject to a penalty of \$50 for each failure.

Rounding Amounts to Whole Dollars and Entering [Losses]. On your tax return and schedules, you **must**:

- Round money amounts to whole dollars. Any amount that is less than 50 cents is eliminated. Any amount that is 50 cents or more is increased to the next dollar amount. Using whole dollars expedites the processing of tax returns.
- Enter the dollar amount of a net [loss] in brackets on your PA-40NR = [] Do not use the word LOSS.

Pennsylvania and Federal Schedules and Forms. You may be able to file copies of Federal Schedules B, C and F instead of the corresponding Pennsylvania schedules. Remember, however, that the Federal amounts may not be correct for Pennsylvania purposes. See the instructions for each class of Pennsylvania income to determine if you can use a Federal schedule. You may use Federal Schedule E but not for reporting income or [loss] from partnerships, S corporations, estates or trusts.

You **may not** use Federal Schedules D, 2119 or K-1 (if a PA Schedule NRK-1 was provided) or Forms 3903 and 3903F. You may not use Federal schedules or forms if you are filing as a part-year resident.

Reproducing Pennsylvania Returns and Schedules. You may make copies of all the Pennsylvania tax returns and schedules.

SPECIFIC INSTRUCTIONS For PA-40NR. Read All These Instructions Carefully.

This booklet contains two PA-40NR returns. Please file the return with the preprinted information. The other PA-40NR is for your records.

Tax Year. Check the Fiscal Year Filer box only if you are not a calendar year taxpayer. If you are filing a Pennsylvania return for a deceased person, check this box and enter the date of the decedent's death.

Social Security Number(s), Name(s) and Address. Review your personalized PA-40NR. Make any necessary corrections in the space provided. If you have a blank return, print or type your name (last name first) and your complete address including zip code in the

change area. If a husband and wife use different last names, please separate the names as in the following example: Smith, Paul L. and Weston, Joan A. If married, enter your spouse's SSN, even if filing separately.

Filing Status. Enter the information concerning your filing status. See page 3.

Option - Do you want a 1996 Pennsylvania tax booklet? If you paid a preparer who did not use the forms provided by the Department to complete your 1995 Pennsylvania tax return, check this box. You will not receive a booklet next year.

Line Instructions for Reporting Income and [Loss]

Miscellaneous or Other Income. Pennsylvania law does not define a **Miscellaneous** or **Other** income class. All income must be classified and reported on the appropriate line of your PA-40NR. Generally, **Miscellaneous** or **Other** income is either payments for services rendered (**Compensation**) or derived in the ordinary course of business activities (**Net Income or [Loss] from the Operation of a Business, Profession or Farm**). Include this income on the appropriate line of your PA-40NR and attach your Form 1099-MISC., statement, schedule or other explanation for this income. Some examples of **Miscellaneous** or **Other** income which are classified as **Compensation** include:

- Damage awards and settlements (other than in personal injury cases) constitute taxable income to the extent the payments represent back wages or other uncollected entitlement to taxable income;
- Honorariums;
- Fees received by executors (unless in the business of being an executor);
- Fees received by directors of corporations (unless in the business of being a director);
- Severance pay received as consideration for terminating employment before reaching normal retirement age;
- Covenant not to compete (for refraining from the performance of services);
- Jury fees;
- Expert witness fees.

Line 1a. Gross Pennsylvania Compensation. Enter the total of your **Pennsylvania** taxable compensation from your Form(s) W-2 and other statements. **Do not use Federal wages.**

Form W-2 Wage and Tax Statement. A copy of Form W-2 for each employer must accompany your PA-40NR as evidence of your compensation and taxes withheld. If you work for more than one employer during the year, you should have more than one Form W-2. You must provide copies of all Form(s) W-2. If the Pennsylvania taxable compensation you report on Line 1a differs from that on your Form W-2, you must explain this difference in a separate written statement or schedule. Attach this explanation to the back of your return.

Use only the wages reported in the **Pennsylvania** or **state** block of your Form W-2. If you are unable to furnish a Form W-2 or the Federal substitute W-2, Form 4852, attach copies of evidence of compensation paid and tax withheld (such as pay stubs) along with a statement explaining the reason you do not have a Form W-2.

Compensation means remuneration received for services performed in Pennsylvania whether directly or through an agent and whether in cash or in property. Compensation includes salaries, wages, tips, gratuities, commissions, bonuses, incentive payments, vacation or holiday pay, termination or severance pay, sick pay (unless excludable, see page 7), reimbursements and allowances in excess of allowable business expenses, and payments realized in the form of property or a discharge of indebtedness, unless specifically excludable from compensation. Compensation paid in any medium other than cash is valued at fair market value

Sick pay and disability benefits, other than regular wages, are not taxable for Pennsylvania purposes. Payments made by third party insurers for sickness or disability are not taxable. Where sick pay

represents regular wages or sick leave pay, the income is taxable to the employee.

Reimbursement For Expenses. You must report all reimbursements and allowances paid by your employer as compensation **unless**:

1. The expenses for which you are reimbursed are allowable employe business expenses (see page 12); **and**
2. You are required to, and do account for these expenses to your employer; **and**
3. You are reimbursed by your employer in the exact amount of the allowable business expenses; **and**
4. You do not report these expenses on PA Schedules UE-1 or UE-2.

Although you must be able to substantiate expenses as to time, place and business purpose, you meet the above requirements when you receive a fixed mileage allowance or a per diem living expense allowance that does not exceed applicable limits as defined for the Federal Income Tax Return.

Exclusions from Compensation. Certain income is not taxable as compensation. Examples are:

1. Social Security benefits, public assistance and unemployment compensation;
2. Qualifying old age or retirement benefits;
3. Payments received under workers compensation acts, occupational disease acts or similar legislation for injuries received while working and damages received (whether by suit or otherwise) for personal injuries or sickness. If the payments you received for injuries received while on the job are included in your Form W-2, attach an explanation;
4. All premiums for group term life insurance policies purchased for employees;
5. Prizes and awards unless the winner is required to render any substantial services as a condition to receiving the prize or award;
6. Federally taxable noncash fringe benefits realized from an employe's personal use of his employer's property or services, such as an employe's personal use of his employer's vehicle or airplane.

Gifts. Gifts made from detached or disinterested generosity are not taxable. However, transfers of cash or property made pursuant to an obligation to provide payment for compensable services or as an inducement to perform compensable services are taxable compensation, not gifts.

Scholarships, Fellowships and Stipends. Scholarships and fellowship awards made on the basis of need or academic achievement for the purpose of encouraging or allowing the recipient to further his educational development and not as compensation for past or present employment or in expectation of future employment services are not taxable. If you believe your scholarship or fellowship award meets this requirement, you must attach an original detailed description of the program under which the scholarship, fellowship or stipend was granted. This must be an original letter and signed by your department head or other official. Important: You must attach to your return a detailed description of the program under which the award was granted. A form letter is not acceptable.

Fellowship awards and stipends constitute compensation for services if the recipient is required to apply his skill and training to advance research, creative work or some other project or activity, unless the recipient can show that:

1. The benefits resulting from the services of the recipient are so minimal, given the actual services performed or expected to be performed, that they constitute no realistic basis for compensation; **or**
2. The activities of the recipient are so closely and directly supervised and immediately controlled by regular faculty members so as to constitute a burden on the institution which would offset any benefit it receives from the recipient's activities; **or**

3. The recipient is a candidate for a degree and the same activities are required of all candidates for that degree as a condition to receiving such degree.

Stipends paid to medical interns and residents pursuant to an internship or residency program that conforms with the "Essentials of an Approved Internship" or the "Essentials of Approved Residency" as established by the American Medical Association are taxable.

Pennsylvania Differences from Federal Rules for Compensation. On Form W-2, an employe's Pennsylvania taxable compensation will usually be different from his or her Federal taxable wages. Pennsylvania taxable compensation is usually higher than Federal taxable wages. Below are described some of the major reasons for differences on your Form(s) W-2.

Employe Contributions to Employer Retirement, Pension and Other Deferred Compensation Plans. Your payments, whether voluntary or mandatory and whether direct or through withholding, into your employer's retirement plan are not excludable from your gross Pennsylvania taxable compensation. This is true even if your contributions are not taxable for Federal purposes. You may not exclude, or take as an expense, any payments you make into a retirement plan. **Reason.** Pennsylvania does not tax commonly recognized retirement benefits. If you meet the requirements of the retirement plan, your benefits are not taxable.

Early Retirement Incentive Plans. Payments received as an inducement for early retirement are taxable as compensation. Such payments are not considered as part of a qualifying retirement plan. Your employer should include these incentive payments on Form W-2 and withhold Pennsylvania income tax. Even if you move out of Pennsylvania, these incentive payments are taxable.

Sick Pay and Disability Pay. If you receive periodic payments for sickness or disability, including payments from third party insurers, your employer should not include those payments in your Pennsylvania taxable compensation. If your employer does include and withhold Pennsylvania tax from sick or disability pay in your Form W-2 compensation, you must provide an explanation from your employer stating the number of days and amount of nontaxable sick or disability pay included. Exception. Sick leave pay or payments equal to your full regular wages are taxable for Pennsylvania purposes.

Fringe Benefits. Pennsylvania law does not have language similar to Federal law concerning employe benefits plans (cafeteria plans). For Pennsylvania purposes, if an employer pays or reimburses you for personal expenses or gives you cash, or the option to select cash instead of a benefit, the value of the benefit, or the cash, is included in your Pennsylvania taxable compensation. **Taxable benefits** include cash, reimbursements for dependent care expenses, life insurance on dependents, the option to receive cash or take any other benefit, including nontaxable benefits and tuition reductions for dependents. **Nontaxable benefits** include health, eye and dental care, group term life insurance and personal use of employer property, such as a car, recreational facility, housing and dependent care facilities.

Clergy and Statutory Employes. Pennsylvania has no special rules for these or any other type of employes. Housing allowances paid to clergy are always included in Pennsylvania taxable compensation. The fair market value of the use of employer owned property (car and housing) is not included in taxable compensation. Employes may take allowable employe business expenses on a PA Schedule UE, not a Pennsylvania or Federal Schedule C. Pennsylvania law does not make any exception for any specific type of employe or job situation.

Individual Retirement Arrangements Contributions. No exclusion is provided for contributions to Individual Retirement Arrangements **except**:

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

Undistributed Income on IRA Assets. Undistributed income including interest and other earnings on assets held is not includable in income.

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

1. Payments, including lump sum distributions, made on or after retirement after reaching the age of 59 1/2 years;
2. Payments received at regularly recurring intervals during periods of disability by reason of disability;
3. Payments paid to the estate or designated beneficiary of the participant by reason of the participant's death;
4. Payments that are rolled over into another IRA or into a qualifying old age or retirement benefit program, where the transferred amounts are not includable in income for Federal Income Tax purposes.

Line 1b. Unreimbursed Employe Business Expenses. The specific instructions for PA Schedules UE-1 and UE-2 begin on page 12. Enter your unreimbursed employe business expenses from your PA Schedule(s) UE. If you are not reimbursed for an allowable business expense or if the amount of your reimbursement does not cover the entire amount of the allowable expenses you incurred, you may reduce your taxable compensation by the amount of your unreimbursed expenses. If the amount of your reimbursement is more than the amount of the allowable business expense you incurred, the excess is taxable as compensation. Include the excess on Line 1a and explain with your PA Schedule UE.

Example. Joe is a salesman who lives in New York but works only in Pennsylvania. He earns gross compensation of \$30,000 during the year. He incurred allowable business expenses of \$3,000. He was reimbursed by his employer in the amount of \$3,500. Joe must report the **excess** reimbursement of \$500 as compensation. His total taxable compensation is \$30,500. If Joe had been reimbursed in the amount of \$2,000 by his employer, his taxable compensation would be \$29,000. For both examples, Joe must complete a Schedule UE.

What Are Allowable Employe Business Expenses? Allowable expenses on PA Schedule UE are different than allowable business expenses on a Pennsylvania or Federal Schedule C, E, F, 1065, PA-65, PA-20S, 1120S, etc. To be an allowable employe business expense, the expense must be:

1. Ordinary - customary and accepted in the industry or occupation in which you work; and
2. Actual - incurred in 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.

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

1. Received a fixed mileage allowance or a per diem living expense allowance and you did not, nor did your employer, include the allowance in income;
2. Were required to account for your expenses to your employer and YOU were reimbursed by your employer in the exact amount of your expenses.

Do not include such reimbursements in Gross Compensation or claim such expenses on PA Schedule UE.

What Expenses Are Not Allowable and Not Deductible from Compensation?

1. Personal, living or family expenses;
2. Dues to fraternal organizations or professional societies, Chambers of Commerce or recreational club memberships;
3. Dues and subscriptions to publications, including trade and professional publications;
4. Political candidate or campaign contributions;

5. Charitable contributions;
6. Commuting expenses;
7. Cost of meals while working late, unless while traveling away from home overnight on business;
8. Occupational privilege taxes or assessments and other local, county, state, federal and foreign country taxes;
9. Child care or elderly care expenses;
10. Life, disability income and health insurance premiums;
11. Contributions to deferred compensation plans or other pension plans;
12. Legal fees (except to recover back wages), fines, penalties and bad debts;
13. Bribes, kickbacks or other illegal payments;
14. Job hunting or other pursuit of employment expenses;
15. Malpractice insurance premiums, except when required by law or by the employer as a condition of employment. See PA Schedule UE-1, Part D;
16. Moving expenses, except when moving for the convenience of the employer. See PA Schedule UE-1, Part G;
17. Educational expenses, except when required by law or by the employer. See PA Schedule UE-1, Part H;
18. Capital expenditures. Depreciation may be allowable in determining expenses on PA Schedule UE-1. Federal depreciation or cost recovery deductions are acceptable for Pennsylvania purposes to compute allowable business expenses. See specific instructions for each part of PA Schedules UE-1 and UE-2;
19. Expenses related to employment outside Pennsylvania.

Using The Allowable Business Expense PA Schedules UE-1 and UE-2. The specific instructions for these schedules begin on page 12. This booklet contains both Allowable Business Expenses Schedules. PA Schedule UE-1 is for claiming all allowable business expenses incurred by employes and individuals earning nonemploye compensation.

If you are claiming your actual travel and mileage expenses or office in home, moving, education or miscellaneous expenses, you must use PA Schedule UE-1.

PA Schedule UE-2 is for claiming certain common employe business expenses. If you are claiming only union dues, work clothes and uniforms, small tools and supplies, professional license fees or insurance and/or travel and mileage expenses from Federal Form 2106 as allowable business expenses, you may use PA Schedule UE-2 which is on the back of your PA-40NR.

Important: You may only use PA Schedule UE-2 if ALL your compensation and ALL your expenses were from sources within Pennsylvania.

Even when filing jointly, a separate PA Schedule UE must be filed for:

1. Each taxpayer, if both spouses incurred unreimbursed allowable business expenses;
2. Expenses incurred for different employers (a separate PA Schedule UE for each employer is required; you may not combine expenses);
3. Expenses incurred in more than one specific occupation.

Important. Sole proprietors, partners, shareholders or other self-employed individuals do not use either PA Schedule UE-1 or UE-2 to claim any expenses.

If you are a nonresident whose unreimbursed allowable employe business expenses are incurred in earning compensation from sources both within and outside Pennsylvania, you must complete a PA-40NR and a PA Schedule UE-1. You must also attach a PA Schedule NRH to apportion your compensation and allowable expenses. See the instructions for PA Schedule NRH.

Line 1c. Taxable Compensation. Subtract the amount shown on Line 1b from the amount shown on Line 1a and report the difference on Line 1c. Line 1c represents your taxable compensation.

Nonresidents claiming unreimbursed employe business expenses report the total of the amounts computed on PA Schedule NRH on Line 1c. Line 1c represents your taxable compensation.

If **ALL** of your gross compensation was from within and outside Pennsylvania, and you did or did not incur business expenses, you must follow the instructions for PA Schedule NRH and report your Pennsylvania taxable compensation on Line 1c.

If **ALL** of your gross compensation and allowable expenses were from within Pennsylvania **ONLY**, you report gross compensation on Line 1a, any allowable expenses on Line 1b and Pennsylvania taxable compensation on Line 1c.

If you had more than one employer and **BOTH** situations described above apply to you, write "SEE ATTACHED" on Lines 1a and 1b. Attach a separate sheet showing each employer; the gross compensation; the apportioned Pennsylvania taxable compensation from PA Schedule NRH; the total expenses claimed for each job and the apportioned Pennsylvania allowable expenses from PA Schedule NRH. Add all Pennsylvania taxable compensation amounts and subtract all allowable expenses. Report the net Pennsylvania taxable compensation on Line 1c.

Line 2. Net Income or [Loss] from the Operation of Business, Profession or Farm. Sole proprietors who had profit or [loss] from the operation of a business or profession must complete and attach a PA Schedule C. Sole proprietors who had profit or [loss] from the operation of a farm must complete and attach a PA Schedule F. If you have income from a partnership or Pennsylvania S corporation, whether distributed or not, you must attach the PA Schedule NRK-1 you received.

Include on Line 2 the net total from the attached PA Schedules C, F and NRK-1. Indicate in the checklist on the right side of your PA-40NR the number of each schedule attached. If attaching a Federal Schedule C, F or K-1, include those schedules in the number. Also, indicate the number of PA Schedule(s) C-F Reconciliation you elected to use to adjust your Federal Schedule(s) C or Schedule(s) F. (See the specific instructions that follow for Federal forms for each income class.)

What Is a Business or Profession? Not every income-producing activity constitutes a business or profession. For Pennsylvania Personal Income Tax purposes, a business or profession has certain common characteristics. You realize income from a business or profession if you meet each of the following:

1. You market your products, goods and/or services to your customers in a marketplace; and
2. You regularly and continuously conduct your commercial activity; and
3. You do not limit or restrict your commercial activities to certain related or unrelated customers.

Net profit or [loss] is computed solely from those items of revenue, cost, expense or liability which you receive from or incur in:

1. The ordinary course and operation of your business, profession or farm activities; or
2. Securities employed as working capital in the ordinary operation of your business, profession or farm;
3. Accounts and notes receivable from the sales of products and/or services in the ordinary operation of your business, profession or farm;
4. Assets which serve an operational function in the ordinary operation of your business, profession or farm.

Allowable expenses must be those ordinary, necessary and reasonable expenses currently paid or incurred during the taxable year which are directly related to and necessary for the production and marketing of your products, goods and services. Only business expenses are allowable. Personal expenses are not deductible.

The following activities **DO NOT** constitute the operation of a business, profession or farm:

1. A sale, discontinuation or abandonment of a business or segment thereof;
2. An isolated or nonrecurring transaction which is not normal or routine business activity;
3. The ownership or disposition of assets which are held for long term investment purposes;
4. Trading in securities for personal purposes;
5. A nonoperational interest in coal, oil, gas or minerals in place (unless they serve an operational function in the operation of the owner's business);

NOTE. Income or [loss] from above activities is reportable within other classes of Pennsylvania income.

6. Any tax imposed on, or measured by, gross or net earned or unearned income.

Allocation Of Net Profits. The net income or [loss] from the operation of a business or farm must be allocated in accordance with the following rules:

Operation Wholly Within Pennsylvania. The operation of a business or farm is wholly within Pennsylvania if during the entire taxable year you or your representative:

- a) Maintained or operated a commercial establishment (office, shop, store, warehouse, farm, factory, agency, etc.) within Pennsylvania where your business was systematically and regularly conducted or managed; and
- b) Did not maintain and operate a commercial establishment outside Pennsylvania where your business was systematically and regularly conducted or managed.

If your representative operated as an independent contractor, the business activity will not be taken into account.

Operation Wholly Outside Pennsylvania. The operation of a business or farm is wholly outside Pennsylvania if during the taxable year you or your representative:

- a) In the ordinary course of business did not transact any business in Pennsylvania or only transacted business in Pennsylvania on a sporadic or temporary basis; or
- b) In the ordinary course of business the only business transacted with any permanency or continuity was either or both of the following:
 - i) Soliciting orders for, or sales of, property or services when such orders were sent outside Pennsylvania for approval or rejection and, if approved, are filled by shipment or delivery of goods or services from a point outside Pennsylvania; or
 - ii) Soliciting orders in Pennsylvania in the name of, or for the benefit of, a prospective customer when the orders resulting from such solicitation enable your customer to fill orders of the type described in paragraph i above.

Operation Partly Within Pennsylvania. If your business or farm is not wholly within or outside Pennsylvania as described above, allocation shall be made by separate accounting if:

- a) Your business or farm operation within and outside Pennsylvania constitutes independent profit centers (i.e. there are no transfers of finished goods, raw materials, supplies, services or operational assets interact and each is free to buy outside and because of geographical location neither is in competition with the other); and
- b) Your books are kept so as to properly disclose the amounts of revenues, costs, expenses and liabilities attributable to Pennsylvania operations.

Otherwise, your allocation must be made using the three factor formula of property, sales and payroll. Use PA Schedule NRH.

Line 2. Net Profit or [Loss] from the Operation of a Business, Profession or Farm. Total all business, farm, partnership and Pennsylvania S corporation schedules and enter the net gain or [loss]

on Line 2. In determining this net reportable amount, you may offset a business gain on one schedule with a business [loss] from another.

PA Schedule C-F Reconciliation. The specific instructions for PA Schedule C-F Reconciliation are on page 14. If you choose to report your gain or [loss] from a Federal business schedule, be aware that Pennsylvania rules differ from IRS rules in arriving at net taxable income or [loss] for Pennsylvania Personal Income Tax purposes. Pennsylvania law determines net profit or [loss] under generally accepted accounting principles and practices. Use this schedule to make adjustments to your Federal amounts.

Pennsylvania Profit or [Loss] from PA Schedules NRK-1. If you are a partner in a partnership or a shareholder in a Pennsylvania S corporation, you will receive a PA Schedule NRK-1 from each business. The PA Schedule NRK-1 will show your share of ordinary income or [loss], as well as any income or [loss] for the other Pennsylvania income classes. If you received any guaranteed payments from the business operations of your partnership or Pennsylvania S corporation, you must add those payments to the amount of your ordinary business income or [loss] shown on your PA Schedule NRK-1. All allowable expenses and adjustments are to be made by the partnership or Pennsylvania S corporation. However, if under the partnership or Pennsylvania S corporation agreement you are required to incur direct business expenses for which you will not be reimbursed, you must itemize those expenses on a separate schedule or statement. The expenses claimed must be ordinary, necessary, reasonable and directly related to the business activity of the partnership. Expenses not allowable for Pennsylvania Personal Income Tax purposes, personal expenses and "expenses incurred for your own convenience" are not deductible.

Line 3. Net Gain or [Loss] from the Sale, Exchange or Disposition Of Property. You must report each sale, exchange or disposition of real or tangible personal property located in Pennsylvania, including land, buildings, a residence and any other real or tangible personal property.

A gain on the disposition of property is recognized only in the taxable year in which the amount realized from the disposition of the property exceeds the adjusted basis of such property.

A [loss] on the disposition of property is recognized only in the taxable year in which the transaction is closed and completed by some identifiable event which fixes the amount of such [loss] so that there is no possibility of any eventual recovery.

A [loss] is recognized only with respect to transactions entered into for profit such as investments, business property and real estate. For example: If you incur a [loss] on the sale of your personal residence or if you sell your personal automobile at a [loss], you may not offset other gains with such [losses].

Allocating Gains and [Losses]. Generally revenues, costs, expenses and liabilities derived from or incurred in the sale, exchange or other disposition of real estate or tangible personal property is considered as being entirely derived or incurred from the state or country in which the property is physically located. If your real or tangible property is located within Pennsylvania, you must report the gain or [loss] realized from the disposition on PA Schedule D, unless the property is:

- a) Stock, trade goods, assets or other property which would normally be held for sale to customers and included in your inventory if on hand at the end of your taxable year; or
- b) An asset that is employed in and serves an operational function in the ordinary course of operating your business.

Sale, exchange or disposition of such property is includable in determining net profit or [loss] from the operation of a business, profession or farm.

PA Schedule D, Lines 1 and 2. Unless the specific instructions require a different Pennsylvania schedule, report all sales, exchanges or dispositions of property on PA Schedule D, Line 1 and the net total gain or [loss] from those transactions on Line 2.

PA Schedule D. The specific instructions for PA Schedule D are on page 14.

Line 3. Net Gain or [Loss] from the Sale, Exchange or Disposition of Property. Include on Line 3 the total of all PA Schedule(s) D. Spouses may not offset gains and [losses] in this class of income.

Line 3a. Amount of Gain Excluded on PA Schedule PA-19. Enter the amount of gain you are permitted to exclude under Pennsylvania's age 55 and over exclusion.

Line 4. Net Income or [Loss] From Rents, Royalties, Patents or Copyrights. Rental income is income you receive for the use of your Pennsylvania real or tangible property. Royalty income is income you receive for the extraction of coal, oil, gas or other minerals in Pennsylvania or for the use of your Pennsylvania patent or copyright.

Gross rents and royalties include all items of gross income or receipt from rents, royalties, patents, copyrights, secret processes, formulas, good will, trademarks, trade brands, franchises and similar property derived in the form of rents and royalties other than:

1. Income or receipts from the sale, exchange or other disposition of rental property, royalty rights, copyrights, secret processes, patents, formulas, good will, trademarks, trade brands, franchises and similar property; and
2. Income or receipts from operating oil, gas or mineral interest includable in the computation of net profits from a business, profession or farm or otherwise derived in the ordinary course of and from the operation of a business.

Attach all PA Schedule(s) E and indicate in the column on the right side of your PA-40NR the number of schedules attached.

Do Not Use Federal Schedule E to report income or [losses] from partnerships, Pennsylvania S corporations, estates and trusts. You may use Federal Schedule E for Part 1 only.

ALLOWABLE DEDUCTIONS. Only expenses paid or incurred during the taxable year which are ordinarily incurred in and necessary for the production of or collection of rents and royalties or, the management, conservation or maintenance of rents, royalties, patents, copyrights and similar property are deductible. Such expenses include advertising, cleaning and maintenance, agent commissions, insurance, legal fees, management fees, interest, repairs, supplies, utilities, depreciation and depletion. Deductions allowable under MACRS, including the IRC Section 179 additional first year depreciation allowance for small businesses, are acceptable depreciation deductions for Pennsylvania.

No deduction is allowed for your own labor, capital investment or capital improvements. No deduction is allowed for personal expenses or any part of an allowable deduction which is personal.

Rents Vs. Net Profits. The leasing of tangible property would constitute a business only if:

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

Generally, you Provide significant services when you Provide services for the lessee's convenience and such services are not ordinary or customarily incurred in leasing property. For example: Providing heat, lighting, electric service, elevators, cleaning public access exit areas, collecting trash and maintenance of the property in a usable rentable condition are not usually significant services.

However, providing maid service, room service, valet parking, decorating assistance, delivery services, transportation services and concierge services are significant.

Rents Vs. Sales. A lease with an option to buy real property in Pennsylvania may be a purchase contract. If so, the payments received are reported as net gains from the sale or other disposition of property on an installment basis. You must complete and file a PA Schedule D.

If you give up all mineral rights or ownership rights to Pennsylvania property or your patents or copyrights, the payments you receive are reportable as net gains from the sale or other disposition of property. You must complete and file a PA Schedule D.

Allocation Of Rents And Royalties. Rents received from real estate and tangible personal Property (not employed in the operation of a business) and the costs, expenses and liabilities incurred in producing and collecting such rents are allocable to Pennsylvania only if the property is located in Pennsylvania. If the property is used both within and outside Pennsylvania, the net income allocable to Pennsylvania is determined by multiplying the net income by a fraction, the numerator being the number of days your property was in Pennsylvania during the rental period and the denominator being the total number of days in the rental period.

Royalties received from the extraction of minerals and the costs, expenses and liabilities incurred in generating such royalty income are allocable to Pennsylvania when the property is located in Pennsylvania and the income is not derived from the operation of a business.

Royalties received from patents and copyrights (not employed in the operation of a business) and the costs, expenses, and liabilities incurred in producing and collecting such royalty income are allocable to Pennsylvania only if, and to the extent that, the patent or copyrighted material is employed by the payer in production, fabrication, manufacture or other processing in Pennsylvania, the patented products are produced by the payer in Pennsylvania or the printing or publication by the payer originates in Pennsylvania.

Line 4. Net Income Or [Loss] From Rents, Royalties, Patents and Copyrights. Total the net income or [loss] from all PA Schedules E and all PA Schedules NRK-1 you received as partner or shareholder in a Pennsylvania S corporation. You may offset net gains and [losses] in determining this line. If a net [loss] is realized, enter the amount in brackets on Line 4. Indicate in the column on the right side of your PA-40NR the number of each schedule attached.

Line 5. Estate and Trust Income. Cash and property acquired from an estate or trust by gift, bequest, devise or inheritance are not taxable. Income received by the estate or trust on its assets which is currently distributable or, in fact, is paid or credited to a beneficiary of the estate or trust is taxable to the beneficiary. If you are a nonresident beneficiary of one or more estates or trusts, you must complete PA Schedule J to report the income you received and identify the name and address of each estate or trust. The income reported to you on PA Schedule L by the estate or trust should only include taxable income derived from Pennsylvania sources.

As a nonresident, you must enter in Column (c) of Schedule J the amount reported as your Nonresident Taxable Income on the PA Schedule L provided you by the estate or trust.

Pennsylvania Taxable Income – Add Lines 1c, 2, 3, 4 and 5. Enter the total on Line 6. A [loss] in one class of income cannot offset a gain realized in another income class.

PA Tax Liability – Multiply the amount on Line 6 by 2.8% (.028), and enter on Line 7. The amount on Line 7 represents your Pennsylvania tax due before adjustments for tax payments and credits.

Payments and Credits

Line 8. Total Pennsylvania Income Taxes Withheld. Enter on Line 8 the amount of Pennsylvania tax withheld as shown in the state taxes withheld block on the State copy of your Form(s) W-2, Wage and Tax Statement. Be sure to attach your Form(s) W-2 to the back of the PA-40NR. If your employer withheld more than 2.8% Pennsylvania tax from your wages, attach an explanation. Do not claim any tax withheld and paid to any local government, to your state of residence or to any other government authority.

Lines 9a through 9e. Total Estimated Tax Payments And Credits.

Enter on Line 9a the credit to this year's estimated account from your 1994 overpayment. Enter on Line 9b the total of your estimated income tax installment payments for tax year 1995. Do not include any payment of tax due which you made with your 1994 Pennsylvania tax return. Enter on Line 9c any payment you made with your request for an extension of time to file your 1995 Pennsylvania Income Tax Return. Enter on Line 9d the amount of tax withheld by your partnership or Pennsylvania S corporation as shown on your PA Schedule(s) NRK-1. Add the amounts on Lines 9a, 9b, 9c and 9d and enter the total on Line 9e.

If married and you and your spouse made separate estimated income tax installment payments, you should each file separate Pennsylvania nonresident tax returns, claiming your own payments. If married and you and your spouse made your estimated payments jointly, you should file a joint PA-40NR return.

Filing in this manner will avoid processing delays and correspondence from the Department. If you are not filing in the same manner as you made your estimated payments, attach to the front of your return a statement signed by both you and your spouse explaining how you wish your payments applied and authorizing the Department to make the necessary adjustments to your estimated account(s). For married couples with a joint estimated account, but filing separately, the Department may delay processing until both tax returns are received and recorded on our computer processing system.

Lines 10a through 10d. Tax Forgiveness. You must complete your PA Schedule SP and SP Worksheet before you can complete these lines. The specific instructions for these schedules begin on page 15.

Line 10a. Household Members from Line 4, Part II of PA Schedule SP. Enter the number of household members listed in Part II.

Line 10b. Eligibility Income from Line 1, Part III of PA Schedule SP. If single or married filing separately (including dependents of persons eligible for Tax Forgiveness), enter your Eligibility Income only. If married, filing jointly, and you and your spouse both qualify for Tax Forgiveness, enter your combined Eligibility Income.

Line 10c. Total Support Income from Line 21, Step 5 of SP Worksheet. If single, enter the amount from YOUR Column. If married, even if filing separately, enter the amount from JOINT Column. This amount is for information purposes and will not affect your eligibility for Tax Forgiveness.

Line 10d. Tax Forgiveness from Line 4, Part III of PA Schedule SP.

Line 11. Employment Incentive Payments Credit. Persons and corporations who employ welfare recipients may be eligible for an Employment Incentive Payment Credit. PA Schedule W and instructions can be obtained by calling the Forms Ordering telephone numbers on page 12 or a Department of Revenue district office on page 2.

You must attach a completed PA Schedule W or your PA Schedule NRK-1 from your partnership or Pennsylvania S corporation to claim this credit.

Line 12. Total Payments and Credits. Add Lines 8, 9e, 10d and 11, and enter the amount here. The amount on Line 12 is the total of your tax payments and credits.

Tax Due Or Overpayment

Line 13. Tax Due. If the amount shown on Line 7 is greater than that shown on Line 12. Subtract Line 12 from Line 7 and enter the difference. Pay this amount with your return. If no payment is due, a return must still be filed.

Line 14. Overpayment. If the amount on Line 7 is less than that shown on Line 12. Subtract Line 7 from Line 12 and enter the difference.

Important: The Department may apply your overpayment to any Pennsylvania tax liability you owe for previous tax years.

Lines 15a through 15d. Application Of Overpayment. If you have an overpayment of \$1 or more shown on Line 14, you may request that all or any part of that overpayment be refunded to you (Line 15a), credited to your 1996 estimated tax (Line 15b), donated to the Wild

Resource Conservation Fund (Line 15c) or donated to the U.S. Olympic Committee, Pennsylvania Division (Line 15d). If you intend to donate your entire overpayment, do not make any entries on Lines 15a or 15b.

Review Your Return. Carefully double check your return to make sure that:

1. You have reported your Social Security Number(s) correctly.
2. You have reported all your income and claimed all credits to which you are entitled.
3. You have checked all the entries on your forms and have not made mathematical errors. Errors increase return processing time.
4. You have attached all necessary and appropriate supporting forms and schedules. Complete the checklist on your PA-40NR.

Signature. You must sign and date your return. You have not filed a valid return unless the return is signed. A husband and wife who choose to file a joint return must both sign the return. Include the area code and telephone number where you may be called between the hours of 8:30 a.m. and 4:00 p.m.

Your signature on the return verifies that you have examined your Pennsylvania Nonresident Individual Income Tax Return and, under penalty of perjury, you certify that to the best of your knowledge, every statement is true, correct and complete. You may submit a photocopied return, but the document must contain your original signature(s).

Occupation. State your occupation. If married, also enter your spouse's occupation.

Preparer's Signature and Telephone Number. If you paid someone to prepare your tax return, the preparer should also sign your return and enter his or her name and telephone number.

You Have Now Completed Your 1995 PA-40NR Nonresident Return

How to Pay. The balance of tax due shown on Form PA-40NR must be paid in full with your return. Make check or money order payable to **PA Department of Revenue**, and include your Social Security Number on the check or money order.

Bad Check. If your check is returned to the Department unpaid, you will be subject to a 10% bad check penalty (minimum of \$10) and possible criminal prosecution in addition to other penalties and interest.

Mailing Instructions. To insure your return is mailed properly:

1. Remove all three labels along perforation from envelope flap; and
2. Choose the correct label that applies to your return. See the descriptions of the Types of Returns below; and
3. Moisten and affix only the correct label on the front of the return envelope enclosed for your convenience.

Type of Return	City & State	Extended Zip Code
PAYMENT Enclosed (An amount of Tax Due is shown on Line 13.)	HBG., PA	17129-0005
OVERPAYMENT/EQUAL (Refund/Credit Due/Zero Balance)	HBG., PA	17129-0006

Please do not use these mailing labels to send other correspondence to the Pennsylvania Department of Revenue. Using these labels for other purposes will delay our response to you.

Assembling Your Return. Please place your tax return and the schedules and forms you use in the sequence below. Staple in the upper left hand corner.

- Pennsylvania or Federal Extension, if requested

- PA-40NR and PA Schedules UE-2/SP
- Federal Form(s) W-2, staple to the back of your PA-40NR

Attach schedules and forms in this sequence:

- PA Schedule UE-1
- PA Schedule NRH
- PA Schedule D/E and PA Schedule C-F/J
- PA Schedule W
- PA Schedules NRK-1 (Federal K-1 if no Pennsylvania Schedule provided)
- All other supporting schedules and documents

Mailing Your Return. The U.S. Postal Service requires sufficient postage on your envelope. The Post Office may return envelopes without sufficient postage. If your envelope contains more than five (5) pages, it may require additional postage. Oversized envelopes may also require additional postage. Also, it is important that your envelope include your complete return address in the upper left corner.

Taxpayer Assistance. There are 23 Department of Revenue district offices located throughout Pennsylvania (see page 2).

Forms Ordering. You may order any Pennsylvania tax form or schedule by calling the special 24-hour answering service numbers for forms ordering:

- In Pennsylvania 1-800-362-2050;
- Outside Pennsylvania and within local Harrisburg area (717) 787-8094;
- TDD# (717) 772-2252. **(Hearing Impaired Only).**

Mail your written requests to: PA Department of Revenue, Tax Forms Service Unit, 2850 Turnpike Industrial Drive, Middletown, PA 17057-5492.

Free Federal Tax Assistance from the Internal Revenue Service.

- a. Federal tax account or technical tax information: 1-800-829-1040.
- b. Recorded Tele-Tax Service on 150 Federal tax topics or 1995 tax refund information: 1-800-829-4477
- c. Federal tax forms/publications ordering: 1-800-829-FORM (3676).
- d. Taxpayers unable to solve Federal tax account problems through normal contacts may be eligible for help from the Problem Resolution Program: 1-800-829-1040.
- e. Faster IRS refunds through Electronic Filing: 1-800-829-1040.

Specific Instructions for PA Schedule UE-1 and PA Schedule UE-2

Part A. Union Dues. Union dues, assessments and initiation fees are allowable business expenses if:

1. Such payments are a condition of continued membership in the union and membership is related directly to your present job; or
2. Such payments are required to be deducted from regular wages under an agency shop agreement.

Part B. 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:

1. Of a type specifically required by the employer to be purchased as a condition of continued employment; and
2. Not adaptable to general usage.

Part C. Small Tools and Supplies. Expenditures for small tools and supplies which are required to perform the duties of your job but which are not provided by your employer are allowable business expenses. If any of the required tools or supplies has a useful life of more than one year, its cost is depreciated or amortized, if it cannot be currently expensed under IRC Section 179. PA Schedule UE-1 must be completed to claim depreciation expenses (Part I).

Part D. 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.

Part E. Employee Travel and Mileage Expenses. Expenses for travel, meals and lodging which were incurred in performing the duties of your job are allowable business expenses. Transportation expenses, but not commuting to and from your job, incurred in performing the duties of your job are allowable business expenses. Business expenses incurred by outside salespersons are also allowable.

You may either attach a copy of your Federal Form 2106 or complete this Part to claim your travel, meals and lodging expenses. Important: If using Federal Form 2106, you must itemize your expenses from Line 4 in Part J of PA Schedule UE-1. You must also itemize any other miscellaneous business expenses. The Department will not accept the Federal 1040 PC Form Return.

You will need to refer to your Federal Form 2106 to complete this Part. The Department accepts the standard mileage rate used by the IRS - see Line E4. If your employer reimburses you at a per mile rate which is less than the Federal allowable rate, you may not claim the difference on PA Schedule UE-1, Part E. You may however claim your actual expenses incurred. On PA Schedule UE-1, report your total actual travel and mileage expenses and the amount of reimbursements received from your employer. Claim the difference.

Note. If you are claiming only the above unreimbursed employee business expenses, use PA Schedule UE-2 on the back of your PA-40NR. Total the expenses of Parts A through E from PA Schedule UE-2, and enter on Line 1b of PA-40NR. If you are claiming any other allowable business expenses, complete Parts F through K on PA Schedule UE-1.

Specific Instructions for Completing PA Schedule UE-1. For Parts A through E, see instructions above. Complete applicable parts of PA Schedule UE-1 accordingly.

Part F. Office or Work Area Expenses. Answer the questions on Lines F1, F2 and F3. If you answer all three questions YES, complete Part F to determine your office or work area expenses. Your office or work area expenses are allowable business expenses if:

1. The duties of your employment require a suitable work area apart from your employer's premises; and
2. Your employer does not provide a suitable work area; and
3. You must provide your own work area as a condition of employment; and
4. The work area you use is your principal place of work; and
5. Your work area is used regularly and exclusively to perform the duties of your employment.

Part G. Moving Expenses. Generally, nonresidents of Pennsylvania should not be incurring deductible unreimbursed moving expenses. If you as a nonresident are entitled to such expenses, explain in detail the reasons you have incurred moving expenses. You may be a Pennsylvania resident for tax purposes or a part-year resident of Pennsylvania. Obtain the PA-40R resident forms and instructions booklet by calling the Forms Ordering number on page 12.

Part H. Education Expenses. Answer the questions on Lines H1, H2 and H3. Follow the instructions for the questions and, if your expenses are allowable, complete Part H. The Pennsylvania test for allowable education expenses is different from the Federal test. For Pennsylvania purposes, costs for education expenses which you pay or incur are allowable business expenses if:

1. The education is specifically required by law or by your employer to retain an established employment status or rate of compensation; and
2. The education is not part of a program which would qualify you for a new occupation, trade or business, even if you have no intention of entering that new occupation, trade or business.

Example 1. Helen is an armed security guard who works in Pennsylvania but lives in Delaware. Pennsylvania law requires that every five years she must take courses on the proper use of a firearm. If she fails to take the courses, Helen will lose her license to carry a weapon and, therefore, lose her job as a security guard. Helen may claim costs of the courses in Part H of her PA Schedule UE-1.

Example 2. Kathy is a New York resident who works as a pharmacist in Pennsylvania. Pennsylvania law requires every pharmacist to obtain a specific number of continuing education credits every other year to retain their license as a pharmacist. If she fails to obtain these credits she will lose her license and, therefore, her job as a pharmacist. Kathy may claim the cost of her continuing education credit courses on her PA Schedule UE-1.

Note. A deduction for travel expenses is not allowed if such expenses would be deductible only on the grounds that the travel itself constitutes a form of education.

Part I. Depreciation. Do not report depreciation for vehicles, offices or work areas here. See the specific parts of PA Schedule UE-1 above.

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

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

Federal depreciation or current expensing deductions are acceptable for Pennsylvania purposes in computing allowable business expenses for depreciation. You may use any other generally accepted depreciation method as long as it is consistently used. Once you have selected a depreciation method, it may not be changed.

Part J. Miscellaneous Expenses. Enter here those expenses which you would also report on Line 4 of Federal Form 2106. You must itemize and describe in detail the expenses you are claiming. Attach a separate sheet if necessary. Expenses which may be claimed in this Part include:

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

If you are a statutory employee for Federal Income Tax purposes, remember that Pennsylvania does not have a similar provision. For Pennsylvania Personal Income Tax purposes, you must claim your expenses in Part J of PA Schedule UE-1. You may use your Federal schedule or form, but you must also make the adjustments necessary to comply with Pennsylvania rules.

Part K. Use This Part To Determine Your Total Allowable Business Expenses.

Line K1. Total Expenses. Add the expenses you are claiming in each part of your PA Schedule UE-1. Enter the total on Line K1. If you earned compensation both within and outside Pennsylvania and you are claiming business expenses on PA Schedule UE-1, you must complete the PA Schedule NRH.

Line K2. Reimbursements. You must include in gross compensation all reimbursements or payments for any business expenses you incurred, including your reimbursements for the expenses you are claiming on your PA Schedule UE-1. If your employer included your reimbursements in the amount of Pennsylvania taxable wages on your Form W-2, you may not enter that reimbursement here. If your employer DID NOT include your reimbursements in your W-2 wages, enter the amount received on Line K2.

Line K3. Net Amount. If your employer reimbursed you in an amount more than your expenses, the excess payments are income and must be added to your compensation on Line 1a of your PA-40NR. If your employer reimbursed you in an amount less than your expenses, the excess expenses are deductible on Line 1b of your PA-40NR.

Remember: If you earned compensation and incurred allowable employe business expenses both within and outside Pennsylvania, you must complete and attach a PA Schedule NRH.

Retention of Records. The Department may require you to substantiate the amount and nature of any allowable business expenses you claim. You should retain necessary documents, receipts, vouchers or other records for at least 4 years to substantiate your expenses. You have the burden of proving that any "expense claimed is ordinary, actual, reasonable and necessary".

Specific Instructions for PA Schedule C-F Reconciliation. If you choose to report the gain or [loss] from Federal business schedules, be aware of the following differences between Pennsylvania and the IRS in arriving at net taxable income or [loss] for Pennsylvania Personal Income Tax purposes:

Part A. Enter the identification information requested. Be sure to provide the Federal EIN.

Part B. Copy the gross income information from your Federal Schedule C, F or Form 1065 for Lines 1a, 1b, 1c and 2.

Line 1d. Enter here any income which must be reported as business or farm income for Pennsylvania Personal Income Tax purposes, which may be reported elsewhere on your Federal return. For example: interest from short term investments to generate working capital; net gain or [loss] from the sale of assets in the ordinary course of business or other proceeds directly attributable to this income class. Deduct income which is not reportable for Pennsylvania Personal Income Tax purposes. For example: [loss] from the sale of assets used in business.

Line 3. Total the amounts from Lines 1c plus 1d, less 2, and enter the result.

Part C. Enter your business expenses total from your Federal schedule or form on Line 4.

Part D. Make any necessary adjustments to your business expenses. If reducing an expense item, please indicate by using brackets []. If increasing an expenses amount, enter the difference between the Federal amount in Line 4 and the Pennsylvania allowable amount or show both the [decrease] and the increase. The most common differences between Pennsylvania and Federal expenses are explained below. You must make adjustments for those lines marked with **. For Pennsylvania Personal Income Tax purposes, expenses must be ordinary to the business or farm activity, necessary to operate the business or farm, reasonable in the amount and not excessive and directly related to the business or farm activity. Personal expenses are not allowable.

- 5a. The Federal limitation on business meals and entertainment does not apply. You may deduct 100% of these expenses.
- 5b. Sales tax on depreciable business assets may be currently expensed for Pennsylvania Personal Income Tax purposes. On disposition, your Pennsylvania basis will be different than your Federal basis.
- 5c. Charitable contributions made from your business and publicly acknowledged by the recipient are allowable deductions. Personal donations are not allowable for Pennsylvania Personal Income Tax purposes.

5d. You may use the capitalization rules established by your trade, profession or industry under its generally accepted accounting principles and practices instead of the Federal accounting rules. As with depreciation, once elected, it must be consistently applied.

5e. You may use any generally recognized and accepted depreciation method for your business or farm activity, including IRC Section 179 current expensing and the special rules for the construction of handicap accessible facilities. Once a method is elected, you must consistently follow that depreciation method.

5f. The Federal labor hired deduction or Federal wage deduction does not apply for Pennsylvania purposes. If claimed, these deductions may be added-back to your wage expense.

5g. If you are claiming the Pennsylvania Employment Incentive Payments (EIP) Credit, you must reduce your total wages expense by the amount of your EIP credit.

5h. Contributions you make as a self-employed individual to your own pension plan (such as an IRA or Keogh plan) are not an allowable expense in determining net profit or [loss] nor an allowable expense against any other taxable income. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.

5i. Contributions to your own health or welfare benefits plan are not an allowable expense in determining net profit or [loss] nor an allowable expense against any other taxable income. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.

5j. Federal, state and local taxes may be deducted, but not taxes based on gross or net income; Federal income taxes; taxes paid to other states or foreign countries based on income; estate taxes; inheritance, legacy, succession and gift taxes and assessments for betterments and improvements. You also may not deduct the one-half of self-employment tax which the IRS allows.

Other. Itemize expenses which are allowable under GAAP or FASB rules but are not allowable or limited under Federal rules.

If making any of these Pennsylvania adjustments, complete and attach the PA Schedule C-F Reconciliation, to your Federal schedule(s).

Line 6. Total Lines 5a through 5k and enter the net amount. If a negative amount, enter in brackets [].

Line 7. Total Line 4 and Line 6 and enter the net amount. Enter negative numbers in brackets [].

Part E. Line 8. Subtract Line 7 from Line 3. Your Pennsylvania Personal Income Tax net profit or [loss] should be different from your Federal schedule. Include this amount on Line 2 of your PA-40NR.

Remember: If the operation of your business, profession or farm is both within and outside Pennsylvania, you must complete and attach a PA Schedule NRH.

Specific Instructions for PA Schedule D. You must use the PA Schedule D. Unless the specific instructions require a different Pennsylvania schedule, report all sales, exchanges or dispositions of Pennsylvania property on PA Schedule D, Line 1 and the net total gain or [loss] from those transactions on Line 2.

Line 1. Columns a through e.

- **Column a.** List and describe the property sold or otherwise disposed of for cash or other property. For example: 60 acres of land in Dauphin County.
- **Column b.** Enter the month, day and year you sold the property.
- **Column c.** Enter the month, day and year you acquired the property.

- **Column d.** Enter the gross sales price or fair market value of cash' and/or property you received less applicable expenses of sale.
- **Column e.** Enter the Adjusted Basis of the property sold.
- **Column f.** If the property is income-producing property acquired as an investment (for example, a building, a rental property or a patent or copyright) or if you held the property in connection with a business, profession or occupation when you disposed of it (and it is not inventory or an operational asset), subtract Column e from Column d and then enter either the gain or the [loss] or zero in Column f.

If the property was other than income-producing property:

1. If the adjusted basis is less than Column d, subtract Column e from Column d and enter the gain in Column f; or
2. If the adjusted basis is greater than Column d, you do not have either a gain or a [loss]. Enter zero in Column f.

Line 2. Add Column f and enter the total. You may offset gains and [losses] to calculate Line 2.

Line 3. Installment Sales from PA Schedule D-1. Enter your taxable gain from each PA Schedule D-1, Computation of Installment Sale Income. If you need a PA Schedule D-1, Form REV-1689, see Forms Ordering on page 12. The installment method of reporting gains from the disposition of tangible personal property or real estate, whether the sale is an isolated transaction or is from the inventory of a dealer or broker, may be elected if at least one payment is to be received in any taxable year after the taxable year of the sales transaction. If the installment method is not elected, you must report all of the gain from the sale in the taxable year of the sale on your PA Schedule D or PA Schedule C or F.

Important. The installment method is **not allowed** for:

1. Reporting gains from the sale of intangible personal property; or
2. Transactions where the object is the lending of money or the rendering of services.

Election. You must make an election to use the installment sale method. The Department will deem the election to have been made in the following instances:

1. If you report an isolated transaction as an installment sale at the time of filing your PA-40NR by:
 - a) using PA Schedule D-1 (REV-1689) to calculate the gain to be reported; and
 - b) including the gain on your PA Schedule D; and
 - c) identifying the transaction on your PA Schedule D as an installment sale.
2. If you report other transactions by:
 - a) using PA Schedule C or F; and
 - b) identifying the transaction as an installment sale.

Once the election is made, you will not be allowed to change your method of reporting in subsequent years.

Important. Interest received which is directly from the installment sale contract or agreements included as gain on PA Schedule D-1 or included as business income on PA Schedule C or F.

Repossession of Property. Where property is sold under an installment contract and you repossess the property upon default of the buyer in a subsequent tax year, you must adjust your basis in the property by the amount of gain you previously reported. You may not amend your tax return for the taxable year in which the installment sale was originally reported.

Example. Ben sells his Pocono vacation home for \$50,000 in 1994 under an installment agreement. The installment sale contract requires the buyer to make a downpayment of \$20,000 and principal payments of \$3,000 each year for ten years, starting in 1995. Ben purchased the vacation home in 1983 for \$20,000. On his 1994 Pennsylvania return he reported a taxable gain of \$20,000. The buyer defaults on the agreement in 1995, before Ben receives the

first of the agreed installment payments. Ben may not amend his 1994 Pennsylvania tax return. He must increase his basis in the property to \$40,000, which is his original cost of \$20,000 plus the \$20,000 of gain he reported on his 1994 Pennsylvania tax return. When Ben resells his vacation home, he will use a basis of \$40,000, thus reducing his gain on the sale.

Line 4. Sale of Property Acquired Before June 1, 1971, PA Schedule D-71. Gain or [loss] on the sale, exchange or disposition of Pennsylvania property that you bought or acquired before June 1, 1971 is determined by subtracting the adjusted basis or the alternative basis, whichever is larger, from the cash and/or property you received. A separate schedule is used to report the disposition of property you acquired before June 1, 1971, PA Schedule D-71 (REV-1742). Obtain this schedule by calling the Forms Ordering telephone numbers on page 12. If the property you acquired before June 1, 1971 was your residence, do not report the gain or [loss] on PA Schedule D-71 but on your PA Schedule PA-19, Sale of Residential Property. See instructions below.

Line 5. Sale of Residential Property, PA Schedule PA-19. You must use PA Schedule PA-19 if you realize cash or property on the sale, exchange, taking by eminent domain, destruction or other disposition of your residential property. Obtain this schedule by calling the Forms Ordering telephone numbers on page 12. If you sell your residence at a [loss], report zero (0) on Line 5 of PA Schedule D.

Important. Pennsylvania law does not permit the postponement of gain when you use the proceeds from the sale of your residence to purchase another residence. **If you sell your residence you must report the gain on your PA-40NR.**

Age 55 and Over Exclusion of Gain on the Sale of a Principal Residence. Pennsylvania law allows a one-time elective exclusion of gain on the sale of a residence by an individual age 55 or over. Pennsylvania rules are similar to, but not exactly the same as, the Federal exclusion. Use PA Schedule PA-19 to determine if you qualify for an elective exclusion of up to \$100,000 of the gain you realized.

Line 6. Net Gain or [Loss] from PA Schedules NRK-1. As a partner, you will receive a PA Schedule NRK-1 (or a Federal Schedule K-1). As a shareholder in a Pennsylvania S corporation you will receive a PA Schedule NRK-1. These schedules show your share of any gain or [loss] realized by your partnership or Pennsylvania S corporation from its sale, exchange or disposition of Pennsylvania property. Add the gain(s) and [loss] from each PA Schedule NRK-1 and enter the net gain or [loss].

Line 7. Net Pennsylvania Taxable Gain or [Loss]. Total all amounts from the above lines. You may offset gains and [losses] on PA Schedule D. Enter the result on Line 3 of your PA-40NR. Remember to complete the checklist on your PA-40NR.

Specific Instructions for PA Schedule SP

General Information. Read ALL the following instructions.

What is Tax Forgiveness? Special Tax Forgiveness is a credit against Pennsylvania Personal Income Tax which allows eligible taxpayers to reduce all or a part of their Pennsylvania Personal Income Tax liability. To qualify for this credit, you must calculate your own taxable income, nontaxable income, exempt income and total support income. If married, your spouse must also determine these kinds of incomes.

Who Is Eligible For Tax Forgiveness? A claimant must meet the following requirements to qualify for Tax Forgiveness. You must:

1. have Pennsylvania Taxable Income; **and**
2. have personally provided at least one-half of your own Total Support in 1995; **and**
3. meet the Eligibility Income limitations.

If you do not have any Pennsylvania Taxable Income, you have no tax liability to forgive. You may still qualify for Tax Forgiveness if you meet the other two requirements. Your dependent spouse also qualifies because he or she meets **ALL** of the above requirements.

If you meet **ALL** the requirements, then your Eligibility Income, and the number of your dependents, if any, will determine your Tax Forgiveness credit. If you are eligible for Tax Forgiveness, your

dependent family members may also qualify for Tax Forgiveness. See **Who is a Dependent for Tax Forgiveness?** below.

If you **do not qualify** for Tax Forgiveness, your dependents **do not qualify** for Tax Forgiveness.

Who is a Dependent for Tax Forgiveness? A dependent is a spouse, natural child, adopted child, grandchild or foster child who lived in your household for all of 1995 and who received at least one-half of his or her support from an eligible claimant for Tax Forgiveness. A full time student is a dependent if a dependent for Federal income tax purposes.

To determine who is a dependent, use the SP Worksheet.

Joint or Separate Returns. If both you and your spouse each qualify for Tax Forgiveness, you have the option of filing together or separately. **If one of you is a dependent of the other, you must file separate returns.** Your dependent children who have Taxable Income must also file separate Pennsylvania tax returns to obtain Tax Forgiveness.

General Instructions for the SP Worksheet. You must complete the SP Worksheet. Complete **ALL** information for yourself (**YOUR** Column) and, if married, your husband or wife (**SPOUSE** Column), even if filing separately. Also complete the **JOINT** Column.

For the purpose of claiming Tax Forgiveness, family members include you, your spouse and your dependent children who lived in the same household in 1995.

Pennsylvania Personal Income Tax law does not exempt a child from filing a tax return and paying any tax due. However, if a child is a dependent of a person eligible for Tax Forgiveness, that child is also eligible to receive the Tax Forgiveness credit. Generally, the income received by a child is not included in determining Total Income.

Remember: If a child has taxable income and is a **Dependent** of a person eligible for Tax forgiveness, that child must file a separate Pennsylvania tax return and his or her own Pennsylvania Schedule SP.

Line Instructions for the SP Worksheet.

Step 1. Taxable Income. Enter Your Pennsylvania Taxable on Line 1, **YOUR** Column. Enter the amount of your spouse's Pennsylvania Taxable Income on Line 1, **SPOUSE** Column, even if filing separately.

Step 2. Nontaxable Income. For each line, compute and enter the total income received in each category. Nontaxable Income includes income that is not taxable under Pennsylvania law or regulations. Non-taxable Income may or may not be income that is taxable for Federal Income Tax purposes. Read each description carefully. **For each Column,** enter the amounts received by you and your spouse.

Line 2. Cash Payments and Support Received. This amount includes nontaxable cash or property received for **personal use.** Include direct contributions from spouses, children, parents and others, such as cash received from a parent to buy clothing. This amount does not include monies exchanged to pay household expenses, such as deposits to joint accounts or rental-like payments from children living at home. **Line 3. Nontaxable Interest Dividends and Gains.** Include income from investments in direct obligations of the Federal Government, Pennsylvania and Political subdivisions of Pennsylvania, even if received through a mutual fund or other regulated investment company. If issued before February 1, 1994, enter any gains realized from sales of these obligations. Include that portion of gain on property acquired before June 1, 1971, which is not taxable. Also include nontaxable income received as a beneficiary of an estate or trust.

Line 4. Alimony. This is the amount of Federally taxable alimony received.

Line 5. Insurance Proceeds and Inheritances. This amount includes the total proceeds received from life or other insurance policies. Also include inherited cash or property received.

Line 6. Gifts, Awards and Prizes. Include the total taxable cash or Property received as gifts from others. Also include awards given in

recognition of civic and social achievements. Add winnings from the Pennsylvania State Lottery here.

Line 7. Nonresident Income. Enter the total of all income received while residing outside Pennsylvania. This amount includes income that would otherwise be taxable if earned and received in Pennsylvania.

Line 8. Nontaxable Military Income. This amount represents the difference between total military income earned and the amount reported as taxable to Pennsylvania on your Pennsylvania tax return.

Line 9. Gain Excluded on Sale of a Personal Residence. This Line is not applicable for PA-40NR. Enter a zero.

Line 10. Educational Assistance. Include the total value of nontaxable scholarships, fellowships and stipends received.

Line 11. Total Nontaxable Income. Add Lines 2 through 10 in each Column and enter the total.

Step 3. Eligibility Income. Eligibility Income is the total amount of your Pennsylvania Taxable and certain Nontaxable Income. Eligibility Income does not include the kinds of income described in Exempt Income below. Eligibility Income is the amount used to determine if you qualify for Tax Forgiveness.

Line 12. Eligibility Income. Add Lines 1 and 11 in each Column and enter the total. Follow the instructions on the SP Worksheet.

Step 4. Exempt SP Income. Exempt SP Income includes all other nontaxable cash or property received and used in providing support to the household. These kinds of incomes may or may not be taxable for Federal Income Tax purposes. In each Column, enter the amounts received by you and your spouse, even if filing separately.

Line 13. Social Security and Railroad Retirement Benefits

Line 14. Retirement, Pension and Annuity Benefits

Line 15. Welfare Benefits

Line 16. Workers Compensation Benefits

Line 17. Unemployment Compensation Benefits

Line 18. Child Support Payments

Line 19. Cash or Property From Other Household Members. Include monies exchanged to pay household expenses, such as deposits to joint accounts and rental-like payments from children living at home.

Line 20. Total Exempt SP Income. Add Lines 13 through 19 in each Column.

Step 5. Total Support Income is the total of Eligibility Income and Exempt SP Income. If you did not have enough Total Support Income to provide at least one-half of your own support, you are a dependent. The same applies to your spouse. It is presumed that a dependent child does not provide at least one-half of his or her own support.

Line 21. Total Support Income. Add Lines 12 and 20 in each Column.

Step 6. Average Support Cost. In order to determine whether you provide more than one-half of your own support, it is necessary to calculate the Average Support Cost for each family member. This is a mathematical calculation that presumes your income and expenses to support yourself, your spouse and dependent children were equally distributed during 1995. Complete each line in Step 6. Comparing Line 21 to Line 24 determines whether you are a dependent or not. The same comparison applies to your spouse.

Line 22. Number of Household Members. Enter the number of family members including yourself, your spouse and your dependents. Do not include any other persons who may live in your household. The Special Tax Forgiveness rules exclude other persons, even if you may claim those other persons as dependents for Federal Income Tax purposes.

Line 23. Average Support Cost. Divide Line 21, **JOINT** Column, by Line 22. Round the result to the nearest whole dollar. This amount

represents each family member's share of the income available for support.

Line 24. Minimum Support Cost. Multiply Line 23 by 50% (0.5). Round the result to the nearest whole dollar. This is the amount that you, and your spouse, will compare to your Line 21 to determine if you, and your spouse, are a Claimant or a Dependent.

Step 7. Determining Claimant and/or Dependent Status. A Claimant is eligible for Tax Forgiveness depending on Eligibility Income and allowable dependents, if any. Answer the Questions for Lines 25 and 26 on your SP Worksheet. Follow the instructions for each applicable Question.

A Dependent is not eligible for Tax Forgiveness unless he or she is a dependent of a Claimant eligible for Tax Forgiveness.

Specific Instructions for the PA Schedule SP.

After completing your SP Worksheet, you will know who in your household is a Claimant and who is a Dependent. You must now certify how you are filing your Pennsylvania tax return and claiming Tax Forgiveness.

Part 1. Certification of Eligibility

Note: The Department is no longer providing a "T" filing status the joint claim for Tax Forgiveness. With the combined Eligibility Income Table, on page 18, this filing status is no longer needed.

Section A: Filing as "S", Single or "M", Married, Filing Separate Returns. Check either Box 1 (Claimant) or Box 2 (Dependent). The box you check depends on your answer to Question 25 of your SP Worksheet.

Box 1. If you are a Claimant, check Box 1 and enter your spouse's name and Social Security Number in the space provided, even if filing separately. Compare your Eligibility Income from **Your Column**, Line 12 of your SP Worksheet to the Eligibility Income Table on page 18.

Example 1: You are single with no dependents (only 1 family member). Compare your Eligibility Income to the first (1) line. If your Eligibility Income is \$6,300 or less, you receive 100% Tax Forgiveness. If your Eligibility Income is more than \$7,200, you do not qualify for any Tax Forgiveness.

Example 2: You are married and your spouse is your dependent (2 family members). Your spouse has no Eligibility Income. Compare your Eligibility Income to the second (2) line. If your Eligibility Income is \$9,300 or less, you receive 100% Tax Forgiveness. If your Eligibility Income is more than \$10,200, you do not qualify for any Tax Forgiveness. As a dependent of an eligible claimant, your spouse also qualifies for Tax Forgiveness. But since your spouse had no Eligibility Income, there is no need for your spouse to file separately. You should file jointly and complete Section B of Pennsylvania Schedule SP.

Remember: A dependent spouse may not claim any other dependents.

Example 3: You are single with a dependent child. You use the second (2) line of the Eligibility Income Table because there are 2 members in your household.

Example 4: You are married with a dependent spouse and 2 dependent children. You have all the income in the household. You use the fourth (4) line of the Eligibility Income Table because there are 4 members in your household. With Eligibility Income of \$15,300 or less, you receive 100% Tax Forgiveness. With more than \$16,200, you receive no Tax Forgiveness.

Box 2. If you are a Dependent of a person eligible for Tax Forgiveness, check Box 2. Enter the name and Social Security Number of the person claiming you on their PA Schedule SP. In order for you to qualify for Tax Forgiveness, the person claiming you as a dependent must be eligible for Tax Forgiveness. **If that person cannot file a PA Schedule SP, neither can you.**

Compare your Eligibility Income to the Eligibility income Table. As a Dependent, you will **ALWAYS** use the first (1) line. If your Eligibility Income is within the limitations of the Eligibility Income Table, continue completing PA Schedule SP.

Example 5: You are an eligible dependent. If your Eligibility Income is \$6,300 or less, you receive 100% Tax Forgiveness. If your Eligibility Income is more than \$7,200, you do not qualify for any Tax Forgiveness.

Important. As a Dependent, you may not claim any other dependents.

Section B: Filing as "J", Married, Filing a Joint Return. Check Box 3 if **BOTH** you and your spouse are claimants based on your SP Worksheet AND you both elect to file a joint claim for convenience.

To determine whether you and your spouse should file jointly or separately for Tax Forgiveness, compare your total and individual Eligibility Income amounts to the Eligibility Income Table.

Also use this filing status if one of you is a claimant and the other is a dependent with no taxable income. The dependent spouse would otherwise not have to file a Pennsylvania tax return since he or she has no tax to pay (or forgive). Since the other spouse must file to claim Tax Forgiveness, this **JOINT** status may be used.

If you and your spouse have no dependent children, you will use the second (2) line of the Table. Compare your **JOINT** Eligibility Income to the second line (2 members of the household) of the Eligibility Income Table.

Example 6: If your combined income is \$9,300 or less, on a joint claim you and your spouse receive 100% Tax Forgiveness. If your combined Eligibility Income is more than \$9,300, you should consider filing separate returns. Filing separately provides the maximum amount of Tax Forgiveness allowable.

Example 7: You have \$6,750 of Eligibility Income. Your spouse has \$5,900. You have no dependent children. On separate returns, you receive Tax Forgiveness of 50% and your spouse receives 100%. On a joint claim with \$12,650 of Eligibility Income, you receive no Tax Forgiveness.

If you and your spouse have dependent children, you use the line on the Table that equals the number of allowable members in your household.

Example 8: You and your spouse have 2 children. Compare your Joint Eligibility Income to the fourth line (4 members of the household) of the Eligibility Income Table. If your combined amount is \$15,300 or less, on a joint claim you and your spouse receive 100% Tax Forgiveness.

Remember: To receive the most Tax Forgiveness allowable, you may wish to file separate returns.

How Many Dependents May Be Claimed? In order to claim a dependent child, you must provide at least one-half of their support. Divide your Total Support Income amount (Line 21 of your SP Worksheet) by the Average Support Cost (Line 23 of your SP Worksheet). Round the result to the nearest whole number. This represents the number of persons you support with your income, including yourself.

Example 9: You have income of \$10,800 and your wife has \$8,800. You have 3 dependent children. Together, you do not qualify for any Tax Forgiveness since \$19,600 exceeds the maximum income for a family of 5 (\$19,200). Your Average Support Cost is \$3,920, ($\$19,600 \div 5$). You can support yourself and 2 children ($\$10,800 \div \$3,920 = 2.7$, rounded to 3). Your spouse can support herself and 1 child ($\$8,800 \div \$3,920 = 2.2$, rounded to 2). On separate returns, you each receive 100% Tax Forgiveness.

Example 10: You have \$8,500 of Eligibility Income. Your spouse has \$9,650 of Eligibility Income. You have 2 dependent children. On separate returns, you can claim only 1 child and you receive 100% Tax Forgiveness. Using the second (2) line of the Table, \$8,500 is less than \$9,300. Your spouse can only claim the other child and receives 60% Tax Forgiveness, also using the second (2) line of the Table. Your spouse cannot claim both children since her income is sufficient to support only 2 persons. If you elected to file a joint claim, your combined Eligibility Income of \$18,150 would not allow any Tax Forgiveness. \$18,150 with 4 household members exceeds the Table maximum amount of \$16,200.

Example 11: You have income of \$13,300 and your spouse has \$6,300. You have 3 children. Together, you do not qualify for any Tax Forgiveness since \$19,600 exceeds the maximum income for a fam-

ily of 5 (\$19,200). Your Average Support Cost is \$3,920 (\$19,600 ÷ 5). You can support yourself and 2 children (\$13,300 ÷ \$39920 = 3.4, rounded to 3). Your spouse can support himself and 1 child (\$6,300 ÷ \$3,920 = 1.6, rounded to 2). On separate returns, you receive no Tax Forgiveness, because \$13,300 exceeds the maximum allowance for 3 household members (you and 2 children) of \$13,200. You cannot claim a third child because your income does not permit you to support yourself and 3 children. Your spouse receives 100% Tax Forgiveness because \$6,300 is less than the minimum allowance for 2 household members of \$9,300.

Once you and your spouse have decided how to file, check either Box 2 on your **separate** returns or Box 3 for a joint claim.

Section C: Filing as "F", the Final Pennsylvania Return for a deceased individual. Check Box 4 if the person for whom you are filing was not a dependent. For the purpose of eligibility, use all the income earned, received or credited to the decedent through the date of death. The same calculations apply to a decedent as to others in determining eligibility for Tax Forgiveness. Usually, a decedent is not a dependent unless he or she lived most of the year and received more than one-half of his or her support from another person. A decedent does not claim any dependents unless he or she lived most of the year.

PART II. Number of Household Members for Tax Forgiveness Purposes. If you are single with no dependents, enter "1" on Line 1 and Line 4. Continue to **PART III**. You are the only household member.

If you and your spouse are **BOTH** eligible, based on your SP Worksheet, and you have no dependents, enter "2" on Line 1 and Line 4. Continue to **PART III**.

Important. If you (and your spouse on a joint PA Schedule SP) have dependents, you do not complete Line 2 since you entered "2" on Line 1. You will complete Line 3 for your dependents.

Follow the instructions for completing PART II. Enter all the information required. If **BOTH** you and your spouse are eligible for Tax Forgiveness and have dependent children, you **MAY NOT** claim the same child on your separate PA Schedules SP

PART III. Calculating Your Tax Forgiveness Credit. You will need your SP Worksheet and the Eligibility Income Table to complete this PART.

Line 1. Eligibility Income. Follow the instructions on the Pennsylvania Schedule SP for this line.

Line 2. PA Tax Liability. Enter the amount of your PA Tax Liability from your Pennsylvania tax return. This is your tax due BEFORE any credits.

Line 3. Percentage of Tax Forgiveness. Using your Total Number of Household Members (Line 4, Part II) and your Eligibility Income (Line 1, Part III), find your percentage of Tax Forgiveness on the Eligibility Income Table below. Enter this percentage as a decimal here.

Example 12: With 4 Family Members and Eligibility Income of \$15,547, the Percentage of Tax Forgiveness is 70% or 0.7.

Line 4. Amount Of Tax Forgiveness Credit. Multiply Line 2 by the decimal on Line 3. Round to the nearest dollar. Enter the result here. This is the Tax Forgiveness Credit you may take on Line 10d of your PA-40NR.

You have completed your PA Schedule SP. Double check all your calculations before filing your Pennsylvania tax return.

ELIGIBILITY INCOME TABLE

FIND YOUR NUMBER OF FAMILY MEMBERS IN THIS COLUMN

IF YOUR TOTAL ELIGIBILITY INCOME FROM YOUR PA SCHEDULE SP DOES NOT EXCEED:

FAMILY MEMBERS	TOTAL ELIGIBILITY INCOME									
	6,300	6,400	6,500	6,600	6,700	6,800	6,900	7,000	7,100	7,200
1	6,300	6,400	6,500	6,600	6,700	6,800	6,900	7,000	7,100	7,200
2	9,300	9,400	9,500	9,600	9,700	9,800	9,900	10,000	10,100	10,200
3	12,300	12,400	12,500	12,600	12,700	12,800	12,900	13,000	13,100	13,200
4	15,300	15,400	15,500	15,600	15,700	15,800	15,900	16,000	16,100	16,200
5	18,300	18,400	18,500	18,600	18,700	18,800	18,900	19,000	19,100	19,200
6	21,300	21,400	21,500	21,600	21,700	21,800	21,900	22,000	22,100	22,200
7	24,300	24,400	24,500	24,600	24,700	24,800	24,900	25,000	25,100	25,200
8	27,300	27,400	27,500	27,600	27,700	27,800	27,900	28,000	28,100	28,200
9	30,300	30,400	30,500	30,600	30,700	30,800	30,900	31,000	31,100	31,200
10	33,300	33,400	33,500	33,600	33,700	33,800	33,900	34,000	34,100	34,200

THEN YOUR PERCENTAGE OF TAX FORGIVENESS AND DECIMAL EQUIVALENT IS:

PERCENTAGE OF TAX FORGIVENESS	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
		1.0	.90	.80	.70	.60	.50	.40	.30	.20

